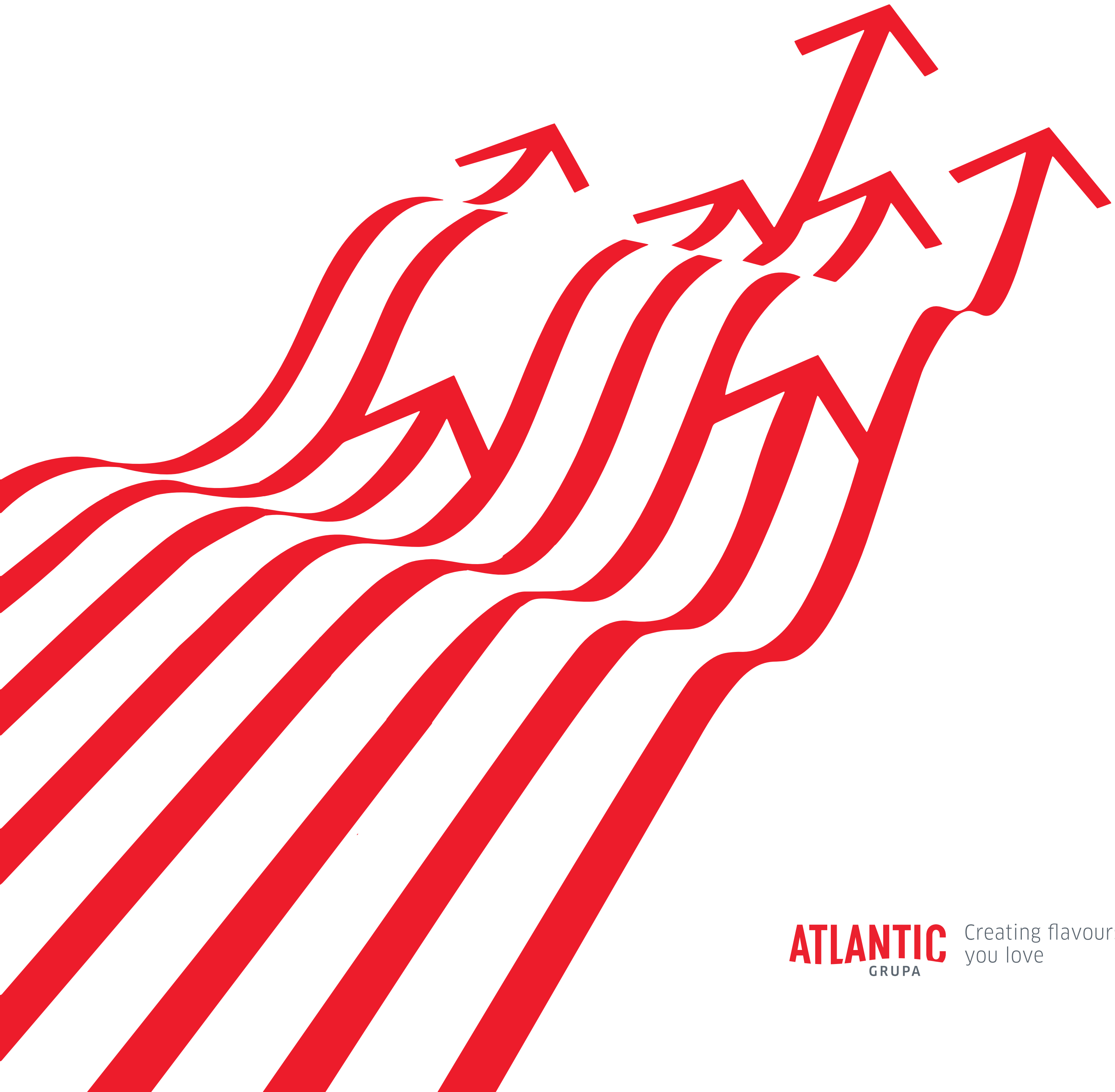
Annual Report of Atlantic Grupa for 2022



ATLANTIC GRUPA Creating flavours you love

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Atlantic Grupa in 2022*

SALES (IN MILLIONS) 6,373.0 HRK 846.2 EUR	GROWTH 11.8% 11.6%	ORGANIC GROWTH** 12.4% 12.3%
EBITDA** (IN MILLIONS) 575.4 HRK 76.4 EUR	EBITDA MARGIN** 9.0%	EBITDA MARGIN CHANGE -367 bp
NORMALIZED EBITDA** (IN MILLIONS) 571.4 HRK 75.9 EUR	NORMALIZED EBITDA MARGIN** 9.0%	NORMALIZED EBITDA MARGIN CHANGE -392 bp
EBIT** (IN MILLIONS) 275.1 HRK 36.5 EUR	EBIT MARGIN** 4.3%	EBIT MARGIN CHANGE -336 bp
NORMALIZED EBIT** (IN MILLIONS) 271.2 HRK 36.0 EUR	NORMALIZED EBIT MARGIN** 4.3%	NORMALIZED EBIT MARGIN CHANGE -361 bp
CASH FLOW FROM OPERATING ACTIVITIES (IN THOUSANDS) 343.5 HRK 45.6 EUR	FREE CASH FLOW** (IN THOUSANDS) 80.1 HRK 10.6 EUR	
DIVIDEND PER SHARE 50.0 HRK 6.6 EUR		

* The amounts in Euro are the result of applying the average exchange rate in accordance with International Financial Reporting Standards.

** Certain financial measures are not defined under International Financial Reporting Standards (IFRS). For more details on the APMs (Alternative Performance Measures) used, see Chapter "Definition and reconciliations of Alternative Performance Measures (APM)".

Letter of the President of the Management Board to shareholders

Emil Tedeschi
President of the Management Board of Atlantic Grupa

Despite numerous challenges in the business environment, Atlantic Grupa in 2022 achieved record-breaking sales results, and growth was realised in all business and distribution units. After the previous two years were dominated by the coronavirus pandemic, 2022 was marked by Russia's aggression against Ukraine, which caused an energy crisis, additional supply chain delays and shortages, and significant increases in the prices of a large part of our raw materials and packaging materials, logistics and other services, as well as energy costs. The listed price increases of almost all strategic raw materials and services were only partially offset by optimising internal resources, and to a lesser extent by increasing our sales prices which, expectedly, led to a decline in profitability. Nevertheless, a stable financial position, strength of our brands, optimisation of business processes and good strategic management enabled us to keep jobs safe and provide better conditions for employees in critical positions, thus improving not only results, but also practices that are part of good corporate management traditions.

The corporate development strategy we established before the crisis helped us maintain a clear direction towards the set objectives. Among the business highlights, it is worth noting that in 2022, continuing the divestment of non-core business operations, we found a strategic partner for the site Palanački Kiseljak with all its property, including the traditional brand of mineral water in Serbia – Karađorđe. The company continued to invest in business development including, inter alia, innovating our product portfolios, modernising production capacities, and continuing digital transformation. The year was also marked by the 100th birthday of Atlantic Štark, one of the components of Atlantic Grupa. Our basic priorities in the following period stay the same – ensuring unhindered continuity of production and continuous supply to our buyers and consumers, and being socially responsible in the widest sense possible.

As for more important corporate events, it is worth noting that in 2022 the historically highest dividend was paid in the amount of HRK 50 per share. Likewise, the division or "splitting" of Atlantic Grupa's shares was carried out, where one share with an individual nominal value of HRK 40 was split into four new shares with an individual nominal value of HRK 10. Furthermore, I am proud that in the first part of the year, our Supervisory Board was expanded with two new members to the current total of nine members. The composition of this body was reinforced by Dr. Vesna Nevistić, an experienced expert with a professional track record in banking, restructuring, and corporate development, and Zoran Vučinić, a proven global manager with an exemplary international career in the fast-moving consumer goods industry.

The success of our overall business operations and approach continues to be confirmed by valuable awards, so this year Atlantic Grupa received the first prize for investor relations awarded under the auspices of Poslovni Dnevnik and the Zagreb Stock Exchange (ZSE), which is the third year in a row that Atlantic Grupa has been at the top of this prestigious list. Additionally, we once again won the first prize for the quality of corporate governance, awarded by the Croatian Financial Services Supervisory Agency (HANFA), in the most demanding competition – the ZSE Leading Market category. Finally, this year our prominent brands received a whole series of awards for market communication at regional competitions.

Emil Tedeschi

President of the Management Board of Atlantic Grupa

Corporate Profile of Atlantic Grupa

About the company

Atlantic Grupa is a vertically integrated multinational company whose business activities incorporate R&D, production and distribution of fast moving consumer goods in South-East Europe and the West European markets. Since the company's inception in early 1990's, Atlantic pursued a growth strategy based on the combination of organic growth and almost 50 acquisitions of different sizes, of which most prominent ones, or those with a transformative character, were the acquisitions of companies Cedevita and Droga Kolinska.

Today, Atlantic Grupa is a company with: (i) HRK 6.4 billion in sales revenues, (ii) 13 modern production plants (in Croatia, Slovenia, Serbia, Bosnia and Herzegovina, and Macedonia), (iii) developed regional distribution infrastructure and (iv) 9 brands with sales above HRK 140 million, high market shares and consumer recognisability. Atlantic Grupa has a well-balanced presence in South-East Europe accounting for 91.4% of total sales, while 8.6% refers to the company's presence in West Europe, CIS countries and other countries.

We are one of the leading food and beverage manufacturers in South-East Europe with prominent coffee brands - Grand Kafa and Barcaffè, range of beverage brands - Cockta, Donat, Cedevita, Kala and Kalnička, portfolio of sweet and salted snacks brands - Smoki, Najlepše Želje and Bananica, and the brand Argeta in the segment of savoury spreads. Additionally, Atlantic Grupa owns the leading pharmacy chain in Croatia under the Farmacia brand.

Company history

The beginning of Atlantic Grupa goes back to 1991 and the incorporation of the company Atlantic Trade d.o.o. for distribution of consumer goods. In the following years, the company grew into a strong national distributor with distribution centres in Zagreb, Split, Rijeka and Osijek and a respectable distribution portfolio from principals such as Wrigley, Mars, Ferrero, Johnson & Johnson, etc.

With the opening of the representative office in Bosnia & Herzegovina in 2001, followed by own distribution companies in Serbia, Macedonia and Slovenia, the company became a regional company. In addition to being a distribution company name, with the acquisition of Cedevita d.o.o. in 2001, Atlantic Grupa also became a production company.

Breaking out of the region followed in 2005 with the acquisition of a German producer of sports food with the well-known Multipower brand, with which Atlantic Grupa entered the Western European market. In 2006, the parent company was transformed into a joint stock company and next year, after successful implementation of the initial public offer of shares, Atlantic Grupa quoted its shares on the Official Market of the Zagreb Stock Exchange. In 2008, the company started to acquire pharmacy institutions and form its own pharmacy chain. By mid-2010, Atlantic Grupa grew into one of the leading European producers of sports food, the regional leader in the production of vitamin drinks and food supplements, the leading consumer goods distributor in South-East Europe as well as the owner of one of the leading private pharmacy chains in Croatia

joined under the name Farmacia.
A turning point in the company's operations was its largest acquisition within the Group – takeover of the company Droga Kolinska with a developed brand portfolio from its own production programme and leading positions in regional markets. By finalising the acquisition in 2010, Atlantic Grupa became one of the leading regional food companies.

The company's operations in the post-acquisition period were marked by the processes of comprehensive integration, the most noticeable of which was the process related to distribution and logistics. The process of merging the distribution operations in each regional market resulted in the creation of a strong regional distribution network. In the production segment, focus was placed on integrating individual production activities and transferring outsourced production activities into own activities for the purpose of a more cost-efficient use of the existing production capacities. The supply segment saw the implementation of a centralised system with the introduction of a key client concept for basic raw materials. IT consolidation at the Group's level was successfully completed by redefinition of the model of user support, redesign of a portion of the IT service and standardisation of the technological platform. The integration processes transformed Atlantic Grupa into a strong producer and distributor in South-East Europe, thus creating a strong foundation for further business development and expansion.

In line with the strategy outlined during 2017 and confirmed in 2018 and the decision on focusing the company's future business operations on key brands, i.e. major categories in its product portfolio, as well as those with a strong growth and sustainability potential, the company started divesting non-core business operations of Atlantic Grupa. This process included the divestment of all operations in the segments of sports and functional food and cosmetics, brands Dietpharm and Multivita, the company Bionatura Bidon and the distribution of water in gallons, the sale of the baby food brand Bebi followed by the sale of the production site for this part of the product assortment in Mirna, Slovenia, and, in 2022, also the production site in Palanački Kiseljak.

By refining its portfolio and focusing on key categories, predominantly in the segment of food and beverages, Atlantic Grupa, in a new vision, identified itself as a leader in this industry that wants to inspire people to add flavour to their everyday moments. The corporate strategy is an extension of this vision, giving us a clear direction for the years ahead, and it is based on three strategic goals, namely:

TRUST AND EXCITEMENT IN KEY CATEGORIES

Atlantic's brands have been a part of the daily life of millions of consumers already for generations. The key for the company's success depends on consumers and their relationship with our brands, so the company's first strategic goal is focused on continuously creating and maintaining trust and excitement in our key categories.

NEW SOURCES OF GROWTH

We are aware that consumer habits and needs are changing, and that we as a company should be curious in detecting new opportunities and markets. Therefore, we strive to bring our flavours also to consumers outside our existing markets and outside the existing, traditional categories. Our goal is for new products, brands and selectively chosen markets to become new sources of the company's growth, as well as the foundations for our future business operations.

HARMONISATION OF CORPORATE CULTURE AND OPERATIONS

Old working methods will not bring new results. In order to achieve the set goals, it is important that we are harmonised and share common values, and do so by using modern technological solutions that will support organisational efforts. A key role in achieving this strategic goal will be played by the People and Culture Strategy, which is focused on orientating the organisation towards the consumer, building relationships through the development of authentic leaders, as well as the growth and welfare of employees.

NATIONAL COMPANY

1991 **Incorporation of Atlantic Trade and the development of consumer goods distribution**

Establishing cooperation with Wrigley and Mars

1992 Opening of the distribution centre Split

1994 Opening of distribution centres Osijek and Rijeka

1996 Cooperation with Gillette/Duracell

1997 Investment in the Ataco distribution system in BiH

1998 Launch of Montana, the first Croatian ready-made sandwich with prolonged freshness

1999 Establishing cooperation with Johnson & Johnson

REGIONAL COMPANY

2001 Start up of a distribution company Atlantic Trade d.o.o. Serbia

Acquisition of Cedevita d.o.o.

Establishing cooperation with Ferrero

2002 Incorporation of Atlantic Grupa d.o.o.

2003 **Acquisition of Neva d.o.o.**

Start up of a distribution company Atlantic Trade Skopje d.o.o.

2004 Start up of a distribution company Atlantic Trade d.o.o. Ljubljana

Acquisition of the brand Melem

EUROPEAN COMPANY

2005 **Acquisition of a German sports food producer Haleko/Multipower**

2006 Establishing a representative office in Moscow

Transformation of Atlantic Grupa into a joint-stock company

2007 Acquisition of Fidifarm d.o.o.

Acquisition of Multivita d.o.o.

Listing of Atlantic Grupa d.d. shares on the Official Market of the Zagreb Stock Exchange

2008 **Acquisition of pharmacies and forming of the pharmacy chain Farmacia**

2010 **Acquisition of Droga Kolinska d.d.**

Acquisition of Kalničke Vode Bio Natura d.d.

2013 Establishing cooperation with Unilever

2015 Acquisition of Foodland d.o.o. and construction of the factory of Atlantic Multipower Croatia

2016 Establishing distribution companies in Austria and Germany

2017 Strategic partnership with Aminolabs

2018 **Savoury spread Argeta No 1 in Europe**

Atlantic Grupa d.d. the first company listed on the Prime Market of the Zagreb Stock Exchange

Sale of Neva d.o.o.

2019 **Sale of the brands Multipower, Champ and Multaben from the Sports and Functional Food's portfolio through the sale of the company Tripoint GmbH**

Sale of the Dietpharm brand through the sale of the company Fidifarm d.o.o. and of the brand Multivita from the Personal Care's portfolio

Divestment of the distribution of bottled water for dispensers through the sale of the company Bionatura Bidon Vode d.o.o.

Strategic partnership with the network of Vivas cafés

2020 Sale of the brand Bebi

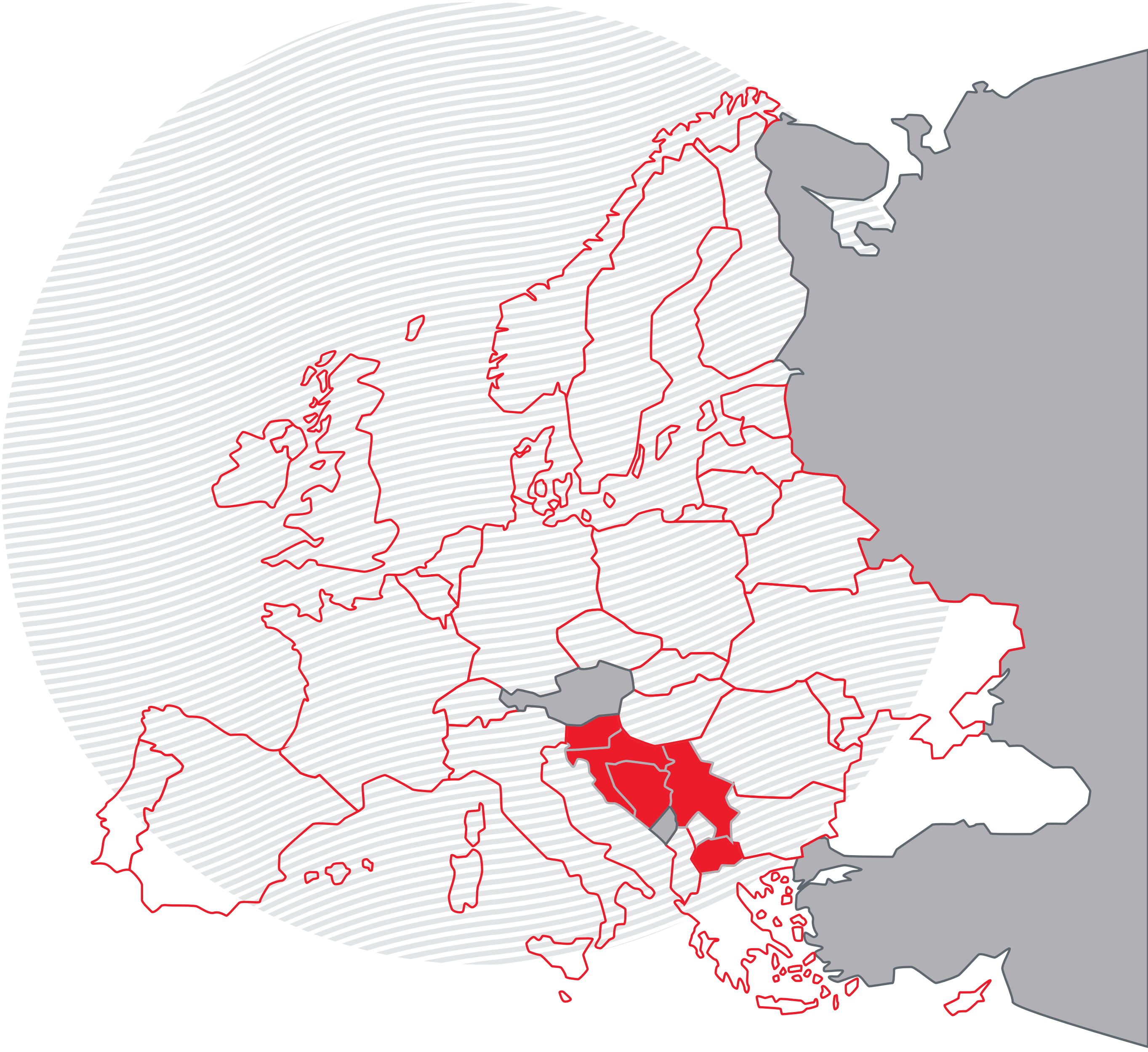
Strategic partnership with Procaffe

2021 Sale of the production plant Mirna

Launch of two completely new brands – Jimmy Fantastic and Boom Box

2022 Sale of the production plant Palanački Kiseljak

Representative offices and facilities in 8 countries



OFFICES + PRODUCTION FACILITY

–

Croatia

Bosnia and Herzegovina

Macedonia

Slovenia

Serbia

OFFICE

–

Austria

Montenegro

Russia

Organisational **structure**

Operations of Atlantic Grupa are organised within two basic segments:

— **BUSINESS OPERATIONS AND**
— **CORPORATE SUPPORT FUNCTIONS**

Business operations of Atlantic Grupa may be followed through, on one hand, business activities of special business units related to individual product types and, on the other hand, special sales units which cover all major markets as well as strategic sales channels.

During 2022, Atlantic Grupa's business operations concerning the company's product portfolio were organised through Strategic Business Units – Beverages, Coffee, Snacks, Savoury spreads, Pharmacy business, and Business Unit Donat. The company's distribution operations are organised through six distribution units and the global distribution account management. The markets in which Atlantic Grupa provides a complete distribution service consist of Strategic Distribution Units Croatia, Serbia, Slovenia and Distribution Units Macedonia, Austria and Russia, while the markets which we dominantly manage through our distribution partners have been grouped into a single distribution area, Global Distribution Account Management.

BUSINESS OPERATIONS OF ATLANTIC GRUPA

STRATEGIC BUSINESS UNIT

- Coffee
- Savoury spreads
- Snacks
- Beverages
- Pharmacy business
- BUSINESS UNIT Donat

STRATEGIC DISTRIBUTION UNIT

- Croatia
- Serbia
- Slovenia
- DISTRIBUTION UNIT Macedonia
- DISTRIBUTION UNIT Austria
- DISTRIBUTION UNIT Russia
- Global distribution account management

Corporate support functions ensure the implementation of uniform corporate standards and more transparent and efficient business operations at the company level. Corporate support functions are centrally organised and, depending on their respective functional area, provide support to the development and management of the entire Atlantic Grupa.

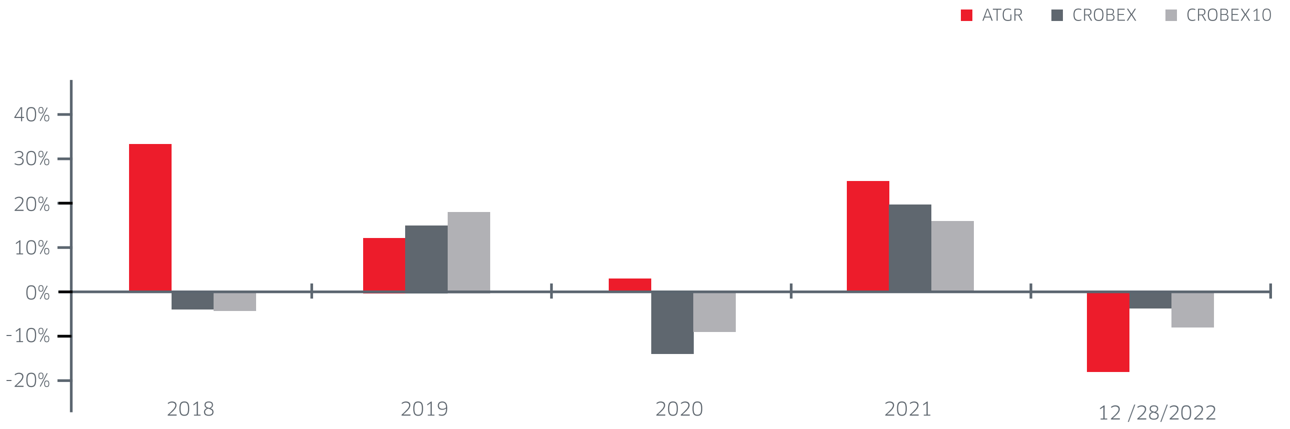
These corporate support functions are divided into:

— **CORPORATE ACTIVITIES;**
— **FINANCE, PROCUREMENT AND INVESTMENTS;**
— **CORPORATE STRATEGY AND DEVELOPMENT; AND**
— **TRANSFORMATION AND INFORMATION TECHNOLOGY**

The strategic corporate function Corporate Activities includes the following departments: Secretariat General, People and Culture, Corporate Communications, Corporate Legal Affairs, Quality Management and Asset Management, and Corporate Services.
The strategic corporate function Finance, Procurement and Investment includes the following units: Corporate Reporting and Consolidation, Central Purchasing, Investments and Operational Excellence, Central Finance and Corporate Controlling, Corporate Tax, Corporate Treasury and Investor Relations.
The strategic corporate function Corporate Strategy and Development covers strategic initiatives, implementation of the long-term development strategy and corporate development activities with focus on M&A and strategic partnerships, as well as new growth through the detection of new areas and categories for developing business operations and creating new brands.
The strategic corporate function of Transformation and Information Technology is responsible for managing information communication technology functions required for maintaining and improving Atlantic Grupa's operations, level of service and competitiveness with special focus on digital transformation of overall and individual business segments.
In addition to the above, the organisational structure also includes the support function of Internal Audit, which operates as an independent function that reports to the Supervisory Board of Atlantic Grupa.

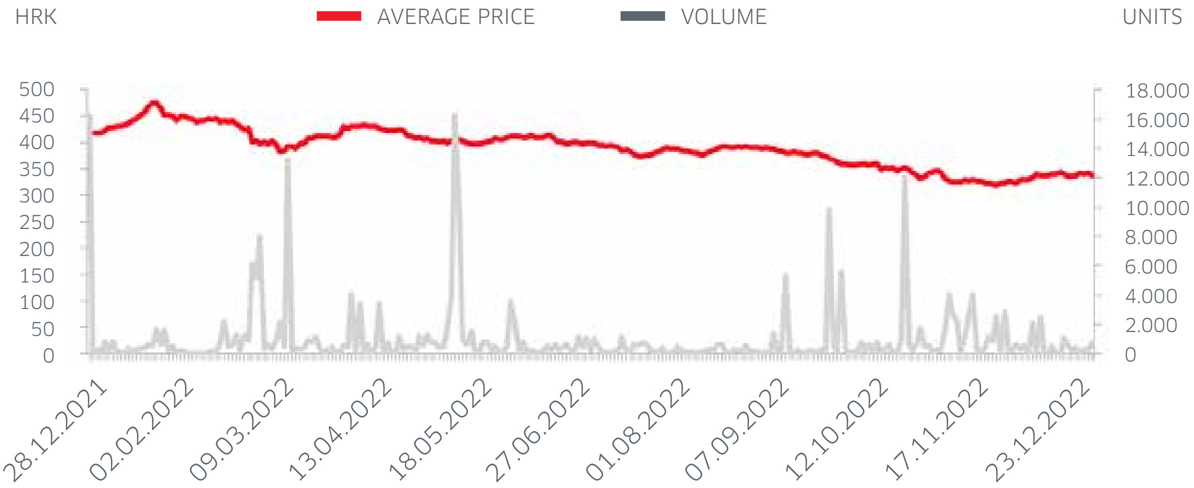
Performance on the **Croatian capital market** in 2022

The year began with excellent trade statistics and positive market vibrancy, but February and the beginning of the war in Ukraine brought intense trading, with corrections of indices and market capitalisation. However, the rest of the year brought mostly positive sentiments, and the company recorded a 16.5% higher turnover than a year earlier. At the same time, CROBEX10 recorded a 8.4% decline and CROBEX a 4.8% decline, with the Atlantic Grupa's share declining by 18.6%.

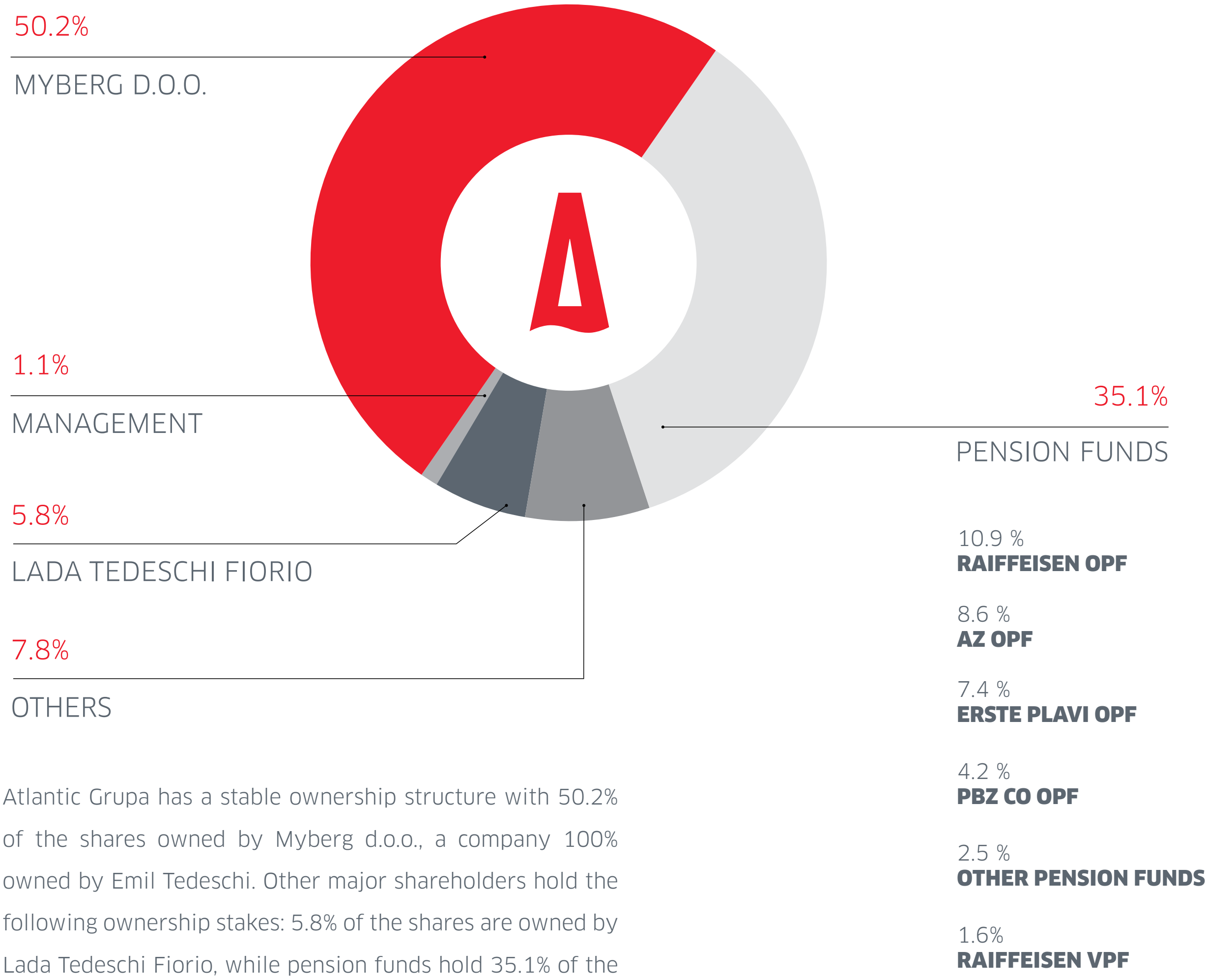


According to the total turnover in 2022, the Atlantic Grupa's share holds the ninth place compared to all the shares quoted on the Zagreb Stock Exchange with a turnover of HRK 72.8 million. Among the components of CROBEX10, Atlantic Grupa holds the second place with the market capitalization of HRK 4,561 million. In July 2022, the splitting of Atlantic Grupa's shares was carried out in such a way that one existing share with an individual nominal value of HRK 40.00 was divided into four new ordinary shares with an individual nominal value of HRK 10. Through the implementation of this corporate action, each shareholder acquired four ordinary shares with an individual nominal amount of HRK 10.00 for each ordinary share of Atlantic Grupa with an individual nominal amount of HRK 40.00.

MOVEMENTS IN THE AVERAGE PRICE AND VOLUME OF THE ATLANTIC GRUPA'S SHARE IN 2022



OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2022



Atlantic Grupa has a stable ownership structure with 50.2% of the shares owned by Myberg d.o.o., a company 100% owned by Emil Tedeschi. Other major shareholders hold the following ownership stakes: 5.8% of the shares are owned by Lada Tedeschi Fiorio, while pension funds hold 35.1% of the shares of Atlantic Grupa d.d. Under the category Management, board members have 149,376 shares (Neven Vranković 86,236, Srećko Nakić 30,500, Zoran Stanković 23,716, Enzo Smrekar 6,864, and Mate Štetić 2,060). Under the category Others, Member of the Supervisory Board Siniša Petrović has 704 shares. Additionally, Member of the Management Board Neven Vranković has 150 bonds of Atlantic Grupa.

OVERVIEW OF TOP 10 SHAREHOLDERS OF ATLANTIC GRUPA D.D. ON 31 DECEMBER 2022

	SHAREHOLDER	NO. OF SHARES	% OWNERSHIP
1	MYBERG D.O.O.	6,695,276	50.2%
2	RAIFFEISEN OPF CATEGORY B	1,447,396	10.9%
3	AZ OBLIGATORY PENSION FUND, CATEGORY B	1,147,784	8.6%
4	ERSTE PLAVI OBLIGATORY PENSION FUND, CATEGORY B	988,464	7.4%
5	LADA TEDESCHI FIORIO	772,624	5.8%
6	PBZ CROATIA OSIGURANJE VPF CATEGORY B	557,436	4.2%
7	RAIFFEISEN VPF	208,308	1.6%
8	PBZ D.D./JOINT CUSTODIAL ACCOUNT	181,220	1.4%
9	AZ PROFIT VPF	96,996	0.7%
10	NEVEN VRANKOVIĆ	86,236	0.6%

According to the decision of the Company's General Assembly held on 16 June 2022, the dividend distribution was approved in the amount of HRK 50.00 per share. The dividend, distributed in July 2022, represents the historically highest amount of dividend per share since the Company was listed on ZSE.

In line with the Decisions on authorising the Company's Management Board to acquire treasury shares and the Decisions on excluding pre-emption rights upon acquiring new shares, which were adopted at the General Assembly of Atlantic Grupa d.d. on 27 June 2019, the Company in 2022 acquired a total of 28,038 treasury shares (210 treasury shares in the total nominal amount of HRK 8,400.00, representing 0.01% of the Company's share capital, were acquired on 25 February 2022, 1,828 treasury shares in the total nominal amount of HRK 73,120.00, representing 0.05% of the Company's share capital, were acquired on 28 February 2022, 3,000 treasury shares in the total nominal amount of HRK 120,000.00, representing 0.09% of the Company's share capital, were acquired on 9 March 2022, 3,572 treasury shares in the total nominal amount of HRK 142,880.00, representing 0.11% of the Company's share capital, were acquired on 06 May 2022, 1,428 treasury shares in the total nominal amount of HRK 57,120.00, representing 0.04% of the Company's share capital, were acquired on 9 May 2022, 5,000 treasury shares in the total nominal amount of HRK 50,000.00, representing 0.04% of the Company's share capital, were acquired on 7 September 2022, 3,000 treasury shares in the total nominal amount of HRK 30,000.00, representing 0.02% of the Company's share capital, were acquired on 27 September 2022, 10,000 treasury shares in the total nominal amount of HRK 100,000.00, representing 0.07% of the Company's share capital, were acquired on 4 November 2022).

The above acquisitions were executed by trading on the Zagreb Stock Exchange and information on acquisitions were published in line with legal regulations and are available on web pages of Atlantic Grupa (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr).

The purpose of these acquisitions of treasury shares is the realisation of management and employee remuneration in line with the Stock Option Programme and the Remuneration Policy of Atlantic Grupa d.d. After the Programme was realised by assigning treasury shares to the Company management and employees, i.e. on 31 December 2022, the

Company owned 48,132 treasury shares in the total nominal amount of HRK 481,320.00, which represent 0.36% of the Company's share capital.

The Company's Dividend Policy will be implemented in accordance with the development plans and the situation on the capital market, as well as according to the growth of the net profit, revenue level, expected increase of the property value of Atlantic Grupa, and other relevant factors. Provided that the abovementioned conditions are met, it is the Company's intention to pay out up to 45% of the consolidated profit in the form of dividends.

Proposals of the Management Board and the Supervisory Board for the distribution of the dividend reflect the said position, whereas the adoption of the final decision on the amount and the manner of the distribution of dividends is determined by decision of the Company's General Assembly. Persons entitled to the dividend are determined according to valid regulations of the Republic of Croatia.

INVESTOR RELATIONS IN 2022

Atlantic Grupa has, for a third year in a row, won the first prize for investor relations, which is awarded for thirteen consecutive years in cooperation between the Zagreb Stock Exchange and the Association of Croatian Pension Funds Management Companies and Pension Insurance Companies. The competition includes companies from the CROBEX index and companies listed in the Prime and Official Markets of the Zagreb Stock Exchange, and the winners are selected based on statistical criteria related to complying with the Stock Exchange Rules by the issuer and based on a survey conducted among the capital market participants. This award stands as a sign of recognition by the investment community of companies that have fair and transparent investor relations.

Moreover, in 2022 Atlantic Grupa participated in various domestic and foreign investor conferences, and held a large number of meetings with domestic and foreign investors.

FIRST PRIZE WINNER FOR INVESTOR RELATIONS

Statement of the **Vice President for Corporate Activities**

Neven Vranković
Group Vice President for
Corporate Activities

Atlantic Grupa is a successful business system which takes equal pride in its achieved business results, as well as in the culture we are building and values we are promoting, both among our employees and in the community where we work. The core of our corporate culture is respecting individual diversity, according to which we are designing company programmes, as well as fostering cooperation and synergies between the different business segments. Our People and Culture strategy is focused on the simplicity of organisational design with the consumer at its heart, selection and promotion of authentic leaders who insist on personal accountability, and consideration of employees as individuals who need opportunities for growth and development. This is also reflected, among other things, in the permanent implementation of hybrid work models in all positions within the company where remote work is possible. In this way, we continued to provide our employees with valuable work flexibility, while maintaining the operational efficiency and elasticity that we have learned to cultivate during the intensive pandemic period.

The values and culture that Atlantic Grupa nurtures are also reflected in our Quality Policy, confirming our commitment to the principles of sustainable development, economic efficiency, environmental and social responsibility. Having high quality standards as our fundamental commitment (a majority of production and logistic sites are certified under global standard for safety, quality, environmental and energy management), we are operating by generating shared value for the community and helping to protect the environment for future generations. We continuously strive to act in a way that sees sustainable development as a process of creating new opportunities and development possibilities for our business operations, as well as for a better future for new generations. Sustainability is an integral part of our business operations. With the aim of improving environmental, social, and economic objectives, the way in which we recognise and consequently act in relation to sustainability risks and opportunities is multi directional, covering the development of new products, technological processes, employee development, communication with buyers and consumers, investor relations and supply chain management. We have also accelerated the integration of sustainable development risks and opportunities into our brand management strategies. The efforts that Atlantic Grupa focused on reducing the environmental footprint in recent years are already showing significant results, and the relevant information, which was until now regularly published in an annual non-financial report (AG GRI Report), is for the second year in a row published in an integrated format, together with the annual business report. In addition to raising the bar of our own expectations, we find it important to also encourage our partners and consumers to engage in environmentally responsible behaviour.

It is also worth noting that Atlantic Grupa, as a part of the wider community, is aware of the importance and need for making its own impact on the improvement of general social conditions and the promotion of correct values, while we spent the year behind us focusing primarily on caring for our consumers and employees, thus setting a good example for the wider social environment. We absorbed the majority of the inflationary effects on overall business by contracting our own profitability, while at the same time seeking to ease our employees’ struggles with inflation through a series of corrective measures. We can say that in many ways we spent the year really living all our values – Passion, Growth, and particularly Care and Openness.

Neven Vranković,

Group Vice President for Corporate Activities

Corporate management of Atlantic Grupa

IMPLEMENTING THE PRINCIPLES OF CORPORATE MANAGEMENT

Considering that the shares of Atlantic Grupa d.d. are quoted on the Zagreb Stock Exchange, Atlantic Grupa applies the valid Code of Corporate Governance of the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency (HANFA), available on websites of the Zagreb Stock Exchange (www.zse.hr) and HANFA (www.hanfa.hr).

In accordance with relevant regulations, Atlantic Grupa in 2022 issued a Statement of Application of the Code of Corporate Governance, thereby confirming its actions and development in accordance with the good corporate governance practice in all business segments. The Statement of Application of the Code of Corporate Governance has been published on the Company's website (www.atlanticgrupa.com) as well as on the website of the Zagreb Stock Exchange (www.zse.hr) and HANFA (www.hanfa.hr), whereas the following corporate governance issues differ, in terms of their definition, from the ones stipulated in the Code of Corporate Governance of the Zagreb Stock Exchange and HANFA:

The company's articles of association and/or internal acts prescribe that major decisions affecting the company's strategy, expenditure, risk exposure and reputation require the supervisory board's prior approval.	**NO**	**Responsibilities of the Supervisory Board are set within the framework of the valid Companies Act.**
The remuneration policy should include provisions specifying the circumstances in which part of a management board member's remuneration would be withheld or recovered.	**NO**	**The remuneration policy does not contain such provisions.**
All persons listed in Article 81 of the Code attended the General Assembly in the last 12 months.	**PARTIALLY**	**The maximum possible attendance of the listed persons was achieved.**

In addition to the Code of Corporate Governance of the Zagreb Stock Exchange and HANFA, Atlantic Grupa also applies its own Code of Corporate Governance, thus improving the standards of business transparency and fully aligning them with European Union directives. The Code defines the procedures for the functioning of the supervisory boards, management boards, and other bodies and structures responsible for decision-making, thus ensuring the avoidance of conflicts of interest, efficient internal control and an effective responsibility system. It is available on web pages of Atlantic Grupa (www.atlanticgrupa.com). Additionally, Atlantic Grupa is a signatory of the Code of Ethics in Business initiated by the Croatian Chamber of Economy. The listed Code lays down guidelines for ethical behaviour of business subjects in the Croatian economy. Such definition of ethical criteria contributes to more transparent and efficient business operations and high quality relations between economic operators in Croatia and the business environment in which they operate. By signing the Code of Ethics, its parties undertake to respect human rights, apply anti-corruption provisions, use responsible and ethical behaviour towards the other companies on the market, as well as develop high quality relations and loyal competition.

Furthermore, we are aware of their importance and promote the policy of diversity and non-discrimination in the workplace and in employment. This was the motivation behind being us signing the Diversity Charter – the initiative started by 16 EU Member States, which was developed in Croatia within the project of the Croatian Business Council for Sustainable Development. By signing the Charter, we committed to promote the policy of diversity and non-discrimination in the work and business environment, which is implemented accordingly, while also regularly reporting on activities in this area.

Atlantic Grupa is developing and acting in accordance with good practice of corporate governance and endeavours, through its business strategy, business policy and key internal acts, to contribute to transparent and efficient business and quality relationships with the business environment in which it operates, following global and European trends.

The internal control and risk management system is an integral and important component of our business operations, and its elements, as specified below, as well as the description of the functioning of, and method of exercising voting rights at, the General Assembly, composition and functioning of the Management Board and Supervisory Board and their committees, as well as information on the Company's shareholders, are an integral part of this Corporate Governance Statement.

Organisation of corporate management in Atlantic Grupa

Atlantic Grupa's corporate management structure is based on a dual principle, which means the Company's Supervisory Board and Management Board. Together with the General Assembly, they represent the three principal bodies of the Company under the Articles of Association and the Companies Act.

GENERAL ASSEMBLY

The General Assembly is a body in which shareholders accomplish their rights in Company matters. The method of functioning of the General Assembly, its powers, the rights of shareholders and the method of their exercise are defined in the Company's Articles of Association, which are publicly available on web pages of Atlantic Grupa (www.atlanticgrupa.com).

In 2022, two sessions of the General Assembly were held. At the session of the General Assembly held on 20 January 2022, the decision on the election of Vesna Nevistić and Zoran Vučinić as members of the Supervisory Board was adopted. In order to decide on issues prescribed by law and the Company's Articles of Association, the regular General Assembly of Atlantic Grupa d.d. was held on 15 June 2022. The following decisions were made at that Assembly: issuing the note of release to the members of the Management Board and the Supervisory Board, paying a dividend to the Company shareholders in the amount of HRK 50.00 per share, in proportion to the number of shares held by each shareholder (with an individual nominal value of HRK 40.00), approving the Remuneration Report for 2021, re-electing three members of the Supervisory Board, approving the share split under which the Company's shares with an individual nominal value of HRK 40.00 are exchanged for four shares with an individual nominal value of HRK 10.00, amending the Articles of Association of Atlantic Grupa d.d., approving amendments to the Remuneration Policy for the Members of the Management Board of Atlantic Grupa d.d. and appointing an independent Auditor of the Company for the year 2022.
All decisions from the meetings held by the General Assembly were made in line with legal regulations and are available on web pages of Atlantic Grupa (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr).

Supervisory board of Atlantic Grupa

By the decision of the General Assembly adopted on 20 January 2022, the composition of the Supervisory Board was expanded from seven to nine members. In 2022, the Supervisory Board held four sessions, whereas the members' attendance rate at these sessions was 97.22%, given that Mr. Peter Elam Håkansson was justifiably absent from one session.

In line with the OECD Principles of Corporative Governance and the recommendations of the 2020 Code of Corporate Governance of the Zagreb Stock Exchange and HANFA, the new, expanded composition of a total of nine Supervisory Board members, eight of them are independent members who are not in business, family, or other connections with the company, the majority shareholder, or a group of majority shareholders, or management board members or supervisory board members of the company or the majority shareholder.

The members of the Supervisory Board are:

Zdenko Adrović
Chairman

Zdenko Adrović, one of the leading experts in Croatian financial industry, is the director and one of the founders of the Croatian Banking Association. He was Chairman of the Management Board of Raiffeisenbank Austria d.d in the period 1996 - 2014, which in his term of office developed into one of the leading financial institutions and received several awards from the Croatian Chamber of Economy as the most successful bank in Croatia. Prior to his current position, he was the Executive Vice President responsible for the treasury and liquidity at Privredna Banka Zagreb, where he also worked as the Investment Banking Sector Manager and Deputy General Manager. From 2017 to 2020, he was a member of the Croatian Parliament's Finance and State Budget Member Committee, and is a member of the National Competitiveness Council since 2018. In the period 2008 - 2016 he was a member of the Executive Board of the Croatian Employers Association, and in the period 2004 - 2013 a member of the Management Board of the Croatian Chamber of Economy. In addition to the above, he was a member of the Supervisory Board in Pliva d.d. in the period 1999 - 2006. He graduated from the Faculty for foreign trade, University of Zagreb, where he also earned his M. Sc. degree in corporate finance, continuing his professional specialisation through his long career in the financial industry at universities in USA and UK.

Siniša Petrović
Vice-Chairman

Siniša Petrović is a tenured professor at the Commercial and Company Law Department of the Faculty of Law at the University of Zagreb. In 1995, he was a special envoy of the delegation of the Republic of Croatia for negotiations with the international community as well as a member of the delegation of the Republic of Croatia at the International Peace Conference for Bosnia & Herzegovina in Dayton. He was Vice President of the Council for the Protection of Market Competition and the Croatian representative in the Arbitration Committee of the International Chamber of Commerce. He is the author of many expert papers and participated in the drafting of Croatian regulations concerning companies, market competition, real estate mediation, privatisation, sports and prevention of conflicts of interest in performance of public functions. He was a member of the Negotiating Team for the Accession of the Republic of Croatia to the EU. He received his bachelor's, master's and doctor's degrees from the Faculty of Law at the University of Zagreb.

Lars Peter Elam Håkansson
Member

Lars Peter Elam Håkansson is a Chairman in East Capital Holding and holds Board appointments within the East Capital group. Peter established East Capital's investment philosophy and strategy. He has worked within emerging and frontier markets since the early nineties and continues to travel and visit companies throughout the world. Peter has been awarded the Gold Star for best Fund Manager five times by Morningstar and Sweden's largest financial daily Dagens Industri. He and the investment teams have also received numerous Lipper awards for the performance of the funds that East Capital manages. He is the Chairman of the foundation Swedish Music Hall of Fame, Board member in Garna Stockholm Holding, Bonnier News Business, Atlantic Grupa in Croatia, Cicero Holding AB and Cicero Fonder, LaSpa Group in Estonia and the fellow of the Royal Swedish Academy of Engineering Sciences (IVA), Finance section. Prior to founding East Capital, Peter held a series of senior positions at Enskilda Securities in London, Paris and Stockholm – where his last role was Head of Equities and Global Head of Research. Peter has a degree from Stockholm School of Economics and has also studied at l´EDHEC in Lille. He is fluent in Swedish, English and French.

Franz-Josef Flosbach

Member

Franz-Josef Flosbach obtained an industrial engineer degree at the Technische Universität Darmstadt, in 1973. He had spent most of his working life, since 1975, in the DEG-Deutsche Investitions und Entwicklungsgesellschaft GmbH. DEG promotes private businesses in emerging and developing countries, and since 2001 is a subsidiary of the German KFW - Bankengruppe, Frankfurt. Mr. Flosbach has been assigned a number of executive tasks – management audit (including responsibility for the investments in Asia, the Arabian countries, South-East Europe, English speaking Africa); business planning and controlling (including successful implementation of the SAP System); business development and portfolio management in Sub-Saharan Africa; consultancy activities for "Deutsche Mittelstand", Programmes of the European Community (ECIP, CDI, JOPP), Foreign Promotion Agencies, and Stability Pact for South-Eastern Europe. Furthermore, he was responsible for DEG's Business in East and South East Europe, Caucasus, Central Asia, Turkey and Near East, which includes about 30 countries, 1.5 billion Euro investment, about 110 portfolio companies, 200 – 500 million new commitments per year. Prior to his career in DEG, he worked as a Senior Consultant at the Treuhand-Vereinigung AG/Coopers & Lybrand GmbH, today PriceWaterhouseCoopers (PwC) with a special focus on Merger & Acquisition activities. Mr. Flosbach has special knowledge in the following areas: financing - project financing, providing long term loans, equity; mergers and acquisitions; restructuring and privatisation; advisory service; risk management; corporate governance. Likewise, he has a profound country and sector know how. Mr. Flosbach has served as a member of Supervisory Boards in different industries with a different legal framework since 1984. At present, he serves as a member of Atlantic Grupa's Supervisory Board and as the President of its Audit Committee. Mr. Flosbach is since 1999 a Member of the "Südosteuropa Gesellschaft", München.

Vesna Nevistić
Member

Dr. Vesna Nevistić has 25 years of professional track record in management consulting, investment banking, corporate development and restructuring. She has gained extensive experience working globally across many different industries while holding senior executive positions at some of the world's leading institutions: a Partner at McKinsey & Company, in Zurich and New York; a Managing Director at Goldman Sachs in London and Zurich; a Group Managing Director and Head of Corporate Development at UBS in Zurich, where she was part of the senior executive team that successfully restructured the bank following the financial crisis. Dr. Nevistić currently runs her own advisory boutique, VereNovo GmbH, focusing on strategic and business transformation topics, and also serves as a Non-Executive Director at the Boards of three companies: Compagnie Financiere Richemont SA, a Geneva-based global luxury goods group encompassing brands like Cartier, Van Cleef & Arpels, Montblanc; Samskip BV, a leading Pan-European multimodal transportation company, based in Rotterdam; Constellation Acquisition Corp I, a SPAC listed at the New York Stock Exchange. She supports various non-profit organisations and is a member of the Finance Committee of the Swiss Study Foundation. Dr. Nevistić holds a PhD in Electrical Engineering from the Swiss Federal Institute of Technology (ETH Zurich) and Diploma/Post-Diploma degrees from Zagreb University. She is a Swiss and Croatian citizen living in Zurich.

Aleksandar Pekeč
Member

Aleksandar Pekeč is a tenured professor at Duke University's Fuqua School of Business. He is an expert in managerial decision-making in complex competitive environments, and has published articles in top academic journals in management sciences, as well as in top journals in other fields such as economics, mathematics and psychology. His consulting experience includes financial, pharmaceutical, retail, and technology industries. He was a member of the Economic Council of the President of the Republic of Croatia in the period 2010 - 2015. Professor Pekeč holds a Ph.D. degree from Rutgers University and B.Sc. degree from the University of Zagreb.

Monika Elisabeth Schulze
Member

Monika Schulze is the Head of Customer & Innovation Management at Zurich Insurance and member of the German Executive Committee. Her focus is building strong businesses in the context of massive industry transformation and digital disruption. Before joining Zurich Insurance, Monika run her own business as a strategic business consultant. In the last two positions at Unilever she served as Vice President for Brand Development Europe and as Business Director for Foods with P&L responsibility in Hungary. She has a Master of Business Administration degree from the University of Hamburg. Monika is Board Member at Schloss Wachenheim, a sparkling wine company based in Trier, Germany.

Anja Svetina Nabergoj
Member

Dr. Anja Svetina Nabergoj is Lecturer at Hasso Plattner Institute of Design at Stanford University and Associate Professor at the School of Economics and Business, University of Ljubljana. She finished her undergraduate studies, completed International Full Time Master Program in Business Administration (IMB) and earned her PhD at the Faculty of Economics, University of Ljubljana. For the last 13 years she has been developing pedagogy for teaching innovation processes and nurturing creative mindsets to management in leading global corporations. She is the founding member of the Research as Design Team at Stanford University and member of the Advisory Board of The Stanford Catalyst for Collaborative Solutions. She has contributed chapters to numerous publications published by Edward Elgar and Routlege, and co-authored the book "Creativity in Research" published by Cambridge University Press.

Zoran Vučinić
Member

Zoran Vučinić has a rich, 33+ year history in the global fast-moving consumer goods (FMCG) industry. His last position was at The Coca-Cola Company, where he was Chief Operating Officer (COO), Coca-Cola North America. He began his career at Coca-Cola back in 1988 in Italy as the Marketing Services Manager for South-East Europe. After that, he became the Managing Director of The Coca-Cola Company in Switzerland, Austria, and Thailand. He was a consultant at Egon Zehnder and the President of the Dukat Dairy Group. In 2007, he returned to Coca-Cola as President for the Russia, Ukraine, and Belarus unit, and was later promoted to lead the Middle East & North Africa region based in Dubai, UAE. He graduated from the European Business School, Reutlingen University, and Middlesex University London, and received his Master's degree at the Massachusetts Institute of Technology in Boston, Massachusetts in the United States.

Three Committees function within the Supervisory Board with the purpose of assisting the operation and functioning of the Supervisory Board: Audit Committee, Leadership Development and Remuneration Committee and Social Responsibility and Corporate Governance Committee. Each Committee should have at least three members.

The Social Responsibility and Corporate Governance Committee defines a system of mechanisms for ensuring a balance between the rights of shareholders and the needs of management to direct and manage the company's operations. It provides a framework to establish the Company's objectives and define the funds required to achieve those objectives, as well as to monitor their implementation and efficiency. The Committee is chaired by Siniša Petrović, Monika Elisabeth Schulze and Anja Svetina Nabergoj, who joined the Committee on 04 May 2022, were appointed as members from the ranks of the Supervisory Board and Nina Tepeš, Professor at the Faculty of Law, University of Zagreb, as a member from the ranks of external experts. The Committee held four sessions throughout 2022, whereby the attendance percentage of its members was 100%.

The Leadership Development and Remuneration Committee proposes candidates for the Management Board, Supervisory Board and senior management personnel as well as contents of contracts with the members of Management Board, structure of their compensation and compensation of the Supervisory Board's members. The Committee is chaired by Aleksandar Pekeč, Lars Peter Elam Håkansson and Zoran Vučinić, who joined the Committee on 04 May 2022, were appointed as members from the ranks of the Supervisory Board and Zoran Sušanj, Associate Professor at the Faculty of Economics, University of Rijeka, as a member from the ranks of external experts. The Committee held three sessions throughout 2022, whereby the attendance percentage of its members was 90.91% given that Mr. Peter Elam Håkansson was justifiably absent from one session.

The Audit Committee analyses in detail the financial reports, provides support to the company's accounting and establishes good and quality internal control within the Company. It monitors the integrity of financial information of the company, particularly the accuracy and consistency of accounting methods used by the Company and the Group to which it belongs, including the criteria for consolidation of financial reports of the companies that belong to the Group. Also, the Committee assess the quality of the internal control and risk management system, with the aim of properly identifying, publicizing and managing the major risks to which the company is exposed to. The Committee is chaired by Franz-Josef Flosbach, Zdenko Adrović and Vesna Nevistić, who joined the Committee on 04 May 2022, were appointed as members from the ranks of the Supervisory Board, while Marko Lesić ceased to be a member of the Committee on 14 June 2022. The Committee held two sessions during 2022, and the attendance rate of its members was 100%.

Supervisory Board's report on corporate governance

Zdenko Adrović
Chairman

In the course of 2022, the Supervisory Board has performed supervision of the Company's activities in line with the decisions adopted by the Company's General Assembly and established that the Company acted fully in compliance with the decisions of the General Assembly.

The Management Board and the Supervisory Board work closely together for the good of the Company and maintain a regular contact. The Supervisory Board was duly informed by the Management Board of all business events of greater importance, the course of business operations, revenues and expenditures, as well as of the general status of the Company. The Management Board regularly submitted to the Supervisory Board quarterly, semi-annual and annual written reports on business operations, to which the Supervisory Board had no objections and which were unanimously adopted. Also, the Management Board keeps the Supervisory Board fully and regularly informed on corporate strategy, planning, business developments, risk management, compliance, any deviations in the business developments from original plans, as well as on significant business transactions involving the Company and its affiliates. The Management Board regularly submits to the Supervisory Board reports prescribed by the Law, while in between its sessions, the Management Board duly informs the Supervisory Board on important developments regarding the Company's business operations.

The Supervisory Board conducted a self-assessment of profiles and competencies of the Supervisory Board members and members of its Committees. The self-assessment was conducted by the President of the Supervisory Board without the engagement of an external auditor. As for its composition, Supervisory Board has set itself the following objectives when issuing recommendations for appointments for its members. The Supervisory Board operates in an optimal number of members, in such a way that its members, as a group, possess the knowledge, ability, and expert experience required to properly perform their tasks considering, as well, the aspect of diversity by supporting an appropriate degree of women's representation. Conflicts of interest are avoided in considerations for the appointments to the Supervisory Board.

The Supervisory Board concluded that the Supervisory Board and its Committees work well and have a balanced composition and necessary expertise complementary to the requirements of the Company's business. Evaluation of members of the Supervisory Board and its Committees confirmed that each individual contributes effectively and demonstrates their commitment to the role and their time for this duty.

In view of the process of defining corporate strategy and priorities in the further development of the Company, by taking into account the value of candidates with international experience whose global-level expertise would further strengthen its functioning in the future, to the proposal of the Supervisory Board, on 20 January 2022 the General Assembly elected Dr. Vesna Nevistić and Zoran Vučinić for new members of the Supervisory Board. The composition of the Supervisory Board thereby was expanded from the former seven members to a total of nine members.

Administrative support for the preparation of Supervisory Board Sessions is provided by the Company Secretary in an efficient and timely manner.

In 2020, the Supervisory Board set the target of the proportion of women in the Supervisory Board and the Management Board at the minimum 25% out of the total number of members of the respective Board. The target is set to be reached in the following five-year period. It should be noted that, in 2022, this goal was achieved in the Company's Supervisory Board since 33% of the Supervisory Board members are women, while in the Management Board, where there is one female member, the percentage of women is 14%. Atlantic Grupa highly supports diversity within the Company. Therefore, during 2022 several women were appointed to senior management positions. This is also supported by the fact that women hold 54.8% of all managerial positions in the Company.

Management Board of Atlantic Grupa

Atlantic Grupa's Management Board has, as of 8 December 2022, expanded its composition from six to seven members – President of the Management Board; Group Vice President for Corporate Activities; Group Vice President for Finance, Procurement and Investments; Group Vice President for Corporate Strategy and Development; Group Vice President for Distribution, Group Vice President for Savoury Spreads, Donat and International Expansion, and Group Vice President for Coffee and Snacks.

7 members of Management Board

The Management Board of Atlantic Grupa operates in the following composition:

Emil Tedeschi
President of the Management Board

Emil Tedeschi is the founder and majority owner of Atlantic Grupa. In his career he has received numerous professional and media awards and in 2010 received the state decoration of the President of the Republic of Croatia for his special contribution to Croatian economy. He was actively engaged in the process of Croatia's accession to the EU by participating in the work of the Parliamentary Committee overseeing the negotiating process. He was a member of the Social-Economic Council, President of the Croatian Employers Association in the period 2005 - 2007 and a member of the Council of Economic Advisers to the President of Croatia in the period 2010 - 2015. He is an Honorary Consul of the Republic of Ireland in the Republic of Croatia, a member of the Trilateral Commission, the Harvard John F. Kennedy School Dean's Council, the INSEAD Alumni Association, the Programme Council of the Zagreb School of Economics and Management, the Business Council at the Faculty of Economics in Ljubljana.

Srećko Nakić
Group Vice President for Distribution

Enzo Smrekar
Group Vice President for Savoury Spreads, Donat and International Expansion

He began his career in Atlantic in 1994 in the sales organisation. In his various roles within distribution areas, he developed recognisable trade excellence as the core competence of Atlantic Grupa, which resulted in long term cooperation with strong international principals - Beiersdorf, Duracell, Ferrero, HIPP, Johnson & Johnson, Mars, Rauch, Red Bull, Unilever, etc. He was one of the key contributors in Cedevita's launch in the HoReCa channel and OTG segment, and from 2010 to 2014 led the integration of Droga Kolinska into Atlantic Grupa as the President of the Management Board of Droga Kolinska. As the Vice President for Distribution, he is responsible for overall distribution business operations, covering all markets with focus on expansion and overall growth. He enhanced his professional growth with relevant educational programs in institutions such as IEDC Bled School of Management.

Enzo Smrekar has joined Atlantic Grupa with the acquisition of Droga Kolinska in 2010 where he was Chief Operating Officer at the time of transaction. Prior to that, he spent 18 years working for leading international companies such as Philip Morris, Diageo and LVMH. From 2010 onwards he had a key role in the successful integration of Droga Kolinska into Atlantic Grupa, as member of the board of Droga Kolinska and General Manager of the Strategic Business Unit Savoury Spreads. He finished MBA at the IEDC Bled, AMP at the Harvard Business School, earned a Coaching and Mentoring certificate from the Oxford Brooks University, he is a Supervisory Board member in several companies, President of the Slovenian Ski Association, Vice President of the Slovenian National Olympic Committee, and trustee of the International Ski Federation.

Zoran Stanković
Vice President for Finance, Procurement and Investment

Zoran Stanković joined Atlantic Grupa in February 2007 at the position of Vice President of Finance. Prior to that, he spent three years at Pliva as the Group's Director of Controlling responsible for the coordination and supervision of financial activities of the Pliva's network of companies, both domestic and abroad. Before his arrival to Pliva, from 1995 to 2003, he worked at Arthur Andersen and Ernst&Young as a Senior Audit Manager responsible for key accounts. He is a member of the international Association of Chartered Certified Accountants. He Graduated from the Faculty of Economics and Business at the University of Zagreb.

Mate Štetić
Group Vice President for Coffee and Snacks

Mate Štetić joined Atlantic Grupa in 2019 as General Manager of SBU Coffee and at the end of 2022 took over the management of the chocolate and the sweet and salted snacks portfolio. He started his career in 2001 with Ledo d.d., where he worked in different sales, export, marketing, and development positions. After that he joined Zvijezda d.d. where he held the position of Marketing and Development Director and in 2008 became the General Manager of Mlinar d.d. He worked in PIK Vrbovec d.d. from 2009 until 2019, eight years of which as the company's General Manager. He graduated from the Faculty of Economics and Business at the University of Zagreb, obtained a master's degree from Cotrugli Business School, and continued his development at the IEDC Bled School of Management and other business schools.

Lada Tedeschi Fiorio
Vice President for Corporate Strategy and Development

Lada Tedeschi Fiorio manages the processes and teams dealing with Atlantic Grupa's strategy and growth through M&A activities and development of new areas or products with potential for the company's growth. Before her appointment to the Atlantic's Management Board in 2019, she served as the Vice President of the Supervisory Board of Atlantic Grupa. She began her career in Atlantic in 1997 as the Deputy Director for Finance. As the Vice President for Business Development, she had an important role in the IPO process in 2007 and in negotiations during different Atlantic's acquisition and sale processes. For the last four years in a row she was recognised as the most powerful woman in business in Croatia according to the expert jury of the business magazine Lider. Before her career in Atlantic, she acquired business experience in multinational companies, Wrigley in Germany and Mars Masterfood in the United Kingdom, the Netherlands, Poland and the United Arab Emirates. She received her bachelor's degree in economics at Universita' commerciale L. Bocconi in Milan, and continued her professional specialisation at the London Business School.

Neven Vranković
Vice President for Corporate Activities

Neven Vranković joined Atlantic Grupa in 1998 as the Executive Director of Corporate Activities. In 2001 he was responsible for Atlantic Grupa's merger and acquisition activities, while in 2002 he was appointed Vice President for Corporate Activities. He gained his business experience by working in the legal department of Bergen Bank in Norway and as a career diplomat at Croatian embassies in Washington and Belgrade. He was a member of the Working Group for Preparing Negotiations for the Accession of the Republic of Croatia to the European Union for Chapter 6 – Company Law. He graduated from the Faculty of Law at the University of Zagreb and received his master's degree from the Washington College of Law, USA. Furthermore, he gained additional professional knowledge in the field of mergers and acquisitions at the business school INSEAD in France.

STRATEGIC MANAGEMENT COUNCIL

Since its establishment in early 2012, the Strategic Management Council operates as a multifunctional body that discusses vital strategic and operational corporate issues, business analysis, priority definition, supervision of strategic plans, coordination between organisational units and key decision making. The Council includes the following members: President of the Management Board, Group Vice President for Corporate Activities, Group Vice President for Finance, Procurement and Investment, Group Vice President for Corporate Strategy and Development, Group Vice President for Distribution, Group Vice President for Savoury Spreads, Donat and International Expansion, Group Vice President for Coffee and Snacks, Managing Directors of Strategic Business Units, Managing Directors of Strategic Distribution Units, Senior Executive Directors of Private Labels, Corporate Legal Affairs, Quality Management and Asset Management, Transformation and Information Technology, and Corporate Key Accounts Management, Secretary General, Executive Director of the Business Unit, Central Purchasing, People and Culture, Corporate Controlling, Corporate Strategy and New Growth, Directors of Corporate Development, Corporate Communications, and Corporate Services, Sales Director of Global Distribution Account Management, as well as Executive Directors of Distribution Units Austria and Macedonia.

BUSINESS COMMITTEES

The Social Responsibility Committee contributes to the implementation of principles of sustainable development in the company's everyday operations, monitors its status and starts initiatives for the improvement of corporate social responsibility. The Social Responsibility Committee is headed by the Company's Secretary General, while its members are: Executive Director of People and Culture, Director of Corporate Communications and Director of Corporate Quality Management.

Internal audit in 2022

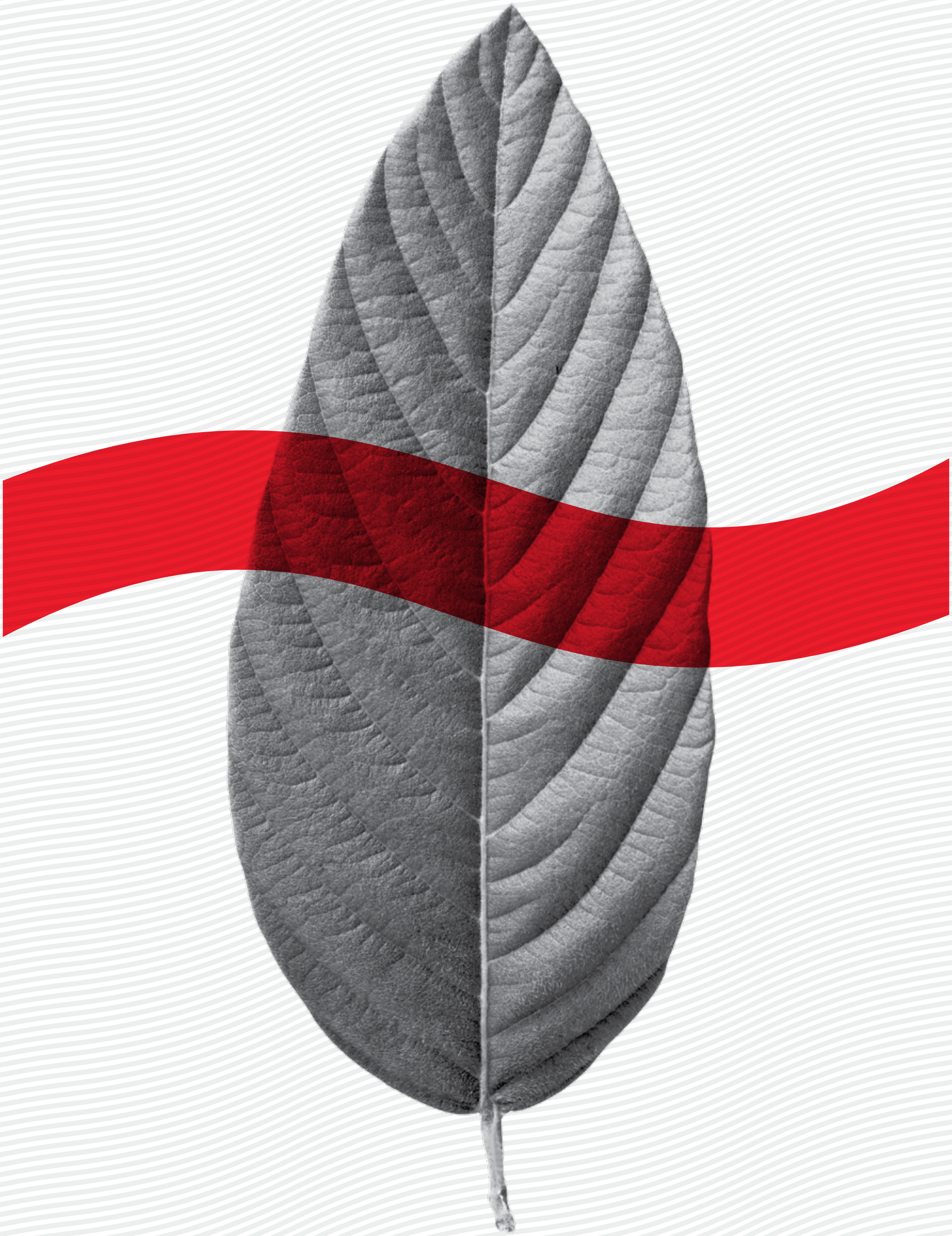
Internal audit is a corporate function of Atlantic Grupa that performs an independent audit and control functions and informs managers through comprehensive audit reports (findings and proposed improvements). The realisation of proposed improvements is monitored through a digital tool.

Internal audit is responsible for estimating the level of risk management in business processes, reviewing the efficiency of the internal control systems with the purpose of advancing risk management and compliance with procedures, testing and analyses of compliance of the existing business systems with adopted policies, plans, procedures, laws and regulations that can have a significant influence on business reports. It is responsible for recommending preventive measures in the area of financial reporting, compliance, business and control in order to eliminate risks and eventual deficiencies that could lead to inefficient processes or fraud.

Internal audit informs the Committee on its activities and plan, while its findings and recommendations help the management to improve processes, preventively eliminate potential risks or reduce risks to an acceptable level.

In 2022, thirteen audits were carried out in the following areas: pallet management process, quality control and non-conformity management process in SBU Snacks, supplier selection process for transport services, auditing the IT services procurement process, analysis of stock levels of finished products at distributors, auditing the use of company cars, checking the condition of HoReCa equipment with customers in Croatia, extraordinary inventory of finished product stocks with sales representatives in Croatia and more. These audits resulted in a total of 44 recommendations for improving operation and reducing specific risks to an acceptable level.

Social responsibility



Ethics in business

ANTI-BRIBERY AND ANTI-CORRUPTION

To understand the terms bribery and corruption, it is important to note that they include practices such as: facilitation payments, fraud, extortion, collusion, money laundering, offering or receiving gifts, loans, fees, rewards or other advantages as an inducement to do something that is dishonest, illegal or represents a breach of trust, as well as embezzlement, trading in influence, abuse of function, illicit enrichment, concealment, and obstructing justice. Corruption is broadly linked to negative impacts, such as poverty in transition economies, damage to the environment, abuse of human rights, abuse of democracy, misallocation of investments, and undermining the rule of law.

Atlantic Grupa d.d. and its associated companies respect good and responsible business practices on the marketplace, as well as international norms, and in their operations treat everyone with integrity. This is formally shown by acceding to the UN Global Compact Principles, the Code of Ethics in Business issued by the Croatian Chamber of Economy–which lays down guidelines for ethical behaviour of business subjects in the Croatian economy–and the Code of Corporate Governance issued by the Zagreb Stock Exchange and HANFA.

In addition to the Code of Corporate Governance of the Zagreb Stock Exchange and HANFA, Atlantic Grupa also applies its own Code of Corporate Governance, thus improving the standards of business transparency and fully aligning them with European Union directives. The Code defines the procedures for the functioning of supervisory boards, management boards, and other bodies and structures responsible for decision-making, thus ensuring the avoidance of conflicts of interest, efficient internal control and an effective responsibility system. It is available on web pages of Atlantic Grupa (www.atlanticgrupa.com).

WHISTLEBLOWING PROCEDURE

Given that the Company wishes to provide its employees the right to an honest, responsible, transparent and ethical work i.e. working environment in which the main principles of business conduct are respected, Atlantic Grupa adopted the Whistleblowing Procedure Rules which prescribes the reporting procedure, rights as well as duties of each and all employees of Atlantic Grupa who in his/her work observes or becomes aware of either an actual or a potential illegal action or potential violation of the accepted rules of business conduct in the Company carried out by another employee(s). The said Rules define what is understood as illegal action or violation of the accepted business conduct (Misconduct), the rights and duties of an employee who in his/her work observes or becomes aware of Misconduct to report it to competent bodies of Atlantic Grupa, as well as the actions of competent bodies of Atlantic Grupa after such a report.

The employee who submitted a report on the potential Misconduct in accordance with the Rules is guaranteed with full confidentiality of any information regarding his/her identity and the content of the report with which he/she reported the potential Misconduct. Besides, any employee who in his/her work observes or becomes aware of Misconduct shall have the right, at his/her own discretion, to submit an anonymous report on the potential Misconduct, without providing information on his/her identity.

ETHICAL CODE OF PURCHASING ORGANISATION

Ethical code of the purchasing organisation is a set of values, standards, principles and rules, which all the staff of the Atlantic Grupa's purchasing organisation, responsible for procurement in the company, has to respect in performing their business activities. The Ethical Code covers the following areas:

Legal compliance —

The purchasers are obliged to inform themselves on any law and regulation change pertaining to purchasing and apply them in their business. In addition to various national and international laws and regulations of a general character, the purchasers have to follow and apply all other laws and regulations that are related to trade, industry, protection of patents and copyrights, environmental protection, work safety, labour law, etc.

Applying the criteria of sustainable purchasing —

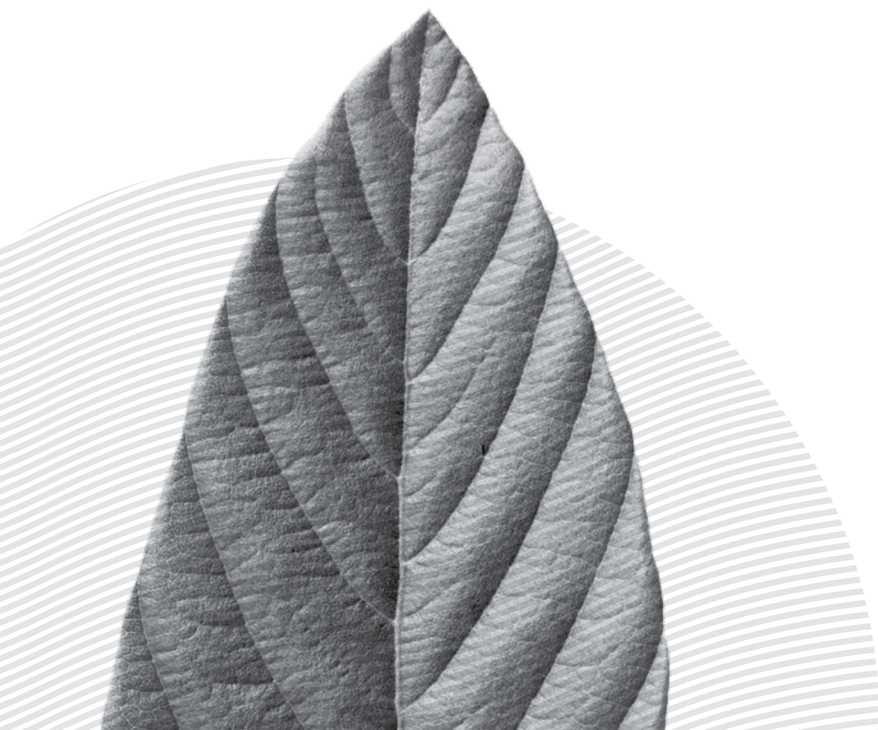
When making sourcing and purchasing decisions, Atlantic Grupa's purchasing organisation is committed to consider both environmental and social factors aiming at minimizing the environmental and social impact that the items we purchase have. Purchasing business must be conducted in such a way to respect social, ethnic, cultural, sexual and racial diversity, and business decisions must not be directed in a way that favours any of the categories of ethnic, sexual or racial criteria.

Fair treatment of suppliers —

The purchasing organisation and the purchasing staff have to enable and support fair market competition among potential suppliers who are interested in entering into a business relationship with Atlantic Grupa. This means that the supplier selection process has to be always defined and conducted in such a way to prioritize the suppliers that are capable to provide quality products or services at competitive prices, or that have visible and proven advantages to the business of Atlantic Grupa, compared to other suppliers. While selecting the suppliers or later when the cooperation with the suppliers is already established, any influence which is not of a business nature, or which is affected by a personal interest of the purchasing staff is not allowed. In this regards, the purchasers have no right to ask or to receive money, favours or gifts from suppliers or potential suppliers. Exceptionally, only business gifts that are of symbolic value could be accepted as an expression of common business practice or business partner's courtesy, but their giving or accepting in no way should influence the decision making process, supplier's selection, negotiations or agreements with suppliers. The manners of dealing with suppliers, regardless of their negotiating position and power of the purchasing department, must be civilized and fair, and the purchasing staff is bound to respect all agreed terms with suppliers, providing that the other side respects its obligations too. The purchasing staff also commits to keeping secrets and professional data, and their selective use, which also applies to all confidential information that is obtained from suppliers during the competition for goods and services supply, as well as offers or business reports. This information may not, without the consent of the party that placed this information at the disposal, be made available to third parties.

Respect to the purchasing profession —

The purchasing staff has to develop and maintain their professional competences, which means that they are obliged to continuously develop and improve their professional value both in terms of specific skills and knowledge in the purchasing area (technical knowledge, knowledge of commerce, trade, laws and regulations), and in terms of communication and other „soft" skills. For achieving this, the purchasers should be open to communicate with other purchasing professionals outside the company and with purchasing associations and institutions, in order to exchange and share experiences and opinions. As the representatives of the purchasing profession, the purchasers of Atlantic Grupa have to act in such a way to maintain dignity of the purchasing profession, and at the same time to ensure that the others who are in contact with the purchasers also recognise the dignity of the purchasing profession.



Sustainable development

Sustainable development

Atlantic Grupa is a signatory of the UN initiative Global Compact since 2007, and our sustainable practices comply with the requirements of the European legislation in all elements. More than that, derived from the company value CARE, our activities go far beyond the boundaries of the legislation and the integrated quality system gives the framework for improvements in managing the environmental and social risks and opportunities.

Until 2021 reporting year, the Global Reporting Initiative Standards (GRI) were used as a reference for sustainability reporting and later on for sustainability disclosures in the AG's first integrated report. At the end of 2022, we become familiar with the requirements of the new Corporate Sustainability Reporting Directive (CSRD) and the related package of (draft) European Sustainability Reporting Standards (ESRS). Accordingly, with this report we already entered into the alignment process to new regulations, which will continue in 2023. Here we also want to emphasize that all our subsidiaries are included in the consolidated sustainability statements of this report, and thus they don't disclose sustainability statements in their own reports.

In what way we support UN Global Compact principles:

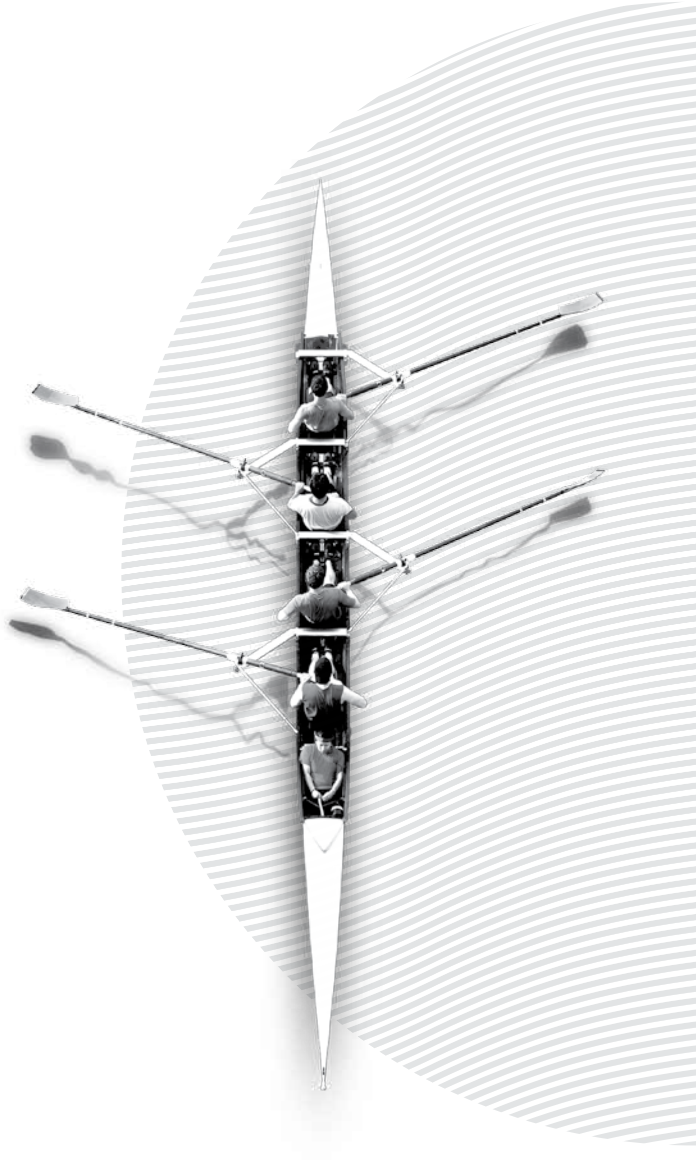
UN Global Compact principles			AG Policies and practices
Human rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights.	**The corporate values and culture, company's policies and procedures** concerning human rights, equal opportunities, safe and healthy working conditions are available on the company's intranet and on all of our bulletin boards. **Ethical code of the purchasing organisation** **Humanitarian actions supporting vulnerable social groups skupinama**
	Principle 2	Businesses should make sure that they are not complicit in human rights abuses.	
Labour	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Atlantic Grupa strongly supports the **right of association of its employees** and the work of its unions. In 2022, 85 % of our employees were covered with company collective agreements. Atlantic Grupa is one of the signatories of the Diversity Charter – the initiative started by 16 EU Member States, which was developed in Croatia within the project of the Croatian Business Council for Sustainable Development. Atlantic Grupa is one of the members of The Alliance for Gender Equality in the Workplace, network of companies launched in 2019.
	Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labour.	
	Principle 5	Businesses should uphold the effective abolition of child labour.	
	Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges.	**Fully Integrated Quality and Environmental Management System (EMS)** and Energy Management System (EnMS) is implemented on all business locations. **Five pillars of sustainability agenda and priority goals** were defined in 2021. **Innovation process** used for designing new products includes mandatory criteria for environmental and social responsibility.
	Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.	
	Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies.	
Anti-Corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	**Code of Corporate Governance of Atlantic Grupa** **Code of Corporate Governance issued by the Croatian Financial Services Supervisory Agency (HANFA) and ZSE** **Code of Ethics in Business issued by the Croatian Chamber of Economy** **Whistleblowing Procedure Rules**

STAKEHOLDER ENGAGEMENT

As a multinational company, we have an impact on the decisions of a large number of stakeholder categories, both internal and external. According to the Atlantic Grupa Code of Corporate Governance, stakeholders are subjects who take over certain direct or indirect risks in relation to our company.

The Management Board is responsible for the transparent and quality relationships of Atlantic Grupa and its stakeholders, being bound to take care that the company respects all rights of stakeholders and takes their interests into account, based on the law and good business customs. Acting responsibly for us means engaging in an ongoing dialogue, both locally and internationally, in order to understand different motives and concerns of the main stakeholders, as well as global trends that are important to them.

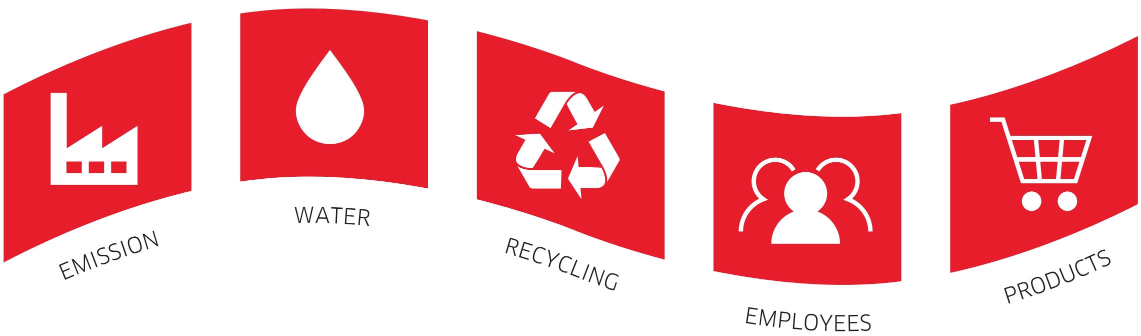
Stakeholder consultations are carried out regularly through many channels. Topics of interest for our stakeholders are addressed in various sections of this report.



Key stakeholders	Communication channels	Areas of interest and mutual benefits
Employees	Corporate interactive intranet Regular meetings of management and union representatives Regular employee engagement survey Annual performance and development interviews Trainings and internal workshops Offline and online newsletter	Highly engaged and capable employees, gender equity and no work injuries Talent development and career opportunities Community Engagement High food safety culture and embedded sustainability issues into business processes and objectives
Consumers and shoppers	Regional contact centre Brands' websites Brands' Social Media Channels Information on the product Marketing campaigns and events Education of consumer/shopper on points of sales	Orientation towards consumer needs and expectations Healthy life style Products with low environmental impact
Communities and environment	Regional contact centre Donations and sponsorships procedure Direct cooperation with local community representatives Atlantic Grupa LinkedIn profile	Environmental protection Acceptable technologies and products New jobs Community Engagement
Customers and users of company services	Sales agreements Meetings and B2B events	Meeting consumer needs by offering them choice and quality Economic value Sustainable procurement and supply chain
Suppliers	Supplier portal Purchasing agreements Quality and sustainability agreements	Innovative and efficient products and services Economic value Supply chain with low environment impacts, preserving biodiversity, fair human rights and animal welfare practices Business ethics in the supply chain
Shareholders and Creditors	General Assembly Corporate web page Meetings and conferences Management report	Delivering strong sustainable earnings and dividends, thus establishing supportive shareholder base Transparent governance Economic effects Development strategies
Public authority bodies	Meetings and consultations Participation in forums, industry platforms and collaborative programmes on issues of common interest	Collaboration on contributing to public good Economic effects Transparent governance

MATERIALITY

Our first systematic materiality assessment guided by the criteria defined by the Global Reporting Initiative was done already in 2013. All relevant topics (economic value, energy, water, biodiversity, emissions, waste, employment, occupational health and safety, product safety and healthy diet, training, later included also the diversity and equal opportunity) were reported in Atlantic Grupa's Sustainability reports, issued annually from 2014 to 2021. After careful review of stakeholder and global trends, the new strategy and goals, and taking into consideration the EU Green deal and non-financial reporting requirements, in 2021 we singled out the most important pillars on which we build up high priority social and environmental goals. These five pillar that represent the main sustainable development priorities are:



METRICS AND TARGETS - AG SUSTAINABILITY INDEX

In order to transparently measure progress towards the set goals, key performance indicators are defined and balanced, which together form the Atlantic Sustainability Index (shown in the table). In this way, economic and financial indicators are balanced with social and environmental goals, showing the sustainable performance of the entire organisation. In the below table, key performance indicators are listed together with the references to the classification in the draft European Sustainability Reporting Standards (ESRS).

SUSTAINABLE GOALS PILLAR	ESRS TOPIC	ESRS SUB-TOPIC	KEY PERFORMANCE INDICATORS	CONTRIBUTION SHARE
Emissions	E1 Climate change	Climate change mitigation Energy	Direct and indirect CO_2 emissions Share of renewable energy sources	15%
Water	E3 Water and marine resources	Water withdrawals	Water consumption for production operations	15%
Recycling	E5 Resource use and circular economy	Resource outflows related to products and services Resources inflows, including resource use	Share of recyclable packaging materials Share of recycled plastic in the total amount of purchased plastic	15%
Employees	S1 Own workforce	Working conditions Equal treatment and opportunities for all	Highly engaged employees ratio Training and education hours per employee Number of work-related injuries Share of women in managerial positions	40%
Products	S4 Consumers and end-users	Personal safety of consumers and/or end-users	Share of improved recipes in terms of a healthy lifestyle or reduced environmental impact	15%
	E5 Resource use and circular economy	Resource outflows related to products and services	Share of improved packaging of products with reduced environmental impact	

The year 2020 was defined as a measurement baseline, and for the year 2022 the first-time goals and action plans were defined (and approved by the ESG steering committee). Specific KPI results are disclosed in relevant sections of this report. The overall AG Sustainable Index calculated for 2022 was fully achieved and embedded into the Management Board's remuneration model with a 10% impact.

MANAGING MATERIAL SUSTAINABILITY MATTERS

With the aim of improving environmental, social, and economic objectives, the way in which we recognise and consequently act in relation to sustainability risks and opportunities is multi directional, covering the development of new products, technological processes, employee development, communication with buyers and consumers, investor relations and supply chain management. The idea is that businesses and distribution play a leading role, integrating ESGs in their strategies, and defining their action plans.

Derived from the five priority pillars the following objectives represent the framework to which all operational activities must adapt in their future development:

- reducing the greenhouse gas emissions (explained further under the chapter “AG policies related to climate change mitigation”),
- responsible water usage,
- complete recyclability of packaging,
- highly engaged and capable employees, no injuries, gender equity,
- constant improving of recipes in terms of improved nutrition value, clean labels and reduced unnecessary packaging.

More than hundred employees actively participate through their activities in dedicated teams:

- the AG Non-financial reporting committee (is active with 23 members and its role is to regularly review and approve the list of KPIs, critically assess the results and approve goals on the corporate level),
- working teams in SBUs (prepare their strategies),
- group process owners and managers,
- group energy efficiency team,
- group green team,
- group team of packaging technologists,
- group finance team.

At the bottom line, the line managers and operators all work for the realization of action plans and tasks.

AG Policies related to climate change mitigation

Since 2020 we have been actively working to reduce emissions reported under the scope 1, 2 and 3.

Emissions of scope 1 – fuel, natural gas, LPG, heating oil, steam

In 2022, reduced emission in scope 1 are a result of investments or improvements described in the chapter “Environment and Energy Management”.

Emissions of scope 2 – electric energy and thermal energy

In 2022, the emissions of supplied energy (Scope 2) are already 83% lower than the baseline (2020 result). This was achieved by purchasing electricity from renewable sources on all three main markets. Our medium-term goal is to reduce scope 2 emission by at least 90%, and thus we are working on new contracts with suppliers to have guaranteed quantities of renewable energy on all markets where we operate. The AG's Solar road map investment plan started in 2022 with the first solar panel on the roof of LDC Vukovina and will be completed in 2025. The final photovoltaic capacity will reach 18% of the total electric energy used in Atlantic Grupa.

Emissions of scope 3 – supply chain

We should take into account the fact generally valid in the food business, namely that the big majority of the total emissions are generated in the supply chain. For Atlantic Grupa, this means emissions related to purchased raw materials/ingredients/packaging in processes of their cultivation and/or production, as well as their transport to our factories. Until 2022 we didn't measure or evaluate the exact amount of scope 3 emissions, but for 2023 we intend to perform a due diligence process to evaluate and report the estimated scope 3 emissions in tonnes of CO2 equivalent. That will help us better estimate in advance the impact of every single “green” product innovation.

During the last two years, there have been quite a few innovations put on the market – new recipes, new packaging - that reduced emissions in the supply chain (more data under the “SBU” chapters). The introduction of 100% recycled PET bottle for Donat is an example of good practice of measuring climate change mitigation impact – the reduction of scope 3 is estimated at around 2,000 tonnes CO2 emissions less on the yearly base. Barcaffè is another example, with purchasing carbon offsets through afforestation: in 2022, with partner company Treecelet we planted 10,000 mangroves in Tanzania and thus will offset approx. 3,000 tonnes CO2 emissions in next 20 years.
From 2023, we'll make an extra effort to measure the impact of any new improvement, but we can already confirm that scope 3 emissions will significantly decrease in the next medium-term period as a result of ongoing projects, e.g. increasing the share of recycled PET in packaging of the entire Beverages assortment and reducing the weight of many other types of packaging.
Medium-term targets for all three scopes of emissions will be reported in detail in the next annual report, and an action plan aligned with the Paris agreement will follow.

SUSTAINABILITY EDUCATIONAL PROGRAMME

The year 2022 was particularly eventful with ESG educational programmes, and more than 100 employees participating in the following lectures:

- six modules of sustainability (glossary, carbon labels, carbon footprint, packaging scenarios, water, how to get supplier on board),
- three modules of taxonomy in practice,
- trainings for implementing environmental management standards (ISO 14000 series).

In September 2022, the review off the whole sustainability agenda was presented and discussed with all members of the Management Board and Supervisory Board of Atlantic Grupa.

SUSTAINABLE PRODUCTS

We are committed to innovation for the benefit of the consumer, environment, and society, as well as to transparent communication. All products from Atlantic Grupa's portfolio are labelled with signs for the safe disposal and proper recycling practice for packaging. All product categories with the energy value have nutrition and calorie facts labels, with accurate and valid information, while data is analytically assessed for compliance on an annual basis. We include additional information about micronutrients, such as minerals in bottled waters and vitamins in vitamin rich products – this data is also regularly analytically assessed for compliance. All health claims on labels (e.g. functional water Donat) are clinically proven. We include in the safety risk assessments the likelihood of incorrect or unintended use of products and, based on the findings, we communicate additional safety warnings to consumers for safe consumption. We constantly strive to improve recipes towards the better nutrition value of products and to design new products for healthy diet. Additionally, we constantly strive to minimise the negative environmental and social impacts of products, and our labels include accurate and traceable information about certified schemes (e.g. organic agriculture, rainforest protection, responsible fishery...). Last but not least, we respect special nutritional requirements of certain ethic and religious communities and enable the consumer to identify and choose products for a proper diet, e.g. vegan, Halal, Kosher. Each brand/food category sets its own sustainable goals, and Argeta and Donat issued their own sustainability reports as well, which can be found on their websites www.argeta.com and www.donat.com. Other brands will follow their best practice too.

For all our company brands, we are tracking two common ESG KPIs in the category "Products" and two additional ones in the pillar "Recycling" – the results are shown in the table below. Considering that progress is easier to track in percentages than in absolute amounts, in 2022 we changed the tracking method in the category "Products" and switched from absolute numbers to the relative percentage of "green" innovations per total innovations, with the common long-term goal of 100%, all in order to clearly show our commitment to the position that any innovation must ensure reduced emissions or an improved nutritional profile.

Pillar PRODUCTS Summarized results for all Atlantic Grupa's brands	UOM	2020	2021	2022
New recipes per year in claimed* category	Number	48	48	48
	% of all new recipes per year	-	-	75
Improved packaging per year with reduced environmental impact (light-weightening and other innovations)	Number (SKUs)	161	8	83
	% of all new recipes per year	-	-	84

***CLAIM-BEARING PRODUCTS** refer to the common goal of a healthy lifestyle or reduced environmental impact and include: organic, certified Cocoa Horizons, Vegan, certified Rainforest Alliance, no added sugar, less sugar, free from additives, palm fat free, high fibres, improved nutritional value, low energy, functional ingredients, reduction of food waste.

Pillar **RECYCLING** Summarized results for all Atlantic Grupa's brands	UOM	2020	2021	2022
Packaging materials which are recyclable	% of the total amount of packaging ended on the market	89	93*	92
Recycled plastic use ratio	% of total amount of purchased plastic	0	15	17

*in the previous report we reported 96 due to a mistake in the measurement

The recycled plastic use ratio is constantly improving. Non-recyclable packaging mainly includes triplex foils of coffee products and some PVC. While we already succeeded in replacing PVC with other materials, we have not yet found a replacement for triplex foils. The new materials, which we tested and confirmed from the point of view of functionality, are not compatible with the existing technological lines. However, the development and research in this area continue.

ENVIRONMENTAL AND ENERGY MANAGEMENT

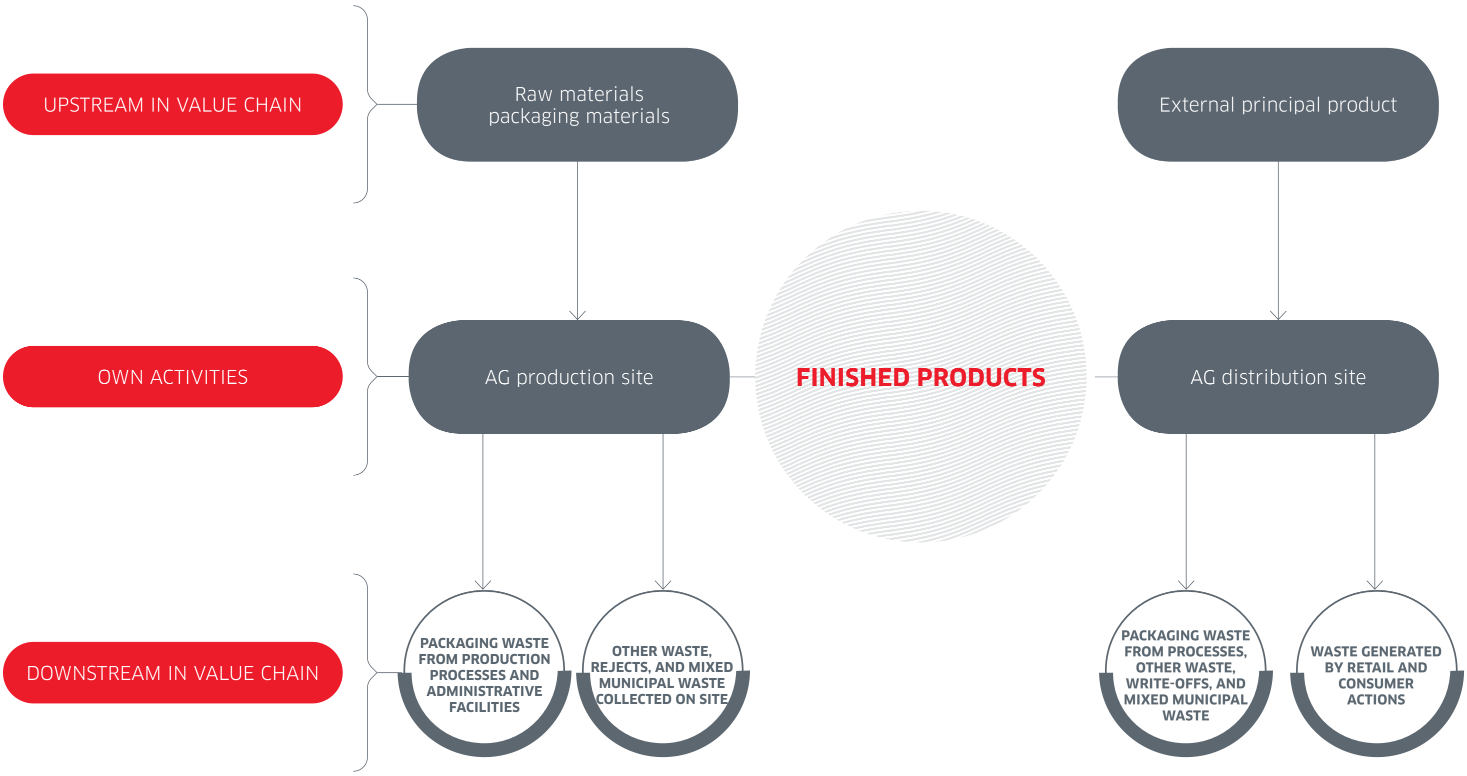
In 2022, the development of Atlantic Grupa's environmental management system was geared towards integrating all elements of environmental protection into business processes, with an emphasis on development, marketing, and central purchasing processes. To strengthen competencies, training related to ISO 14001, ISO 14031, ISO 14063, ISO 14040/14044 and product life cycle standards was organised primarily for employees in Research & Development and Purchasing departments, as well as those responsible for environmental management at Atlantic Grupa's facilities.

In October 2022, a corporate conference on environmental and energy management processes was held, where the main topic was Green Transition and the impact of the energy crisis on our company's operations. To gain better insights into opportunities for improving environmental protection processes and encourage all employees to think about new environmental initiatives, Atlantic Grupa created a special platform where all employees can submit their proposals, so that together we can find new solutions with positive outcomes for our environment.

Waste management in Atlantic Grupa's facilities is conducted in a way that does not endanger human health or lead to harmful environmental impacts. We're focused on finding opportunities to reduce negative environmental impacts in terms of waste and wastewater throughout all our operations, while priority is given to solutions that can be part of a circular economy. For the production plant of Atlantic Cedevita in Apatovac, Croatia, we initiated the procedure of obtaining a permit for the management of our own waste, with which we intend to reduce our impact on the environment by disposing of our own non-compliant liquid waste products on-site.

In the production plant of Atlantic Argeta in Hadžići, Bosnia & Herzegovina, we invested additional efforts in searching for better waste processing solutions in order to reduce the amount of landfilled waste. In the production plant Atlantic Grand in Glavičice, Bosnia & Herzegovina, by purchasing additional containers for separating multi-layer packaging waste, we are a step closer to separating this category of waste from mixed municipal waste.

We encourage reuse and processes that enable the reuse of products or parts of products that are no longer needed for our primary business operations. Accordingly, we found solutions to extend the lifespan of waste big bags in certain facilities. We reuse them for collecting by-products, while in some facilities we pass them on to other users who can use them further in their activities. In Slovenia, we applied for the Alps4GreenC Project, which is focused on the sustainable production of green carbon in the Alpine region and promotes the transition to a circular economy. Additionally, it transnationally connects existing innovations and potential raw materials to establish a value chain of bio-charcoal production – with a conceptual solution involving using chaff coffee and jute bags to produce biomass.



In the area of monitoring emission to water, a systematic approach to introducing individual improvements resulted in the commissioning of a wastewater treatment plant at the site of Atlantic Štark in Igroš, Serbia, and the improvement of the wastewater system at the sites of Atlantic Štark in Belgrade and Ljubovija, Serbia.

ENERGY AND WATER

During the year, investments were made in systems for reducing energy consumption of from fossil fuels and thus reducing greenhouse gas emissions of Scope 1:

- at Atlantic Grand, a system for preheating raw coffee using that uses the heat of gases from the coffee roasting process was installed, as well as a system that uses the heat of those same gases for heating the premises, while the thermal insulation of facilities was also enhanced,
- at Atlantic Droga Kolinska in Izola, a system for utilising waste heat from the released steam used to preheat water for cooking meat was installed,
- at Atlantic Štark in Belgrade, uninsulated hot water pipes in the length of approximately 1.6 km were insulated,
- at certain facilities of Atlantic Grupa, several old air and cooling compressors were replaced with significantly more efficient new compressors,
- evaporative cooling of production areas was introduced in some plants, cooling media pipelines were additionally insulated, deep freezing chambers were replaced, while the replacement of the existing fixtures with LED lighting continued.

In 2022, Atlantic Grupa's total direct and indirect greenhouse gas emissions amount to 25,068 tCO2e, which means they are more than half lower than in 2020. The share of energy supplied from renewable sources has increased to 32.4%.
Due to continuous efforts in all our facilities, water abstraction for production activities is 9% lower and amounts to 2.2 m3/t.

32.4%

Share of supplied energy from renewable energy sources

AG KPI – environment	2020 baseline	2021	2022
Total emissions (t CO2)	49,694	30,935	24,304
Total emissions (t CO2e)*	51,358	32,595	25,068
Direct emissions (t CO2e)*	19,375	20,090	19,488
Indirect emissions (t CO2)	31,983	12,505	5,579
Share of renewable energy sources*	0.2%	22.5%	32.4%
Water abstraction for production activities (m3/t of product)	2.51	2.42	2.20
Total energy (TWh)	137.0	142.2	140.4

* Since the 2022 report includes all locations of the retail pharmacy chain Farmacia and all passenger and commercial vehicles used by Atlantic Grupa, this shows retrospective normalised data for 2020 and 2021. Also, the share calculation was corrected based on data unavailable at the time of publishing the 2021 report.

For 2022, non-financial undertakings are obliged to, for the first time, report not only on the taxonomy eligibility, but also on the taxonomy alignment of economic activities that qualify as contributing to the two environmental objectives: climate change mitigation and adaptation, as provided for in the Taxonomy Regulation 2020/852 and Commission Delegated Regulation (EU) 2021/2139. Information on the proportion of revenues, capital and operating expenditure ("key performance indicators") realised by carrying out activities related to assets or processes associated with economic activities that qualify as environmentally sustainable are shown in accordance with Commission Delegated Regulation (EU) 2021/2178.

ECONOMIC ACTIVITY

During eligibility assessment, we examined the activities of Atlantic Grupa and whether they fall within the scope of economic activities listed in taxonomy regulations. The main activity of Atlantic Grupa is the production of food and beverages, which is currently not on the list of taxonomy-eligible activities.

REVENUES

Although food and beverage production is considered a taxonomy-non-eligible activity, we carried out a detailed analysis of all our revenue-generating activities (including ancillary ones) and determined that Atlantic Grupa has real estate rental income, which is considered taxonomy-eligible revenue in 2022. However, due to the immateriality of the listed income, we did not consider the criteria for its compliance. Annex 1 to this Annual Report contains Table 1, which shows the proportion of turnover from products or services associated with taxonomy-aligned economic activities.

OPERATING COSTS

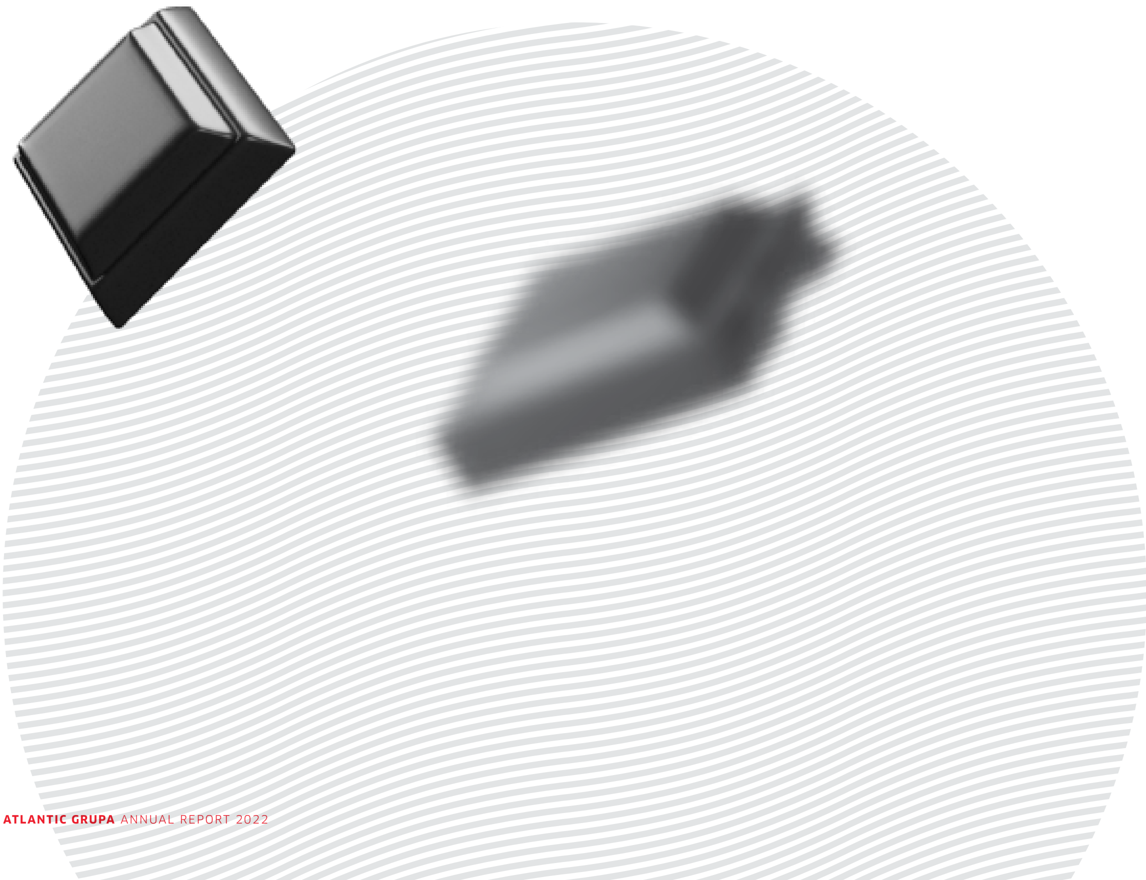
After reviewing our total operating costs against the taxonomy requirements, we determined that, since the majority of our operating costs are related to our revenues, they are also assessed as taxonomy-non-eligible, with the exception of the portion of expenses related to maintenance of buildings, IT equipment, vehicles and production equipment. These expenses are included in the other operating costs listed in Note 8 of our financial statements. The denominator includes maintenance costs and short-term rental costs, which are listed in Note 8. Since the taxonomy-eligible expenses represent less than 1% of the total operating costs, they are immaterial and thus will not be reported. Annex 1 to this Annual Report contains Table 2, which shows the proportion of operating costs (OpEx) from products or services associated with taxonomy-aligned economic activities.

CAPITAL EXPENDITURE

Our assessment was conducted with our investment department and is based on investments in eligible economic activities listed in the Regulation. Eligible capital expenditure relates to projects of building a solar power plant, replacing and installing air-conditioning and ventilation systems with high-efficiency technologies, and energy renovation of buildings. We carried out an assessment of the compliance of the listed taxonomy-eligible capital expenditure. However, we do not have sufficient documentation on the compliance of the listed activities with the substantial contribution and do no significant harm (DNSH) criteria. Therefore, all the listed eligible activities are considered as taxonomy-non-aligned. By comparing increases in tangible and intangible assets (numerator) with increases in tangible and intangible assets before depreciation and remeasurement, including increases resulting from impairment and leases (denominator), as disclosed in Notes 13 and 15 of our financial statements, we arrive at a figure of 7.5% of taxonomy-eligible capital expenditure in 2022. Annex 1 to this Annual Report contains Table 3, which shows the proportion of capital expenditure (CapEx) from products or services associated with taxonomy-aligned economic activities.

MINIMUM SAFEGUARD MEASURES

Atlantic Grupa operates in accordance with the minimum safeguard measures related to the procedures undertaken by the company to ensure compliance with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. More details on how Atlantic Grupa is aligned with the mentioned guidelines can be found in chapters Ethics in Business and Sustainable Development.



Sponsorships and donations

Despite the challenging economic climate and the resulting focus on successfully navigating through business challenges, at Atlantic Grupa, we never forget what is most important – our community. The company values – Care, Openness, Growth and Passion – are reflected in numerous sponsorships and donations through which we contribute to the community. Along with continuous care for all stakeholders, we are always open towards new ideas, committed to growth and passionate about our work.

SPORT

Basketball

• BC CEDEVITA OLIMPIJA • BC CEDEVITA JUNIOR

This year, Atlantic Grupa again gave priority to the promotion of sports, particularly basketball, and healthy lifestyle. As one of the main sponsors, Atlantic Grupa continued to support the Basketball Club Cedevita Olimpija from Ljubljana. In the third season since BC Cedevita Zagreb and BC Olimpija Ljubljana merged, Cedevita Olimpija participated in the European competition 7Days EuroCup, where it reached the quarterfinals, and in the regional competition AdmiralBet League ABA, where it reached the semi-finals. The club also won the Slovenian National Championship, Cup and Supercup. In addition to BC Cedevita Olimpija, seated in the magnificent Stožice Arena in Ljubljana, there is also the Basketball Club Cedevita Junior operating in Zagreb, which has in its focus primarily younger players, thus also representing a sort of basketball academy whose goal is to develop top sport talents into quality senior players who bring quality to their respective representations in the region. Just like Cedevita Olimpija, the Basketball Club Cedevita Junior had an equally successful year. In the HT Premier League, the club was among the six best teams. In the Krešimir Ćosić U-19 Cup, juniors became Croatian champions, while the B team managed to advance from the second league to the First Croatian Basketball League. As the direct heir of the legacy that BC Cedevita left in Zagreb with its work and full capacities, BC Cedevita Junior is developing one of the most attended basketball schools in the region, fully utilising the capacities offered by a modern training centre, Cedevita Basketball Arena, at Zagrebački Velesajam. The club and Basketball School actively work in more than 20 basketball schools organised in Zagreb's elementary schools, thus ensuring both the future of this sport and the option of a healthy and active lifestyle.

Other **sport activities**

In a wide range of company interests, support for ski sports stands out. Atlantic Grupa again this year sponsored the Slovenian and Croatian national ski teams, ski jumping competition in Planica, and ski cup Srebrna Lisica (Silver Fox). We also sponsored Filip Zubčić, a talented Croatian skier who achieved a top ten finish in the World Cup giant slalom in Italy. Renowned regional alpinist, Aleksandar Milosavljević, conquered one of the most demanding Himalayan peaks with the support of Atlantic Grupa. We supported the Football Club Hajduk through funding, branding, and products. The list of the most popular sports certainly includes running, which is gaining more and more supporters every year. Atlantic Grupa responded to this positive trend by providing significant support to various races throughout the region. Runners at the Osijek Half Marathon, Žumberak Race, Marko Polo Trail, Kalnik Trail, the "Guys in Blue" race, TCM Sarajevo Marathon and B2B Run could refresh themselves with Atlantic products. In addition to runners, handball players and guests of the Masters Handball World Cup, as well as the International Handball Goalkeeper Camp, won medals while enjoying numerous Atlantic products. Young sports talents always deserve our attention, which is why Atlantic again this year supported one of the best BMX freestyle riders. Jaka Remec is only 18 years old, and he's already competing with world champions. Engagement in sports needs to be supported from an early age, so the company provided support for Volleycamp – volleyball camp for young people, Telemach Children Speed Camp – skiing camp for children, Sporti – sports school for children, and Pokal Loka and Pokal Argeta Junior, the two largest children's skiing competitions in the world.

CULTURE AND KNOWLEDGE

27TH SARAJEVO FILM FESTIVAL (SFF)

In 2022, Atlantic Grupa again supported the central cultural event in the region, Sarajevo Film festival, which was held at full capacity again after two years. Last year, as a continuation of the successful long-term cooperation with SFF, the Big Stage was also upgraded – regional platform intended for promoting young, talented artists in the region. On the platform, Argeta and Grand Kafa launched competitions for designing the Grand cup, as well as creating the first Argeta digital token, NFT. The winning designs had a unique opportunity to shine at the Sarajevo Film Festival in front of numerous visitors and art lovers.

Other donations in the community

Ponta Lopud is another project that we supported in 2022. The project is of great importance for young film talents as it provides them with an opportunity to socialise and meet other film industry professionals. In addition to filmmakers' gathering, we supported the unique cultural event Theatre Ulysses. Major cultural events always deserve attention, but at Atlantic Grupa, we know that we can also change the world with small steps. This year, we also supported the work of the association Joy of Life in Bosnia and Herzegovina with our products. This is an association of mothers of children with special needs that aims to help mothers in efficiently organising their free time and educating their children. Through the traditional action of collecting plastic caps for the Association of Leukaemia and Lymphoma Patients (ALLP), we helped the association secure funds for purchasing medicines, transplants, or medical aids not funded by the Croatian Health Insurance Fund (HZZO). In 2022, Atlantic employees collected 1,590 kg of plastic caps at our locations in Croatia. We also delivered 163 jumbo bags, usually used to deliver raw materials for our production, which the association will use for further cap collection.

People & culture

The People Strategy in Atlantic Grupa has three main directions currently employed by the People and Culture function: simplicity of organisational design and processes with the consumer at its heart, selection and promotion of authentic leaders who insist on personal accountability, and building relationships with employees as individuals who are provided with opportunities for growth and development.

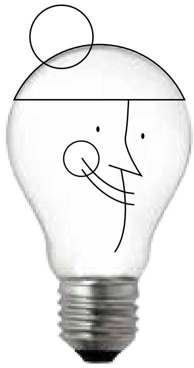
As part of our strategy to keep employees at the centre of everything we do, we continued our good practice of carrying out a comprehensive engagement survey, and in 2022 we maintained a high percentage of employees who expressed high engagement and satisfaction with the work environment in Atlantic.

This year, special attention was given to adapting the hybrid work model, which enables work from home, in order to ensure an optimal number of days spent in live teamwork, while at the same time providing flexibility for our employees.

We introduced new forms of rewards, both for individual (Extraordinary Retention Reward) and team (Team Rewards) achievements, and also revised our reward models for work on projects, with the goal of recognising the value of additional engagement on strategically important projects. In addition to regularly adjusting individual salaries, we increased benefits and salaries for 54% of our employees on several occasions by an average of 11% in response to inflationary market trends.

In addition to the popular Sport Games, in which over 800 employees participated in 2022, there are also 23 sport clubs within Atlantic Grupa, where more than 850 employees regularly train together with about two hundred of their family members.

INNOWAVE



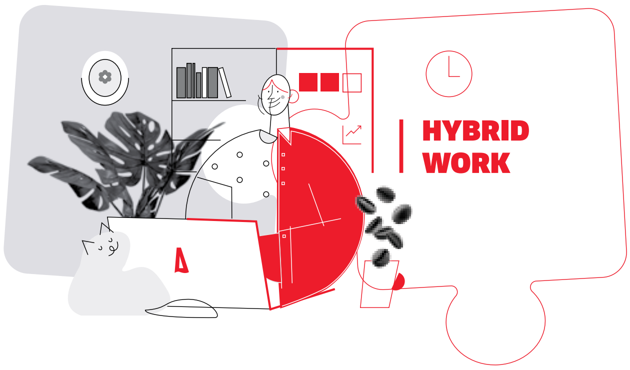
One of Atlantic's traditional culture programmes, Innowave, which recognises and rewards innovative proposals from employees, was successfully continued in 2022. Employee proposals received through this programme are rewarded with a financial payout to the employee based on the percentage of savings, benefits, or profits generated by the implemented innovation.

2022 SPORT GAMES

800 employees

23 sport clubs

Regarding Value Day, through which we have been engaged in community service since 2012, this year, in cooperation with our brand Cedevita and the platform "Be Good. Be CE.", during 2022 we developed an initiative to educate and engage employees in activities of rational resource consumption. Through a series of activities involving reducing consumption in the homes and offices of our employees, points were collected and then turned into donations for sustainable solutions to energy poverty issues, all in order to jointly contribute to a brighter future of our planet.



In 2022, Atlantic employees, through their engagement in Value Day and Sport Weekend, raised funds in the amount of EUR 32,500, which were donated to social projects of their choice. This way, we renovated a homeless shelter in Rijeka and provided for the installation of a solar power plant and irrigation system on a farm that produces and donates organic food for children undergoing cancer treatment in Serbia.

Among the awards received in 2022, we should highlight the one received through the Employer Partner certification (CEP certificate), where we were recognised for above-average results, which brought us the Above & Beyond award, as well as the award for TOP 3 Best Regional HR Practices for the employee retention project.

KPI: Highly engaged employees ratio

KPI	2020 baseline	2021	2022
ENGAGEMENT RATIO (%) (measured by Willis Towers Watson methodology: percentage of engaged employees in AG)	83	85	83

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER

All ads for open positions are done by job systematisation, job description, specific knowledge and desired skills and competencies. The basic principle used when hiring new employees is to ensure equal rights, i.e. prevent direct and indirect discrimination based on age, gender, religion or belief, sexual orientation and/or ethnic origin.

KPI: Number of new employees/% of new employees out of total headcount

	2018	2019	2020	2021	2022
Number of new employees	770	850	701	656	676
% of new employees out of total headcount	15.90%	16.61%	13.51%	12.60%	12.93%

CANDIDATE EXPERIENCE

From 2020, when we focused on the importance of candidate experience throughout the recruitment process, we started measuring NPS (Net Promoter Score) which has been constantly growing. In 2022, we were awarded for the best employee experience in the region in the competition Employer Brand Adria Awards. Since last year, candidates have the opportunity to go through a situational assessment test, developed on the basis of real business experiences of high-performing Atlantic employees. This type of experience gives external candidates an insight into our culture and operations, and makes the testing process more concrete and efficient.

For internal candidates, in cooperation with experts from the Talent Development team, we established Development Centres which are used to, at the request of Business Operations, scan the potential and ambitions of the nominated group of employees in order to associate them with development and career opportunities suitable for them.

KPI: Candidate experience NPS and overall satisfaction

KPI	2020	2021	2022
NPS	20	58	60
OVERALL SATISFACTION	66%	83%	93%

TRAINING AND EDUCATION

In 2022, two new academies with a specialised training system for employees in the field of finance and sales started with their work. The Sales Academy, consisting of six modules and a total of 13 trainings, is intended for our sales promoters, sales representatives, supervisors, managers, assistants, and logistics and sales specialists, and covers a total of 1,200 participants from six countries. The programme of the Financial Academy was designed on the basis of identified needs of Atlantic's financial experts and the company's financial strategic priorities, and all 250 finance employees in Atlantic will attend it. Additionally, we invested special efforts into creating the model for individual employee development through coaching.

DIVERSITY AND EQUAL OPPORTUNITY

Atlantic Grupa provides equal opportunities for all; accordingly, we make plans and conduct analyses that allow us to monitor the consistency of applying the principles of diversity and equal opportunity.
We conduct an annual analysis of employee structure based on diversity criteria and also perform our annual employee structure planning in accordance with the ratios we define as targets for a given year.

KPI: Share of women in managerial positions

KPI	2020 baseline	2021	2022
Share of women in managerial positions	53.63	53.58	54.80

KPI: Diversity of governance bodies and employees

Employee category by level	No. of employee	%	M	F	M%	F%	Age group in numbers			Age group in %		
							<30	30-50	>50	<30	30-50	>50
Board	7	0.1	6	1	85.7	14.3	0	3	4	0.0	42.9	57.1
SMC wo Board	16	0.3	11	5	68.8	31.3	0	7	9	0.0	43.8	56.3
Manage Others	621	11.9	272	349	43.8	56.2	21	441	159	3.4	71.0	25.6
Para-Professional	3,550	67.9	1,824	1,726	51.4	48.6	652	2,078	820	18.4	58.5	23.1
Professional	1,034	19.8	381	653	36.8	63.2	164	682	188	15.9	66.0	18.2
Total	5,228	100	2,494	2,734	47.7	52.3	837	3,211	1,180	16.0	61.4	22.6

OCCUPATIONAL HEALTH AND SAFETY

Atlantic Grupa established and manages a single health and safety process for all employees, external suppliers or employees of external suppliers who perform their work at our locations in all markets in which we operate. The established process is based on the full application of all legal requirements of individual markets, as well as the best practice of applicable international standards.

In this regard, the year 2022 was also specific due to the continuation of the COVID-19 pandemic. We succeed to ensure a safe working environment for all our workers, contract partners and external contractors. We recorded a slightly higher number of infected workers of Atlantic Grupa d.d. and associated companies in 2022 compared to 2021, but the implementation of planned business processes was never compromised.

Other than regular activities, additional measures were implemented:

- daily record of coronavirus infections across facilities and markets,
- monitoring and compliance with instructions competent bodies,
- procurement and distribution of appropriate additional protection means,
- adjustment of internal rules,
- organising and conducting COVID-19 testing at work sites,
- monitoring the implementation of defined measures and their improvement.

In 2022, we recorded 46 work-related injuries. There were no injuries with a fatal outcome or severe consequences for the integrity and health of injured persons.

Work-related injuries

Work-related injuries by type and by gender	2020		2021.		2022.	
	M	F	M	F	M	F
Minor injuries	13	39	17	22	24	17
Major injuries	5	5	3	6	4	1
Fatalities	0	0	0	0	0	0
Total AG	62		48		46	

The most common injuries were caused by handling machinery and work equipment or involved traffic accidents in the course of work. In 2022, 0.06% of working hours from the total hour fund of all employees were lost due to injuries in the work process, which is significantly below the target limit of 0.25%. At the locations of Atlantic Grupa d.d. and associated companies, no injuries of visitors, workers of external suppliers or contractors were recorded in 2022.

In addition to regular activities, in 2022 occupational health and safety experts and fire protection experts conducted 15 corporate internal and 23 internal corporate inspections of safety and protection processes aimed at prevention, reducing the level of risk and ensuring the highest level of safety of workers, as well as external suppliers of works and services.

In 2022, more than 100 training sessions were organised and implemented, covering 3,225 employees of Atlantic Grupa, as well as employees of external suppliers contractors, and service providers in a total duration of 4,866 hours.

AG KPI	2020	2021	2022
Work-related injuries (IR)	1.20	0.90	0.84
Work-related injuries (LR)	20.59	19.18	15.79

* **IR formula** = total # of injuries / total hours worked * 200,000. The factor 200,000 is derived from 50 working weeks per 40 hours per 100 employees.
** **LDR formula** = total # of lost days / total hours worked * 200,000. The factor 200,000 is derived from 50 working weeks per 40 hours per 100 employees.

The target values of the total number of injuries compared to the total number of lost work hours (IR) and the ratio between the total number of lost workdays compared to the total number of lost work hours (LDR) were reached, and stayed significantly below the target values IR=>1.35, LDR=>25.
In addition to regular activities, in 2023 we will continue with trainings intended for workers, external contractors and service providers to ensure the highest level of their safety and protection.

Supply chain

We procure raw materials for our products, packaging, machines for producing and finishing the products, other equipment and technical devices, as well as other services necessary to support our business processes from over 4,000 of our suppliers with diverse profiles, sizes, and origins, including both large global corporations and small local suppliers. These materials, equipment and services are procured through diverse and often complex supply chains in terms of their characteristics, production processes and geographical origin.

Regardless of the supplier's category, we aim to have high-quality relations with our suppliers in order to utilize these relationships to generate added value both for our company and also for our suppliers. We are nurturing strong and long-term relationships with the majority of our suppliers, offering them many opportunities and possibilities for cooperation. Regardless, we remain fully open to expand the existing supplier base in order to, by establishing cooperation with new suppliers, ensure a continuous flow of new ideas, materials and products from supply markets and to apply them in our products and our processes.

The added value of establishing such cooperative relationships with suppliers is also reflected in higher satisfaction of our consumers with greater innovation, better functionality and top quality of our products.
To enable efficient exchange of information, ideas and suggestions for improvement with our suppliers, we continuously organise interactive workshops of joint teams of Atlantic Grupa and our suppliers, with the aim of ensuring continuous product improvements. In addition, we regularly evaluate our suppliers and stimulate them to improve their own efficiency and to develop innovative products and technologies.
Such joint projects with our suppliers in the past period resulted in a large number of innovative solutions implemented in our products, including those whose implementation had a positive impact on the sustainability of our products. Our relations with suppliers are built on criteria of professionalism, transparency and fair relationship, while fully respecting both the legal requirements and high ethical and professional standards. In the same manner, we would also like to build relations with suppliers sharing our values and promoting equal standards with their partners they make business and stay in contact with.

For these reasons, Atlantic Grupa dedicates special attention to the selection of suppliers. Besides the above stated criteria, we expect from our suppliers to act in line with the legislation valid in the country of their origin, but also in the countries with which they do business with, including the anti-discriminatory laws, employment legislation, health and safety protection, as well as environmental protection legislation, regulations, and standards.

Therefore, we are actively looking for suppliers sharing our values and business principles, as also promoting the implementation of high standards in the environment within which they work.

These standards, first of all, include:

- abiding by laws, including banning bribing or receiving bribes or inappropriate remuneration for making deals or realisation of cooperation,
- respecting human rights and workers' rights,

- protecting the health and personal safety of employees,
- prohibiting the use of child labour,
- prohibiting discrimination based on race, religion, sex, or any other criterion, as well as prohibiting sexual harassment,
- complying with applicable laws and standards on environmental protection and preservation of nature, animal and plant species.

Basic principles for procurement and relations with suppliers are defined in the Purchasing Guidelines, the fundamental document of the purchasing organisation of Atlantic Grupa, which is followed by the procedures, manuals and instructions describing in detail the specific areas of purchasing activities in Atlantic Grupa's operating companies. The Guidelines foresee that Atlantic Grupa's purchasing organisation takes only such actions and practices that ensure sustainable sourcing and procuring by helping reducing waste, improving environmental impacts, and protecting human and labour rights.

We pay great attention to fair treatment of all our suppliers, so that their cooperation with us is economically sustainable for both sides. An important contribution to this is the regular payment of suppliers for delivered goods and services, i.e. payment of their invoices according to agreed payment terms. Our standard payment term for suppliers in 2022 was within 60 days, which was, when necessary, adjusted to specific situations with individual suppliers, meaning they received their payment earlier. Our extreme discipline in respecting the payment terms agreed with suppliers enables them to better predict and plan their income, thus increasing the stability and sustainability of their business.

Also, during 2022 we continued with the implementation of numerous activities in cooperation with our suppliers aimed at contributing in various ways to even more expressed overall sustainability of our products. We will list just a few of these activities:

- full transition from PET to more environmentally-friendly PET sleeve labels for water and vitamin drinks packaging,
- introducing a tethered cap on PET water bottles for more effective prevention of plastic pollution and more efficient use cycle,
- further increasing the share of chicken meat in our pate sourced from free-range hens;
- continuing the introduction of packaging foils that do not contain an aluminium barrier, thus enabling the complete recycling of foils after use of the product,
- introducing roast and ground coffee products with the Rainforest Alliance certification, which guarantees responsible management of the entire supply chain of certain raw materials,
- introducing FSC certified cardboard and paper packaging for a larger number of our products, which confirms that packaging is produced from wood raw materials sourced from sustainably managed forests,
- continuing the implementation of the Farmer Connect project for coffee on the markets of Slovenia, Croatia, and Serbia, which enables traceability throughout the entire raw coffee supply chain using blockchain technology.

When raw materials are selected for a new product, as well as during cooperation with suppliers, it is required to take into account the biodiversity conservation principle. The development technologist selects potential raw materials that meet the requirements of environmental and sustainable aspects, while our purchasing organisation, when selecting raw materials, also pays special attention to endangered plant and animal species (ref. document: IUCN Red List). The number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction, are also one of informative key performance indicators (KPIs) for Central Purchasing, which are monitored on a monthly, quarterly or annual basis.

IUCN Red List species and national conservation list species with habitats in areas affected by operations

Raw materials by category	2019	2020	2021	2022
Critically endangered	0	0	0	0
Endangered	0	0	0	0
Vulnerable	0	0	0	0
Near threatened	1	1	1	1
Least concern	1	1	1	1

The purchasing organisation of Atlantic Grupa is committed to selecting only such suppliers that comply with these high standards for conducting the business with our company. Monitoring standards and performance of our suppliers is challenging but crucial to protect our business and our company's and most importantly our consumers who use our products.
The common model for monitoring the Atlantic Grupa's suppliers was defined and established in 2014 and successfully used since then. The system includes unique criteria for approval, evaluation and auditing of suppliers.

In order to streamline a whole process of collecting, monitoring and evaluating suppliers' documentation on quality standards and certificates, Atlantic Grupa implemented in 2017 an on-line tool called Ecratum, which is still in use. This tool enables Atlantic Grupa to have a central database of all required suppliers' documentation related to necessary quality standards and practices, such as FSSC 22000/ IFS/ BRC, HACCP or GMP, ISO 9001, ISO 14001, ISO 50001. By this time, the vast majority of vendors have started using Ecratum as a platform to share such certificates and documents with us, which contributes to the transparency of business operations and of the criteria for selecting suppliers.

Evaluation of suppliers is conducted once a year, and is generally based on two main criteria: quality and commercial terms and conditions. The evaluation based on quality of delivered materials and suppliers' quality systems is performed in the Quality Assurance Department, after which each supplier receives feedback about their rating and required improvements. During 2022, we continued to use the digital tool for collecting suppliers' tenders and conducting tenders within the Central Purchasing Department – SAP Ariba Sourcing, with the aim of increasing the transparency and compliance of procurement processes, i.e. the selection of suppliers.

After the widespread supply chain distortions during 2020 caused by the COVID-19 pandemic lockdown, which were followed by the inability of supply markets to meet the increased demand after the reopening of markets and the expansion of the global economy, the beginning of 2021 brought significant price increases of almost all raw materials, energy, products, and services. This trend intensified in 2022, when the unavailability of certain raw materials, other materials, and energy, supported by the beginning of Russia's invasion on Ukraine, culminated and had its most pronounced effect in enormous price increases of raw materials and energy, which also affected a large part of our raw materials, packaging, equipment, and services. However, even in such circumstances, we managed to ensure the full availability of all raw materials necessary to meet the requirements of our production processes, i.e. the needs of the markets where we sell our products. Additionally, timely delivery of all necessary technological and other equipment specified in our 2022 investment plan was ensured, as well as of all logistical and other services required for the conduct of our logistics, production, and other business processes in the past year.

Integrated **Quality Control System**

Atlantic Grupa is developing an integrated quality management system based on the best global standards and focusing on the expectations of our buyers and consumers. Taking the full picture of all our stakeholders, Atlantic Grupa has built a quality system aimed at continuous improvement of our products and services.

CERTIFICATES AND STANDARDS

The system is based on generic standards aimed at achieving sustainability and excellence of processes in the company:

QUALITY MANAGEMENT SYSTEM

ISO 9001

ENVIRONMENTAL MANAGEMENT SYSTEM

ISO 14001

ENERGY MANAGEMENT SYSTEM

ISO 14001

The safety and quality of our products is ensured by implementing the highest global standards in the field of production and distribution of food products (HACCP, FSSC 22000, IFS Food). Our products are continuously adjusted to specific customer requirements through product certifications (Bio, Organic, Halal, Kosher, Vegan, Rainforest Alliance).

In 2022, the focus was on maintaining a high level of the system through successful implementation of unannounced audits in IFS and FSSC 22000 certified companies. All members of Atlantic Grupa certified according to the IFS Food standard maintained the "high level" status. The average rating of certified companies increased by approximately one percent to 98%, confirming the continuity of high-level implementation and ensuring high trust of our customers.

SYSTEM IMPROVEMENT

In 2022, we continued with continuous monitoring of our companies through internal and external, announced and unannounced audits. After the pandemic period and the use of "online" audits, we returned to the practice of on-site audits. We realised 95 internal audits at various production sites and distribution facilities of Atlantic Grupa and 104 audits at supplier locations.

Special focus was on improvements in:
- integration of strategic sustainability KPIs into processes and process approach,
- supplier audits,
- various product certifications,
- verification and certification in the area of social responsibility.

As a result of system monitoring, over 1,400 corrective measures and 270 proposals for system improvements were implemented.

WE CREATE THE QUALITY YOU LOVE

In 2022, strong promotion of the Integrated Quality Policy **We Create the Quality You Love and the Product Safety and Quality Culture** as integral parts of Atlantic Grupa's corporate culture continued. Functional Lab Quality is a specially developed educational platform with modules in the field of quality systems:

— Development of quality systems (generic standards, improvement, monitoring – Internal Auditor Community),
— Product safety and quality (best practices and standards related to product safety and quality),
— Environmental and energy management (best practices and standards related to the environment, energy and sustainability),
— Good laboratory practice (best practices and standards for control laboratories), and
— Digital tools (quality system digitalisation practices and tools).

A total of 2,855 employees participated in various Functional Lab Quality and good hygiene practice e-learning courses and educations. We continued to develop new modules on the existing e-learning platforms:

— Good hygiene practice in production,
— Good hygiene practice in distribution.

In 2023, we will continue to expand e-learning platforms focused on developing a culture of error, i.e. nonconformity management.
The return to "on-site" audits at Atlantic Grupa's sites, as well as our suppliers' locations, confirmed the importance of developing the Internal Auditor Community their competencies.

In 2022, we particularly focused on developing competencies of:
— future lead auditors through a mentoring program,
— auditors for Atlantic Grupa's suppliers of source materials and services,
— process owners and process managers.

CARE FOR CREATING A BETTER ENVIRONMENT

- SUSTAINABLE DEVELOPMENT WITH ANACCENT ON AWARENESS OF CLIMATE CHANGES AND ENDANGERED BIODIVERSITY IS A PART OF OUR STRATEGIC GOALS.
- CARE FOR A BETTER ENVIRONMENT DEVELOPS A CULTURE OF CONTINUOUS IMPROVEMENT.

CARE FOR CREATING A BETTER ENVIRONMENT

- WE LOOK FOR CREATIVE AND INNOVATIVE SOLUTIONS IN A CONTINUOUS IMPROVEMENT OF PROCESSES.
- WE ENCOURAGE THE BEST PRACTICES BY BUILDING PARTNER RELATIONSHIPS WITH STAKEHOLDERS

GROWTH WITH RESPONSIBILITY

- WE GROW TOGETHER BY RESPECTING THE LAW, STANDARDS AND CUSTOMERS' DEMANDS.
- WE CONTINUOUSLY AND FULLY MANAGE THE RISKS.

PASSION FOR SATISFACTION OF CUSTOMERS' NEEDS AND DESIRES

- OUR HIGH GOALS ARE FOCUSED ON THE-EXCELLENCE OF BRANDS AND SERVICES.
- WE BUILD FOOD SAFETY CULTURE BASED ON THE HIGHEST WORLD STANDARDS.

AG INTEGRATED CERTIFICATION 2022

LEGAL ENTITY (LOCATION)	MARKET	PROCESS MANAGEMENT STANDARD	FOOD SAFETY SYSTEM CERTIFICATION (FSSC/IFS)	FOOD SAFETY STANDARD	ENVIRON-MENTAL MANAGEMENT STANDARD	ENMS	HALAL	BIO	OTHER
ATLANTIC GRUPA	CRO	ISO 9001			ISO 14001	ISO 50001			
ATLANTIC CEDEVITA (ZAGREB)	CRO	ISO 9001	IFS	HACCP	ISO 14001	ISO 50001			
ATLANTIC CEDEVITA (APATOVAC)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001			
ATLANTIC MONTANA (ZAGREB)	CRO	ISO 9001		HACCP	ISO 14001				
ATLANTIC TRADE (VUKOVINA)	CRO	ISO 9001		HACCP	ISO 14001	ISO 50001		PRE-PACK-AGED ORGANIC FOOD	
ATLANTIC DROGA KOLINSKA (LJUBLJANA)	SLO	ISO 9001			ISO 14001				
ATLANTIC DROGA KOLINSKA (NAMAZI IZOLA)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	ARGETA		ARGETA TUNA MSC HUMUS WITHOUT GSO; VEGAN HUMUS NATUR
ATLANTIC DROGA KOLINSKA (KAVA IZOLA)	SLO	ISO 9001	IFS	HACCP	ISO 14001	ISO 50001		BARCAFFE BIO	RAINFOREST ALLIANCE
ATLANTIC DROGA KOLINSKA (ROGAŠKA)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001			
ATLANTIC TRADE (LJUBLJANA)	SLO							PRE-PACK-AGED ORGANIC FOOD	
ATLANTIC ARGETA (SARAJEVO)	BIH	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	ARGETA		
ATLANTIC GRAND (BIJELJINA)	BIH	ISO 9001	IFS	HACCP	ISO 14001				
ATLANTIC ŠTARK (BELGRADE)	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001		ORGANIC SALTY PASTRY	
ATLANTIC ŠTARK (LJUBOVIJA)	SER	ISO 9001	IFS	HACCP	ISO 14001	ISO 50001			
ATLANTIC GRAND (BELGRADE)	SER	ISO 9001	IFS	HACCP	ISO 14001	ISO 50001			UTZ
ATLANTIC ŠTRAK (IGROŠ)	SER	ISO 9001	FSSC 22000	HACCP					
ATLANTIC BRANDS (BELGRADE)	SER	ISO 9001		HACCP	ISO 14001			PRE-PACK-AGED ORGANIC FOOD	
ATLANTIC GRAND (SKOPJE)	MAC	ISO 9001	IFS	HACCP	ISO 14001				
ATLANTIC TRADE (SKOPJE)	MAC	ISO 9001		HACCP	ISO 14001			PRE-PACK-AGED ORGANIC FOOD	
ATLANTIC BRANDS (AUSTRIA)	AUT							PRE-PACK-AGED ORGANIC FOOD	

Quality **control**

The product safety management system of Atlantic Grupa is comprehensive and covers product control from all aspects, such as food safety, food protection, food fraud and traceability. All Atlantic Grupa's production plants are certified according to IFS Food, FSSC 22000 or Codex HACCP standards, depending on customer requirements and priority target markets, and for products.
The processes of quality control in Atlantic Grupa are organised through independent quality assurance departments within the company's operating structure, while quality goals are defined on the corporate level. The achievement of quality goals requires intense involvement of the Corporate Quality Management Department, which provides its support and expertise in the field of food safety management security standards, continuous improvement in product safety and quality processes, as well as the Group's regulatory and laboratory services.

During 2022, the following was achieved within the listed activities:

- the entire system was regularly updated according to the requirements of FSSC 22 000, IFS Food and IFS Logistic,
- the consumer complaint process was revised,
- the toolbox for supplier audits was issued, to improve process of supplier audits and to make standard presentation of AG,
- the methodology for Food Fraud in the logistic process was defined,
- the methodology for validation of the pasteurisation process was defined.

In 2022, modernisation was carried out and new laboratory measurement equipment was procured at all three central laboratories (Ljubljana, Zagreb, Belgrade).

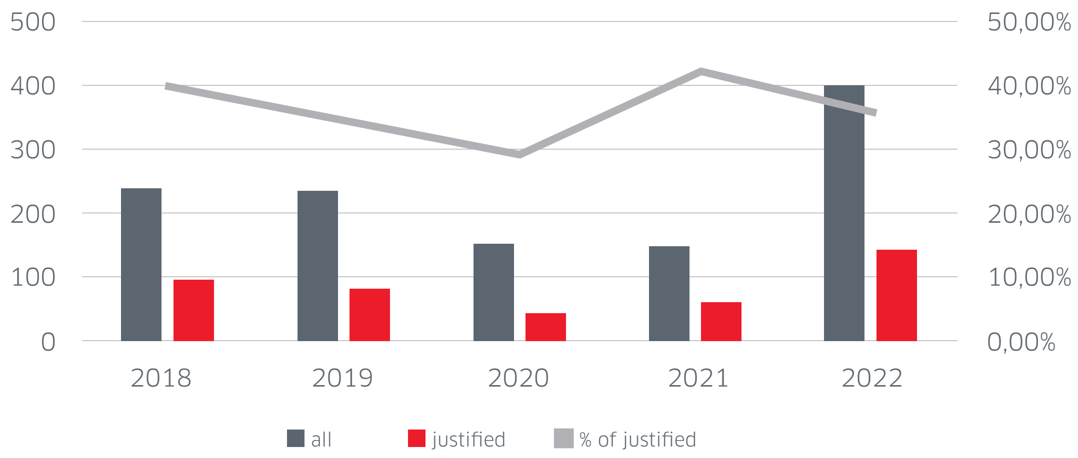
In order to control the risks of environmental and process pollutants, we carried out an extensive monitoring program, which covered all types of pollutants, among which the main ones were mycotoxins, food fraud markers, allergens, pesticides, acrylamide, radionuclides, heavy metals, and GMOs. As a consequence of climate changes that affected the quality and quantity of some crops in 2021 - 2022 on the global level, we significantly increased the level of control for raw materials in two categories: grain products and raw coffee.

Many other enhancements that are continuously analysed and introduced show efficiency through the key indicators, such as the number of consumer complaints and the number of product recalls. In 2022, there were no recalls of products under the company's own brands, while two recalls and one preventive withdrawal were performed at the request of principals, namely for the products Ferrero, Hipp and Magdis, which were distributed through our distribution chain.

Incidents of non-compliance of own brand products with health and safety impacts	2018	2019	2020	2021	2022
Incidents of non-compliance resulting in a fine	0	0	0	0	0
Incidents of non-compliance resulting in a warning	0	0	0	0	0
Incidents of non-compliance with voluntary codes	0	0	0	0	0

Great efforts were invested in collecting all reactions and comments of our consumers, and our communication channels are continuously improved over the years. In relation to previous periods, the percentage of justified consumer complaints compared to all complaints has decreased in 2022.

CONSUMER COMPLAINTS ALL AND JUSTIFIED WITH THE TRENDLINE 2018-2022



Information technology

In the field of Atlantic Grupa's digital transformation, 2022 was a busy year, filled with process and technology changes led by a strong internal project management office. The major pillars of digital transformation were business process reengineering (BPR) implementation-based changes, business solution improvements, enhancements of advanced analytics and infrastructure, and operations activities and upgrades.

The implementation of the new process landscape in the targeted companies was accompanied with new ERP core necessary changes in all surrounding systems, thus creating transformative business efficiency enhancements. A major example of this approach was visible in the Atlantic Grand Serbia project. The first step was to finalize the SAP global template for production companies for over 260 newly designed processes in Finance, Controlling, Logistic, Production, Sales & Marketing and Procurement areas. The next step was implementation of projects S/4Hana ERP, SAP eWM solution for Warehouse processes, Metronik Manufacturing Execution System (MES) and the reintegration of existing business solutions (EDI, HrNet, OfficePoint , Maximo, Cognos, etc.). Go Live was in October, marking this as a very successful launch of the new digital ecosystem of Atlantic Grupa.
Other elements of the BPR program-based improvements were the implementation of the Master Data Management (MDM) project, Integrated Business Planning (IBP) project and the Moonwalker project. The MDM project consists of implementing the system that will manage all relevant master data of Atlantic Grupa (materials, vendors, customers, etc.). IBP is an expanded form of Sales and Operations Planning that connects strategic, profitability-related objectives with short- and mid-term operational planning decisions. The Moonwalker Project consists of around 25-30 smaller implementation activities.

Business solution improvements were achieved through projects in various parts of organisation. In procurements area, the SAP Ariba system was implemented for the Slovenian market. In the field of logistics and distribution preparation of the complete WMS system (GOLD) for the new warehouse in Skopje. and implementation of the WMS system (GOLD) in the replaced warehouse Čačak were major activities. The enablement of hybrid work and of the new system for employee achievement evaluation were implemented in the domain of the People & Culture department. For our pharmacy chain new webshop and functionalities for the new Customer Protection Act were delivered. RPA (Robotic Process Automatization) project continued with more processes on the platform while Serbian regulatory requests were supported with realization of eSEF - new legal obligation to send all invoices to the governance portal SEF ("Sistem Elektronskih Faktura").

A special 2022 project was the conversion of the national currency in Croatia from Croatian Kuna to Euro, which required changes on few dozens of IT systems and interfaces, primarily in the ERP domain and analytics domain (consolidation, planning and reporting) for Croatian companies of Atlantic Grupa.

Enhancements of advanced analytics were streamlined through Data Lake and PICOS projects (Picture of Success). The implementation of a cloud-based Data Lake will enable replication of data from the source systems and facilitate real-time decision making. In 2022, Atlantic Grupa performed the evaluation of technology options and in Q4 implemented the infrastructure setup for chosen solutions. In the following years, implemented business use cases will exploit a variety of data and bring business value using predictive modelling, machine learning, and data science methods and methodologies.

The PICOS project uses advanced technologies and methods, such as image recognition and data science, in order to provide insights into Company's brands at points of sale and at the store shelf level through gathering and analysing data required to compute a set of previously defined KPIs which display the Picture of Success of brands of a selected principal on the Croatian market. The project will continue in 2023 for other markets and brands of Atlantic Grupa.

In the area of infrastructure and operations, activities and goals in 2022 continued to follow the strategic prioritization: security, services reliability, innovations.

In the area of IT security and protection from cyber threats, additional enhancements were made through the implementation of several major projects in the fields of endpoint selection and protection, operation technology, HR processes and identity management.
The service reliability was managed through capacity, lifecycle and service management activities.

The intensive digitalization project brought strong new capacity demand for resources in the private AG cloud, both concerning the processing power and storage space, which resulted in a major capacity extension of server and storage platforms in AG Data Centres. Also, within the AG network, we expanded the utilisation-based capacity of access links, while cost efficiency was assured through contract renewals for the Group private network links and data centre virtualization platform.

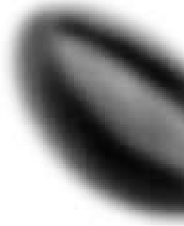
As part of life cycle management activities in data centres, we swapped legacy systems with the leading solution for load balancing; in the field of operational technology, we enhanced business continuity with the virtualization of SCADA production environments and, in the business support system domain, we performed database upgrades for all legacy ERP solutions.

The tender-based selection of a new service management platform (IT SM) was followed by the implementation of Phase 1 of the IT SM project, which was finalised in December. Phase1 included the platform setup, migration of all existing standard IT IL processes to the new platform and new customer interface and portal. Overall, organisational and process improvements resulted in a high overall IT services reliability with a strong decrease in the number of incidents. The mentioned improvements and changes also resulted in a significant decrease of resolution times, both for requests and incidents. The combined effect of the abovementioned activities and overall focus on the internal customers' satisfaction and experience brought a significant increase of customer satisfaction (net promoter score) by more than 19% YOY.

Business operations
of Atlantic Grupa

(STRATEGIC) BUSINESS UNITS

Strategic Business Unit **Coffee**



Atlantic Grupa remains the leading coffee producer in the region and the Strategic Business Unit (SBU) Coffee in 2022 achieved sales revenue of HRK 1,390 million, representing a 16% growth compared to the previous year. Due to challenges presented by high raw material and energy prices, as well as supply chain distortions, we made significant efforts to optimise purchase prices and, in addition to maintaining our quality, we managed to achieve record results and retain its leading position on the markets of Slovenia, Serbia, Bosnia & Herzegovina, and North Macedonia.

In line with strategic priorities, the key focus remained on the category of roasted and ground coffee, which recorded double-digit growth rates. The results achieved on most markets are significantly better than trends in the category, which experienced a volume decline across the region. In the espresso segment, significant growth was recorded on all relevant markets in the region. The segment of instant coffee continued its strong growth, confirming Atlantic Grupa's ambition to strengthen its presence in this segment.

In the category of roasted and ground coffee, we recorded volume sales growth in Croatia and North Macedonia, achieved record sales of over 3,000 tons in Bosnia & Herzegovina, as well as a record market share in Serbia.

As the regional leader in the category of roasted and ground coffee, one of Atlantic Grupa's key strategic objectives is preserving the stability of this category, which results in numerous activities that make our brands and this overall category more modern and attractive.

In 2022, Grand Kafa focused on preserving consumer trust and modernising the brand image through communication and new innovative products.

barcaffè

grand KAFA

Bonito prava kafa

SBU COFFEE GENERATED
SALES REVENUE OF

1,390 mHRK

Through its communication platform "LET'S HAVE TIME", Grand Kafa continued to remind consumers in the region about the importance of dedicating time to ourselves and people closest to us. The campaign won numerous awards at regional festivals (UEPS, Disrupt, Kaktus, IAB). The success of the digital channel performance was also confirmed by the most significant global award – a gold medal for the Single Origin launch campaign at the Digital Communication Awards Festival. The above campaign was continued through the CSR (Corporate Social Responsibility) activity "Let's Have Time for an Exam," where we emphasised the importance of taking care of one's own health and, in cooperation with relevant institutions, provided over 13,000 free mammography exams throughout Serbia.

With the desire to merge our tradition and innovation, and thus provide consumers with an extraordinary experience, Grand Vesela was launched, a combination of characteristic drinks from this region, coffee and brandy. This limited edition product is a global innovation, and the only domestic coffee created through natural flavouring and ageing of raw coffee in barrels previously used for storing plum brandy. In the market of Bosnia & Herzegovina, Grand Kafa received the consumer award for the MUST HAVE brand, and in North Macedonia, it again received the consumer award for the most recognisable brand in the category of roasted and ground coffee, which further demonstrates its leading market positions.

In the past year, Barcaffè introduced a modern communication platform “Get Moving” based on the slogan “It’s good when coffee wakes you up, it’s even better when it gets you moving”, which coexists with the previous positioning slogan “For a better day”. For the first time in the Barcaffè family, coffee with the Rainforest Alliance certification was introduced: Barcaffè Flora, thus increasing the number of products packaged in environmentally friendly packaging foil. Through the project Barcaffè Artist Edition, Barcaffè launched a limited series of original cups in collaboration with artists – street artist Slaven Kosanović Lunar illustrated the cups, while regional sensation Sandro Slavnić wrote motivational messages.

This year, Barcaffè once again earned the Superbrand award, which it has been receiving for several years in a row. The campaign for Barcaffè Rwanda won two Websi awards for digital marketing activities in Slovenia – the first prize in the “Crypto” category and the third prize in the category of “Advanced Technology Use”.

As the initiator of the idea of coffee aged in barrels, Barcaffè marked the end of the year by launching a special innovation: Barcaffè Whiskey Barrel aged coffee. Coffee, aged in barrels previously used for the award-winning whiskey Broken Bones, has impressed even the most demanding coffee lovers.

The espresso segment continued to grow, with 26% higher volumes and 12% more points of sale. The portfolio was expanded with Specialty coffee to satisfy the expectations of even the most demanding espresso enthusiasts. The Barcaffè espresso on-the-go segment keeps growing and currently has 1,929 points of sale, which is an increase of over 16% compared to 2021.

Atlantic Grupa continues to strengthen its position in the instant coffee segment across the region with significant sales growth. Through continuous investment during the year, our brands increased their respective market shares, especially in Serbia and Slovenia, where we hold the second position. In 2022, we launched instant coffee under the Barcaffè brand in the HoReCa channel in Croatia and Bosnia & Herzegovina.

In this challenging year, Black'n'Easy continued to grow significantly at the regional level. In terms of market communications, the brand remains focused on the most important out-of-home (OOH) opportunities for consumption (travel & work), as well as morning consumption at home. The received UEPS awards for the brand's PR and radio advertisement in Serbia, as well as the Websi award for the travel campaign in Slovenia, demonstrate the quality of our communications.

In the capsule category, Barcaffè posted record sales results, while the portfolio was expanded with two new products.

The price of raw coffee was at record high levels during the first three quarters of 2022. Consumption significantly increased after pandemic restrictions, which resulted in higher demand. The yield of raw coffee crops in Brazil, the largest producer and exporter of raw coffee in the world, was insufficient to meet market needs in the 2021/2022 season, causing prices to sky-rocket. Minas coffee, which is the most represented type of coffee in our raw material portfolio, reached the price of over USD 5,000 per tonne, but the global economic crisis and projections of a slight decline in coffee consumption initiated a price correction in late 2022, and further stabilisation is expected in 2023.

Along with record-high prices of raw coffee, the prices of packaging materials, energy and logistics have also significantly increased, which led to higher production costs and, as a result, a decline in SBU Coffee's profitability.

SBU Coffee's capital expenditure in 2022 amounted to nearly HRK 45 million. The most important projects were related to introducing preheating systems in Belgrade, implementing the cleaning and weighing project at the roastery in Izola, procuring new coffee packaging machines in Belgrade, and improving production lines at all production facilities. The majority of this investment went into HoReCa equipment and a new service centre in Serbia.

With solid foundations and the defined strategy, SBU Coffee continues to maintain its leading market positions in the category of roasted and ground coffee, while at the same time focusing on achieving higher shares in the growing categories of espresso coffee, instant coffee, and OTG ("On the Go") segment.

45 mHRK

SBU COFFEE'S CAPITAL EXPENDITURE IN 2022

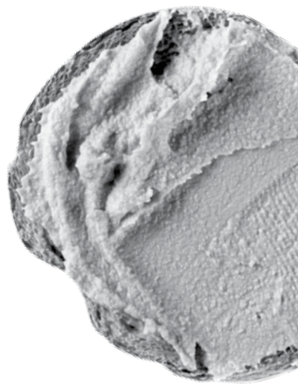
Strategic Business unit
Savoury spreads

The fast-changing macroeconomic environment presented both new opportunities and challenges for SBU Savoury Spreads.

Successfully navigating through changed market circumstances, SBU Savoury spreads generated sales revenue of HRK 974 million, which is 10% growth compared to previous year, due to its advanced growth insights, successful business development in key markets and relevant quality-based brand promise.

Despite very active competition in the pâté category with aggressive price promotions, Argeta remains the market leader by value in Slovenia, Croatia, B&H and Austria. A rising star was Austria, where we managed to achieve the historically highest value market share of 44.3%, making us the market leader in volume and value. Sales records in volume were also achieved in Kosovo, Serbia, and Montenegro.

ARGETA



SBU SAVOURY SPREADS GENERATED SALES REVENUE OF

974 mHRK

Argeta's success has spread and accelerated on the international markets managed by GDAM, which have grown by 13% in total value compared to 2021. With expanding distribution through listings in new Key Accounts (e.g., Edeka) a new sales record was achieved in Germany (1.820 tonnes), which resulted in a 9% value growth compared to 2021. First out of home campaign and consumer centric digital activities brought Argeta both market share growth and leadership in shelf-stable pâté category.

1820 t

SALES RECORD
IN GERMANY

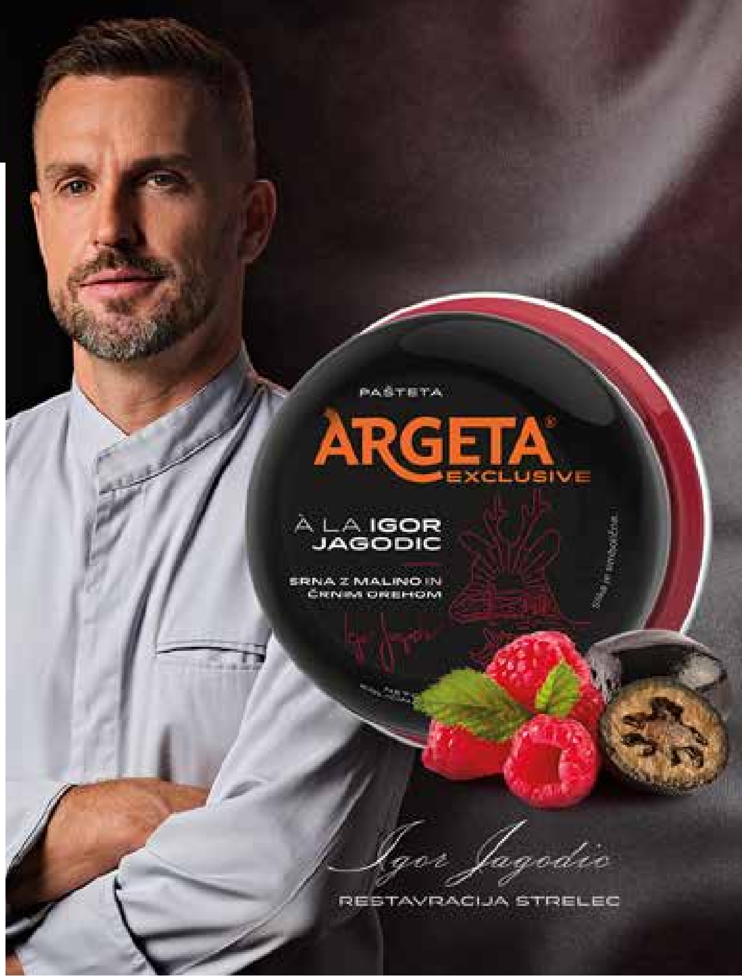
Argeta held a strong and unwavering leadership position in Switzerland with a volume market share of 37%. We thrived in other markets with strong value sales growth in Scandinavia and the Netherlands.

The most significant innovation in 2022 is our new range of Argeta Veggies. The products were cocreated by our internal experts and consumers. Together we have made "vegetables to go", starting with four variants (Chickpea, Red Pepper, Black Olives and Chili & Lemon). All products are "Free From", "GMO Free " and vegan friendly. To support consumer wishes and their intentions to eat and live better, we have launched a campaign "Just Fantastic Taste of Vegetables".

There were quite a few innovations in the Exclusive line as well.

Truffle lovers were delighted by the cooperation with Zigante, considered the most recognised supplier of truffles in the region and beyond. The cooperation resulted in a refreshed Argeta Exclusive Beef with truffles recipe containing Zigante truffles as the only flavour that can be found even among the more hedonistically oriented products.

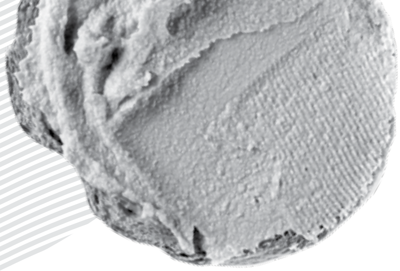
The 10th edition of Argeta Exclusive presented Michelin star - awarded chef Igor Jagodic, with his exclusive creation of tender venison complemented by fresh raspberries and mysterious black walnuts for a real culinary experience.



At Junior, the year was mainly dedicated to the communication of an improved nutritional profile and to the upgrade of the Junior Adventures platform as the first platform for supporting the development of creative thinking of kids.

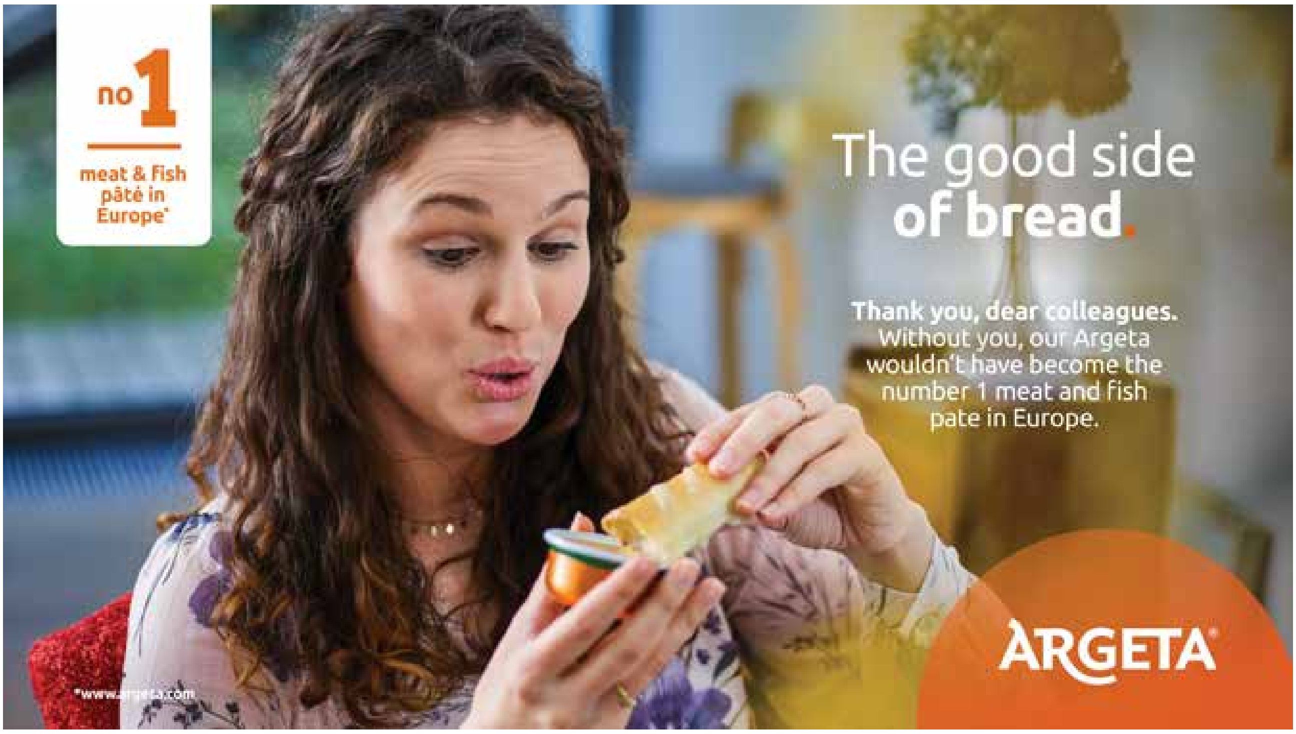
According to the principles of Edward de Bono, and with the help of mag. Nastja Mulej, the only licensed coach of creative thinking in Slovenia, we created 2 new books where children choose the course of the adventure.

Being no 1 meat and fish paté in Europe according to Nielsen, Argeta rightfully claims already for 20 years to be »The good side of bread«. Therefore, a new communications platform »Ode to the bakers« was created, thanking every single Argeta user and every single person who bakes bread that Argeta can be enjoyed to its fullest. This way Argeta could publicly thank approximately half a million of Europeans that each day choose to put Argeta on their bread. In addition, we posted numerous recipes for different types of bread on Argeta's s website and optimised them for SEO (search engine optimisation). This way, it was visited organically (without paid advertising) by more than 88,000 users (who accepted cookies and can be recorded), which is almost 60% more than in the same period last year. In 2022, we reached nearly 30.5 million users through Instagram and Facebook. Also, we started with TikTok in November, where we received almost 1.3 million video views in just over a month.



Argeta also published its second sustainability report which summarizes the progress in achieving its 2030 sustainability commitments and introduces the most important advancements made in this field. The main highlights were introducing products with non-GMO certificate in its portfolio, increasing the percentage of products with a favourable nutritional profile and significant improvements in sustainable sourcing of raw ingredients.

In 2022 Argeta's achievements were also noticed by the wider marketing community. We are proud to be the first FMCG brand in our region with its NFT collection, Argetties. The project won Websi for Best Content, 3rd place in the Crypto and Best Global Digital Project categories. Also, project "Argeta is BREZ" won Websi 2nd place for Best Global Digital Project. Another awarded project was Argeta's #AlwaysBetter playlist, with first place in the Pages and Websites for Celebrities category. Argeta's NSFW campaign received a silver SOF award. In addition, we received the Zlatna Košarica Award for Product of the Year for the second year in a row.

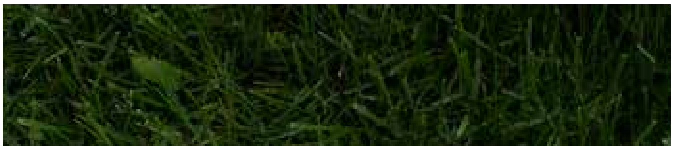


We rooted our products in tradition, keeping the best that nature gives us. In 2022, a new chapter of Bakina Tajna was opened: the tradition met modernity. We presented a new look of the beloved brand in fourteen markets. The whole product range earned the “vegan-friendly” claim, while Ajvar got the “Free From”. Bakina Tajna (Granny`s Secret) is the only secret you will share with people around you: as it makes every single moment in life special. The revolution we made in the new look with hand-painted, aquarelle labels was supported with digital and POSM campaign: “The taste you love in a new packaging. Bakina Tajna. Food for the soul.” With that, we can say that results in 2022 show that we know our consumers.

In 2022, we spent HRK 54 million on capital investments. Our most important projects were: a new production line for savoury spreads in Izola, overhaul of the production line for savoury spreads in Sarajevo, and a new production line for Veggie spreads in Igroš.

54 mHRK

CAPITAL INVESTMENTS IN SBU SAVOURY SPREADS




28%
paste

Strategic Business Unit **Snacks**

A whole century has passed since Štark chocolate treats first delighted chocolate lovers, and full 50 years since one of the oldest regional brands, Smoki, has started its relationship with lovers of salty snacks. These anniversaries were appropriately reflected in not only an ambitiously innovative market approach, but also excellent sales results of the Strategic Business Unit (SBU) Snacks in the amount of HRK 732 million, which is a 7% sales growth compared to the previous year. This growth was achieved throughout the region except in Croatia, which saw a significant decline due to the restructuring of the sales assortment. The Austrian market continued to record strong growth as a result of improved positions of the brands Prima, Smoki, and Bananica in key retail chains. Export markets maintained a stable share in the SBU's total sales (37%). All categories recorded growth, but the year 2022 was definitely the year of chocolate. The 100th anniversary of the production of Štark chocolate was conveniently celebrated by a significant 13% sales growth, which slightly changed the portfolio structure in favour of the sweets segment.

Our orientation toward sustainable business development was confirmed by last year's efforts to maintain a high percentage of recyclable packaging materials in the production of finished products:

- share of recyclable packaging in the total packaging stands at high 97%,
- share of plastics was kept below one-third of the total packaging, with the intention of increasing recyclables in their composition,
- FCS certificate became a mandatory condition for selecting suppliers of cardboard and paper packaging, even under difficult supply conditions for these raw materials.

The commitment to improving product and business quality has been confirmed for years by continuous efforts invested in recertification and acquiring new certificates. During 2022, all the SBU's production categories at both facilities obtained the HACCP certificate. By reconstructing the Ljubovija production facility, the already acquired IFS FOOD VER 6 certificate (often highlighted as a prerequisite for private label production and better cost efficiency of the process) was recertified to the new version 7.

With portfolio optimisation, the year ended with 137 active standard products, of which 12 new recipes.

The brands, already established for decades, were supported with 16 integrated marketing campaigns. A new corporate logo was unveiled, symbolically announcing the next 100 years of Štark's ambitions. We are especially proud of our status as innovators in the field of market communication, recognised by the public through our efforts to reach out to consumers from specific groups with special needs (dyslexia, visual impairment, motor impairments, ADHD, and even certain neurological conditions).

SBU SNACKS GENERATED SALES REVENUE OF

732 mHRK

Smoki Prima Najlepše želje Bananica

Do Everything You Do With All Of Your Heart

The first 100 years of Štark chocolate production were celebrated through an integrated campaign in the form of a musical under the slogan “Do Everything You Do With All Of Your Heart.” The passion for chocolate pleasure was translated into life principles of optimism, dedication, and grounded joy. In this way, the brand expanded its mission, and the company justified the trust of consumers by promising to consistently nurture the good tradition of quality. In line with communication trends, the campaign achieved the desired results on digital platforms, for the first time including Spotify with three special playlists symbolising love, happiness, and desires.

Najlepše Želje Kapri

As the strategic brand of the Štark chocolate segment, Najlepše Želje made a notable breakthrough outside its category in the past year. In collaboration with the company Frikom, Najlepše Želje ice cream in individual and family packaging was launched on the market.
A sort of reciprocity in the exchange between well-known chocolate and ice cream flavours was continued later in the year with the launch of Najlepše Želje Kapri chocolate bars and dessert pralines to also delight the fans of the specific Kapri taste.

Smoki - Full 50 years and still young

“Full 50 years and still young” – this would be a short profile of the regionally established brand that has been keeping up with its consumers for decades and using every opportunity to exchange compliments.
Smoki marked its celebratory year with a series of activities that confirmed its status of the favourite salty snack:

The celebratory campaign “50 years” supported creative creation in the form of street art installations and applications, with a clear message that there is “No Mistake” when creating and enjoying Smoki The main digital communication channels were special micro-sites with prize activations, while Viber and Spotify were included for the first time in the selection of channels. The prize contest with a valuable award fund was our gift to the most loyal consumers.

Smoki Go & Share

The limited edition “Go & Share” welcomed students at the beginning of the school year by promoting togetherness, sharing, and enjoying available pleasures

XXL Football

The limited edition “XXL Football” package was designed for passionate football fans during the World Cup.

Smoki & popcorn MIX

Smoki & Popcorn MIX was made for all snack lovers who love to combine them while enjoying movies.

The quality of activities undertaken by Smoki NO MISTAKE to celebrate its birthday was confirmed by the professional community with awards at festivals of marketing creators (UEPS and Kaktus).

To Melt From Happiness

The success of Ice Bananica, as a step forward in terms of production and communication compared to the traditional portfolio, has encouraged us to be even more innovative. The new Creamy Bananica was launched in two flavours: choco-orange and choco-raspberry.
These flavour combinations offer a new dimension of enjoyment and surprise that this favourite treat has been providing to generations of loyal consumers. “Happiness” is still the main emotion of the brand, so Creamy Banancia was also launched under the slogan “To Melt From Happiness”. Like Ice Bananica, it was given significant exposure through digital channels, such as TikTok and Instagram.

Life With Flavour

Guided by the slogan “Life With Flavour,” the brand Prima was slightly redesigned to further emphasise the natural origin of ingredients and direct the brand toward the position of a healthier choice among snacks.
With an improved recipe in which palm oil was replaced with rapeseed oil, Prima becomes the first Štark brand with “no palm oil” communication, serving to support the global environmental protection trend through reduced use of palm oil in the food industry.

Štark and the smile is here

In the category of biscuits and wafers, our master brand Štark bid farewell to the celebratory year in its upgraded version. The improved product recipes are supported by the new visual identity as a more modern version with the dominance of the new corporate logo. The brand communication emphasises the combination of traditional and modern values, highlighting the need for change in line with the expectations of different consumer generations.

The slogan “Štark and the smile is here” is a kind of promise that the company gives to its loyal consumers and is appropriately incorporated into the accompanying marketing campaign.

Capital expenditure in 2022 amounted to HRK 66 million. Investments in the categories of biscuits and wafers are the two most significant investment projects last year, and represent an important part of the SBU's portfolio. The complete investment in the production facility Ljubovija created conditions for more effective and efficient output. The new technological equipment enabled the production of premium multi-structured products adaptable to innovative demands. The automatic packaging system increased the efficiency of the production process, while the construction of a new warehouse for finished products represents a shift in logistics operations and a prerequisite for modern inventory management. Upgrading the waffle production line at the Belgrade facility improved the quality of the production process, created opportunities for the development of more structurally demanding products, and raised them to a higher level of quality by using top-notch chocolate coating.

A special emphasis in the part of investment efforts should be placed on developing of a master plan, i.e. elaborating the long-term strategy for the development of our production facility in Belgrade. This project, which goes beyond the investment aspect, is crucial for restructuring the production programme and preparing conditions for a comprehensive and more profitable future production.

66 mHRK

CAPITAL INVESTMENTS IN SBU SNACKS


CEDEVITA®
OKUS
NARANČA
CEDEVITA
FRESH DOSE
OF 9 VITAMINS

Strategic Business Unit **Beverages**

In 2022, the Strategic Business Unit (SBU) Beverages generated sales revenues in the amount of HRK 645 million, which is a 20% growth compared to the previous year and also a record-breaking sales result. This growth was recorded in all markets, while Croatia (18%), Serbia (30%) and Slovenia (24%) stand out as the regional markets with the highest growth rates compared to the previous year. As for international markets, which also achieved a positive growth index, Austria should be highlighted with a 19% growth rate compared to the previous year.

The key drivers of this growth were three major initiatives within the brand Cedevita for at-home consumption, as well as carbonated and non-carbonated mineral water Kalnička and Kala, and the brand Cockta. Cedevita GO, which underwent a redesign in 2020, continued to deliver good sales results in 2022 and recorded a sales growth.

The tourist season (June-September) should be highlighted as the key part of the year since the sales results in almost all markets exceeded even the previous record-breaking 2021. The majority of sales in 2022 were still generated on regional markets (98%), among which Croatia leads the way with a 42% share in total sales, Serbia with 21% and Slovenia with 18%.

SBU BEVERAGES GENERATED SALES REVENUE OF

645 mHRK

In 2022, Cedevita packaging for home consumption was marked by the communication of the brand's biggest project to date – Cedevita's new practical packaging and new design, which we announced at the end of last year and successfully launched this year. The communication was strong and visible in both ATL and BTL channels, with extremely positive feedback from consumers and excellent results.

Market shares in the rapidly growing category in terms of value remained firmly stable , which is very good in a year when prices rose multiple times. In Slovenia, Cedevita is the leader in the category of fruit-flavoured non-alcoholic beverages with an 8.1% market share, even ahead of the local and strong brand Fructal.

Also, something new and truly special in 2022 was the socially responsible Cedevita activation within the Cedevita platform “Be good. Be CE.”. In September, a new Cedevita flavour in a 200g packaging – Pink Grapefruit, with a pink ribbon symbol signifying solidarity, awareness, and support for women with breast cancer – was launched for a limited time on four main markets. The sales of this flavour were used to donate EUR 30,000 to the Europa Donna Association, which supports women with breast cancer and their families.

In 2022, under the brand Cockta, we launched the new Cockta Blondie, an orange-flavoured carbonated drink, but with Cockta's character. Following new trends and consumer wishes for products with less sugar, Cockta Blondie has a 10% lower sugar content compared to classic Cockta Original. Blondie was well received within the Cockta family and reached a 9% share within the Cockta assortment, while achieving the greatest success in Serbia with a 15% share in the 0.5l format. Thanks to this initiative, as well as the stability and growth of the basic assortment, Cockta recorded growth in the value share on all markets, with Serbia standing out with a 46% value growth compared to 2022, from 2.8% to 4.1%.

Additionally, the brand Cockta continued to receive awards for communication, primarily digital while, overall, in 2022 Cockta won ten awards at various festivals!

In line with the Group's corporate sustainability strategy, SBU Beverages has approached the topic of sustainability very seriously from several aspects, so Cockta went through a reduction in bottle weight, resulting in about 20 tonnes less plastic used.

48 t

REDUCED THE AMOUNT OF USED PLASTIC

For our brand of carbonated and non-carbonated mineral water – Kalnička and Kala – the year 2022 was marked by a redesign and new packaging. This brand is active exclusively in the retail channel in Croatia; in the category of non-carbonated mineral water, Kala's value share grew from 4.6% to 5.2%. In terms of sustainability, by launching the new design of Kala and Kalnička, we surpassed all competitors and were the first in the region to launch the so-called non-separable (tethered) cap, which will be mandatory from 2024 under EU legislation. Our strategic decision was to adopt this legislation as soon as possible, out of responsibility towards the environment and consumers. In addition, through the redesign of bottles, we lowered their weight and thus reduced the amount of used plastic by 48 tonnes.

In 2022, the focus of capital investments was on expanding production options for new products as part of the R&D strategy, as well as realising the investment in the new bottle for Kala and Kalnička. At the same time, we invested in the capacities of supporting technologies and the infrastructure at both production facilities.

Strategic Business Unit **Pharmacy business**

In 2022, Farmacia recorded sales revenue of HRK 587 million, thus achieving an 11% growth compared to the previous year. Despite the continuing COVID-19 pandemic, Farmacia continued with the planned opening of new units and improving operations of existing ones. At the end of 2022, the chain Farmacia consisted of 100 stores, namely 56 pharmacies and 44 specialised stores.

The opening of new locations contributed to the 2022 revenue growth, but the existing pharmacies and specialised stores also recorded excellent results, partly due to the easing of epidemiological measures and the consequently very successful tourist season, and partly due to continuous efforts to expand the offer with product lines. Due to the global crisis caused by the war in Ukraine and the ongoing pandemic, there were frequent shortages of certain groups of medicines in the market. That said, Farmacia invested maximum efforts to ensure the supply of citizens by planning procurement under the existing business conditions.

The working conditions in Farmacia are still adjusted to the pandemic circumstances in order to protect employees and all citizens who require pharmacy services during the pandemic. The management of Farmacia continued adjusting regular operational activities to the epidemiological situation so that all processes in day-to-day operations could continue smoothly, depending on the job positions that included both hybrid work model and work from home when possible.

farmacia®

SBU PHARMACY BUSINESS GENERATED SALES REVENUE OF

587 mHRK

In 2022, Farmacia continued to participate in national projects of the Ministry of Health, Croatian Institute for Health Insurance, and Croatian Chamber of Pharmacists, including COVID-19 and flu vaccinations in pharmacies, which were organised in two Farmacia pharmacies. With its long-standing presence in these national projects, Farmacia is positioning itself in new roles that are expected in the pharmacy sector as a result of changed national regulations.

The employee training courses, which are one of Farmacia's requirements aimed at providing a quality pharmacy service, are still taking place in the virtual Training Centre on the Microsoft Teams platform with exceptionally high employee participation rates. This way, the availability of training to all employees regardless of their location was ensured, which was not the case before the pandemic.

Despite epidemiological measures, Farmacia's specialised counselling centres continued to record clients' growing interest for counselling services as a way to solve their health problems and improve their quality of life. Clients from remote areas expressed the need for digitisation of the availability of counselling services, which represents a new direction for the development of these additional services. In 2022, the sports counselling centre participated in outdoor projects, where masters of pharmacy and pharmaceutical technicians were positioned as the most important Farmacia brand ambassadors.

In early 2022, a new website and webshop were launched with the main goal to optimise the user experience through educational-advisory content, as well as through carefully designed sales activities. Online platforms (website, social media, newsletter) and the Farmacia on-the-go magazine (which in 2022 celebrated three years since its first issue) are still important support in Farmacia's strategy focused on the well-being of patients, i.e. end-clients.


Donat

Business Unit **Donat**

Despite the tense market situation, the Business Unit (BU) Donat generated sales in the amount of HRK 240 million, which represents a 10% growth compared to the previous year. Donat continued to follow the set long-term strategy of the brand premiumisation and internationalisation. We diligently adapted to the specificities of individual key markets and thus successfully continued to solidify our position as the leading brand in the field of digestive health. The tactics in individual markets were adjusted to the needs of local consumers, which ensured stable business operations during 2022 despite the uncertain circumstances. At the same time, we are building a concept for developing new products in the field of preserving digestive health so that they are aligned with Donat's key advantages (natural ingredients, scientifically proven effectiveness, sustainability in production and packaging) and complement Donat's functionality (rather than compete with it).

Both in the narrow (carbonated natural mineral water) and wider (probiotic yoghurt and drinks, dietary supplements, teas, and OTC medicines with digestive health benefits) market category, most competitors raised prices last year, which also affected the value growth of the narrow category, primarily in Slovenia and Croatia. As a result of the price increase, we recorded a volume stagnation in the category of carbonated natural mineral water in Slovenia and its decline in Croatia. In 2022, the price of Donat in Slovenia and Croatia was not increased, whereas we covered the cost of any price increases through rationalisation of other expenses. Consequently, unlike its competition, Donat successfully maintained its volume market share on these two markets (Slovenia 17% and Croa-

BU DONAT GENERATED SALES REVENUE OF

240 mHRK

tia 3%) and, compared to 2021, continued to achieve sales growth in both Slovenia and Croatia.

In line with Donat's unique pricing policy across all key markets, in 2022 we also implemented the pricing policy in Bosnia & Herzegovina and Austria, thereby completing the first step of premiumisation. In Bosnia & Herzegovina, Donat completed the year 2022 with a 10% value growth. Donat has not only been successful in the region where the brand is already highly recognisable, but also in international markets. In Austria, our strategic international market, we achieved record growth in 2022. Along with implementing the pricing strategy, Austria finished the year with an exceptional 28% value growth. Among the so-called medicinal mineral waters with high mineral content, Donat already has an 8% volume and 18% value market share in Austria. For Donat, Russia is a historically significant market. Despite the dramatic situation, we did not withdraw from the market but rather adapted the business model to reduce dependence (in 2022, Russia accounted for 19% of total volume sales, which is a 22% decrease compared to 2021), while also preserving operations of our own distribution team.

In this exceptionally uncertain year, we reduced the negative effects of external costs we had no control over (costs of raw materials, electricity, gas, transportation, and other production costs) by rationalising business expenses. In parallel, we timely redistributed sales among key markets, thus achieving the main goal of the year – maintaining volume sales on the key markets without significantly compromising profitability.

100% rPET

10%

sales growth in BiH

28%

sales growth in Austria

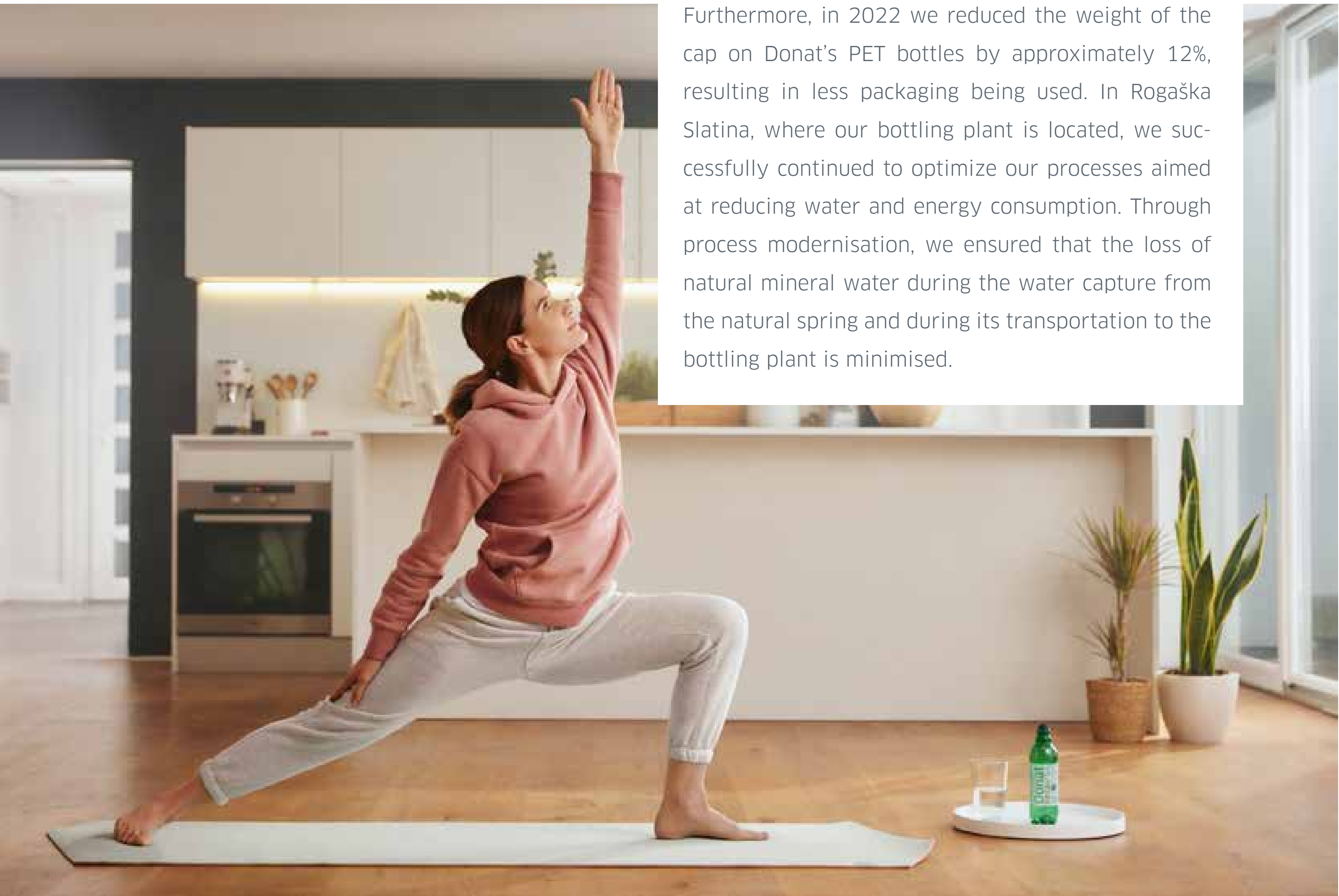
In 2022, we continued to successfully build the position of a digestive health expert, paying special attention to the specific needs of consumers in individual markets. For this reason, it is not surprising that Donat, among all brands in the category of functional products that help regulate digestion and promote well-being, is most strongly associated with the attributes that consumers give the greatest importance to: “regulates digestion in a natural way”, “clinically proven effectiveness”, and “for solving digestive problems”. Therefore, in Slovenia, Croatia, and Bosnia & Herzegovina, Donat firmly holds the attribute “Expert in the field of healthy digestion”, which demonstrates that we are successfully continuing to strengthen the brand position in the category of products for healthy digestion. With an emphasis on drinking 0.5 l of Donat daily, we raised consumer awareness about the importance of prevention, which was implemented within the existing communication platform and successfully organised guided health programmes Donat. In 2022, we launched a new guided health programme, Donat Vital. Like all its predecessors (Donat Detox, Donat Imuno, and “For 6 days to better digestion”), this programme was designed with the help of experts and with scientifically proven efficacy.

Awareness of the importance of healthy digestion and ways to maintain it is not only directed at the end consumer. Our mission is to also facilitate the efforts of general medical practitioners and nurses to promote habits that preserve digestive health to their patients in a popular way. For this reason, we continued our communication with the medical community in 2022. Likewise, we continued our efforts focused on educating family doctors about all the benefits of Donat, so that they can recommend it to their patients as a completely natural solution for their digestive troubles, as well as a preventive solution, which is a very important part of today’s medicine. In the three key markets, 45% of category users consider Donat as a “doctor’s recommendation”, which gives it even greater credibility. In addition to our expert field operatives, we also have a medical web platform developed exclusively for the professional community, which we continuously refresh with new content authored by renowned experts from various fields, with a main focus on new insights in the field of digestive health.

As we give great importance to the Donat brand’s presence and visibility at points of sale, our focus in 2022 was on the modernisation of presentation and communication with consumers at the point of purchase in all key markets. Accordingly, product information that consumers receive at the point of sale, as well as its availability and visibility at that same point of sale, have been proven to influence purchase decisions. The brand’s position within the category, presence in complementary categories, and similar activities have positively influenced the increase in recognition and visibility of the Donat brand.

We also had a successful year of sharing knowledge among the ranks of professionals and among other groups. Our associates participated as expert lecturers at many events, and we received multiple awards for our work in 2022. The communication platform "Take care of your digestion, take care of yourself," with which we won a Platinum Effie for the first place in Slovenia a year before, has achieved outstanding success in 2022, this time on an international scale. Donat has become the first brand in Slovenia to reach the finals at the Effie Worldwide – competition for the most effective marketing communication campaigns worldwide – where it ranked among the three finalists in the category Global Best of Best Food&Beverage. We continued the year with additional communication awards in our home country. At the Netko competition, Donat won first place in the category Best Company or Startup Website. We also received a Websi award for our creative solution within the communication platform "Take care of your digestion, take care of yourself" in the category Outdoor Digital. Additionally, Donat received the Grand Prix for the Best Digital Strategy at Diggit.

In 2022, we are still committed to reducing our environmental impact. Accordingly, we preserved our entire portfolio consisting of plastic bottles made from 100% recycled plastic, which has given over 900 tons of already used plastic bottles a new life. Furthermore, in 2022 we reduced the weight of the cap on Donat's PET bottles by approximately 12%, resulting in less packaging being used. In Rogaška Slatina, where our bottling plant is located, we successfully continued to optimize our processes aimed at reducing water and energy consumption. Through process modernisation, we ensured that the loss of natural mineral water during the water capture from the natural spring and during its transportation to the bottling plant is minimised.




BOOM BOX
BREZ DODANEGA SLADKORJA
SPECULAAS & ORANGE
BOOM BOX
BREZ DODANEGA SLADKORJA
SPECULAAS & ORANGE
ZOBENI
KEKSI

New growth

Boom Box: 2022 marked by conquering new markets and brand positioning success

Atlantic's new brand with a unique proposition – small oat-based meals, 100% plant-based, and 100% no added sugar – continued to thrive in its second year. Despite a year characterised by strong growth in energy and raw material prices, Boom Box delivered on its sales plans and achieved market success, most notably through the number two positions in the value share of oatmeal categories in Croatia and Slovenia , the number one position in the granola category in Croatia, and the number two position in the same category in Slovenia . In the category of plant-based drinks, Boom Box reached a stable second position in both Croatia and Slovenia.

In 2022, Boom Box made a significant step forward by launching the brand in Serbia, Bosnia & Herzegovina, and North Macedonia. In addition to realised sales plans, Boom Box in Serbia is ranked third by value in oatmeals, number one in granola, and number three in plant-based drinks . In Bosnia & Herzegovina and North Macedonia, sales results show that these markets were also eagerly awaiting Boom Box. The outstanding performance of Atlantic's distribution companies and partners in all Boom Box markets ensured significant improvements in brand positioning with customers in the existing markets and excellent positions in new markets. The provision of additional positions at points of sale and customer activations had a serious impact on the brand's growth and the listed results.

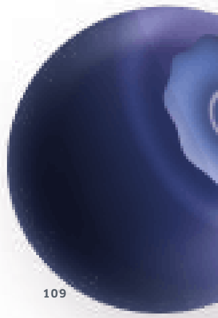
NO 2

in the value share of oatmeal categories in CRO and SLO

NO 1

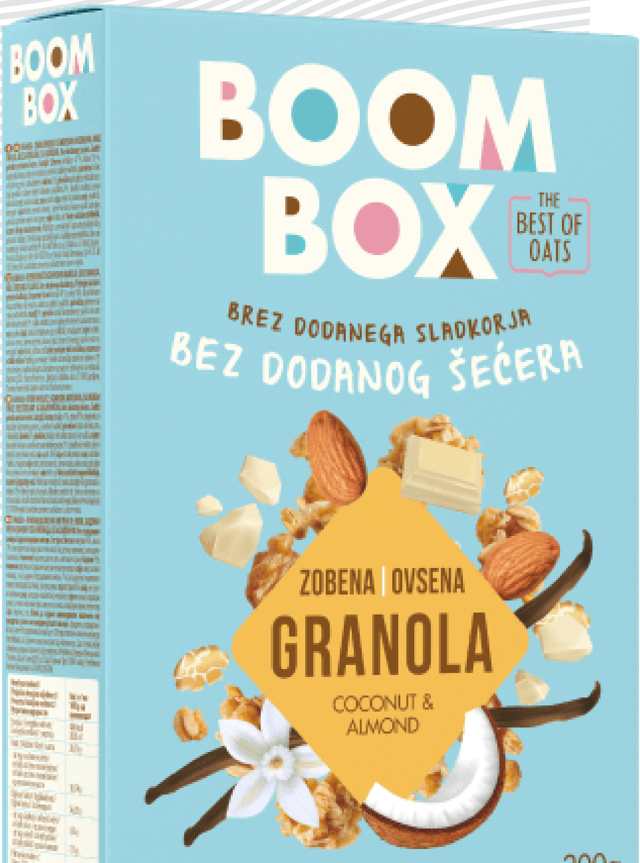
in the granola category in CRO and the number 2 in SLO

THE BEST OF OATS



The year was also marked by continuing the successful communication platform that highlights Boom Box's comparative advantages, with shorter TV spot formats dedicated to different categories, as well as partnerships with reputable nutritionists, fitness trainers, and public figures who ensure that Boom Box reaches consumers through their personal channels.

As acknowledgement of the quality of Boom Box's communication strategy by the professional community, Atlantic received two Idea X awards in Croatia, in the categories of Branding (silver medal) and Film (bronze medal), and also became a finalist in the Effie competition, which recognises the most significant achievements in market communications under the slogan "Ideas That Work".



Jimmy Fantastic:
More chocolatey 2022

After the successful launch in 2021, Jimmy continued to build its market share in 2022, focusing on tailor-made activities for key customers and strengthening the new communication platform “More Chocolatey Chocolate”. The main purpose was to increase penetration into the mainstream on all levels, i.e. in terms of pricing, communication, shelf position, packaging, and staying relevant in the eyes of consumers who have clearly developed purchasing habits in this category. We started the year with new POS materials for better visibility, a PR activation for which we received the SomoBorac award, Valentine’s Day gift packages, and a new flavour, Brownie&Coconut. All of these activities were accompanied by a new TV campaign that brought us closer to our desired target, increased emotional connection with consumers, and enabled clearer communication of our competitive advantages. In addition to our large chocolate blocks and more chocolatey chocolate, we clearly communicated our price repositioning, i.e. lowering to the level of the major mainstream competitors.

Easter was marked by gift packages with attractive price positioning and tailor-made prize contests for customers in Croatia and Slovenia.

This was followed by our first collaboration with the Smoki brand as part of a large FIFA prize contest for Konzum Croatia. The synergy brought us additional positions and greater visibility, and once again confirmed the strength of Atlantic Grupa, which we will continue using in the future.
The portfolio was expanded in September 2022 with two new flavours – Extra Crunchy Cookie and Orange&Biscuit. Additionally, a 50g chocolate bar received a new design for easier consumption.
In 2022, Jimmy achieved exceptional brand recognition (over 80%) and implemented a new campaign that broke records in terms of visibility and connecting the campaign with the brand, which shows that we achieved a clear differentiation in the chocolate category. In its first full year of existence, Jimmy maintained a stable market share of 3% in Croatia and Slovenia, and created a base of customers who recognise its large blocks and even larger enjoyment.
In the next year, the main focus will be on entering a new segment of chocolate bars above 200g, entering new complementary categories, optimising the portfolio, and strengthening the brand through better shelf visibility. We continue to build relationships with consumers through daily communication on social media, campaigns, clear messages, and quality products.

Ziggy’s coffee:
own venture into retail with a seriously good coffee-to-go

In the large Out-of-Home (OOH) coffee market in Croatia worth more than EUR 450 million, Ziggy’s Coffee primarily aimed to occupy the space of coffee consumption outside the HoReCa channel, which is predominantly covered by players not having coffee as their main business (gas stations, bakeries, kiosks…).
The basic proposition of Ziggy’s Coffee is to offer fast service of seriously good coffee and everything that goes with it to people on the move who cannot or do not want to sit in a café. Entering the retail segment of the coffee market is also a sensible move for Atlantic Grupa as the largest coffee producer in the region, moving it in the direction of becoming an absolute leader in the “new” global world of coffee close to younger users.
Ziggy’s Coffee is a new commercial channel, a coffee brand and a coffee shop chain that provide consumers with the experience and quality of takeaway coffee equal to or better than that in cafés. It is characterised by fast service and over-the-counter sales of ready-to-go coffee drinks, various refreshments, and fresh snacks such as sandwiches, bakery products, and even packaged goods. Ziggy’s was launched as a brand accessible to everyone, so it is also popularly priced.

The first phase of Ziggy’s Coffee development was focused on Zagreb with a selected mix of different types of venues and different types of facilities to gain insights when defining the strategy for further development of the sales network. Therefore, the types of venues selected for the initial phase included city centre, public transport hub, business centre, and residential area. As for the types of sales facilities, they included fixed coffee shop, shop-in-shop, kiosk, and mobile trailer.
After this year’s opening of five facilities, the year 2023 will be a period of generating demand through raising brand awareness, managing service and the exciting assortment, and focusing on optimising operations.

(Strategic) **Distribution Units**

Strategic Distribution Unit **Croatia**

In 2022, the Strategic Distribution Unit (SDU) Croatia generated sales revenues in the amount of HRK 1,553 million, which represents a 11% growth compared to the previous year. Revenues increased primarily due to the continued strong focus on the market, record seasonal and holiday consumption, and successful product and packaging innovations in the category of beverages (Cedevita, Cockta Blondie, Kala, Kalnička).

When sales results by channels are concerned, the retail segment recorded a 9% growth, while the HoReCa channel recorded a 36% growth, which was due to a significantly reduced sales base in the last quarter of 2021 due to COVID-19 restrictions.

Shopping and consumption habits have returned to their pre-pandemic normals, which was particularly evident in the following categories:

- Beverages – recovery of consumption and recovery of the tourist season with organic sales growth accompanied by innovations and strong marketing support,
- Mars – recovery of impulse consumption, successful innovations, and strong marketing support,
- Ferrero - recovery of impulse consumption, innovations in the biscuit segment, and increased activities in the praline category.

Due to timely and comprehensive preparation for the tourist season, SDU Croatia managed to secure the necessary number of seasonal employees, sufficient product quantities, as well as storage and logistics capacities to ensure uninterrupted delivery of goods to the market. In the supply chain segment, the continuation of targeted implementation of the digital transformation in all aspects of logistic operations was ensured during 2022 as well.

SDU CROATIA GENERATED SALES REVENUE OF

1,553 mHRK

11%

HIGHER COMPARED TO 2021

Strategic Distribution Unit **Serbia**

For the second year in a row, the Strategic Distribution Unit (SDU) Serbia posted record-breaking sales results in the amount of HRK 1,542 million. Revenues were 15% higher than last year, while the biggest growth contributors were our Coffee and Beverages programmes, as well as external principals Rauch and Red Bull. Even with significant challenges on the cost side, this sales growth was accompanied by profit growth with a slight optimisation of the working capital due to better collection of receivables.

The successful business year was marked by a significant strengthening of the market position of most distributed brands. Coffee and Beverages are growing faster than their respective categories, and thus posted historical sales records. We should also highlight excellent performance of the brand Bonito, which recorded excellent growth in its value market share in Serbia. With double-digit growth compared to the previous year, Insta Grand consolidated its challenger position. The exceptional growth of the Beverages category was significantly surpassed by Cockta, Cedevita VIN, and Cedevita GO as a result of continuing the PICOS (Picture of Success) project, along with additional improvements in distribution parameters and numerous in-store presentation elements. The investment that Štark made in production capacities during the previous year allowed for the continued stable growth of Bananica and Najlepše Želje, while the most notable success was achieved with the launch of Boom Box. This way, we made a strong entry into new segments of healthy nutrition, and once again demonstrated that our organisation, efficiency, and committed resources make us a credible and reliable partner to our principals and customers in Serbia. In the category of external principals, Red Bull continues to break all records with sales of over 9 million cans. The exceptional strength and efficiency of distribution were adequately utilised in cooperation with Intersnack, during which the distribution targets and the targeted market share were surpassed in the first year of launching Chio chips in Serbia.

In logistics, the service level was maintained at the target of 98% (KPI Delivery on time). At the central warehouse in Šimanovci, additional shelves were installed and a new shuttle storage system, which represents a new technology of semi-automatic storage of goods. The new rack system allows for better use of storage space and process optimisation. Finally, the relocation to a new distribution centre in Čačak was carried out in 2022. This centre fully complies with the goods storage and preparation standards, as well as enables improved application of all other standards.

SDU SERBIA GENERATED SALES REVENUE OF

1,542 mHRK

15%

HIGHER COMPARED TO 2021

Strategic Distribution Unit **Slovenia**

In 2022, the Strategic Distribution Unit (SDU) Slovenia generated the highest turnover in all its years of operation. The recorded sales of HRK 1,095 million represent an 8% growth compared to the previous year. The biggest contributors to this sales growth were the following categories:

- Coffee – which maintained the leading position in the retail channel,
- Beverages – recovery of consumption in the HoReCa channel along with organic growth based on the redesign of Cedevita and the successful launch of new Cockta Blondie in the retail and HoReCa channels,
- External principals, primarily Ferrero and Unilever.

Argeta achieved excellent results in the category of spreads with increased value market shares in both fish and meat segments. A new Argeta Veggie line was launched at the end of the year, which generated excellent sales results from the start.
In the category of extruded snacks, Smoki retained the leading value market share (42%). Additionally strengthened distribution of Prima in Slovenia contributed to its higher market share.

Last year, our newly launched brands – Jimmy Fantastic and Boom Box – significantly improved their presence at points of sale across all customer categories. Together with implemented activities, this resulted in positive market share shifts according to Nielsen research. According to their data, Boom Box ranks third in the following categories: granola (13% market share), instant porridge (19% market share) and plant-based drinks (5% market share).
The retail channel recorded a 5% growth compared to the previous year. Among retail formats, the highest growth rates were recorded by large formats (hypermarkets, supermarkets and discount stores) and pharmacies. The HoReCa channel recorded a 31% growth compared to the previous year, primarily due to COVID-19 measures being lifted.
SDU Slovenia builds partnerships with all its partners. Accordingly, in 2022 we extended our long-standing successful cooperation with principals Ferrero, Rauch, and Hipp by signing a new multi-year contract.
Like other markets, SDU Slovenia faced high fuel prices and increased minimum wages, which, among other things, resulted in higher transport and logistics costs. Our continuous work on optimising deliveries contributed to a minimal increase in the share of transport costs.
Other than that, we continued focusing on operating efficiency. For this purpose, SDU Slovenia introduced the SAP Ariba tool (procurement tool), introduced PICOS (Picture of Success), and continued robotisation of the administrative part of its business operations.

SDU SLOVENIA GENERATED SALES REVENUE OF

1,095 mHRK

8%

HIGHER COMPARED TO 2021

Distribution Unit **Macedonia**

In 2022, the Distribution Unit (DU) Macedonia marked 15 years of its presence on the market with continuous turnover growth, significant expansion of all brands in our distribution portfolio and successful long-term distribution partnerships.

Despite the unfavourable impact of the global economy trends, we achieved sales revenues of HRK 362 million, which represent a 15% sales growth compared to the previous year, as well as an increase in profits. This was a combined result of stable performance of our strong brands, focus on trade marketing activities, operational efficiency, and increased distribution portfolio.

With a wide-ranged and diversified portfolio and high-quality products, our company satisfies a broad range of consumer needs. The range of familiar and famous internal brands – Argeta, Grand Kafa, Cedevita, Smoki, Bananica, Najlepše Želje, Cockta, etc., was increased with the launch of the plant-based nutrition brand Boom Box, thus entering multiple categories in the healthy food segment. Grand Kafa, Argeta and Cedevita are strengthening the position of leading brands on the market in their respective categories.
The global energy drinks brand, Red Bull, joined our existing distribution portfolio of well-known international companies – Ferrero, Hipp, Ficosota, Beiersdorf. The new distribution partnership with Red Bull increased our competitiveness in the Drinks segment, for both Retail and HoReCa sales channels.

With growing significance in our sales compared to the previous year, SBU Coffee reached a 23% share in our total portfolio, followed by Argeta, Ferrero and SBU Snacks. Beiersdorf and Hipp recorded excellent growth compared to the previous year.

The HoReCa channel achieved a 26% growth compared to the previous year, amid channel recovery, positive effects of the summer season and expanded portfolio with Red Bull.

Organisationally, our warehousing and delivery are segmented in accordance with the assortment – Food, Drinks, Cosmetics, Detergents, Food Supplements. Delivery from three, modern equipped (WMS) warehouses, situated on different locations, is done with own and outsourced logistic transportation. Every day, 220 employees organised in different departments by function, are focused on the development and promotion of our company and the brands we distribute. Our continuous focus on the current portfolio growth through the improvement of service satisfaction and reaching excellence in execution puts DU Macedonia on the map of strong global and regional brands as a prospective distribution partner. In the near future, we expect further growth of income and investment in operational efficiency, with the existing portfolio, as well as new brands.

DU MACEDONIA GENERATED SALES REVENUE OF

362 mHRK

15%

HIGHER COMPARED TO 2021


ATLANTIC
GRUPA

Distribution Unit **Austria**

The Distribution Unit Austria (DU Austria) has recorded turnover of HRK 146 million in 2022, which equals the growth of 27% versus the previous year. Despite the turbulences in distribution chains on global markets caused by COVID-19 pandemics and war in Ukraine, DU Austria remained a stable partner on the Austrian market and contributed to the positive performance of all brands in the portfolio and of all the customers in Austria.

The biggest sales growth contributors were Argeta, Grand and external principal brands. Growth was achieved mainly through new listings, secondary placement projects and increase of market share. The highest percentage growth rates are recorded for external principals with a growth rate of 71%, followed by Grand Kafa with a 56% growth rate. The brand with the highest share in total market sales and the category market leader remains Argeta.

A significant step forward was made with own brands Smoki and Prima, which have changed their position from the international shelf to the snacks category. According to Nielsen data, Smoki has reached a 7% market share in its category while Prima reached 5%. In 2022, DU Austria successfully launched several new own and external principal brands in the Austrian market, such as Jimmy Fantastic, Boom Box, Otto Nuts, Crax, List Nuts and Zlatiborac, as well as Argeta Veggie, the new vegan line from Argeta family.
We are continuously working on optimising our portfolio, organisation and processes, as well as on opening and achieving new potentials to ensure sustainable growth in the future.

In 2023, we expect further growth in turnover and efficiency with the support of a stable and highly motivated team in Austria.

DP AUSTRIA GENERATED SALES REVENUE OF

146 mHRK

27%

HIGHER COMPARED TO 2021

Global Distribution Account Management

Despite the challenges of high inflation and slower global growth, Atlantic Grupa achieved sales growth in almost all European markets, while the USA and Canada recorded a decline due to the triple increase of transport costs.

GDAM has achieved sales revenue of HRK 282 million with underlaying sales growth of 8%, primarily by listings into new key accounts and implementation of trade marketing activities. In the country cluster of Germany, Switzerland, Sweden, and Benelux, Atlantic Grupa recorded the highest growth in Germany and Switzerland due to distribution development and in Sweden due to implemented trade activities. The biggest contributor remained Argeta with 13% higher sales in 2022 compared to 2021. In Scandinavia, Argeta posted record sales growth of 21% compared to 2021. Besides Argeta's significant sales increase, sales growth was also recorded by Štark, mainly as a result of implemented trade activities and development of the Mass Market channel. The main growth of 19% related to Štark was in Switzerland, executed in the Mass Market channel with Prima and Flips as our main international products.

The key market in the region of Central and Eastern Europe is Bulgaria with 26% higher sales in 2022 compared to 2021 while the largest contributor was Argeta. In Hungary, significantly higher sales were driven by listings of Cockta and Cedevita.

Israel and Moldova are our new markets for Argeta.

GDAM GENERATED SALES REVENUE OF

282 mHRK

8%

HIGHER COMPARED TO 2021

Distribution Unit **Russia**

In 2022, the business environment in Russia was extremely difficult and ambiguous. The name of the game was “uncertainty” and, therefore, the ultimate goal of DU Russia was to manage risks and secure the profits. DU Russia generated sales revenue of HRK 105 million.

The Russian commercial/consumer market has changed a lot within the country. Consumer confidence worsened, purchasing power declined, people switched to save mode and decreased their spending. Regardless of the deteriorated situation, our brands, Donat and Argeta, kept up sales thanks to notable awareness and loyalty among Russian consumers. DU Russia’s presence in modern sales channels, like online, with double and triple growth rate per year, contributed to the top line growth and generated incremental margins. Flexible, with cheaper “costs to serve”, online sales of Donat and Argeta reached 20% of total sales in Russia. DU Russia changed the way of doing business, shifting from less strategy to more tactics, and making timely day-to-day decisions to manage uncertainty and a rapidly changing environment.

Considering all the above, we managed to preserve business from interruption and significant decline. Tough times are not over, and DU Russia stays focused and consolidated to ensure sales and profits sustainability.

DU RUSSIA GENERATED SALES REVENUE OF

105 mHRK

Financial Operations of Atlantic Grupa

Statement of the Group **Vice President for Finance, Procurement and Investment**

Zoran Stanković
Group Vice President for Finance, Procurement and Investment

After the economic recovery in 2021, the year 2022 was marked by the outbreak of war in Ukraine. The consequences of this conflict manifested themselves as additional problems in supply chains and strong inflationary pressures. We will remember 2022 for record-high prices of coffee, as well as of other raw materials, packaging materials, energy, and services.

The year 2022 was also marked by intense preparations for Croatia's entry into the Eurozone, i.e., the transition from the Croatian Kuna to the single European currency, the Euro, which required changes on a series of IT systems and interfaces, primarily in ERP and analytics domains (consolidation, planning and reporting) for Croatian members of Atlantic Grupa. We successfully adapted all systems and reporting in accordance with the planned deadlines.

Despite the unfavourable and unstable business environment, Atlantic Grupa exceeded HRK 6 billion in sales revenue for the first time and achieved a 12.4%* organic revenue growth. The sales growth was impacted by a better epidemiological situation on all markets, the lifting of restrictions in the operations of the HoReCa channel, and other measures undertaken by local authorities to prevent the spread of COVID-19 compared to the previous year, as well as a successful tourist season in Croatia. It should also be noted that part of the increase in revenue is a result of higher selling prices due to significant increases in the prices of key raw materials, packaging materials, energy and services. As announced, our sales prices were not raised to the extent that would completely offset the cost increases; instead, we opted to bear part of the burden and accept the decrease in profitability. Accordingly, the normalized earnings before interest, taxes, depreciation, and amortisation (EBITDA*) are 22.3% lower compared to the previous year, amounting to HRK 571.4 million. The highest impact on the decline in normalized EBITDA was caused by significantly higher costs of raw materials (especially raw coffee) and packaging materials, energy, transport, and logistics costs, as well as investments in human resources. This negative impact managed to surpass the sales growth recorded by all business and distribution units. It is important to highlight that, despite economic disruptions, we continued with significant capital investments, which this year amounted to a record HRK 263 million.

In July 2022., we paid a record amount of dividend, HRK 50 per share, and in the same month the share split was carried, namely in such a way that one existing share with an individual nominal value of HRK 40 was divided into four new ordinary shares with an individual nominal value of HRK 10.

The investment community recognised the high transparency and quality of business communication with investors, so we, for the third year in a row, received the first prize for investor relations, which is awarded under the auspices of Poslovni Dnevnik and the Zagreb Stock Exchange. We also received another significant recognition: an award for the highest compliance with the corporate governance code on the Prime Market of the Zagreb Stock Exchange.

In another year of instability and uncertainty, we have demonstrated that we are a strong and stable company that successfully operates and manages financial and business risks.

Zoran Stanković

Group Vice President for Finance, Procurement and Investment

* Certain financial measures are not defined under International Financial Reporting Standards (IFRS). For more details on the APMs (Alternative Performance Measures) used, see chapter "Definition and reconciliations of Alternative Performance Measures (APM)".

Sales trends in 2022

Sales Profile by Strategic Business Units and Strategic Distribution Units

(HRK million)	2022	2021	2022/2021
SBU Coffee	**1,389.9**	1,196.2	16.2%
SBU Savoury Spreads	**973.6**	885.2	10.0%
SBU Snacks	**731.7**	684.4	6.9%
SBU Beverages	**644.6**	536.4	20.2%
SBU Pharma	**587.5**	531.5	10.5%
BU Donat	**239.9**	218.8	9.7%
SDU Croatia	**1,553.4**	1,403.2	10.7%
SDU Serbia	**1,542.2**	1,335.4	15.5%
SDU Slovenia	**1,094.8**	1,012.8	8.1%
Other segments*	**929.7**	855.1	8.7%
Reconciliation**	**(3,314.3)**	(2,956.5)	n/a
Sales	**6,373.0**	5,702.5	11.8%

The comparative period has been adjusted to the reporting for 2022.

In 2022, Atlantic Grupa recorded sales of HRK 6.4 billion, which is a significant 11.8% growth compared to the previous year. The revenue growth is recorded in all business and distribution units following excellent sales results of the majority of own and principal brands. The highest percentage growth was recorded by the Strategic business units Beverages, Coffee, and Pharmacy business. The sales growth was impacted by a better epidemiological situation on all markets, and the lifting of restrictions in the operations of the HoReCa channel as well as other measures by local authorities to prevent the spread of COVID-19, compared to the previous year, and a successful tourist season in Croatia. It should also be noted that part of the increase in revenue is the result of higher selling prices due to increases in the prices of all key raw materials, packaging materials, energy and services. If we exclude the effect of sales of the divested business, the baby food brand Bebi, which was fully divested in 2021, organic sales growth is 12.4%***.

Atlantic Grupa records sales by business segments in a way that sales of individual Strategic Business Units and Business Units represent the total sales to third parties in the markets (either directly from a Strategic Business Unit (SBU) or Business Unit (BU), or through a Strategic Distribution Unit (SDU), Distribution Unit (DU) or Global Distribution Account Management (GDAM)), while sales of Strategic Distribution Units, Distribution Units and Global Distribution Account Management include both sales of external principals' products and sales of own products.

* Other segments include divested baby food business Bebi, BU New Growth, DU Austria, DU Russia, GDAM and DU Macedonia.

** Line item "Reconciliation" relates to the sale of own brands which is included in the appropriate SBU and BU and in SDUs, DUs and GDAM through which the products were distributed.

*** Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see chapter "Definition and reconciliation of Alternative Performance Measures (APM)".

The **STRATEGIC BUSINESS UNIT COFFEE** recorded a double-digit sales growth rate in all regional markets, with the highest growth recorded in the markets of Serbia, Slovenia and Bosnia and Herzegovina. Analysed by categories, growth was recorded by almost all categories, with the most significant growth recorded by roast and ground coffee under the Grand kafa, Bonito and Barcaffè brands. Espresso coffee records a significant growth primarily as a consequence of successful strategic partnerships in the past years, strengthening brand perception and winning new customers in the HoReCa and On the Go channel. With significant sales growth, Atlantic Grupa continues to strengthen its position in the instant coffee segment in the region. Through continuous investment during the year, our brands have increased their market shares, especially in Serbia and Slovenia, where we hold the second position. In 2022, we launched instant coffee under the Barcaffé brand also in the HoReCa channel in Croatia and Bosnia and Herzegovina. The growth of revenue from roast and ground coffee was generated primarily by the increase in selling prices due to a significant increase in the price of raw coffee and packaging materials, while in other coffee categories the volume growth was also achieved

The **STRATEGIC BUSINESS UNIT SAVOURY SPREADS** recorded a significant sales growth in all regional markets, in the Western markets (Germany, Austria, Sweden), and Kosovo. Growth was recorded both in meat and fish savoury spreads segments. Also, jams and ajvar under the Granny's Secret brand record a sales growth. Part of the revenue growth of this Strategic unit is generated by volume growth but also by higher selling prices as a result of significant increases in the prices of key raw materials and packaging materials.

The **STRATEGIC BUSINESS UNIT SNACKS** recorded an increase in sales in almost all regional markets, with the most significant growth recorded by the markets of Serbia, Bosnia and Herzegovina, and North Macedonia. Also, the Western markets of Austria, Sweden and Switzerland contribute to the sales growth. Analysed by categories, the growth is recorded by all categories, led by chocolate under the Najlepše želje brand, and Bananica, and Prima sticks. Part of the revenue growth of this Strategic unit is a consequence of the increase in selling prices as a result of significant increases in the prices of key raw materials and packaging materials, while the chocolate and sticks categories recorded a volume growth as well.

The **STRATEGIC BUSINESS UNIT BEVERAGES** recorded a record sales result and records a significant sales growth in all regional markets, with the most significant growth recorded by the markets of Croatia, Serbia and Slovenia. A significant sales growth is recorded by Cockta and Cedevita brands in the HoReCa and retail channels. Also, the categories of candies and water record an increase in sales. The sales growth of this segment was also impacted by the sales of the new Cockta Blondie, the lifting of measures to prevent the COVID-19 pandemic in the HoReCa channel, and the successful tourist season in Croatia.

The **STRATEGIC BUSINESS UNIT PHARMACY BUSINESS** records a significant sales growth of the pharmacy chain Farmacia primarily due to the increase in sales of the COVID-19 range (drugs, disinfectants, tests, protective equipment) and the flu season. Also, the sales growth is a consequence of the additional turnover of new pharmacies following the acquisitions of two health care institutions. At the end of 2022, the Farmacia chain reached the number of 100 units, which includes 56 pharmacies and 44 specialized stores.

A significant sales growth is recorded by the **BUSINESS UNIT DONAT** due to the increase in sales primarily in the markets of Russia and Austria, and in the markets of Croatia, Slovenia, and Bosnia and Herzegovina. A positive impact on the revenues of this business unit came from the increase in selling prices as a result of the long-term premiumization strategy.

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A significant revenue growth is recorded by the **STRATEGIC DISTRIBUTION UNIT CROATIA** as a consequence of growth of almost all own and principal brands. Among own brands, the following especially stand out – roast and ground coffee under the Barcaffè brand, Argeta and Montana in the savoury spreads segment, Cedevita and Cockta brands in the retail channel, oat-based products under the Boom Box brand, and natural mineral water Kala. Among principal brands, the most significant growth was recorded by Ferrero, Mars and Hipp. A significant growth was recorded by the HoReCa channel, primarily due to the Cedevita and Cockta brands in the beverages segment and espresso coffee under the Barcaffè brand. The growth in sales in this segment was impacted by the lifting of restrictive measures to prevent the pandemic, primarily in the HoReCa channel, price increases under the impact of price pressure on the input prices of trade goods and the successful tourist season in Croatia.

A double-digit sales growth of the **STRATEGIC DISTRIBUTION UNIT SERBIA** is a result of the increase in sales of own and principal brands. Among own brands, the brands that stand out are roast and ground coffee under the Grand kafa and Bonito brands, instant coffee Grand, chocolate under the Najlepše želje brand and Bananica, Argeta in the savoury spreads segment, oat-based Boom Box products, and Cedevita and Cockta in the HoReCa and retail channels. Among principal brands, Red Bull, Rauch and the new principal Intersnack stand out. Also, the growth in this unit was impacted by the increase in sales of the HoReCa channel due to the lifting of measures to prevent the pandemic and the price increases under the impact of price pressure on the input prices of trade goods.

A significant sales growth was recorded by the **STRATEGIC DISTRIBUTION UNIT SLOVENIA** due to the increase in sales of roast and ground coffee under the Barcaffè brand, Argeta in the savoury spreads segment, Cedevita and Cockta in the HoReCa and retail channels, oat-based Boom Box products, and functional water Donat. Strong sales are also recorded by espresso coffee under the Barcaffè brand in the HoReCa channel. Among principal brands, Unilever, Rauch and Ferrero stand out. As in other markets, the increase in sales on the Slovenian market was impacted by the increase in sales of the HoReCa channel due to the lifting of measures to prevent the pandemic and the price increases under the impact of price pressure on the input prices of trade goods.

OTHER SEGMENTS record an increase in sales in the distribution units Macedonia, Austria and Global Distribution Account Management and in the New Growth, which fully compensated for the decrease in sales in the distribution unit Russia. It is also necessary to emphasise the entry of the Boom Box brand into other regional markets (Bosnia and Herzegovina, Serbia and North Macedonia) and the entry of Jimmy Fantastic into the Austrian market. If we exclude the effect of sales of the divested baby food brand Bebi in 2021, Other segments record a 12.9%* growth.

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The **DISTRIBUTION UNIT MACEDONIA** recorded a double-digit sales growth due to the increase in sales of own and principal brands. Own brands are led by the sales growth of roast and ground coffee under the Grand kafa brand, chocolate under the Najlepše želje brand and Cedevita in the retail channel. Among principals, Ferrero, Hipp, Beiersdorf and the new principal Red Bull stand out.

The **DISTRIBUTION UNIT AUSTRIA** records double-digit sales growth rates, mainly due to the growth of own brands, primarily Argeta in the savoury spreads segment, roast and ground coffee under the Grand kafa brand, functional water Donat, and Prima sticks in the snacks segment.

The **GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT** records an increase in sales, with the highest growth recorded by the markets of Sweden, Switzerland and Germany in the savoury spreads segment under the Argeta brand.

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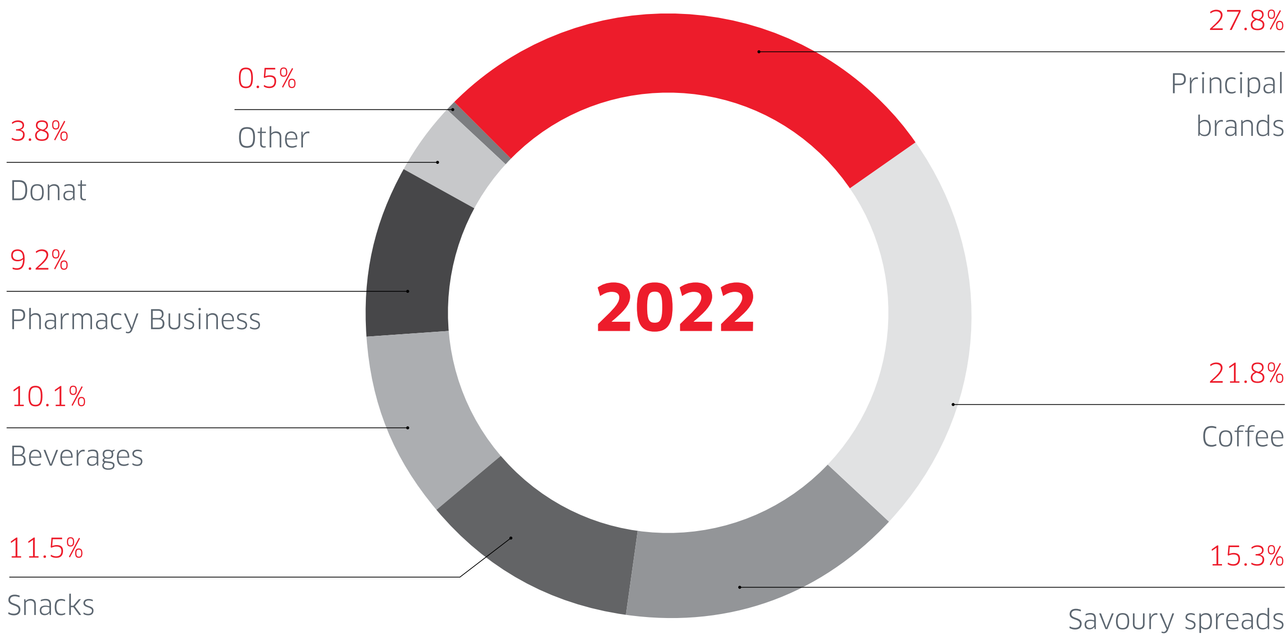

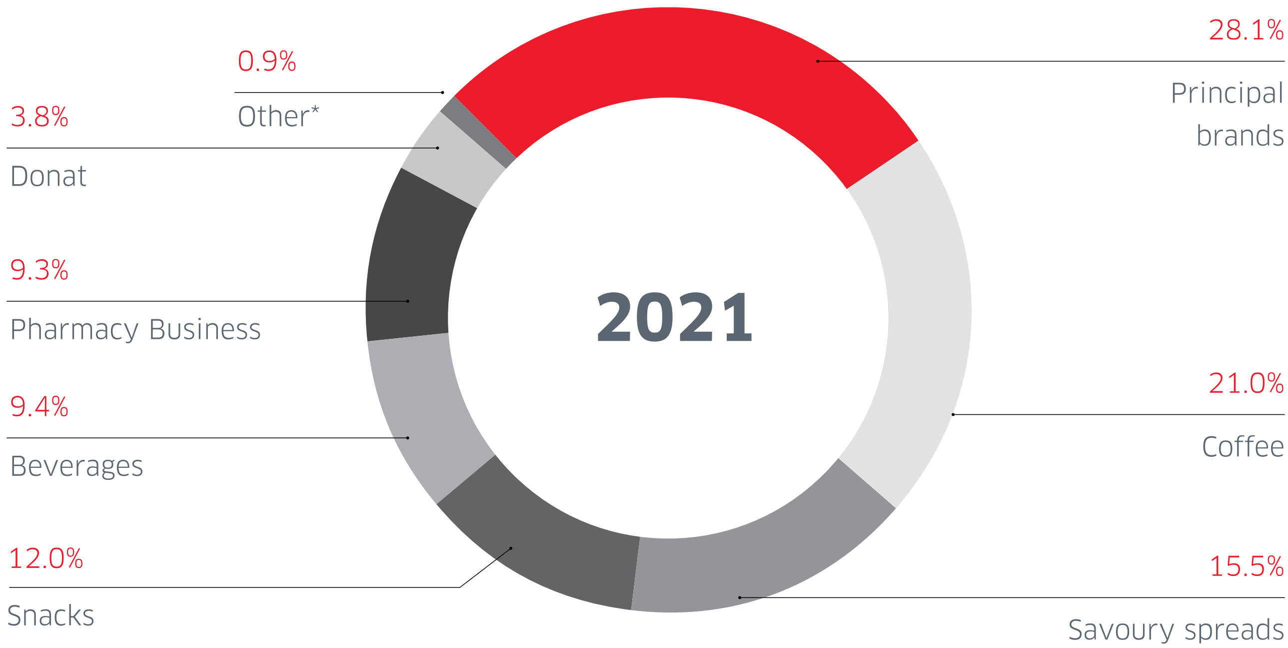

* Divested baby food business Bebi

Sales profile **by markets**

(in HRK millions)	2022	% of sales	2021	% of sales	2022/2021
Croatia	**2,151.0**	33.8%	1,945.6	34.1%	10.6%
Serbia	**1,562.2**	24.5%	1,352.9	23.7%	15.5%
Slovenia	**1,101.5**	17.3%	1,013.7	17.8%	8.7%
Bosnia and Herzegovina	**477.9**	7.5%	422.6	7.4%	13.1%
Other regional markets*	**534.5**	8.4%	466.6	8.2%	14.6%
Key European markets**	**325.9**	5.1%	275.8	4.8%	18.2%
Russia and CIS	**108.2**	1.7%	116.3	2.0%	(7.0%)
Other markets	**111.8**	1.7%	108.9	1.9%	2.7%
Total sales	**6,373.0**	100.0%	5,702.5	100.0%	11.8%

*Other regional markets: North Macedonia, Montenegro, Kosovo
**Key European markets: Germany, Switzerland, Austria, Sweden

The comparative period has been adjusted to the reporting for 2022.

The **MARKET OF CROATIA** recorded a significant sales growth as a result of the lifting of measures to prevent the pandemic, primarily in the HoReCa channel, the price increases under the impact of price pressure on the input prices of production materials and trade goods, and due to the successful tourist season. Sales growth was recorded by: (i) most own brands, with the biggest growth recorded by espresso coffee under the Barcaffè brand in the HoReCa channel, roast and ground coffee under the Barcaffè brand, oat-based products under the Boom Box brand, brands Cedevita, Cockta in the retail and HoReCa channels, and Argeta and Montana in the savoury spreads segment, (ii) the pharmacy chain Farmacia, and (iii) external principals, among which the biggest growth was recorded by Ferrero, Mars and Hipp.

The **MARKET OF SERBIA** records a double-digit sales growth due to the sales of own brands, of which the following stand out: (i) roast and ground coffee under the Grand kafa and Bonito brands in the coffee segment, (ii) chocolate under the Najlepše želje brand in the snacks segment, (iii) Cockta and Cedevita brands in the beverages segment, (iv) Argeta in the savoury spreads segment, and (v) new Boom Box brand. Among principal brands, growth comes from Red Bull, Rauch, and the new principal Intersnack.

The **MARKET OF SLOVENIA** records a sales growth following the increase in sales of: (i) roast and ground coffee under the Barcaffè brand, (ii) espresso coffee under the Barcaffè brand in the HoReCa channel, (iii) Argeta in the savoury spreads segment, (iv) Cockta and Cedevita in the retail and HoReCa channels, and (v) principal brands Unilever, Rauch and Ferrero.

The **MARKET OF BOSNIA AND HERZEGOVINA** recorded a significant sales growth due to the increase in sales of: (i) roast and ground coffee under the Grand kafa brand, (ii) Argeta in the savoury spreads segment, (iii) Cedevita and Cockta in the beverages segment, and (iv) new oat-based products under the Boom Box brand.

OTHER REGIONAL MARKETS recorded a double-digit sales growth in all markets, where the biggest contribution to the growth was made by the increase in sales of roast and ground coffee under the Grand kafa brand, Argeta in the savoury spreads segment, Najlepše želje chocolate in the snacks segment, and Cedevita in the beverages segment.

A sales growth was recorded on all **KEY EUROPEAN MARKETS** where the markets of Austria, Switzerland and Sweden stand out, due to the increase in sales of Argeta in the savoury spreads segment.

The **MARKET OF RUSSIA AND THE COMMONWEALTH OF INDEPENDENT STATES** recorded a double-digit sales growth* if the effect of sales of the divested Bebi brand is excluded. The sales growth comes primarily from the increase in sales of functional water Donat and savoury spreads under the Argeta brand.

A sales growth is recorded in **OTHER MARKETS**, primarily due to the increase in sales of savoury spreads under the Argeta brand in most Other markets, with the most significant growth recorded by the markets of the Netherlands and Poland.

* Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see chapter "Definition and reconciliation of Alternative Performance Measures (APM)".

Profitability trends
in 2022

Profitability trends

(in HRK millions)	2022	2021	2022/2021
Sales	**6,373.0**	5,702.5	11.8%
EBITDA*	**575.4**	724.4	(20.6%)
Normalised EBITDA*	**571.4**	735.0	(22.3%)
EBIT*	**275.1**	437.9	(37.2%)
Normalised EBIT*	**271.2**	448.6	(39.5%)
Net profit*	**195.7**	344.9	(43.2%)
Normalised Net profit*	**187.4**	369.3	(49.3%)
Profitability margins			
EBITDA margin*	**9.0%**	12.7%	-367 bp
Normalised EBITDA margin*	**9.0%**	12.9%	-392 bp
EBIT margin*	**4.3%**	7.7%	-336 bp
Normalised EBIT margin*	**4.3%**	7.9%	-361 bp
Net profit margin*	**3.1%**	6.0%	-298 bp
Normalised Net profit margin*	**2.9%**	6.5%	-354 bp

In 2022, EBITDA amounts to HRK 575.4 million, which is a 20.6% decrease compared to the previous year, and a 22.3% decrease if we exclude the effect of one-off items. The decrease in normalized EBITDA was mainly impacted by exceptionally high costs of all raw materials and packaging materials, energy, transportation and logistics costs, other operating expenses (higher costs of business trips and fuel) and investments in human resources. This negative impact exceeded the increase in sales of all business and distribution units.

Among the mentioned price increases, raw coffee stands out in particular. The raw coffee market in 2021 experienced a sudden surge in the price of raw coffee, due to the drought that affected Brazil during the coffee ripening period, and then the severe frost that affected coffee areas in Brazil at the end of July 2021. All these problems with the lack of raw coffee were followed by the situation with difficult logistics and delivery of raw coffee, and the price of raw coffee was further burdened by the strong strengthening of the US dollar. The price of raw coffee was at record high levels during the first three quarters of 2022

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(82% increase compared to the average price in 2021), and the price began to correct somewhat only at the end of 2022.

Vegetable oils and fats and aluminium packaging also experienced exceptional price increases, and paper and plastic packaging, sugar, cocoa, chicken meat and milk-based raw materials also recorded double-digit price increases.

The cost of the energy sources we use in our production processes is on average almost 90% higher than in the previous year.

In addition to the above, normalized net profit records a 49.3% decrease as a result of the higher depreciation of own non-current assets (as a consequence of higher capital expenditure) and right-of-use assets, and somewhat higher interest expense.

Operating expenses **structure**

(in HRK millions)	2022	% of sales	2021	% of sales	2022/ 2021
Cost of goods sold	**1,915.3**	30.1%	1,729.8	30.3%	10.6%
Change in inventory	**(24.0)**	(0.4%)	(22.8)	(0.4%)	n/a
Production materials	**2,036.0**	31.9%	1,496.0	26.2%	36.1%
Energy	**114.9**	1.8%	60.9	1.1%	88.9%
Services	**397.1**	6.2%	358.2	6.3%	10.9%
Staff costs	**984.0**	15.4%	937.4	16.4%	5.0%
Marketing and selling expenses	**294.7**	4.6%	329.8	5.8%	(10.6%)
Other operating expenses	**203.0**	3.2%	176.2	3.1%	15.2%
Other (gains)/losses, net	**(32.6)**	(0.5%)	(4.0)	(0.1%)	n/a
Depreciation and amortisation	**300.3**	4.7%	286.4	5.0%	4.9%
Total operating expenses*	**6,188.9**	97.1%	5,347.8	93.8%	15.7%

The cost of goods sold records an increase due to higher sales of principal brands, but also higher purchase prices.

Costs of production materials record a significant increase due to higher sales of own products and significantly higher purchase prices of practically all production materials, especially raw coffee, edible oil, sugar, cocoa and all types of packaging materials.

Energy costs are significantly higher due to significantly higher energy prices compared to the previous year and higher production of own products.

Costs of services record an increase due to higher sales and significantly higher costs of transport and logistics services, as a consequence of higher fuel prices and salaries compared to the previous year.

The biggest share of the increase in staff costs relates to the increase in basic salaries and higher variable payments as a result of higher sales. In 2022, Atlantic Grupa had on average 5,436 employees, or 25 employees more than in the previous year if the effect of sales of the divested Bebi brand is excluded.

Marketing expenses are lower, primarily due to marketing savings in the Coffee segment and divesting the baby food brand Bebi in 2021, despite higher investments in the Beverages, Snacks and Savoury Spreads segments. It should be noted that marketing expenses are higher compared to the previous year if we take into account marketing activities that are presented as a decrease in sales.

Other operating expenses record a significant growth, primarily as a consequence of higher travel-related costs, fuel costs and entertainment costs, and the impairment of current assets. It should be noted that last year these costs were lower as a result of measures to combat the COVID-19 pandemic (work from home, restrictions on business trips, etc.).

Other (gains)/losses – net: Profit realised primarily on the basis of foreign exchange gains in the coffee segment.

* Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see chapter "Definition and reconciliation of Alternative Performance Measures (APM)".

Operating result of Strategic Business Units and Strategic Distribution Units

(HRK million)	2022	2021	2022/2021
SBU Coffee	**189.4**	278.8	(32.0%)
SBU Savoury Spreads	**144.7**	182.7	(20.8%)
SBU Snacks	**44.0**	114.6	(61.6%)
SBU Beverages	**100.9**	111.6	(9.6%)
SBU Pharma	**69.2**	59.2	16.8%
BU Donat	**108.2**	101.5	6.6%
SDU Croatia	**84.9**	88.0	(3.6%)
SDU Serbia	**71.6**	62.6	14.3%
SDU Slovenia	**62.1**	62.8	(1.2%)
Other segments*	**(299.6)**	(337.4)	11.2%
Group EBITDA**	**575.4**	724.4	(20.6%)

STRATEGIC BUSINESS UNITS AND BUSINESS UNIT: All Strategic business units (except Pharmacy business) achieved lower profitability due to, as already described, significant increases in the prices of practically all raw materials and packaging materials, all forms of energy, transport and logistics costs, and staff costs, despite the significant sales growth.

The BU Donat records an increase in profitability due to higher sales and lower marketing investments. The SBU Pharmacy business achieved significantly higher profitability due to higher sales of the pharmacy chain Farmacia, despite higher staff and energy costs.

STRATEGIC DISTRIBUTION UNITS: The SDU Croatia and SDU Slovenia record a decrease in profitability due to higher transport, logistics and staff costs, despite higher sales. The SDU Serbia records profitability growth following significantly higher sales, despite higher transportation, logistics and staff costs.

OTHER SEGMENTS: If we exclude one-off items of HRK 4.0 million and the effect of divesting the baby food brand Bebi, Other segments record an increase in profitability as a consequence of lower costs of central functions and the increase in profitability of the DU Russia, DU Austria, DU Macedonia and GDAM.

The comparative period has been adjusted to the reporting for 2022.

* Other segments include divested baby food business Bebi, BU New Growth, DU Austria, DU Russia, GDAM, DU Macedonia and business activities not allocated to business and distribution units (headquarters and support functions in Croatia, Serbia, Slovenia, Bosnia and Herzegovina and North Macedonia) which are excluded from the reportable operating segments.
**Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see chapter "Definition and reconciliation of Alternative Performance Measures (APM)".

Financial indicators
in 2022

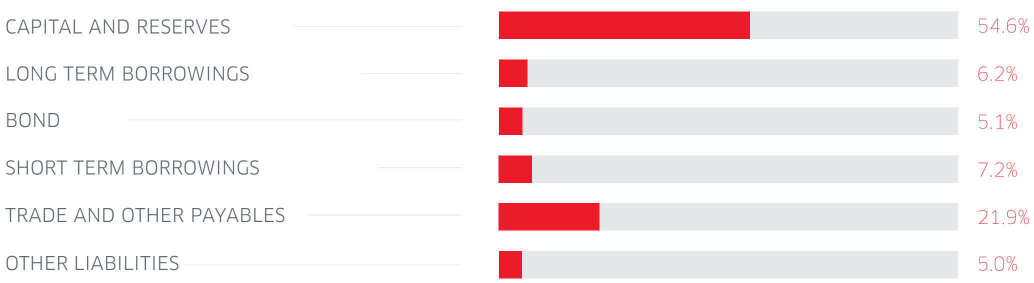
Financial indicators

(in HRK millions)	12/31/2022	12/31/2021
Net debt*	**657.9**	459.9
Total assets	**5,869.7**	5,452.9
Total Equity	**3,203.4**	3,152.5
Current ratio*	**1.5**	1.5
Gearing ratio*	**17.0%**	12.7%
Net debt/EBITDA*	**1.2**	0.6
Interest coverage ratio*	**30.6**	41.2
Capital expenditure*	**263.4**	233.3
Free cash flow*	**80.1**	502.5
Cash flow from operating activities	**343.5**	735.8

Among key determinants of the Atlantic Grupa's financial position in 2022, the following should be pointed out:

- The gearing ratio increased by 431 basis points due to the HRK 198 million increase in net debt compared to the end of 2021.
- The indebtedness measured as the net debt to normalized EBITDA ratio increased from 0.6 at the end of 2021 to 1.2 at the end of 2022.
- Free cash flow records a decrease due to significantly lower cash flow from operating activities following higher investments in the working capital, and higher capital expenditure.

The Atlantic Grupa's equity and liabilities structure
as at 31 December 2022



*Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see chapter "Definition and reconciliation of Alternative Performance Measures (APM)".

Overview of key items **in the consolidated cash flow statement**

Cash flow from operating activities records a decrease, as a result of lower profitability and movements in the working capital, primarily the increase in inventories and trade receivables, despite lower cash outflows related to financing and taxes. The increase in inventories is primarily caused by increases in the prices of raw materials and packaging materials and consequently of increased selling prices of finished products. It is important to note that the increase in inventories is also a result of the prevention of possible problems in supply chains and of contracting more favourable purchase prices compared to those expected this year. The increase in receivables is the direct consequence of a significant growth in sales revenue.

Capital expenditure in 2022 is made in line with the Atlantic Grupa's Strategic Guidelines. 2022 was marked by delays in the technical execution of individual projects due to delays in deliveries, which is in line with global trends. Also, for the first time we faced the bankruptcy of certain suppliers and the need to look for alternatives.

Among significant investments, we should mention:

SBU SNACKS

- the investment project of the line for making wafers at the Belgrade location completed,
- the investment project of the line for making and packaging biscuits at the Ljubovija location completed.

SBU SAVOURY SPREADS:

- the investment project for the needs of the savoury spreads production line at the Izola location completed,
- the investment project for the needs of the savoury spreads production line at the Hadžići location completed,
- the investment project of a new production line for vegetable spreads at the Igroš location completed.

SBU COFFEE:

- the investment project of equipment cleaning roasted coffee at the Izola location completed,
- the investment project of preheating coffee in the roasting process at the Belgrade location completed.

Significant investments were made in IT infrastructure as well as in IT systems (almost 30% more compared to the previous year). Also, the solar power plant project at the location of the distribution centre Vukovina was completed.

Outlook for 2023

Atlantic Grupa's Management strategic guidance for 2023

The year 2022 was marked by record prices of raw materials and packaging materials, strong inflationary pressures and geopolitical risks. In 2023, we expect a technical recession due to reduced disposable income, rising interest rates and significant inflationary pressures, while in the second half of the year we expect a slight recovery in both the region and the Eurozone. We believe that the prices of raw materials, packaging materials and energy sources should not reach the record levels of 2022, but we expect significant volatility to be present in the coming period. Croatia's entry into the Eurozone and the Schengen area should mitigate some negative pressures.

Despite the expected worse economic conditions, we expect record sales of approximately EUR 900 million.

Regardless of the certain stabilization of purchase prices that occurred at the end of 2022, they are still significantly higher compared to pre-crisis period, and therefore in 2023 we expect lower normalized EBITDA margin for 100 to 150 basic points than it was in 2022. It is important to note that in the first half of 2022, the impact of the increase in prices of raw materials and packaging materials was significantly lower than in the rest of the year, considering that a large part of the raw materials and packaging materials were purchased at more favourable prices than the then market prices, as a result of the Atlantic Grupa's successful purchasing strategy. Consequently, in the first half of 2023, and especially in the first quarter, we expect a greater drop in profitability than the stated average for the whole year, and we expect the beginning of the recovery of profit margins in 2024.

In 2022, there was a delay in the delivery of certain components due to problems in the supply chains, and we have transferred a certain part of the planned investments to 2023, in which we expect capital expenditure in the amount of EUR 35 to 40 million.

In 2023, in addition to the focus on addressing the challenges of high inflation and supply chain problems, management will continue to focus on (i) strengthening the position of prominent regional brands, (ii) internationalisation of certain brands, primarily Argeta and Donat, (iii) increasing the distribution of new brands and their launching to new markets, (iv) development of distribution operations by strengthening the existing and acquiring new principals, and (v) possible mergers and acquisitions.

Definition and reconciliation of **Alternative Performance Measures (APM)**

The Annual report, half-year report, quarterly report and other communication to investors contain certain financial performance measures, which are not defined by International financial reporting standards (IFRS). We believe these measures, along with comparable IFRS measurements, are useful to investors because they provide a basis for measuring our operating and financial performance.
The main APMs used by Atlantic Grupa are defined and/or reconciled with our IFRS measures in this document.

Organic sales growth
compared to 2021

Organic sales growth refers to the increase in sales for the period after removing the impact of acquisitions and divestitures, change of scope of activity and other major items affecting comparability of operating results. We believe this measure provides valuable additional information on the sales performance and provides comparability of operating result.

in HRK million	2022	2021	2022/2021
Sales	**6,373.0**	5,702.5	11.8%
Sale of divested business - brand Bebi	**0.0**	31.9	
Comparable sales	**6,373.0**	5,670.6	12.4%

in HRK million	Other segments
Reported 2021	855.1
Sale of divested business - brand Bebi*	31.9
Comparable sales 2021	823.3
Reported 2022	929.7
Sale of divested business - brand Bebi*	0.0
Comparable sales 2022	929.7
2022/2021	12.9%

* Relates to the sales of the Bebi brand which is included in the SBU Pharmacy business to which it belongs, but also in Other segments through which the products are distributed.

in HRK million	Russia and CIS	Other markets
Reported 2021	116.3	108.9
Sale of divested business - brand Bebi*	31.6	0.3
Comparable sales 2021	84.7	108.6
Reported 2022	108.2	111.8
Sale of divested business - brand Bebi*	0.0	0.0
Comparable sales 2022	108.2	111.8
2022/2021	27.8%	3.0%

EBITDA and NORMALIZED EBITDA, EBITDA margin and NORMALIZED EBITDA margin

EBITDA (Earnings before interest, tax, depreciation and amortization) equals to operating profit in the financial statements (see Note 2 – Summary of significant accounting policies in the attached audited Consolidated Financial statements) increased for depreciation, amortisation and impairment (see Notes 13, 14, 15 in in the attached audited Consolidated Financial statements).

The Group also presents Normalized EBITDA which is calculated as EBITDA excluding the impact of one-off items. One-off items represent gain/loss on sale of subsidiaries (see Note 28 Business combinations and sale of subsidiaries in the attached audited Consolidated Financial statements) and all one-off expenses/income arising from these transactions, COVID-19 expenses related to the donation for combating the spread of the pandemic and costs for the protective equipment and disinfectants and other one off income and costs. The Group's Management Board monitors normalized EBITDA to evaluate business performance of the Group and to allocate resources accordingly. Additionally, Group's management believes that normalized EBITDA provides information that enables investors to better compare Group's performance across periods.

* Relates to the sales of the Bebi brand which is included in the SBU Pharmacy business to which it belongs, but also in Other segments through which the products are distributed.

The Group also presents EBITDA margin and Normalized EBITDA margin, which are defined as EBITDA/Normalized EBITDA as percentage of sales.

(in HRK millions)	2022	2021	2022/2021
Operating profit	**275.1**	437.9	(37.2%)
Depreciation, amortisation and impairment	**300.3**	286.4	4.9%
EBITDA	**575.4**	724.4	(20.6%)
Divestment costs/(gains), net	**(0.0)**	(2.2)	
COVID-19 costs	**1.6**	3.8	
Other one off (income)/costs, net	**(5.6)**	9.0	
Normalized EBITDA	**571.4**	735.0	(22.3%)
Sales	**6,373.0**	5,702.5	
EBITDA margin	**9.0%**	12.7%	
Normalized EBITDA margin	**9.0%**	12.9%	

EBIT and NORMALIZED EBIT, EBIT margin and NORMALIZED EBIT margin

EBIT (Earnings before interest and tax) equals operating profit in the financial statements (see Note 2 Summary of significant accounting policies in the attached audited Consolidated Financial statements).

The Group also presents Normalized EBIT which is calculated as EBIT excluding the impact of one-off items.

(in HRK millions)	2022	2021	2022/2021
Operating profit	**275.1**	437.9	(37.2%)
EBIT	**275.1**	437.9	(37.2%)
Divestment costs/(gains), net	**0.1**	(2.2)	
COVID-19 costs	**1.6**	3.8	
Other one off (income)/costs, net	**(5.6)**	9.0	
Normalized EBIT	**271.2**	448.6	(39.5%)
Sales	**6,373.0**	5,702.5	
EBIT margin	**4.3%**	7.7%	
Normalized EBIT margin	**4.3%**	7.9%	

NET PROFIT and NORMALIZED NET PROFIT

Net profit is a subtotal which is reported in the Consolidated Income statement in the attached audited consolidated financial statements.

The Group also presents Normalized Net profit which is calculated as Net profit excluding the impact of one-off items.

Additionally, the Group also presents Net profit margin and Normalized Net profit margin, which are defined as Net profit/Normalized Net profit as percentage of sales.

(in HRK millions)	2022	2021	2022/2021
Net profit	**195.7**	344.9	(43.2%)
Divestment costs/(gains), net	**0.1**	(2.8)	
COVID-19 costs	**1.4**	3.3	
Other one off (income)/costs, net	**(9.9)**	24.0	
Normalized Net profit	**187.4**	369.3	(49.3%)
Sales	**6,373.0**	5,702.5	
Net profit margin	**3.1%**	6.0%	
Normalized Net profit margin	**2.9%**	6.5%	

Total operating expenses

Total operating expenses are a subtotal of the following items which are reported in the Consolidated Income statement in the attached audited consolidated financial statements: cost of trade goods sold, change in inventories of finished goods and work in progress, material and energy costs, staff costs, marketing and promotion expenses, other operating expenses, other gains/losses-net and depreciation, amortization and impairment.

Capital expenditure (Capex)

Capital expenditure includes payments made to acquire property, plant and equipment and intangible assets, as reported in the Consolidated Cash flow statement in the attached audited consolidated financial statements. The Group uses capital expenditure as APM to ensure that the cash spending is in line with overall strategy of the Group.

NET DEBT and NET DEBT to EBITDA

Net debt is used by management to evaluate the Group's financial capacity. Net debt is defined as sum of current and non-current borrowings, current and non-current lease liabilities and derivative financial instruments decreased for cash and cash equivalents which are reported in the Consolidated Balance sheet in the attached audited consolidated financial statements, as shown below:

(in HRK millions)	31 December 2022	31 December 2021
Non current borrowing	**411.0**	299.7
Non current lease liabilities	**256.3**	263.1
Current borrowings	**329.0**	159.9
Current lease liabilities	**91.7**	86.8
Derivative financial instruments, net	**14.3**	(3.0)
Cash and cash equivalents	**(444.4)**	(346.6)
Net debt	**657.9**	459.9
Normalized EBITDA	**571.4**	735.0
Net debt/Normalized EBITDA	**1.2**	0.6

The Group also uses the net debt to EBITDA ratio, which is net debt divided by EBITDA, to access its level of net debt in comparison with underlying earnings generated by the Group. This measure reflects the Group's ability to service and repay its financial liabilities.

Current ratio

The current ratio compares all Group's current assets to its current liabilities which are reported in the Consolidated Balance sheet in the attached audited consolidated financial statements. The current ratio is a liquidity ratio that measures the Group's ability to cover its short-term debt with its current assets.

in HRK million	31 December 2022	31 December 2021
Current assets	**2,647.1**	2,287.5
Current liabilities	**1,797.4**	1,513.4
Current ratio	**1.5**	1.5

Gearing ratio

The gearing ratio compares net debt to total equity increased for net debt. Gearing ratio is a measurement of the Group's financial leverage that demonstrates the degree to which a firm's operations are funded by equity capital versus debt financing.

in HRK million	31 December 2022	31 December 2021
Net debt	**657.9**	459.9
Total equity	**3,203.4**	3,152.5
Gearing ratio	**17.0%**	12.7%

Interest coverage ratio

The interest coverage ratio is calculated by dividing Group's normalized EBITDA by total interest expense (see Note 10 – Finance cost-net in the attached audited consolidated financial statements), as shown below. Interest coverage ratio is used to determine how easily the Group can pay interest on its outstanding debt.

in HRK million	2022	2021
Normalized EBITDA	**571.4**	735.0
Total interest expense	**18.7**	17.8
Adjusted interest coverage ratio	**30.6**	41.2

Free **cash flow**

Free cash flow shows the ability of the Group to generate cash to repay financial liabilities, finance possible acquisitions, pay dividends, etc. Free cash flow equals net cash flow from operating activities less capital expenditure, items included in the Consolidated Cash Flow Statement in the attached audited consolidated financial statements.

in HRK million	2022	2021
Net cash flow from operating activities	**343.5**	735.8
Capex	**263.4**	233.3
Free cash flow	**80.1**	502.5

Market capitalization

Market capitalization is the aggregate market value of the Group. It is calculated based on the last market price in the reporting period and the total number of outstanding shares as show below.

	2022	2021*
Last price in reporting period (in HRK)	**342**	420
Number of shares	**13,337,200**	13,337,200
Market capitalization (in HRK millions)	**4,561.3**	5,601.6

* In July 2022 a share split was carried out in such a way that one existing share, with an individual nominal amount of HRK 40, is divided into four new ordinary shares, with an individual nominal amount of HRK 10.

Enterprise value (EV), Normalized EV/EBITDA, Normalized EV/EBIT, EV/SALES

Enterprise value (EV) is a measure of the Group's total value, used as a more comprehensive alternative to market capitalization. EV is the sum of market capitalization, net debt and non-controlling interest, as shown below.

The Normalized EV/EBITDA ratio is used as a valuation tool to compare the value of the Group to the underlying earnings generated by the Group. It is useful for analysts and investors looking to compare companies within the same industry. The Normalized EV/EBIT ratio is similar to EV/EBITDA ratio but it incorporates depreciation and amortization. It is used as valuation metric to compare the relative value of different businesses.

EV/sales is a valuation measure that compares the enterprise value of the Group to its annual sales.

in HRK million	**2022**	2021
Market capitalization	**4,561.3**	5,601.6
Net debt	**657.9**	459.9
Non controlling interest	**7.7**	7.0
Enterprise value (EV)	**5,226.9**	6,068.5
Normalized EBITDA	**571.4**	735.0
Normalized EV/EBITDA	**9.1**	8.3
Normalized EBIT	**271.2**	448.6
Normalized EV/EBIT	**19.3**	13.5
Sales	**6,373.0**	5,702.5
EV/sales	**0.8**	1.1

Normalized EARNINGS PER SHARE (EPS)

Earnings per share is calculated by dividing the net profit attributable to shareholders of the company by weighted average number of shares as defined in Note 12 – Earnings per share in the attached audited consolidated financial statements. EPS reflects the underlying earnings from trading operations for each share. Normalized EPS takes into calculation normalized net profit attributable to shareholders of the company which equals to net profit attributable to shareholders of the company excluding the impact of one-off items as shown below.

* In July 2022 a share split was carried out in such a way that one existing share, with an individual nominal amount of HRK 40, is divided into four new ordinary shares, with an individual nominal amount of HRK 10.

	2022	2021
Profit for the year attributable to equity holders	**195.7**	344.9
Divestment costs/(gains), net	**0.1**	(2.8)
COVID-19 costs	**1.4**	3.3
Other one off (income)/costs, net	**(9.9)**	24.0
Adjusted profit for the year attributable to the equity holders	**187.4**	369.3
Weighted average number of shares	**13,292,694**	13,300,488
Adjusted EPS	**14.1**	27.8

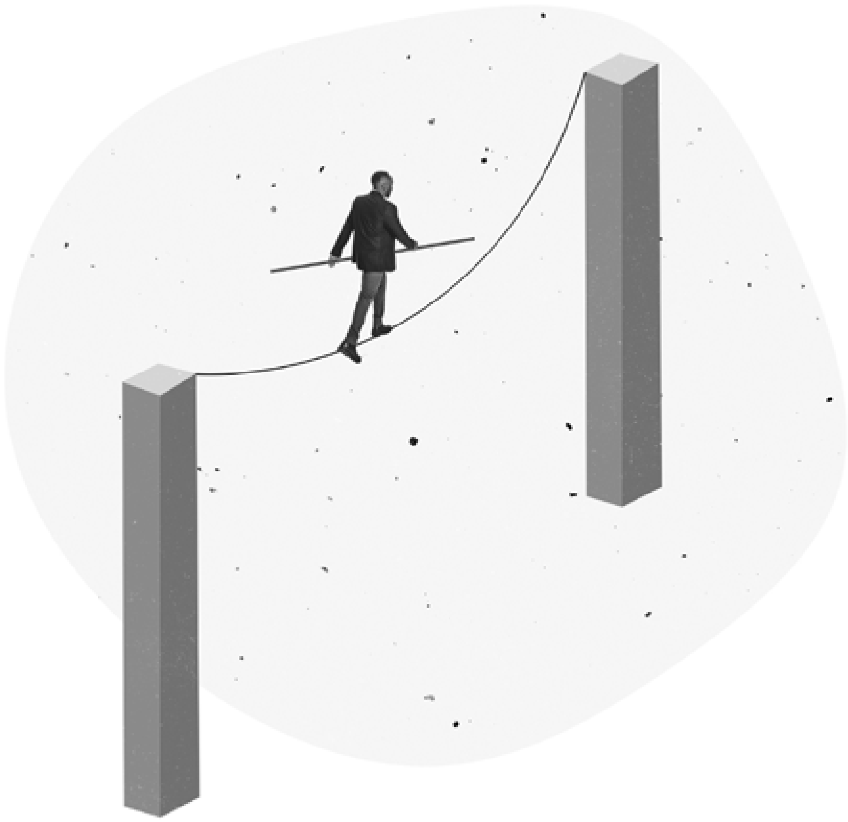
Price to earnings ratio (P/E)

The price-to-earnings ratio (P/E) is the ratio for valuing a company that measures its last market price in the reporting period relative to its Normalized EPS as shown below.

	2022	2021*
Last price in reporting period (in HRK)	**342.0**	420.0
Adjusted EPS	**14.1**	27.8
Adjusted P/E	**24.3**	15.1

* In July 2022 a share split was carried out in such a way that one existing share, with an individual nominal amount of HRK 40, is divided into four new ordinary shares, with an individual nominal amount of HRK 10.

Risks of Atlantic Grupa



As a vertically integrated multinational company whose business activities incorporate R&D, production and distribution of fast moving consumer goods, Atlantic Grupa is exposed to a myriad of external and internal risks. In order to prevent and reduce the impact of these risks on its operations, Atlantic Grupa implements an integrated risk management process – Enterprise Risk Management (ERM). The process includes risk identification, quantification and management.

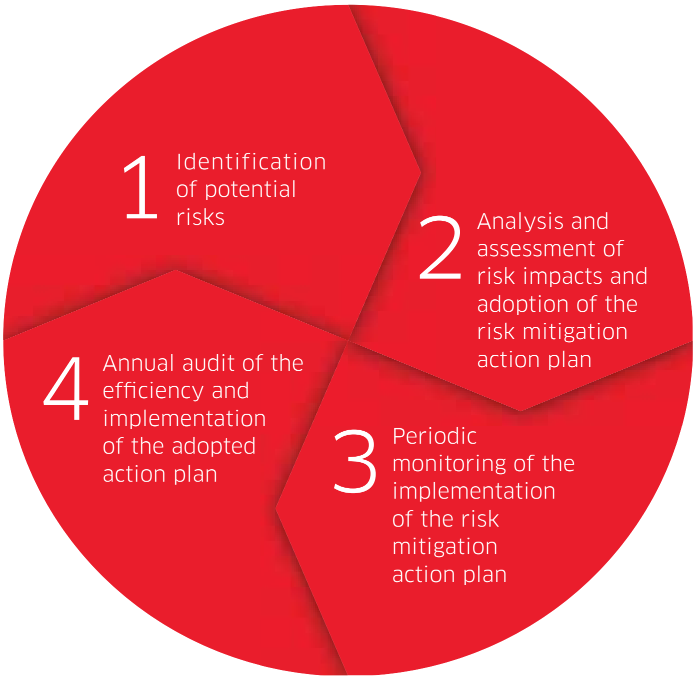


Figure 1 – Overview of the enterprise risk management process in Atlantic Grupa

In addition to the above ERM process, responsible departments, teams or employees regularly monitor, supervise and actively manage risks on a daily/weekly/monthly basis.

In its operations, Atlantic Grupa is exposed to risks from the group of business environment, industry and competition risks, and the group of business and financial risks. In addition to these risk groups, there are other risks that may affect Atlantic Grupa and risks that may arise in the future and affect Group operations, but those are not described in this document.

The risks presented below are currently identified by Atlantic Grupa as key ones that can have a more significant impact on its business and financial position.

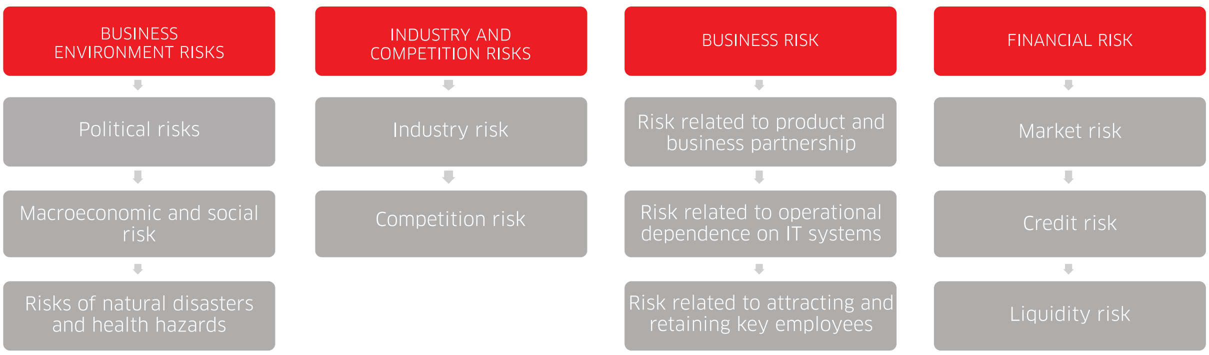


Figure 2 – Key identified risks of Atlantic Grupa

Business environment risk

Business environment risk includes political, macroeconomic and social risks, risks of natural disasters and health hazards with a direct impact on business activities in all markets in which the company operates, while the company, in principle, cannot individually directly influence any of them.

The political risk relates to all the risks associated with a potential political instability of an individual state and it may affect relations with other countries, which can in turn have adverse trade effects. The legal framework of the Republic of Croatia, which functions as a stable parliamentary democracy and a full member of the European Union since 1 July 2013, is stable and continuously harmonised with the EU legal framework. On the other hand, a part of the countries in which the Group operates are still in their developmental stage or accession negotiations for membership in the European Union, which may cause particular legal uncertainties. The legal frameworks of the countries in which the company operates, in line with the above, are not yet harmonised with the EU legislation and a part of those countries still does not have the appropriate level of legislative, judicial and administrative protection. Atlantic Grupa operates in several different countries, and in that way significantly reduces risks through market diversification with different Pan-European brand strategies.

Business transactions of any company are influenced by macroeconomic risks that occur on the national, regional or global level. In general, Atlantic Grupa operates in a stable non-cyclical food industry, but even that industry is not fully immune to movements and impacts of macroeconomic variables. In production, this is manifested through risks of rising prices or restrictions in the supply of raw materials, energy required for production, or workforce shortage. The sales of the company's production and distribution portfolio are influenced by macroeconomic variables like personal consumption, the level of disposable personal income, i.e. effects of inflation, and trends in retail trade, which the company continuously monitors and adjusts its activities accordingly. In the event of GDP decline on the markets relevant for the Group's operations, customers may potentia-

lly reduce their spending on individual products from the Group's production and/or distribution portfolio or may redirect their spending from branded products to private labels. All the previously described risks have increased significantly during 2022 as a result of inflationary pressure and, additionally, due to the outbreak of war in Ukraine at the beginning of the year. The economic consequences of that conflict were felt on a global level and manifested through further price hikes of raw materials, source materials and, in particular, energy needed for manufacturing products. This led to a significant jump in inflation rates in all markets where Atlantic Grupa operates, forcing monetary authorities to significantly raise reference interest rates to slow down inflation. The full impact of all these factors on end consumers and their personal consumption will become apparent in the upcoming period. By continually diversifying both its production and distribution portfolio and implementing an active pricing policy, Atlantic Grupa effectively minimises those risks.

Natural disasters such as earthquakes, floods, extreme weather conditions and other natural disasters are a specific source of the business environment risk in view of the fact that they can have a sudden effect on the Group's operations, as well as on the entire system (of a country or region) in which the Group or the supply chain operates. Their occurrence is often associated with extremely large and long-term damages, and the remediation of damages potentially requires the allocation of significant material and financial resources that are generally not planned. If the onset of the factors described above would occur in some of the operating locations of Atlantic Grupa or the Group's business partner, this could have a negative effect on the Group's operations, especially in view of the increasing occurrence of natural disasters and the increasing scale of adverse consequences. Atlantic Grupa minimises its exposure to this risk by using quality instruments of mitigating and transferring the risk of natural disasters by constantly investing in new, higher quality equipment and infrastructure, and by using instruments related to property insurance against potential damages.

The risk related to health hazards is the risk of spread of an infectious disease that affects a specific wider geographical area or the entire world, and which may have a negative impact on the regional/global economy. The rapid spread of a virus/disease may result in the accelerated disruption of political, socio-economic and financial relations across the region/world, thus affecting the Group's revenues or supply chains on which Atlantic Grupa depends. An example of the pandemic risk is the COVID-19 virus that appeared at the beginning of the business year 2020, continued in the business year 2021, and its effects were still felt in 2022. This risk has manifested particularly in the implementation of measures for preventing the spread of the pandemic (lockdown) that, in the first half of 2020, partially prevented the Group and its business partners from performing their sales and procurement activities with their buyers and partners. In 2022, this risk was significantly reduced, but still caused a part of the logistics challenges in supply chains. It required additional efforts in securing raw materials for production and sales and, on the other hand, affected the rise in some raw material prices. In order to reduce the potential impact of the aforementioned events, the Group is continuously implementing standard health protection measures and activities since the beginning of the pandemic, as well as optimising stocks of finished products, raw materials and consumables, and taking other necessary measures.

Industry and competition risks

Atlantic Grupa operates in the consumer goods industry and retail through the pharmacy chain Farmacia. Within these industries, the Group is also exposed to the risk of competition.

INDUSTRY RISK

Atlantic Grupa operates mostly in the consumer goods industry in which the relatively low cyclicity, market liberalisation and globalisation resulted in the development of new local producers and retail chains, as well as the entry of global ones, which in the end leads to stronger market competition, more diverse product offer, increase of product quality, establishment of global manufacturing standards, as well as the opening and development of new distribution channels. In such conditions, all producers can compete only through continuous investment in research and development of new products and services, technological development, marketing in order to improve the brand recognition, and human resources.
Macroeconomic conditions, GDP fluctuation dynamics, in particular personal consumption as a component of the GDP, fluctuation of the disposable personal income and the development of the living standard of consumers largely dictate the trends in the consumption goods industry. In addition to that, the development of the consumer goods industry is also largely influenced by the ability of companies to constantly adapt to consumer needs and market trends.

In addition to the aforementioned macroeconomic conditions, pronounced climate change and growing resource scarcity have an increasing effect on the consumer goods industry. These changes have a significant impact on regulatory frameworks, social changes and consumer habits, both on international and national level, placing the emphasis on sustainable development. The potential insufficient speed in implementing and monitoring trends guided by the principles of sustainable development, economic efficiency, environmental responsibility and social responsibility could reflect negatively on Atlantic Grupa's operations. In order to mitigate this risk, Atlantic Grupa gives significant attention to compliance with national laws and international standards through the development of internal procedures and policies by expanding care for the environment from a local approach to the corporate level within a consistent Environmental Management System (EMS), taking into account local and global sustainability trends. The examples of this are careful selection of raw materials and packaging materials in order to minimise negative environmental impacts, inclusion of environmental criteria into the supplier selection process and many others. More on specific examples of Atlantic Grupa's commitment to sustainability can be found on page 42 of the Annual Report.

The consumer goods industry is strictly regulated and at the same time supervised by regulatory authorities, primarily because it has direct influence on the health of consumers. Additionally, the production of certain food products is characterised by a higher risk of fire or self-combustion, which requires increased attention when handling both raw materials and machines in the production process. Accordingly, Atlantic Grupa is subject to strict and extensive legislation regarding food for human consumption, pharmacy business, product safety, prices of the principal and supplemental list of medicines, safety and working conditions of employees, environmental protection and safety, product composition, packaging, labelling, advertising, competitive market behaviour and the like. The safety of foodstuffs and the perception of that safety are of critical importance for Atlantic Grupa's business operations and any event or perception to the contrary would result in significant negative consequences for the Group's operations. Health, safety and environmental regulations in Europe and other developed regions is becoming increasingly stricter and their implementation more pronounced and complex. Accordingly, Atlantic Grupa continuously monitors and adjusts to such changes, but any failure to do so could result in different sanctions. Moreover, Atlantic Grupa may face significant costs related to remedying potential violations or adapting to changes in the existing regulations, as well as costs and losses arising as a result of potential cancellation of individual permits and authorisations.

Certain segments of the consumer goods industry, particularly the segment of food products, are influenced by the factors which companies cannot fully control, like volatile prices of commodities (coffee, sugar, cacao, etc.) as well as supply chain disruptions, which we witnessed in the second half of 2021 and a major part of 2022 on global markets. increasing extreme weather conditions and the tourist season efficacy in the markets where the Group operates. Atlantic Grupa relies on the procurement of raw materials and consumables required for its products by external suppliers coming from different parts of the world. Consequently, the Group is exposed to the risk that suppliers of raw materials and consumables will not be able to meet the agreed time limits or the required quantities of raw materials or consumables. Furthermore, the Group is exposed to the price volatility of raw materials and consumables it procures (coffee, sugar, cacao, plastic and aluminium packaging, etc.) that may be caused by a number of factors over which the Group has no influence, such as the lack of quantities on the free market due to severe weather conditions, decreasing production on the global market, political and social unrest in individual countries or speculative expectations. Significant changes in the prices of certain raw materials and consumables can cause an increase in production costs for certain final products. The procurement of raw coffee is the most significant individual commodity by value, and thus represents the greatest source of risk for the Group. For this reason, Atlantic Grupa gives special attention to planning the procurement of raw coffee, following trends in global markets, stock level management and risk management concerning price changes of raw coffee in global markets, as well as the impact of currency movements in global markets. Atlantic Grupa constantly manages the risk of price volatility of raw coffee in global commodity markets.

Certain segments of this industry are of seasonal character, which makes quality management of working capital an extremely important component of ensuring regular business operations of companies. Additionally, a relatively low level of cyclicity of the consumer goods industry makes it attractive to a large number of companies, which in turn results in a larger number of competitors in the market. Furthermore, since there is no significant market leader in some categories, there is a risk of new competitors entering the market.

Atlantic Grupa operates in the consumer goods industry segment that includes food products with added value and, accordingly, it uses activities like investing in research and development, investing in technology and closely monitoring market trends and consumer preferences to maintain high market shares in the listed segment. The portfolio of Atlantic Grupa includes a wide range of brands with leading market positions in the region in the segments of coffee, savoury spreads, snacks and beverages. In this sense, the Group's operations depend on the protection of intellectual property rights over trademarks and the like, as well as on certain business secrets and know-how. The Group concludes non-disclosure agreements with employees and/or third parties for the purpose of protecting intellectual property rights, but there is no guarantee that such agreements will be respected. In addition to the above stated reasons and considering that some of the listed segments are exposed to strong competitive pressures by local and multinational companies, Atlantic Grupa in 2022 continued to actively manage its own brands and strengthen its position by launching a new coffee shop chain under the brand Ziggy's Coffee. The first public presentation of the brand took place at the end of May. Along with good coffee, Ziggy's will also offer consumers sweet and savoury delicacies.

Following its entry in the pharmacy business segment in 2008 and its further expansion of the pharmacy chain Farmacia in subsequent years, Atlantic Grupa now owns a pharmacy chain with a national distribution of its pharmacy units. Among the main risks in this business, three risks stand out. The first one refers to the risk of uncertainty from the introduction of new and potentially stricter regulations the pharmacy units must comply with since pharmacy as an industry is strictly regulated and supervised by regulatory authorities. The second pertains to fluctuations of prices on the principal and supplemental list of medicines which must be complied with by pharmacies as subjects contracted by the Croatian Institute for Health Insurance (HZZO). The third risk is associated with the risk of delayed payment of receivables by HZZO, i.e. risk of insolvency of the main contractual partner. However, Atlantic Grupa uses particular activities aimed at mitigating the listed risks, such as the focus on increasing the share of over-the-counter medicines, food supplements and cosmetics in the product portfolio of pharmacy units, opening of specialised stores (with a larger portfolio of over-the-counter medicines, food supplements and cosmetics) which are regulated by the Agency for Medicinal Products and Medical Devices and, finally, utilisation of synergies across the company's distribution and production portfolio, including active working capital management in the entire segment.

COMPETITION RISK

With Croatia's accession to the EU and the harmonisation of legislation with the acquis communautaire, new standards and norms were established and, at the same time, final obstacles to free competition removed. On one hand, local companies are becoming increasingly exposed to international competition and, on the other hand, are experiencing the opening of new business opportunities in foreign markets. Many companies, including Atlantic Grupa as the leader in this trend, have in recent years focused their efforts on business expansion in regional markets of South-East Europe that are generally characterised by the increasing demand for consumer goods and, at the same time, the increasing recognisability of domestic brands.

Foreign food competitors have the advantage over local companies with regard to technological infrastructure, capacity to invest in research and development, financial power, marketing budget size and the global recognisability of their brands. The markets where Atlantic Grupa operates display a high level of loyalty to tradition as well as to the previously acquired purchasing habits, thus prompting the demand for domestic products. It is exactly the brand recognisability of the products Atlantic Grupa manufactures and/or distributes coupled with their high market shares that emerges as the main comparative advantage of Atlantic Grupa's production/distribution portfolio. With the strategic focus on the development of strong and market recognised brands, Atlantic Grupa aims to reduce the risks brought on by the competition.

Competition in the pharmacy segment comes primarily from city and county pharmacies and small private pharmacies owned by natural persons, and in lesser extent also from wholesale pharmacy chains and generic pharmaceutical companies which also operate in the pharmacy segment. Atlantic Grupa aims to ensure its competitive advantage over the existing competitors by combining several key factors related to: continuous expansion of the pharmacy chain, opening of specialised stores which represent an upgrade and development of the pharmacy business, managing the pharmacy business in line with the best pharmacy practices and focusing on the education and competence development of pharmacy personnel with the goal of achieving high-quality pharmacy service.

Business risk

Business risk refers to the risks present in the company's day-to-day activities which in turn directly influence the keeping of the company's competitive positions as well as the stability of the company's regular business operations. The listed risk is determined by the business environment in which the company operates and its regular business policies and decisions.

IMPACT OF INDIVIDUAL PRODUCTS AND BUSINESS PARTNERS ON BUSINESS PERFORMANCE

In previous years Atlantic Grupa has given significant attention to the diversification and expansion of its production as well as distribution portfolio with the strategic objective of reducing its dependence on the sales of any individual product and thus also the volatility in the realisation of sales results, particularly during the changes of macroeconomic cycles. Considering the listed diversification in its production and distribution portfolios, changes in the business environment relating to either a specific production segment or a specific partner will not jeopardise the overall business operations of Atlantic Grupa.

PRODUCT DEPENDENCE

Resulting from the significant expansion and diversification of the production and distribution portfolio in previous years, today Atlantic Grupa's regular business operations do not depend significantly on any individual product. At the same time, the most prominent product category is the segment of coffee, followed by segments of beverages, savoury spreads, and snacks, of which no segment or product holds more than a quarter of the Group's revenues. During the past years, Atlantic Grupa combined acquisition activities, innovative approach to new product development and conclusion of new distribution agreements in the diversification of both the production and distribution portfolio. In the last 15 years Atlantic Grupa participated in about 50 acquisitions, which have resulted in a significant reduction of the company's dependence on any one product, market or business partner.

BUSINESS PARTNERSHIP DEPENDENCE

In previous years Atlantic Grupa developed strong partnerships with both domestic and international producers of brands within the distribution portfolio of Atlantic Grupa. Although a loss of distribution rights to a particular product would have an impact on the business performance of Strategic Distribution Units, the risk of that has been greatly reduced in recent years due to the significant expansion of the distribution portfolio. Atlantic Grupa is continually monitoring developments in the brand market with the purpose of concluding new business partnerships. The continuous expansion of the distribution portfolio enables the company to quickly adjust to new conditions in the case of termination of cooperation with any of its present partners.

Close business cooperation with leading domestic retail chains is at the very nature of distribution activities. Atlantic Grupa has developed good business cooperation with a majority of regional retail chains, which in turn are the company's major buyers, and the dependence on any individual buyer is at an appropriate level. In the case of termination of partnership, inability to collect or bankruptcy of one of the more important buyers, the impact on business results of Strategic Distribution Units could be significant. Through active credit risk management, which includes continuous monitoring of the buyers' risk level and payment process and the resulting limitation of exposure to risky buyers, the company aims to reduce the risk to its own operations in the case of termination of partnership, inability to collect or bankruptcy of one of its major buyers.

In addition to continuously working on further improvement and development of cooperation with retail chains, Atlantic Grupa strives to reduce the dependence of distribution on one distribution channel by developing "alternative distribution channels" like continuous investments in the HoReCa segment (catering), outlets for sales of technical goods and the pharmacy channel.

OPERATIONAL DEPENDENCE ON IT SYSTEMS

The Atlantic Grupa's business operations rely on numerous IT systems that enable it to efficiently manage production and distribution capacities, communicate with customers and suppliers, evaluate employees, as well as to collect and process customer and supplier data and to collect data on the positioning and representation of products in the sales network and other information which, among other external factors, the management takes into consideration when making business decisions. In order to ensure successful and continuous operations, Atlantic Grupa is actively working on protecting the entire IT system so as to avoid the risk of dependence on any single system/supplier or data centre, updates IT security software and manages the expiry of maintenance of the key IT solutions.

ATTRACTING AND RETAINING KEY EMPLOYEES

The Atlantic Grupa's continued successful business performance relies heavily on its ability to identify, attract, motivate and retain employees across key functions and markets. Any loss of key employees in certain business segments or unsuccessful implementation of the group succession plan would aggravate the achievement of the set targets and could have a negative impact on business operations. Moreover, the inability to hire, develop and retain a highly specialised and talented workforce could reduce the "institutional knowledge base", which could lead to a distortion of the competitive position or an increase in costs due to the increased competition for employment that could have a negative impact on operations. In order to manage this risk, Atlantic Grupa implements various employee retention, development and attraction programmes. All employees in key positions go through the talent review, which is used to define an individual development plan for each of them. The process of talent recognition is carried out at all levels of the organisation, thus ensuring the implementation of the succession plan. The strategy for retaining key personnel introduces specially designed options that ensure the company's long-term relationship with its key personnel, which includes programmes and activities such as the employee equity programme, employee retention programme, sports activities, medical checks, etc.

Financial risks

The Group's business activities expose it to a variety of financial risks which include: market risk (including currency risk, fair Price risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management programme is focused on unpredictabilities of the financial market and aimed at minimising their potential negative reflection on the Group's operations. The Group uses derivative financial instruments as instruments for hedging against certain financial risks. The risks are described in detail in notes to the consolidated financial statements (Note 3 – Financial risk management).

Annex 1

› TABLE 1. PROPORTION OF TURNOVER FROM PRODUCTS OR SERVICES ASSOCIATED WITH TAXONOMY-ALIGNED ECONOMIC ACTIVITIES

				SUBSTANTIAL CONTRIBUTION CRITERIA						DNSH CRITERIA (DO NO SIGNIFICANT HARM)										
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Economic activities	Code(s)	Absolute turnover in HRK 000	Proportion of turnover	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of turnover, 2022	Taxonomy-aligned proportion of turnover, 2021	Category (enabling activity)	Category (transitional activity)
A. ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%														**0%**			
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Turnover of Taxonomy-eligiblebut not environmentally sustainable activities (not Taxonomy-aligned activities (A.2.)		0	0%														**0%**			
Total (A.1. + A.2.)		**0**	**0%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomynon-eligible activities (B)		6,372,984	100%																	
Total (A + B)		**6,372,984**	**100%**																	

› TABLE 2. PROPORTION OF OPERATING COSTS (OPEX) FROM PRODUCTS OR SERVICES ASSOCIATED WITH TAXONOMY-ALIGNED ECONOMIC ACTIVITIES

				SUBSTANTIAL CONTRIBUTION CRITERIA						DNSH CRITERIA (DO NO SIGNIFICANT HARM)										
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Economic activities	Code(s)	Absolute OpEx in HRK 000	Proportion of OpEx	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of OpEx, 2022	Taxonomy-aligned proportion of OpEx, 2021	Category (enabling activity)	Category (transitional activity)
A. ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%														**0%**			
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities (A.2.)		0	0%														**0%**			
Total (A.1. + A.2.)		**0**	**0%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
OpEx of Taxonomy non-eligible activities (B)		160,924	100%																	
Total (A + B)		**160,924**	**100%**																	

> TABLE 3. PROPORTION OF CAPITAL EXPENDITURE (CAPEX) FROM PRODUCTS OR SERVICES ASSOCIATED WITH TAXONOMY-ALIGNED ECONOMIC ACTIVITIES

				SUBSTANTIAL CONTRIBUTION CRITERIA						DNSH CRITERIA (DO NO SIGNIFICANT HARM)										
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Economic activities	Code(s)	Absolute CapEx in HRK 000	Proportion of CapEx	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of CapEx, 2022	Taxonomy-aligned proportion of CapEx, 2021	Category (enabling activity)	Category (transitional activity)
A. ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%														**0%**			
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Electricity generation using solar photovoltaic technology	4.1	1,436	0.5%																	
Renovation of existing buildings	7.2	2,726	0.9%																	
Installation, maintenance and repair of energy efficiency equipment	7.3	16,760	5.3%																	
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	7.5	19	0.0%																	
Installation, maintenance and repair of renewable energy technologies	7.6	3,001	0.9%																	
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities (A.2.)		23,942	7.5%														**7.5%**			
Total (A.1. + A.2.)		**23,942**	**7.5%**														**7.5%**			
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
CapEx of Taxonomy non-eligible activities (B)		293,285	92.5%																	
Total (A + B)		**317,227**	**100.0%**																	

Abbreviations

AG	Atlantic Grupa
ALLP	Association of Leukaemia and Lymphoma Patients
APM	Alternative Performance Measures
BC	Basketball club
BPR	Business Process Redesign
BU	Business unit
CAPEX	Capital expenditure
CIS	Commonwealth of Independent States (ex-Soviet Union countries)
CSRD	Corporate Sustainability Reporting Directive
CO2	Carbon dioxide
DEG	German Investment and Development Corporation
DNSH	Do no significant harm
DU	Distribution unit
EBIT	Earnings before interest and taxes
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
EMS	Environmental Management System
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
ESEF	European Single Electronic Format
ESG	Environmental, Social, and Governance
ESRS	EU Sustainability Reporting Standards
FMCG	Fast moving consumer goods
FSC	Forest Stewardship Council
GDAM	Global Distribution Account Management
GMO	Genetically Modified Organism
GRI	Global Reporting Initiative
HACCP	Hazard Analysis and Critical Control Point
HANFA	Croatian Financial Services Supervisory Agency
HoReCa	Hotel Restaurant Caffe
HZZO	Croatian Health Insurance Fund
IBP	Integrated Business Planning

IFRS	International Financial Reporting Standards
IT	Information Technology
ISO	International Organization for Standardization
IUCN	The International Union for Conservation of Nature
KPI	Key Performance Indicators
M&A	Mergers and Acquisitions
MDM	Master Data Management
NPS	Net Promoter Score – user satisfaction indicator
OPEX	Operating expenditure
OPF	Obligatory Pension Fund
OTG	On the Go – consumption “on the move”
PET	Polyethylene Terephthalate
POS	Point of Sale
POSM	Point of Sale Materials – promotion materials
PR	Public relations
PVC	Polyvinyl chloride
R&D	Research and development
RPA	Robotic Process Automation
SAP	System Analysis and Software Development – business process software
SBU	Strategic Business Unit
SDU	Strategic Distribution Unit
SEO	Search engine optimization
SKU	Stock keeping unit
UEPS	Serbian Association of Market Communication Professionals
UK	United Kingdom
UN	United nations
UOM	Unit of measurement
USA	United States of America
VPF	Voluntary pension fund
WMS	Warehouse Management Solution
ZSE	Zagreb Stock Exchange

Auditor's Report and Consolidated Financial Statements

ATLANTIC GRUPA D.D.
31 DECEMBER 2022

Responsibility for the annual financial statements

In accordance with provisions of Law on Capital Market, Zoran Stanković, Group Vice President for Finance, Procurement and Investment and Tatjana Ilinčić director of Department of Corporate Reporting and Consolidation, person responsible for corporate accounting, reporting and consolidation, together as persons responsible for the preparation of annual reports of the company Atlantic Grupa d.d. Zagreb, Miramarska 23, OIB 71149912416 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge the annual consolidated financial statements for 2022 are prepared in accordance with applicable standards of financial reporting and give true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company and its subsidiaries (together – “the Group”).

Report of the Company’s Management board for the period from 1 January to 31 December 2022 contains the true presentation of development, results and position of the Group, with description of significant risks and uncertainties which the Group is exposed.

In Zagreb, 29 March 2023

Zoran Stanković
Group Vice President for Finance, Procurement and Investment

Tatjana Ilinčić
Director of Corporate Reporting and Consolidation

Responsibility for the consolidated financial statements

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that consolidated financial statements, which are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") give a true and fair view of the financial position and results of Atlantic Grupa d.d. and its subsidiaries (the "Group") for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing these consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the consolidated financial statements are prepared on the going concern basis.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position of the Group and must also ensure that the consolidated financial statements comply with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accompanying consolidated financial statements were approved for issuance by the Management Board on 29 March 2023.

Emil Tedeschi
President and Chief Executive Officer

Zoran Stanković
Group Vice President for Finance, Procurement and Investment

Srećko Nakić
Group Vice President for Distribution

Mate Štetić
Group Vice President for Coffee and Snacks

Enzo Smrekar
Group Vice President for Savoury spreads, Donat and International Expansion

Lada Tedeschi Fiorio
Group Vice President for Corporate Strategy and Growth

Neven Vranković
Group Vice President for Corporate Activities

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Atlantic Grupa d.d.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Atlantic Grupa d.d. (the Company) and its subsidiaries (together - the Group), which comprise the consolidated balance sheet as at 31 December 2022, consolidated income statement and the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for opinion

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

We are independent of the Company and the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (continued)

Key Audit Matter	How we addressed Key Audit Matter
Assessment of impairment of goodwill and intangible assets with indefinite useful lives *See Note 2.7 Impairment of non-financial assets and Note 4.b Impairment of goodwill and intangible assets with indefinite useful lives* The Group has goodwill and other intangible assets with indefinite useful lives (Brands & Licenses) with carrying amounts totaling HRK 1,450,041 thousand as at 31 December 2022. The carrying amount of the goodwill and indefinite life intangible assets represents 25% of total consolidated assets and the assessment of the "fair value" and "value in use" of the Group's cash generating units ("CGU") represents significant area of management's judgement regarding the future results of the business and the discount rates applied to future cash flow forecasts. The Group annually assesses the accounting estimate of indefinite useful life. It involves significant management's judgments about the strength of the brand and future cash flows generated from brands and licenses affected. Due to the range of judgements and assumptions used in the models and impairment assessments, as well as the significant carrying amount of the goodwill and intangible assets, this is an area considered to be a key audit matter.	Audit procedures included understanding of the assets impairment assessment process. We performed inquiry of management and examined the methodology used by management to assess the carrying value of respective goodwill, and intangible assets and their useful life, to determine their compliance with IFRS as adopted by the EU and consistency of application. We evaluated the Group's future cash flow forecasts and the process by which they were prepared. We compared the budget inputs in the model to the approved budgets and forecast inputs in the model to management plans. We compared the current year (2022) actual results with the figures included in the prior year (2021) forecast to evaluate assumptions used. We also evaluated management's key assumptions for long-term growth rate by comparing it to historical growth results. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and tested the appropriateness of discount rates and royalty rates used in the calculation with the assistance of the valuation specialists. We reviewed reports related to market share of the individual brands. We also assessed adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of IFRS as adopted by the EU.

Other information

Management is responsible for the other information. Other information comprises the Management Report, Non-financial Report and Corporate Governance Statement included in the Group's Annual Report, but does not include consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information.

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

Other information (continued)

With respect to the Management Report, Non-financial Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act, whether the Non-financial Report is prepared in accordance with the requirements of Article 21a of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 and 24 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management Report and Corporate Governance Statement is consistent, in all material respects, with the enclosed consolidated financial statements;

2. the enclosed Management Report is prepared in accordance with requirements of Article 21 and 24 of the Accounting Act;

3. the enclosed Non-financial Report is prepared in accordance with requirements of Article 21a of the Accounting Act; and

4. the enclosed Corporate Governance Statement includes the information specified in Article 22 and 24 of the Accounting Act.

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit of consolidated financial statements, we are also required to report if we have identified material misstatements in the Management Report, Non-financial Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

Ernst & Young d.o.o. was initially appointed as auditors of the Company on 29 June 2017. Our appointment has been renewed annually by General Assembly of Shareholders, with the most recent reappointment on 15 June 2022, representing a total period of uninterrupted engagement appointment of six years.

Appointment of Auditor and Period of Engagement (continued)

Kulić i Sperk REVIZIJA d.o.o. was initially appointed as auditors of the Company on 18 June 2020, and this appointment has been renewed annually by General Assembly of Shareholders, with the most recent reappointment on 15 June 2022, representing a total period of uninterrupted engagement appointment of three years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 14 March 2023 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the consolidated financial statements.

Report based on Delegated Regulation (EU) 2018/815 on supplementing Directive 2004/109/EZ of European parliament and Council related to regulatory technical standard for specification of single electronic reporting format of reporting

Independent report on the compliance of consolidated financial statements prepared pursuant to Article 462 (5) of the Capital Market Act (Official Gazette 65/18, 17/20,83/21 and 151/22) applying the requirements of the Delegated Regulation (EU) 2018 / 815 on establishing of single electronic reporting format for issuers (the ESEF Regulation).

We have conducted a reasonable assurance engagement on whether the consolidated financial statements, as contained in the attached electronic file *AG consolidated FS 2022 ENG*, are prepared, for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, in all material respects in accordance with the requirements of the ESEF Regulation.

Responsibilities of the management and Audit Committee

Management is responsible for the preparation of the consolidated financial statements in accordance with ESEF Regulation.

Furthermore, management is responsible for maintaining an internal control system that reasonably ensures the preparation of consolidated financial statements without material non-compliances with ESEF Regulation requirements, whether due to fraud or error.

Management is also responsible for:

- the public disclosure of consolidated financial statements included in the annual report, in XHTML format and
- selecting and using XBLR codes in accordance with ESEF regulation.

Audit Committee is responsible for overseeing the preparation of the consolidated financial statements in ESEF format as part of the financial reporting process.

Auditor's responsibilities

Our responsibility is to express a conclusion, based on the audit evidence gathered, as to whether the consolidated financial statements are free from material non-compliances with the requirements of the ESEF Regulation. We conducted our reasonable assurance engagement in accordance with International Standard for Assurance Engagements ISAE 3000 (revised)- Assurance engagements other than audits or reviews of historical financial information.

Work performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high degree of assurance, however it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with ESEF regulation.

In respect of the subject matter, we have performed the following procedures:

- we read the requirements of the ESEF Regulation,
- we have gained an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or error; and
- Based on this, devise and implement procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- the consolidated financial statements, which are included in the annual report, are prepared in the relevant XHTML format,
- the information contained in the consolidated financial statements required by the ESEF Regulation is marked and all markings meet the following requirements:
    - the XBRL markup language was used,
    - the basic taxonomy elements listed in the ESEF Regulation with the closest accounting significance have been used, unless an additional taxonomy element has been created in accordance with Annex IV. ESEF Regulation,
    - the labeled elements comply with the common labeling rules under the ESEF Regulation.

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

Conclusion

Based on the procedures performed and evidence gathered, the consolidated financial statements presented in ESEF format for the year ended on 31 December 2022, contained in the aforementioned attached electronic file and prepared pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, are prepared in all material respects in line with the requirements of Articles 3, 4 and 6 of the ESEF Regulation.

Further to this conclusion, as well as the opinion contained in this independent auditor's report related to accompanying consolidated financial statements and annual report for the year ended 31 December 2022, we do not express any opinion on the information contained in these presentations or on any other information contained in the aforementioned file.

The partners in charge of the audit resulting in this independent auditor's report are Berislav Horvat for Ernst & Young d.o.o. and Janja Kulić for Kulić i Sperk REVIZIJA d.o.o.

Berislav Horvat,
President of the Management Board and Certified auditor

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb
Republic of Croatia

29 March 2023

Janja Kulić,
Director and Certified auditor

Kulić i Sperk REVIZIJA d.o.o.
Radnička cesta 52
10000 Zagreb
Republic of Croatia

29 March 2023

(all amounts expressed in thousands of HRK)	**Note**	**2022**	**2021**
Revenues	5	6,463,975	5,785,771
Cost of trade goods sold		(1,915,267)	(1,729,758)
Change in inventories of finished goods and work in progress		23,950	22,831
Material and energy costs		(2,150,961)	(1,556,908)
Staff costs	6	(983,997)	(937,376)
Marketing and promotion costs	7	(294,739)	(329,776)
Depreciation, amortisation and impairment	2.24, 13, 13a, 14, 15	(300,340)	(286,444)
Other operating costs	8	(600,107)	(534,414)
Other gains - net	9	32,587	4,019
Operating profit		**275,101**	**437,945**
Finance income	10	2,947	2,826
Finance costs	10	(22,743)	(20,575)
Finance costs - net	10	(19,796)	(17,749)
Profit before tax		**255,305**	**420,196**
Income tax expense	11	(58,842)	(74,304)
Net profit for the year		**196,463**	**345,892**
Attributable to:			
Owners of the Company		195,729	344,857
Non-controlling interests		734	1,035
		196,463	345,892
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		14.72	25.93
- diluted		14.72	25.93

The accompanying notes form an integral part of these consolidated financial statements.

(all amounts expressed in thousands of HRK)	**Note**	**2022**	**2021**
Net profit for the year		**196,463**	**345,892**
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) from defined benefit plan, net of tax		6,730	(176)
		6,730	**(176)**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences, net of tax	22	(7,360)	(4,067)
Cash flow hedges, net of tax	22	(16,829)	8,473
		(24,189)	**4,406**
Total other comprehensive (loss)/gain for the year, net of tax		**(17,459)**	**4,230**
Total comprehensive income for the year		**179,004**	**350,122**
Attributable to:			
Owners of the Company		178,244	349,092
Non-controlling interests		760	1,030
Total comprehensive income for the year		179,004	350,122

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2022**	**31 December 2021**
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,196,205	1,108,725
Right-of-use assets	13a	327,398	329,894
Investment property		472	807
Intangible assets	15	1,623,779	1,640,348
Deferred tax assets	25	38,747	41,469
Financial assets at fair value through other comprehensive income	17	1,275	1,384
Trade and other receivables	18	34,716	42,750
		3,222,592	3,165,377
Current assets			
Inventories	19	769,153	639,201
Trade and other receivables	18	1,411,232	1,287,982
Prepaid income tax		17,850	6,995
Derivative financial instruments	16	4,407	2,972
Cash and cash equivalents	20	444,439	346,635
		2,647,081	2,283,785
Non-current assets held for sale	14	-	3,759
Total current assets		2,647,081	2,287,544
TOTAL ASSETS		**5,869,673**	**5,452,921**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	886,530	883,852
Treasury shares	21	(18,155)	(22,131)
Reserves	22	(33,593)	(45,279)
Retained earnings		2,227,508	2,195,734
		3,195,662	3,145,548
Non-controlling interests		7,742	6,982
Total equity		3,203,404	3,152,530
Non-current liabilities			
Borrowings	24	410,981	299,657
Lease liabilities	13a	256,345	263,065
Deferred tax liabilities	25	146,700	148,344
Other non-current liabilities		908	6,135
Provisions	26	53,896	69,807
		868,830	787,008
Current liabilities			
Trade and other payables	23	1,285,581	1,174,825
Borrowings	24	329,024	159,932
Lease liabilities	13a	91,680	86,844
Derivative financial instruments	16	18,670	-
Current income tax liabilities		11,694	6,417
Provisions	26	60,790	85,365
		1,797,439	1,513,383
Total liabilities		2,666,269	2,300,391
TOTAL EQUITY AND LIABILITIES		**5,869,673**	**5,452,921**

The accompanying notes form an integral part of these consolidated financial statements.

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital, Premium and Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2021	1,007,576	(51,451)	1,985,908	2,942,033	5,952	2,947,985
Comprehensive income:						
Net profit for the year	-	-	344,857	344,857	1,035	345,892
Other comprehensive income/(loss)	-	4,411	(176)	4,235	(5)	4,230
Total comprehensive income	-	4,411	344,681	349,092	1,030	350,122
Transaction with owners:						
Share based payment (Note 21)	18,075	-	-	18,075	-	18,075
Purchase of treasury shares (Note 21)	(30,558)	-	-	(30,558)	-	(30,558)
Transfer	-	1,761	(1,761)	-	-	-
Dividends (Note 21)	-	-	(133,094)	(133,094)	-	(133,094)
Balance at 31 December 2021	**995,093**	**(45,279)**	**2,195,734**	**3,145,548**	**6,982**	**3,152,530**
Balance at 1 January 2022	995,093	(45,279)	2,195,734	3,145,548	6,982	3,152,530
Comprehensive income:						
Net profit for the year	-	-	195,729	195,729	734	196,463
Other comprehensive income/(loss)	-	(24,215)	6,730	(17,485)	26	(17,459)
Total comprehensive income/(loss)	-	(24,215)	202,459	178,244	760	179,004
Transaction with owners:						
Share based payment (Note 21)	29,043	-	-	29,043	-	29,043
Purchase of treasury shares (Note 21)	(22,389)	-	-	(22,389)	-	(22,389)
Shares granted (Note 22)	-	31,538	-	31,538	-	31,538
Transfer	-	4,363	(4,363)	-	-	-
Dividends (Note 21)	-	-	(166,322)	(166,322)	-	(166,322)
Balance at 31 December 2022	**1,001,747**	**(33,593)**	**2,227,508**	**3,195,662**	**7,742**	**3,203,404**

(all amounts expressed in thousands of HRK)	Note	2022	2021
Net profit for the year		**196,463**	**345,892**
Income tax	11	58,842	74,304
Depreciation, amortisation and impairment	2.24, 13, 13a, 14, 15	300,340	286,444
Gain on sale of property, plant and equipment and intangible assets	9	(2,376)	(1,475)
Loss/(gain) on sale of subsidiaries - net of transaction expenses	9	365	(648)
Provision for current assets	8	32,373	25,218
Foreign exchange differences - net		1,102	(75)
Decrease in provision for risks and charges	26	(11,399)	(18,586)
Fair value losses/(gains) on financial assets	9	1,172	(4,219)
Share based payment	21	29,043	18,075
Interest income		(8,419)	(1,323)
Interest expense	10	18,694	17,824
Other non-cash items - net		2,980	3,800
		619,180	745,231
Changes in working capital:			
Increase in inventories		(154,912)	(82,643)
Increase in current receivables		(144,891)	(30,004)
Increase in current payables		115,756	207,652
Cash generated from operations		**435,133**	**840,236**
Interest paid		(15,622)	(17,074)
Income tax paid		(76,001)	(87,361)
Cash flows from operating activities		**343,510**	**735,801**
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14, 15	(263,425)	(233,284)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets held for sale		3,611	17,504
Acquisition of subsidiaries and proceeds/(repayments) from sale of subsidiaries – net of cash acquired/disposed	28	11,029	(5,937)
Loans granted and deposits placed	18	(6,152)	(5,543)
Proceeds from loans and deposits granted	18	10,939	18,117
Interest received		8,225	1,571
		(235,773)	(207,572)
Cash flows used in financing activities			
Purchase of treasury shares	21	(22,389)	(30,558)
Proceeds from borrowings, net of fees paid	24	309,286	-
Repayments of borrowings	24	(30,000)	(350,799)
Principal elements of lease payments	13a	(101,407)	(93,502)
Dividends paid to Company shareholders	21	(166,322)	(133,094)
		(10,832)	(607,953)
Net increase/(decrease) in cash and cash equivalents		**96,905**	**(79,724)**
Exchange gains/(losses) on cash and cash equivalents		899	(154)
Cash and cash equivalents at beginning of year		346,635	426,513
Cash and cash equivalents at end of year	20	**444,439**	**346,635**

NOTE 1 – GENERAL INFORMATION

Operating as a vertically integrated multinational company, Atlantic Grupa d.d. (the Company) and its subsidiaries (as disclosed in Note 31 "the Group") have business activities that incorporate R&D, production and distribution of fast moving consumer goods in Southeast Europe, the European markets and Russia and CIS (Commonwealth of Independent States). With its modern production network, the Group stands out as one of the leading foods & beverage producers in Southeast Europe with prominent coffee brands Grand Kafa and Barcaffe, beverage brands Cockta and Cedevita, a portfolio of sweet and salted snacks brands Smoki, Najlepše želje and Bananica, a savoury spread brand Argeta and natural mineral water Donat. Additionally, the Group owns the leading pharmacy chain in Croatia under the Farmacia brand. With its own distribution network in Croatia, Slovenia, Serbia, Austria, North Macedonia and Russia, the Group also distributes a range of products from external partners. The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and North Macedonia with companies and representative offices in 11 countries. The Group exports its products to more than 40 markets worldwide.

The Company is domiciled in Zagreb, Miramarska 23, Croatia.

The Company's shares are listed on the Prime market of the Zagreb Stock Exchange. The shareholder structure is shown in Note 21.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) which were endorsed by the European Union (EU) under the historical cost convention, as modified by the revaluation of financial assets that have been measured at fair value and derivative financial instruments.

The preparation of consolidated financial statements in conformity with IFRS which were endorsed by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the amendments listed below which are the result of amendments to International Financial Reporting Standards (IFRS) adopted by the Group as of 1 January 2022 and which did not have material impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued by the International Financial Standards Board („Board“) but are not yet effective.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Standards and Interpretations effective in the current period

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the EU are effective for the current period:

- ***Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020***, all issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).

The adoption of these standards and interpretations did not have an impact on the Group's financial statements.

(b) Standards and interpretations issued by IASB and endorsed by EU but not yet effective

- ***IFRS 17 Insurance contracts, first time adoption of IFRS 17 and IFRS 9 – Comparatives***, all issued on 9 December 2021, (effective date for annual periods beginning on or after 1 January 2023).

- ***Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transactions***, issued on 7 May 2021 (effective date for annual periods beginning on or after 1 January 2023).

- ***Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies***, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).

- ***Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*** issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).

- ***IFRS 17 Insurance contracts***, issued on 18 May 2017; including Amendments to IFRS 17 issued on 25 June 2020, (effective date for annual periods beginning on or after 1 January 2023).

(c) Standards and interpretations issued by IASB but not yet adopted by the EU

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU and the Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on its financial statements.

- ***Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current***, issued on 23 January 2020 and amended on 15 July 2020.

- ***Amendment to IFRS 16 Leases: Lease liability in a sale and leaseback***, issued on 22 September 2022.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of identifiable acquiree's net assets.

Goodwill is initially measured as excess of the aggregate of the consideration transferred and the fair value of non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. If this is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiary

When the Group ceases to have control, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments is the Management Board of the Company.

2.4 Foreign currencies

(a) 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 where the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses related to borrowings and lease liabilities are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) – net'.

(c) Group companies

The results and financial position of all Group entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:
(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates; and
(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are reclassified from other comprehensive income to the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, if required. Historical cost includes expenditure directly attributable to the acquisition of items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they incurred.

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to residual values over their estimated useful lives, as follows:

Buildings	10 to 50 years
Plant and equipment	2 to 25 years

The residual value of an asset is an estimated amount that the Group would currently obtain from disposal of the asset less estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "Other gains/(losses) – net" in the consolidated income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill
Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary and the amount recognised for non-controlling interests and fair value of any previous interest held at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are recognised immediately as an expense and not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from synergies of the business combination in which the goodwill arose. Goodwill is monitored at the operating segment level.

(b) Distribution rights
Separately acquired distribution rights are recognised at historical cost. Distribution rights acquired in a business combination are recognised at fair value at the acquisition date. Product distribution rights have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of rights over their estimated useful lives (from 1.5 to 5 years).

(c) Brands
Brands acquired in a business combination are carried at initially determined fair value (recognised at acquisition date) less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of brands over their estimated useful life (7 to 15 years).

Brands with indefinite useful lives are not amortised, but are tested annually for impairment at the cash generating unit level.

(d) Computer software
Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (up to 5 years).

(e) Licences
Licences acquired in a business combination are recognized at fair value at the acquisition date. Licences have indefinite useful lives and are not amortised but are tested annually for impairment at the cash generating unit level. Separately acquired licences are recognized at historical cost and amortized using the straight-line method over their estimated useful lives (5 years).

(f) *Customer contracts*
Customer contracts acquired in a business combination are carried at initially determined fair value (recognised at acquisition date) less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contracts over their estimated useful life (from 5 to 15 years).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life (such as brands, licences and goodwill) are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, financial asset at fair value through other comprehensive income (OCI), and financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-values this designation at each reporting date.

(a) Financial assets at amortised costs
The Group measures financial assets at amortised cost if both of the following conditions are met:
- o the financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows,
- o The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.
Financial assets at amortised cost include trade receivables and loans and deposits given.

(b) Financial assets at fair value through profit or loss
This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets except derivative financial instruments.

(c) Financial assets at fair value through OCI
The Group measures financial assets at fair value through OCI if both of the following conditions are met:
- o the financial asset is held within a business model with the objective of holding the financial assets to collect and selling contractual cash flows,
- o the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for the financial assets measured at amortised cost.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(c) Financial assets at fair value through OCI (continued)

The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through OCI are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date. Financial assets at fair value through OCI are carried at fair value, except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, consequently, these are carried at cost.

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as financial assets at fair value through OCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Interest income and the translation differences are recognised in the income statement, whereas other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary securities classified as financial assets at fair value through OCI and non-monetary securities classified as financial assets at fair value through OCI are recognised in other comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Financial assets are written off when there is no reasonable expectation of recovery. The amount of the impairment and subsequent recoveries of amounts previously written off are recognised in the income statement within ‘other operating costs’.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Leases

(i) The Group's leasing activities and accounting policy

The Group leases various offices, equipment and vehicles. Rental contracts are typically made for fixed periods of 12 months to 5 years but may have extension options as described in (iii) below. Contracts may contain both lease and non-lease components. The Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In that sense, incremental borrowing rate of 4%, representing unsecured risk of the Company was used for new and modified leases whose maturity is above 5 years (2021: 2%), and incremental borrowing rate of 2.2%, representing the secured risk of the Company was used for new and modified leases with maturity of 5 years and less (2021: 1%).

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Leases (continued)

(i) The Group's leasing activities and accounting policy (continued)

Payments associated with short-term leases of equipment and vehicles, all leases of low-value assets and software licences are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets (below HRK 35 thousand) comprise IT equipment and small items of office furniture.

(ii) Variable lease payments

The Group may be exposed to variable payment terms linked to an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Variable lease payments which depend on the sales realization, if contracted, are recognized in the income statement within 'other operating costs'.

(iii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

2.10 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Trade goods are carried at selling price less applicable taxes and margins.

Where necessary, a provision is made for damaged and expired inventories.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less the allowance for expected credit losses (ECLs), as described in Note 2.8.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less (excluding bills of exchange). Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including all directly attributable incremental transaction costs, is deducted from equity until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of the loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised, using liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

The Group makes payments to mandatory pension funds on behalf of its employees in the ordinary course of business through salary deductions, as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group has no other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits except for the one-off retirement payment as prescribed by local legislation or internal rulebook.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits or when retyring regularly or early. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy or early retirement. The liability recognised in the balance sheet in respect of one-off retirement payment is the present value of the defined benefit obligation at the end of the reporting period. This obligation is calculated annually by independent actuaries. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs/income arising from actuarial calculation are charged/credited to income statement within ‘interest expenses’. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged immediately or credited to the income statement within ‘staff costs’. Interest costs/income arising from actuarial calculation are charged/credited to income statement within ‘interest expense’.

(d) Share-based compensation

Management and employees of the Group are entitled through ESOP program to receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

(e) Short-term employee benefits

The Group recognises a provision for bonuses and accumulating unused vacation entitlement days if contractually obliged or if there is a past practice that has created a constructive obligation.

2.17 Provisions

Provisions for termination benefits and long term employee benefits, restructuring costs, warranty claims and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

When there are number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

The Group recognise revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the Group expect to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, returns, rebates and discounts, expenses of listing the products and marketing activities that are an integral part of contracts with customers. All other marketing activities related to marketing campaigns that are not integral part of customer contract are presented within Marketing and promotion costs. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(a) Sales of products and trade goods – wholesale
The Group manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Group has delivered the products to the wholesaler, the wholesaler has full discretion over the price to sell and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of loss have been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with the market practice.

(b) Sales of goods - retail
The Group operates a pharmacy and specialised stores and discount stores. Sale of goods are recognised when a group entity sells a product to the customer. Retail sales are paid in cash or by credit card. The Group operates a customer loyalty programme, allowing customers to accumulate points when they purchase products. The points can then be redeemed as discount on subsequent purchase, subject to a minimum number of points being obtained. Consideration received is allocated between the products sold and the points issued. Part of fair value of the points issued is deferred as liability in the balance sheet and recognised as revenue when the points are redeemed.

(c) Sales of services
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Interest income
Interest income arising from fixed-term bank deposits, loans granted and interest from customers is recognised on a time-proportion basis using the effective interest method.

(e) Rental income
Rental income is generally recognised in the period in which the services are provided using a straight-line basis over the terms of contracts with lessee and presented in income statement within 'other income'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which dividends are approved by the Company's General Assembly.

2.20 Value added tax

The Tax Authorities require the settlement of value added tax (VAT) on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.21 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and no depreciation is charged to profit and loss statement.

2.22 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of cash flow hedge derivatives is disclosed in Note 16 and changes in cash flow hedge reserves are disclosed in Note 22.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, is recognised in other comprehensive income (OCI). The gain or loss related to the ineffective portion is recognised immediately in the income statement within "Other gains/(losses) – net". Amounts accumulated in equity are reclassified from OCI to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs - net'. The gain or loss relating to the ineffective portion is recognised in the income statement within "Other gains/(losses) – net".

When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred from other comprehensive income to the income statement within "Other gains/(losses) – net".

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24 Investment property

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Investment property is derecognized when it either has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Transfers are made to or from investment property only when there is a change in use. The carrying amount approximates fair value. Investment property is held for long term rental yields and is not occupied by the Group. Depreciation expense related to investment property amounted to HRK 19 thousand (2021: HRK -).

2.25 Operating profit

Operating profit comprise the difference between operating revenues (revenues from sale of products, trade goods and services, interest income and other income) and operating costs – all costs excluding finance costs and taxes.

2.26 Government grants

Government grants refers to assistance provided by the government in the form of resource transfers to entrepreneurs in exchange for past or future compliance with certain conditions related to their business operations. Government grants excludes those forms of government assistance that cannot be reasonably valued and transactions with the government that cannot be distinguished from normal business transactions of the entrepreneur.

Claims for government grants to compensate for incurred expenses or losses or as a claim for providing immediate financial support to entrepreneurs, but without future associated costs, are recognized as revenue in the period in which the claim arises.

Government grants related to assets, including non-monetary grant at fair value, is treated as deductible items in calculating the accounting amount of such assets. Such accounting treatment of received grant results in a reduction of depreciation expense over the useful life of the depreciated asset.

2.27 Events after the reporting period

Events that occur after the reporting period and provide necessary information about the Group's position on the reporting date (adjusting events) are reflected in the financial statements. Events that occur after the reporting period and are not adjusting events are disclosed in the notes when they are significant.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's business activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR, Serbian dinar (RSD), Russian ruble (RUB) and to a lesser extent the US dollar (USD). Movement in exchange rate of the Serbian dinar against EUR in 2022 and 2021 did not have a significant impact on Group's results. The depreciation of Russian ruble against EUR in 2022 resulted in HRK 712 thousand foreign currency losses (in 2021 did not have significant impact on Group's results).

Movements in exchange rates between the above-mentioned currencies and Croatian kuna (HRK) may have an impact on the results of the Group's future operations and future cash flow. The amounts in the tables below represent the HRK amounts denominated in the stated currencies at the balance sheet date for major balance sheet monetary items.

31 December 2022 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	338,525	410,345	1,195	8,758
Cash and cash equivalents	141,185	23,964	133	22,825
Trade and other payables	(510,344)	(167,726)	(49,980)	(22,038)
Borrowings	(106,621)	(168,237)	(399)	-
Lease liabilities	(328,840)	(3,008)	-	-
Net balance sheet exposure	**(466,095)**	**95,338**	**(49,051)**	**9,545**

31 December 2021 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	316,079	352,248	952	11,832
Cash and cash equivalents	111,712	27,488	225	3,155
Trade and other payables	(437,833)	(199,537)	(24,537)	(12,751)
Borrowings	(1,136)	(127,862)	(1,563)	-
Lease liabilities	(325,444)	(1,507)	-	-
Net balance sheet exposure	**(336,622)**	**50,830**	**(24,923)**	**2,236**

Given that the Group also has subsidiaries outside of Croatia, its shareholders equity value is exposed to fluctuations in exchange rates. Equity changes caused by movements in foreign exchange rates are shown as translation differences in the Group's consolidated statement of comprehensive income.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

In the event of a rise of 1% in the RSD against HRK, assuming all other variables remain constant, the profit after tax for the year would have been HRK 682 thousand lower (2021: 828 HRK thousand higher), and other comprehensive income would be HRK 10,683 thousand higher (2021: HRK 10,976 thousand higher).

In the event of a rise of 1% in the RUB against HRK, assuming all other variables remain constant, the profit after tax for the year would have been HRK 1 thousand lower (2021: HRK 132 thousand higher) and other comprehensive income would be HRK 221 thousand higher (2021: HRK 95 thousand higher).

(ii) Equity securities risk

The Group is exposed to equity securities fair value and price risk with respect to investments held by the Group classified on the consolidated balance sheet as fair value through OCI. Equity investments classified as fair value through OCI are not listed. To manage its fair value and price risk arising from investments in equity securities, the Group monitors market transactions and performance of entities.

No reliable external information exists with respect to fair value. Management believes, based on internal information, that the fair value equals or exceeds carrying value. However, due to limited information available, management has not carried out a sensitivity analysis. At 31 December 2022, if the fair value of the financial assets through OCI would change, with all other variables held constant, other comprehensive income and revaluation reserves would also change by the same amount.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings and bonds issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable interest rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk although no borrowings are carried at fair value.

The Group analyses its interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. As at 31 December 2022, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2021: 100 basis points), the profit after tax would have been lower/higher by HRK 1,407 thousand (2021: HRK 2,648 thousand lower/higher), mainly as a result of increased/decreased interest expense.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group's assets, potentially subjecting the Group to concentrations of credit risk, primarily include cash, deposits and trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. The Group's credit risk is low, since receivables are dispersed among a large group of customers. Additionally, the Group's key customers are large retail chains, whereas dependence on these customers is reduced by developing alternative distribution channels. The Group reduces credit risk by implementing strict policies for receivables collection and goods delivery, as well as securing receivables with standard security instruments (bills of exchange and promissory notes). No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. A detailed analysis and maximum exposure to credit risk is shown in Notes 16 and 18.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of contracted credit facilities and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping contracted credit lines available.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn contracted borrowing facilities when needed. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

Surplus cash held over and above the balance required for working capital management is invested in interest bearing current accounts, time deposits and cash funds, i.e. instruments with appropriate maturities or sufficient liquidity.

At 31 December 2022, the Group held cash and cash equivalents in the amount of HRK 444,439 thousand (2021: HRK 346,635 thousand) and short-term deposits in the amount of HRK 181 thousand (2021: HRK 85 thousand). These are expected to readily generate cash inflows for managing liquidity risk.

Trade and other payables, as well as short-term borrowings are due within 12 months after the balance sheet date, while the long-term borrowings' maturity is disclosed in Note 24.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts disclosed in the table below represent the contractual undiscounted cash flows.

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2022				
Trade and other payables	1,219,063	-	-	1,219,063
Borrowings	337,778	417,590	-	755,368
Lease liabilities	98,722	181,003	98,850	378,575
Derivative financial instruments	18,670	-	-	18,670

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2021				
Trade and other payables	1,110,972	-	-	1,110,972
Borrowings	163,193	308,513	-	471,706
Lease liabilities	95,132	186,443	100,215	381,790

3.2 Changes in liabilities arising from financial activities

(in thousands of HRK)	Borrowings Current	Borrowings Non-Current	Leases Current	Leases Non-Current	Total
1 January 2022	**159,932**	**299,657**	**86,844**	**263,065**	**809,498**
Cash flow	166,245	113,041	(101,407)	-	177,879
Acquisitions, modifications, and leases expirations	-	-	14,235	84,578	98,813
Current portion	1,891	(1,891)	91,811	(91,811)	-
FX movement	586	(71)	197	513	1,225
Other	370	245	-	-	615
31 December 2022	**329,024**	**410,981**	**91,680**	**256,345**	**1,088,030**

The Group classifies interest paid as cash flows from operating activities.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital and net debt. Net debt is calculated as total borrowings (including long-term and short-term borrowings, as shown in the consolidated balance sheet) plus lease liabilities and derivative financial instruments less cash and cash equivalents. Total capital and net debt are calculated as equity, as shown in the consolidated balance sheet, plus net debt.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Capital risk management (continued)

The gearing ratios were as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Total borrowings (Note 24)	740,005	459,589
Lease liabilities (Note 13a)	348,025	349,909
Derivative financial instruments (Note 16)	14,263	(2,972)
Less: Cash and cash equivalents (Note 20)	(444,439)	(346,635)
Net debt	657,854	459,891
Total equity	3,203,404	3,152,530
Total capital and net debt	**3,861,258**	**3,612,421**
Gearing ratio	**17%**	**13%**

In order to maintain or adjust the capital structure, the General assembly, in accordance with the Decision on dividend policies, may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or Group may sell assets to reduce debt.

3.4 Fair value estimation

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation (continued)

Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of derivative financial instruments is determined based on specific valuation techniques (level 2).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Expected useful lives of brands and licences

Expected useful lives of brands and licences is considered to be indefinite unless there are circumstances that would indicate they should be limited to a certain period. The Group considers such indicators at each reporting period.

(b) Impairment of goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment as stated in Note 2.7. Brands with indefinite useful lives are tested for impairment on an individual asset basis, licences at the level of pharmacy business type (pharmacies and specialized stores), whereas goodwill is tested based on the operating segment to which it is allocated.

Goodwill and intangible assets with indefinite lives have been allocated to cash generating units within operating segments as follows:

(i) Licences

Operating segment *(in thousands of HRK)*	**31 December 2022**	**31 December 2021**
SBU Pharmacy business	183,200	177,347
	183,200	**177,347**

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Impairment test for goodwill and intangible assets with indefinite useful lives (continued)

(ii) Brands

Operating segment *(in thousands of HRK)*	**31 December 2022**	**31 December 2021**
SBU Savoury Spreads	242,053	241,497
SBU Snacks	115,485	115,873
SBU Coffee	102,537	102,301
BU Donat	47,128	47,020
	507,203	**506,691**

(iii) Goodwill

Operating segment *(in thousands of HRK)*	**31 December 2022**	**31 December 2021**
SBU Snacks	185,539	208,096
SBU Pharmacy business	168,183	168,183
SBU Savoury Spreads	124,133	126,239
BU Donat	80,458	80,273
SBU Coffee	64,108	58,372
SDU Serbia	52,056	51,827
SDU Croatia	49,854	55,141
SDU Slovenia	26,633	26,516
DU Macedonia	6,053	6,026
SBU Beverages	2,621	2,621
	759,638	**783,294**

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial forecasts approved by the management, covering a seven-year period.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Impairment test for goodwill and intangible assets with indefinite useful lives (continued)

Value in use calculations for goodwill were determined based on the following assumptions on after-tax discount rates:

Operating segment	2022	2021
SBU Coffee	8.9%	8.4%
SBU Savoury Spreads	9.0%	7.6%
SBU Snacks	9.7%	9.3%
SBU Pharmacy business	8.2%	7.8%
BU Donat	8.5%	7.8%
SDU Croatia	8.1%	8.0%
SDU Serbia	9.7%	10.9%
SDU Slovenia	6.2%	6.6%
DU Macedonia	12.6%	11.3%

The Growth rate assumptions were based on historical data and management's expectations for market development. Terminal growth rate is 2.0% for all Operating segments (except for SBU Coffee, 1.0%) and individual asset impairment tests, and it is based on management's expectations for market development (2021: 2.0%, SBU Coffee: 1.0%). Discount rates after taxes in 2022 are generally higher than in 2021 among segments, based on the increase in risk-free interest rate in all markets as a result of high inflation.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Impairment test for goodwill and intangible assets with indefinite useful lives (continued)

The Royalty rate assumptions used for impairment tests of brands are as follows:

	2022	**2021**
Barcaffe	5.0%	5.0%
Najlepše želje	6.0%	6.0%
Bananica	5.1%	5.0%
Smoki	7.5%	7.0%
Argeta	8.0%	8.0%
Donat	8.0%	8.0%

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 26,133 thousand was recognised (2021: HRK 17,045 thousand) in respect of impairment of goodwill and brands with indefinite useful lives.

A reasonably expected change in any of the key assumptions used in the impairment test, with all other variables unchanged, may result in additional impairment.

The sensitivity analysis of the key assumptions used in the impairment testing of brands showed that a discount rate increase by 100 basis points with other variables unchanged would result in additional impairment of brands in the amount of HRK 1,580 thousand. At the same time, if the terminal growth rate was reduced by 100 basis points, with other variables unchanged, it would not lead to an additional decrease in the value of brands, while a decrease in the royalty rate by 50 basis points, with other variables unchanged would imply additional impairment of brands of HRK 15,616 thousand.

The sensitivity analysis of the key assumptions used in the impairment testing of goodwill and licences shows that increasing the discount rate by 100 basis points, with other variables unchanged would result in additional impairment of goodwill and licences in amount of HRK 101,280 thousand. At the same time, if the terminal growth rate was reduced by 100 basis points, with other variables unchanged, the decrease in the value of goodwill and licences would be HRK 51,184 thousand higher, with a decrease in expected free cash flow by 500 basis points, with other variables unchanged, the decrease in the values of goodwill and licences would be HRK 26,638 thousand higher.

(c) Deferred tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (Note 25).

NOTE 5 – SEGMENT INFORMATION

The business model of the Group is organized through five strategic business units and one business unit. In addition to business units, separate department – New Growth is established, which is focused on the development of new brands of Atlantic Grupa.

The distribution business is organized to cover six largest markets – Croatia, Serbia, Slovenia, North Macedonia, Russia and Austria and department of Global Distribution Account Management covering the markets dominantly managed by distribution partners.

BUSINESS UNITS	DISTRIBUTION UNITS
SBU COFFEE	SDU CROATIA
SBU BEVERAGES	SDU SERBIA
SBU SAVOURY SPREADS	SDU SLOVENIA
SBU SNACKS	DU MACEDONIA
SBU PHARMACY BUSINESS	DU RUSSIA
BU DONAT	DU AUSTRIA
NEW GROWTH	GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT

SBU – Strategic business unit
SDU – Strategic distribution unit
BU – Business unit
DU – Distribution unit

For more efficient management of individual business and distribution units, the organization unites similar business activities or products, shared markets, or channels, together.

Since DU Macedonia, DU Russia, DU Austria, Global distribution network management and New Growth do not meet quantitative thresholds, required by IFRS 8 for reportable segments, they are reported within “Other segments” where, also, baby food business, which was completely divested in June 2021, is reported. “Other segments” category comprises also of non-allocable business activities (headquarters and support functions in all markets of Atlantic Grupa) which are excluded from the reportable operating segments.

Segment performance is evaluated based on operating profit or loss. Group financing and income taxes are managed on Group basis and are not allocated to operating segments.

Sales of individual business units represent in market sales made to third parties (either directly through business units or through distribution units). Distribution units’ sales includes sales of own products also reported as business units’ sales. This double counting of own product sales is eliminated in the “Reconciliation” line. For segmental profit calculation, sales between operating segments are carried out at arm's length.

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues* *(in thousands of HRK)*	**2022**	**2021**
SBU Coffee	1,389,933	1,196,229
SBU Savoury Spreads	973,603	885,248
SBU Snacks	731,652	684,420
SBU Beverages	644,645	536,380
SBU Pharmacy business	587,464	531,474
BU Donat	239,912	218,785
SDU Croatia	1,553,400	1,403,161
SDU Serbia	1,542,156	1,335,388
SDU Slovenia	1,094,792	1,012,789
Other segments	929,721	855,149
Reconciliation	(3,314,294)	(2,956,544)
Total	**6,372,984**	**5,702,479**

Operating results	**For the year ended 31 December 2022**		
(in thousands of HRK)	**Operating Profit/(Loss) before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating Profit/(Loss)**
SBU Coffee	189,436	51,620	137,816
SBU Savoury Spreads	144,685	25,816	118,869
SBU Snacks	44,046	46,075	(2,029)
SBU Beverages	100,931	26,984	73,947
SBU Pharmacy business	69,198	23,284	45,914
BU Donat	108,202	5,438	102,764
SDU Croatia	84,919	26,175	58,744
SDU Serbia	71,570	20,587	50,983
SDU Slovenia	62,065	7,747	54,318
Other segments	(299,611)	66,614	(366,225)
Total	**575,441**	**300,340**	**275,101**

* Comparative period has been adjusted to reflect 2022 reporting

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results*	**For the year ended 31 December 2021**		
(in thousands of HRK)	**Operating Profit/(Loss) before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating Profit/(Loss)**
SBU Coffee	278,779	46,016	232,763
SBU Savoury Spreads	182,706	18,634	164,072
SBU Snacks	114,599	38,921	75,678
SBU Beverages	111,606	34,493	77,113
SBU Pharmacy business	59,223	21,252	37,971
BU Donat	101,457	4,444	97,013
SDU Croatia	88,048	26,173	61,875
SDU Serbia	62,613	20,031	42,582
SDU Slovenia	62,801	7,728	55,073
Other segments	(337,443)	68,752	(406,195)
Total	**724,389**	**286,444**	**437,945**

Geographical information

The total of non-current assets other than financial instruments, deferred income tax assets and trade and other receivables is located as follows:

	31 December 2022	**31 December 2021**
	(in thousands of HRK)	
Serbia	1,075,658	1,012,841
Croatia	1,014,792	1,018,277
Slovenia	895,092	896,100
Other markets	162,312	152,556
Total geographically allocated non-current assets	**3,147,854**	**3,079,774**

* Comparative period has been adjusted to reflect 2022 reporting

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2022 (in thousands of HRK)	2022 %	2021 (in thousands of HRK)	2021 %
Croatia	2,151,005	33.8	1,945,624	34.1
Serbia	1,562,207	24.5	1,352,929	23.7
Slovenia	1,101,490	17.3	1,013,699	17.8
Bosnia and Herzegovina	477,872	7.5	422,579	7.4
Other regional markets*	534,530	8.4	466,631	8.2
Key European markets**	325,872	5.1	275,807	4.8
Russia and CIS countries	108,207	1.7	116,311	2.1
Other markets	111,801	1.7	108,899	1.9
Total sales by markets	**6,372,984**	**100.0**	**5,702,479**	**100.0**

*Other regional markets: North Macedonia, Montenegro, Kosovo
**Key European markets: Germany, Switzerland, Austria, Sweden

Sales by geographical segments is determined by geographical location of the customer.

Analysis of revenue by category	2022 (in thousands of HRK)	2022 %	2021 (in thousands of HRK)	2021 %
Sales by type of products				
Own brands	4,014,110	62.1	3,571,094	61.7
Principal brands	1,771,410	27.4	1,599,911	27.7
Farmacia	587,464	9.1	531,474	9.2
Total sales by type of products	**6,372,984**	**98.6**	**5,702,479**	**98.6**
Other income /i/	90,991	1.4	83,292	1.4
Total revenues	**6,463,975**	**100.0**	**5,785,771**	**100.0**

/i/ Other income mainly comprises of interest income, rental income and income from the reversal of unused provisions.

NOTE 6 – STAFF COSTS

	2022	2021
	(in thousands of HRK)	
Gross salaries /i/	845,122	779,766
Christmas and Easter bonuses and holiday allowances	45,289	51,592
Public transport	19,019	18,147
Termination benefits	2,421	5,240
Other staff costs /ii/	72,146	82,631
	983,997	**937,376**

In 2022, the average number of employees was 5,436 (2021: 5,460).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds in 2022 amounted to HRK 157,774 thousand (2021: HRK 147,249 thousand).

/ii/ Other staff costs include bonuses, education expenses, accruals for unused vacation days and jubilee awards.

NOTE 7 – MARKETING AND PROMOTION COSTS

	2022	2021
	(in thousands of HRK)	
Marketing and promotion costs - external	264,870	302,615
Marketing and promotion costs - related parties (Note 29)	7,882	4,168
Sponsorships and donations - external	21,987	22,993
	294,739	**329,776**

NOTE 8 – OTHER OPERATING COSTS

	2022	2021
	(in thousands of HRK)	
Transportation costs	179,505	142,480
Maintenance	128,812	127,075
Non-production material	38,735	34,464
Rentals (Note 13a)	32,112	29,315
Fuel	26,282	18,985
Provision for impairment of inventories (Note 19)	25,243	16,094
Taxes and contributions not related to operating results	23,891	22,829
Entertainment	20,508	9,946
Intellectual services	17,945	27,125
Production services	16,615	11,135
Non-production services	14,534	11,510
Travel expense and daily allowances	10,997	5,568
Telecommunication services	10,493	10,949
Bank charges	8,574	8,234
Provision for impairment of trade receivables (Note 18)	7,130	8,894
Supervisory Board fees	1,913	1,572
Provision for impairment of other receivables (Note 18)	-	230
Collection of previously impaired trade receivables (Note 18)	(3,785)	(8,094)
Other – related parties (Note 29)	2,364	2,202
Other	38,239	53,901
	600,107	**534,414**

NOTE 9 – OTHER GAINS – NET

	2022	2021
	(in thousands of HRK)	
Foreign exchange gains/(losses) – net	31,501	(3,570)
Gain on sale of property, plant and equipment	1,621	1,475
Gain on sale of intangible asset	755	-
(Loss)/gain on sale of subsidiaries – net of transaction expenses	(365)	648
Fair value (losses)/gains on financial assets	(1,172)	4,219
Other gains - net	247	1,247
	32,587	**4,019**

NOTE 10 – FINANCE COSTS – NET

	2022	2021
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings and lease liabilities	2,947	2,826
	2,947	2,826
Finance costs		
Interest expense on lease liabilities	(8,369)	(8,408)
Interest expense on bank borrowings	(3,783)	(2,930)
Interest expense on bonds	(2,870)	(2,870)
Interest expense on provisions for employee benefits	(2,449)	(827)
Other interest expense /i/	(1,223)	(2,789)
Total interest expense	(18,694)	(17,824)
Foreign exchange losses on borrowings and lease liabilities	(4,049)	(2,751)
	(22,743)	(20,575)
Finance costs - net	**(19,796)**	**(17,749)**

/i/ Other interest expenses relate to interest arising from unwinding of discount and default interests.

NOTE 11 – INCOME TAX

	2022	2021
	(in thousands of HRK)	
Current income tax	54,221	84,396
Deferred tax (Note 25)	4,621	(10,092)
	58,842	**74,304**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2022	2021
	(in thousands of HRK)	
Profit before taxation	**255,305**	**420,196**
Income tax calculated at Croatian statutory income tax rate of 18%	45,955	75,635
Tax effects of:		
Higher/(lower) income tax rates overseas	1,119	(1,562)
Adjustments of current income tax related to prior years	(3,995)	9,855
Income not subject to tax	(12,389)	(13,992)
Expenses not deductible for tax purposes	24,915	16,586
Effect of utilized tax incentives	(2,311)	(4,068)
Utilisation of previously unrecognized tax losses	(3,360)	(8,144)
Tax losses for which no deferred tax assets were recognised	8,898	771
Effect of utilized tax losses	(708)	(777)
Additional profit tax in the Republic of Croatia	718	-
Income tax	**58,842**	**74,304**

The effective tax rate was 23.0% (2021: 17.7%).

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

At the General Assembly held on 15 June 2022, the shareholders approved share split in a way that each of the Company's ordinary shares with an individual nominal value of HRK 40.00 was split into four shares with an individual nominal amount of HRK 10.00. Following the share split, the number of ordinary shares increased from 3,334,300 to 13,337,200 shares. Basic earnings per share for prior period have been adjusted with the new number of shares.

	2022	**2021**
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	195,729	344,857
Weighted average number of ordinary shares in issue	13,292,694	13,300,488
Basic earnings per share *(in HRK)*	14.72	25.93

Diluted earnings per share

Diluted earnings per share are the same as basic earnings per share since there were no diluted potential ordinary shares.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land**	**Buildings**	**Plant and equipment**	**Assets not yet in use**	**Total**
At 31 December 2020					
Cost	136,797	970,038	1,850,685	163,084	3,120,604
Accumulated depreciation and impairment charge	-	(597,758)	(1,452,508)	-	(2,050,266)
Net book amount	**136,797**	**372,280**	**398,177**	**163,084**	**1,070,338**
At 1 January 2021					
Opening net book amount	136,797	372,280	398,177	163,084	1,070,338
Additions	-	502	11,093	194,536	206,131
Transfer	-	12,540	204,945	(217,485)	-
Disposals	(1,423)	(2,506)	(1,290)	(2,173)	(7,392)
Depreciation	-	(20,331)	(105,320)	-	(125,651)
Impairment charge	(245)	(6,413)	(5,345)	(190)	(12,193)
Transfer to assets held for sale	(21)	(2,045)	(1,561)	-	(3,627)
Acquisition of subsidiary	-	-	1,438	-	1,438
Divestment of subsidiary	(4,634)	(9,743)	(3,981)	-	(18,358)
Foreign exchange differences	(188)	(856)	(620)	(297)	(1,961)
Closing net book amount	**130,286**	**343,428**	**497,536**	**137,475**	**1,108,725**
At 31 December 2021					
Cost	130,286	908,468	1,890,872	137,475	3,067,101
Accumulated depreciation and impairment charge	-	(565,040)	(1,393,336)	-	(1,958,376)
Net book amount	**130,286**	**343,428**	**497,536**	**137,475**	**1,108,725**
At 1 January 2022					
Opening net book amount	130,286	343,428	497,536	137,475	1,108,725
Additions	251	363	8,416	208,219	217,249
Transfer	-	16,432	166,095	(182,527)	-
Disposals	-	(186)	(1,043)	(5)	(1,234)
Depreciation	-	(18,034)	(109,745)	-	(127,779)
Impairment charge	-	(4,093)	(1,706)	-	(5,799)
Transfer from assets held for sale	-	316	-	-	316
Transfer from intangible assets	-	470	-	1,397	1,867
Acquisition of subsidiary	-	-	241	-	241
Foreign exchange differences	221	920	1,105	373	2,619
Closing net book amount	**130,758**	**339,616**	**560,899**	**164,932**	**1,196,205**
At 31 December 2022					
Cost	130,758	913,673	1,969,328	164,932	3,178,691
Accumulated depreciation and impairment charge	-	(574,057)	(1,408,429)	-	(1,982,486)
Net book amount	**130,758**	**339,616**	**560,899**	**164,932**	**1,196,205**

As at 31 December 2022 and 31 December 2021, there were no pledged property, plant and equipment as collateral for loan repayment.

NOTE 13a – LEASES

This note provides information for leases where the Group is lessee.

(i) Amounts recognized in the balance sheet

(in thousands of HRK)	Buildings	Vehicles	Other	Total
Right-of-use assets				
At 1 January 2021	251,339	85,827	1,672	338,838
Additions	20,618	52,628	3,768	77,014
Lease modification	13,554	792	373	14,719
Lease expiration	(3,654)	(1,713)	(969)	(6,336)
Depreciation	(51,169)	(43,064)	(389)	(94,622)
Foreign exchange differences	(657)	943	(5)	281
At 31 December 2021	**230,031**	**95,413**	**4,450**	**329,894**
Additions	14,755	44,215	635	59,605
Lease modification	39,393	7,911	(460)	46,844
Lease expiration	(1,247)	(6,347)	(223)	(7,817)
Depreciation	(55,754)	(45,139)	(575)	(101,468)
Foreign exchange differences	112	215	13	340
At 31 December 2022	**227,290**	**96,268**	**3,840**	**327,398**

	31 December 2022	31 December 2021
Lease liabilities		
Current	91,680	86,844
Non-current	256,345	263,065
	348,025	349,909

(ii) Amounts recognized in the income statement

(in thousands of HRK)	2022	2021
Depreciation charge of right-of-use assets	101,468	94,622
Interest expense (included in “Finance cost”)	8,369	8,408
Expense related to short-term leases, leases of software licences, low value assets and variable lease component which is not capitalized (included in “Other operating expenses”)	32,112	29,315

The total cash outflow for leases in 2022 was HRK 101,407 thousand (2021: HRK 93,502 thousand).

NOTE 14 – NON-CURRENT ASSETS HELD FOR SALE

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Opening net book amount	3,759	5,382
Transfer from tangible and intangible assets	-	3,762
Impairment charge	-	(1,140)
Disposals	-	(3,750)
Divestment of subsidiary	(3,726)	-
Transfer to investment property	-	(492)
Foreign exchange differences	(33)	(3)
Closing net book amount	**-**	**3,759**

NOTE 15 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brands	Rights and Customer contracts	Software	Assets not yet in use	Total
At 31 December 2020							
Cost	830,916	222,231	770,333	13,391	220,810	8,326	2,066,007
Accumulated amortisation and impairment charge	(33,816)	(48,968)	(155,741)	(955)	(167,769)	-	(407,249)
Net book amount	**797,100**	**173,263**	**614,592**	**12,436**	**53,041**	**8,326**	**1,658,758**
At 1 January 2021							
Opening net book amount	797,100	173,263	614,592	12,436	53,041	8,326	1,658,758
Foreign exchange differences	(1,608)	-	(1,584)	-	145	19	(3,028)
Additions	-	-	-	-	948	32,871	33,819
Transfer	-	-	312	3,053	30,551	(33,916)	-
Transfer to assets held for sale	-	-	-	-	(135)	-	(135)
Divestment of business	-	-	-	-	(438)	-	(438)
Acquisition of subsidiary	-	6,287	-	5,447	-	-	11,734
Disposals	-	-	(7,524)	-	-	-	(7,524)
Amortisation	-	(518)	(10,385)	(1,587)	(23,000)	-	(35,490)
Impairment charge	(12,198)	-	(4,847)	-	(303)	-	(17,348)
Closing net book amount	**783,294**	**179,032**	**590,564**	**19,349**	**60,809**	**7,300**	**1,640,348**
At 31 December 2021							
Cost	807,495	228,518	740,188	21,891	246,725	7,300	2,052,117
Accumulated amortisation and impairment charge	(24,201)	(49,486)	(149,624)	(2,542)	(185,916)	-	(411,769)
Net book amount	**783,294**	**179,032**	**590,564**	**19,349**	**60,809**	**7,300**	**1,640,348**
At 1 January 2022							
Opening net book amount	783,294	179,032	590,564	19,349	60,809	7,300	1,640,348
Foreign exchange differences	2,477	-	1,669	-	32	169	4,347
Additions	-	-	-	-	-	40,373	40,373
Transfer	-	-	21	-	21,574	(21,595)	-
Transfer to property, plant and equipment	-	-	-	-	-	(1,867)	(1,867)
Acquisition of subsidiary	-	5,853	-	-	-	-	5,853
Amortisation	-	(518)	(9,609)	(3,197)	(25,818)	-	(39,142)
Impairment charge	(26,133)	-	-	-	-	-	(26,133)
Closing net book amount	**759,638**	**184,367**	**582,645**	**16,152**	**56,597**	**24,380**	**1,623,779**
At 31 December 2022							
Cost	809,972	234,371	742,501	21,891	266,996	24,380	2,100,111
Accumulated amortisation and impairment charge	(50,334)	(50,004)	(159,856)	(5,739)	(210,399)	-	(476,332)
Net book amount	**759,638**	**184,367**	**582,645**	**16,152**	**56,597**	**24,380**	**1,623,779**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test and the basis for impairment charge are provided in Note 4 b).

As at 31 December 2022 and as 31 December 2021, there were no pledged intangible assets as collateral for loan repayment.

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Financial assets at amortised cost		
Trade receivables	1,183,374	1,078,069
Loans and deposits given	43,595	48,217
Other financial assets at amortized cost	22,940	44,995
Cash and cash equivalents	444,439	346,635
	1,694,348	1,517,916
Financial assets at fair value through other comprehensive income	1,275	1,384
Derivative financial instruments		
Cash flow hedges	4,407	2,972
Total financial assets	**1,700,030**	**1,522,272**
Total current	1,664,039	1,478,138
Total non-current	35,991	44,134
Financial liabilities at amortised cost		
Borrowings	740,005	459,589
Trade and other payables	1,213,081	1,107,233
	1,953,086	1,566,822
Lease liabilities	348,025	349,909
Derivative financial instruments		
Cash flow hedges	18,670	-
Financial liabilities at fair value through profit or loss		
Contingent consideration for acquisition of subsidiaries	6,799	9,846
Total financial liabilities	**2,326,580**	**1,926,577**
Total current	1,658,437	1,357,748
Total non-current	668,143	568,829

NOTE 17 – FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME

Investments in financial assets through other comprehensive income (OCI) relate to unlisted equity instruments and are carried at cost since they do not have a quoted market price and fair value cannot be reliably measured.

During 2022 and 2021, there were no impairment provisions on financial assets through OCI.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Non-current receivables		
Loans and deposits given /i/	28,490	36,330
Other non-current receivables	6,226	6,420
	34,716	42,750
Current receivables		
Trade receivables /ii/	1,183,374	1,078,069
Loans and deposits given /i/	15,105	11,887
Other receivables /iii/	212,753	198,026
	1,411,232	1,287,982
	1,445,948	**1,330,732**

	31 December 2022	31 December 2021
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Trade receivables	1,183,374	1,078,069
Loans and deposits given	43,595	48,217
Other receivables	22,940	44,995
	1,249,909	**1,171,281**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/i/ Loans and deposits given are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Non-current receivables		
Loans	38,427	37,193
Deposits	2,138	2,053
Current portion	(12,075)	(2,916)
	28,490	36,330
Current receivables		
Loans	1,979	8,095
Loans – related parties (Note 29)	870	791
Deposits	181	85
Current portion of non-current receivables	12,075	2,916
	15,105	11,887
	43,595	**48,217**

The fair value of loans and deposits approximates the carrying amounts.

/ii/ Trade receivables are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Gross trade receivables	1,135,263	1,055,894
Trade receivables – related parties (Note 29)	92,136	83,176
Provision for trade receivables	(44,025)	(61,001)
	1,183,374	**1,078,069**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/iii/ Other receivables are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Prepaid expenses	108,681	83,748
Prepaid expenses – related parties (Note 29)	2,305	-
Receivables from government institutions	54,081	45,467
Outstanding advances	30,972	30,236
Interest receivable	702	551
Interest receivable – related parties (Note 29)	238	207
Receivables from the sale of business and subsidiaries (Note 28)	-	18,793
Other	15,774	19,024
	212,753	**198,026**

During 2022 there were no impairment of other receivables (2021: HRK 230 thousand), (Note 8).

/iv/ Accrued interest up to the balance sheet date is recorded within other income.

As of 31 December 2022, trade receivables in the amount of HRK 44,025 thousand (2021: HRK 61,001 thousand) were provided for. The individually impaired receivables relate to customers that are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Undue	522	1,517
Up to 3 months	2,267	2,457
3 to 6 months	2,149	1,537
Over 6 months	39,087	55,490
	44,025	**61,001**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2022, trade receivables in the amount of HRK 111,147 thousand (2021: HRK 97,520 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing of these receivables is as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Up to 3 months	107,117	91,627
3 to 6 months	2,266	3,541
Over 6 months	1,764	2,352
	111,147	**97,520**

The carrying amounts of the Group's financial assets are denominated in the following currencies:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
RSD	410,345	352,248
HRK	391,175	396,898
EUR	338,525	316,079
Other	109,864	106,056
	1,249,909	**1,171,281**

Movements on the provision for impairment of trade receivables are as follows:

	2022	2021
	(in thousands of HRK)	
As at 1 January	61,001	62,554
Provision for receivables impairment (Note 8)	7,130	8,894
Collected amounts reversed (Note 8)	(3,785)	(8,094)
Receivables written off	(20,121)	(1,086)
Liquidation of subsidiary	-	(1,192)
Exchange differences	(200)	(75)
As at 31 December	**44,025**	**61,001**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

NOTE 19 – INVENTORIES

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Trade goods	303,226	275,066
Finished goods	284,894	234,086
Raw materials and supplies	172,045	119,172
Work in progress	8,988	10,877
	769,153	**639,201**

During 2022, inventories of HRK 25,243 thousand (2021: HRK 16,094 thousand) were impaired due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Current account and cash on hand	234,001	147,807
Foreign currency account	188,528	198,828
Deposits up to three months /i/	21,910	-
	444,439	**346,635**

/i/ Accrued interest up to the balance sheet date is recorded within other income.

Cash and cash equivalents are denominated in the following currencies:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
HRK	234,001	147,807
EUR	141,185	111,712
RSD	23,964	27,488
Other	45,289	59,628
	444,439	**346,635**

NOTE 21 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of shares	Share capital	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2021	**3,327,571**	**133,372**	**881,851**	**(7,647)**	**1,007,576**
Purchase of treasury shares	(19,801)	-	-	(30,558)	(30,558)
Share based payments	11,709	-	2,001	16,074	18,075
31 December 2021	**3,319,479**	**133,372**	**883,852**	**(22,131)**	**995,093**
Purchase of treasury shares	(10,038)	-	-	(16,130)	(16,130)
Share based payments	16,995	-	2,720	25,846	28,566
21 July 2022	3,326,436	133,372	886,572	(12,415)	1,007,529
Share split /i/	13,305,744	-	-	-	-
Purchase of treasury shares	(18,000)	-	-	(6,259)	(6,259)
Share based payments	1,324	-	(42)	519	477
31 December 2022	**13,289,068**	**133,372**	**886,530**	**(18,155)**	**1,001,747**

/i/ At the General Assembly held on 15 June 2022, the Company made a decision on the share split of ordinary registered shares, code ATGR-R-A, with an individual nominal value of HRK 40.00, in a way that 1 share, code ATGR-R-A, ISIN HRATGRRA0003, with an individual nominal value of HRK 40.00 is split into 4 new ordinary registered shares of the Company, code ATGR-R-A, with an individual nominal value of HRK 10.00. Following the share split on 21 July 2022, the share capital in the amount of HRK 133,372,000.00 was divided into 13,337,200 ordinary shares with an individual nominal value of HRK 10.00.

All shares issued are ordinary shares, including all relevant rights with an exception of treasury shares. These rights include the right to vote at the Company's General Assembly, as well as the right to dividend payment.

The ownership structure of the Company is as follows:

	31 December 2022		31 December 2021	
	Number of shares	**%**	**Number of shares**	**%**
MYBERG d.o.o.	6,695,276	50.20	-	-
Emil Tedeschi	-	-	1,673,819	50.20
Raiffeisen Obligatory pension fund	1,447,396	10.85	361,839	10.85
AZ Obligatory pension fund	1,147,784	8.61	286,946	8.61
Erste Plavi Obligatory pension fund	988,464	7.41	247,821	7.43
Lada Tedeschi Fiorio	772,624	5.79	193,156	5.79
Other Management board members	149,376	1.12	33,464	1.00
Other shareholders	2,088,148	15.66	522,434	15.67
Treasury shares	48,132	0.36	14,821	0.45
Total	**13,337,200**	**100.00**	**3,334,300**	**100.00**

Based on the Share Transfer Agreement concluded on 29 July 2022, Mr. Emil Tedeschi transferred all the shares of the Company he has held as an individual shareholder to the company MYBERG d.o.o., Zagreb and it resulted in a change of the ownership structure of the Company. Mr. Emil Tedeschi is the founder and majority owner of the company MYBERG d.o.o., Zagreb.

NOTE 21 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (continued)

The annual consolidated financial statements of the largest group of companies, in which the Company is a controlled member, are prepared by MYBERG d.o.o., Zagreb. These statements will be available within the legal deadline in the Register of Annual Financial Reports at the Financial Agency - FINA.

Dividend distribution

According to the decision of the Company's General Assembly from 15 June 2022, the distribution of dividend in the amount of HRK 50.00 per share, or HRK 166,322 thousand in total was approved. Dividend was paid in July 2022.

In 2021 the distribution of dividend in the amount of HRK 40.00 per share, or HRK 133,094 thousand in total was approved. Dividend was paid in July 2021.

Share based payments

According to the Company’s ESOP program, employees can opt to receive bonus in Company’s shares and this right is granted to the Management as well as to other employees defined by ESOP resolution (equity- settled transactions).

In addition to the right to pay bonuses in shares, employees, if decide to keep the shares for a period of at least two or three subsequent years of employment (vesting period), acquire the right to additional shares, while the other part is available without restrictions.

Members of senior management are eligible to participate in the Executive Longevity Premium program, which was created as a result of Atlantic Grupa’s desire to recognize the critical contribution of senior management positions in creating and implementing a long-term strategy. Through this program, the Company grants a package of shares to members of senior management for their long-term contribution to the Company in a senior executive position, whereby the right to a third of the shares from the package is acquired upon completion of six years in an executive position, while the right to the remaining two thirds is acquired upon retirement.

Additionally, employees who, according to the internal performance management evaluation process have made an extraordinary contribution in the previous business year are awarded with an additional package of shares, 20% of which are vested in the current year, while the remaining 80% are vested after the expiration of an additional three and five years of employment.

In addition to the previous mentioned programs, there is also a Special award of the Chief Executive Officer who awards the best employees for their contribution in the previous financial year in shares. The right to acquire these shares is fully exercised in the current year.

In 2022, prior to the corporate action of the share split, the members of the Management Board and employees received a total of 12,033 non-conditional shares granted in 2021, as well as 3,552 conditional shares granted in 2018 and 1,410 conditional shares granted in 2019. The fair value of the shares granted is determined as of the grant date, at the estimated market price of the share of HRK 1,680.91 (2021: HRK 1,540.00).

Following the corporate action of the share split, Management and employees received an additional 964 non-conditional shares granted in 2021 and 360 conditional shares granted in 2019 at the estimated market price of HRK 359.36 per share.

In 2021, Management and employees have received 5,344 non-conditional shares granted in 2020, 4,881 conditional shares granted in 2017 and 1,484 conditional shares granted in 2018.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves /i/**	**Translation reserves /ii/**	**Cash flow hedge reserves /ii/**	**Total**
At 1 January 2021	**20,513**	**(62,665)**	**(9,299)**	**(51,451)**
Foreign exchange differences	-	(4,062)	-	(4,062)
Transfer from retained earnings	1,761	-	-	1,761
Cash flow hedge	-	-	8,473	8,473
At 31 December 2021	**22,274**	**(66,727)**	**(826)**	**(45,279)**
Foreign exchange differences	-	(7,386)	-	(7,386)
Transfer from retained earnings	4,363	-	-	4,363
Shares granted /iii/	31,538	-	-	31,538
Cash flow hedge	-	-	(16,829)	(16,829)
At 31 December 2022	**58,175**	**(74,113)**	**(17,655)**	**(33,593)**

/i/ Reserves mainly comprise legal and statutory reserves, as well as bonuses to employee that will be paid in shares. These reserves are distributable.

/ii/ Movements represent amounts attributable to the owners of the Company only.

Components of Other comprehensive income:

	2022	**2021**
	(in thousands of HRK)	
Cash flow hedges:		
Currency forward contracts		
Reclassification during the year to profit or loss	1,030	7,497
Net (loss)/income during the year of not-yet matured contracts	(17,859)	976
	(16,829)	**8,473**

/iii/ As at 31 December 2022, in accordance with share-based payments program, a total of 64,374 shares (2021: 63,625 shares) were granted. Shares are granted at a price that corresponds to the average market price of the Company's share in March of the year of grant.

NOTE 23 – TRADE AND OTHER PAYABLES

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Trade payables	863,889	786,841
Trade payables – related parties (Note 29)	964	2,238
Other payables	420,728	385,746
	1,285,581	**1,174,825**

Other payables recorded as at 31 December are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Accrued expenses (suppliers)	192,610	186,152
Accrued expenses (suppliers) – related parties (Note 29)	72	-
Contractual obligation to customers	115,654	85,357
Contractual obligation to customers – related parties (Note 29)	1,873	-
Gross salaries payable	69,054	64,648
Vacation accrual	22,598	20,107
Deferred income	2,884	2,828
Dividend payable	439	291
Termination benefits payable	181	331
Other	15,363	26,032
	420,728	**385,746**

Financial liabilities i.e. trade and other payables excluding gross salaries payable, termination benefits payable and liabilities to state institutions are denominated in the following currencies:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
EUR	510,344	437,833
HRK	421,241	401,660
RSD	167,726	199,537
Other	119,752	71,942
	1,219,063	**1,110,972**

NOTE 24 – BORROWINGS

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /ii/	111,716	637
Bonds /i/	299,265	299,020
	410,981	**299,657**
Short-term borrowings:		
Financial institutions /ii/	328,880	159,788
Bonds /i/	144	144
	329,024	**159,932**
	740,005	**459,589**

/i/ In December 2020, Atlantic Grupa issued corporate bonds in the amount of HRK 300 million at the price of 99.985% with a coupon of 0.875% per annum with semi-annual payment of interest and final redemption on 11 December 2025. The purpose of these Bonds is financing working capital and refinance of bonds whose maturity was on 17 June 2022.

/ii/ Long-term loans from financial institutions include three loans (2021: -). Short-term loans from financial institutions include eight loans (2021: three loans). As at 31 December 2022 and as at 31 December 2021, the Group had no committed lines.

As at 31 December 2022 and as at 31 December 2021, the Group has no borrowings secured by pledges over property.

Part of borrowings from financial institutions are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators such as total net debt cover, interest cover, cash flow cover and maximum capital expenditures. At the balance sheet date, all covenant clauses were met.

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates at the balance sheet date are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Fixed interest rate	535,433	331,727
Up to 3 months	204,572	127,862
	740,005	**459,589**

NOTE 24 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows :

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Between 1 and 2 years	77,157	-
Between 2 and 5 years	333,824	299,657
	410,981	**299,657**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 2.21% (2021: 0.78%). The effective annual interest rate related to bonds at the balance sheet date was 0.96% (2021: 0.96%).

The carrying amounts and fair value of long-term borrowings as at 31 December were as follows:

	Carrying amounts		Fair value	
(in thousands of HRK)	**2022**	**2021**	**2022**	**2021**
Financial institutions	111,716	637	111,404	637
Bonds	299,265	299,020	300,000	300,000
	410,981	**299,657**	**411,404**	**300,637**

The carrying amount of short-term borrowings approximates their fair value.

The carrying value of borrowings and bonds is translated from the following currencies:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
HRK	464,748	329,028
RSD	168,237	127,862
EUR	106,621	1,136
USD	399	1,563
	740,005	**459,589**

NOTE 25 – DEFERRED TAX

Deferred tax assets are recognized for tax loss carry forwards and tax credits to the extent that realization of the related tax benefit through future taxable profits of the related Group entities is probable. The Group did not recognize deferred tax assets of HRK 12,985 thousand (2021: HRK 7,460 thousand) in respect of losses that arose in the Company and its ten subsidiaries (2021: six subsidiaries) that can be carried forward against future taxable income. Deferred tax assets have not been recognized in respect of these losses as it is not probable that future taxable profit will be available for utilization of the temporary differences. Tax losses amounting to HRK 78,362 thousand (2021: HRK 38,767 thousand) expire over the next five years, while the tax losses in the amount of HRK 2,862 thousand (2021: HRK 11,557 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	**Tax losses**	**Provisions**	**Other**	**Total**
At 1 January 2021	**2,753**	**14,268**	**19,264**	**36,285**
(Charged)/credited to the income statement (Note 11)	(725)	2,236	4,840	6,351
(Charged)/credited to other comprehensive income	-	38	(1,463)	(1,425)
Exchange differences	344	(11)	(75)	258
At 31 December 2021	**2,372**	**16,531**	**22,566**	**41,469**
Charged to the income statement (Note 11)	(2,881)	(890)	(2,261)	(6,032)
(Charged)/credited to other comprehensive income	-	(216)	3,212	2,996
Exchange differences	509	610	(805)	314
At 31 December 2022	**-**	**16,035**	**22,712**	**38,747**

Deferred tax liabilities

(in thousands of HRK)	**Fair value uplifts of assets acquired in business combinations**	**Other**	**Total**
At 1 January 2021	**151,822**	**-**	**151,822**
Credited to the income statement (Note 11)	(3,741)	-	(3,741)
Charged to other comprehensive income	-	523	523
Exchange differences	(260)	-	(260)
At 31 December 2021	**147,821**	**523**	**148,344**
Charged/(credited) to the income statement (Note 11)	(1,533)	122	(1,411)
Credited to other comprehensive income	-	(525)	(525)
Exchange differences	299	(7)	292
At 31 December 2022	**146,587**	**113**	**146,700**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal proceedings**	**Other provisions**	**Total**
At 31 December 2021	119,865	33,667	1,640	155,172
Analysis of total provisions:				
Non-current	56,995	11,457	1,355	69,807
Current	62,870	22,210	285	85,365
At 1 January 2022	**119,865**	**33,667**	**1,640**	**155,172**
Additions	58,920	3,647	-	62,567
Utilised during the year	(57,605)	(224)	-	(57,829)
Reversed during the year	(8,347)	(1,457)	-	(9,804)
Interest expense	2,449	-	-	2,449
Reductions charged to other comprehensive income	(6,730)	-	-	(6,730)
Transfer to reserves	(31,538)	-	-	(31,538)
Exchange differences	247	111	41	399
At 31 December 2022	**77,261**	**35,744**	**1,681**	**114,686**
Analysis of total provisions:				
Non-current	41,055	11,479	1,362	53,896
Current	36,206	24,265	319	60,790

Employee benefits

This provision comprises estimated long-term employee benefits relating to one-off retirement benefits and jubilee awards, as defined by the collective bargaining agreement and bonuses to employees. The non-current portion of the provision relates to estimated acquired rights to termination benefits and jubilee awards that will be paid after 31 December 2023. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 4,339 thousand (2021: HRK 3,611 thousand) that will be paid out within the period of 12 months from the balance sheet date.

Legal proceedings

In addition to the above, in the ordinary course of business, the Group is defendant and plaintiff in pending legal proceedings. In Management's opinion, the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2022.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2022 but not yet incurred amounted to HRK 51,082 thousand (2021: HRK 74,915 thousand) for property, plant and equipment and HRK 10,389 thousand for intangible assets (2021: HRK 13,456 thousand).

NOTE 28 – BUSINESS COMBINATIONS, ACQUISITION AND DIVESTMENT OF SUBSIDIARIES

/i/ In 2022, Atlantic Group acquired 100% ownership in the company ZU Ljekarne sv. Kuzma i Damjan, Zagreb. As a result of this transaction, the license in the amount of HRK 357 thousand.

(in thousands of HRK)	
Cash paid	5,378
Carrying value of net assets acquired	(5,021)
License	**357**

Carrying value of net assets acquired

(in thousands of HRK)	
Property, plant and equipment	241
Licence	5,496
Inventories	887
Trade and other receivables	1,534
Cash and cash equivalents	215
Trade and other payables	(3,352)
	5,021

Cash flow from acquisition of subsidiary

(in thousands of HRK)	
Cash paid	5,378
Cash in subsidiary acquired	(215)
Payments for acquisition of subsidiary	**5,163**

Acquired subsidiary in 2022 contributed HRK 9,223 thousand of revenues and HRK 529 thousand of loss to the Group.

/ii/ In 2022, the Group paid a total of HRK 3,375 thousand for the acquisition of the subsidiary Procaffe d.o.o. Dugopolje from 2020, and HRK 159 thousand for the remaining 1% ownership in this subsidiary. The Group also paid the remaining HRK 633 thousand for the acquisition of the subsidiary The Best Coffee d.o.o., Podstrana from 2021.

NOTE 28 – BUSINESS COMBINATIONS, ACQUISITION AND DIVESTMENT OF SUBSIDIARIES (continued)

/iii/ In 2022 Atlantic Grupa signed with Vik Pro Univerzal d.o.o., Belgrade an agreement for the sale of the Palanački kiseljak production site in Smederevska Palanka, Serbia. The subject of the sale was the entire production site with all its employees and assets, including the traditional mineral water brand on the Serbian market - *Karađorđe*, which was previously separated from the company Atlantic Štark d.o.o. into a separate company Palanački Kiseljak d.o.o. The sale of this production site is a continuation of disinvesting in smaller and non-core activities in accordance with Atlantic Grupa's corporate strategy. The transaction was closed on 28 June 2022 and the Group realized a loss on sale in the amount of HRK 446 thousand.

(in thousands of HRK)	
Cash received from sale of subsidiary	1,460
Carrying value of net asset disposed	(1,906)
Loss on sale of subsidiary	**(446)**

Carrying value of net asset disposed as at 28 June 2022 *(in thousands of HRK)*	
Non-current assets held for sale	3,726
Inventories	605
Trade and other receivables	629
Trade and other payables	(2,817)
Borrowings	(237)
	1,906

Disposed subsidiary in 2022 contributed HRK 18,348 thousand of revenues and HRK 2,641 thousand of loss to the Group.

NOTE 28 – BUSINESS COMBINATIONS, ACQUISITION AND DIVESTMENT OF SUBSIDIARIES (continued)

/iv/ In 2021, Atlantic Group acquired 100% ownership in the companies ZU Ljekarna Galler, Kraljevica and The Best Cofee d.o.o., Podstrana. After the acquisition, they were merged with the ZU Ljekarne Farmacia and Atlantic Zagreb d.o.o., Zagreb.

As a result of these transactions, the license in the amount of HRK 6,287 thousand and customer contracts in the amount of HRK 5,447 thousand have been recognized.

Cash paid and liability for acquisition of subsidiaries	
(in thousands of HRK)	
Cash paid	12,407
Liability for acquisition of subsidiaries	633
Total purchase consideration	**13,040**
Carrying value of net assets acquired	(1,306)
	11,734
License	6,287
Customer contracts	5,447

Carrying value of net assets acquired	
(in thousands of HRK)	
Property, plant and equipment	1,438
Inventories	379
Trade and other receivables	2,246
Cash and cash equivalents	158
Trade and other payables	(2,915)
	1,306

Cash flow from acquisition of subsidiaries	
(in thousands of HRK)	
Cash paid	12,407
Cash in subsidiary acquired	(158)
Payments for acquisition of subsidiary	**12,249**

Acquired subsidiaries in 2021 contributed HRK 138 thousand of revenues and HRK 170 thousand of loss to the Group.

NOTE 28 – BUSINESS COMBINATIONS, ACQUISITION AND DIVESTMENT OF SUBSIDIARIES (continued)

/v/ In 2021 Atlantic Grupa has signed an agreement with the Austrian company Gittis Naturprodukte GmbH to sell the production site Mirna in Slovenia. This was the conclusion of the process started with the sale of the baby food brand Bebi to the Serbian Nelt Group in 2020, i.e. the continuation of disinvesting in smaller and non-core activities in accordance with Atlantic Grupa's corporate strategy. With this transaction, Gittis took over the entire production site with employees. The transaction was closed on 31 December 2021 and the Group realized a gain from the sale in the amount of HRK 648 thousand.

(in thousands of HRK)	
Receivables for sale of the business	18,793
Carrying value of net asset disposed	(18,145)
Gain from sale of the business	**648**

Carrying value of net asset disposed as at 31 December 2021 *(in thousands of HRK)*	
Property, plant and equipment	18,358
Intangible assets	438
Other assets	56
Other liabilities	(707)
	18,145

Disposed business in 2021 contributed HRK 29,734 thousand of revenues and HRK 8,502 thousand of profit to the Group.

/vi/ In 2022, the Group collected HRK 18,899 thousand and realized additional gain of HRK 81 thousand from the sale of the production site Mirna, which was completed in 2021. Furthermore, in 2021, the Group collected HRK 6,312 thousand of receivables from the sale of sports and active nutrition factories in 2017.

NOTE 29 – RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties – significant shareholders and entities owned or controlled by the ultimate controlling party ('other entities'), among which the most significant transactions are made with Ataco d.o.o., which is co-owned by the ultimate controlling party and which is distributor for a number of quality brands, including the Group's brands on Bosnia and Herzegovina and Montenegro markets.

Related party transactions that relate to balances as at 31 December 2022 and as at 31 December 2021 and transactions recognized for the years then ended, are as follows:

(all amounts expressed in thousands of HRK)	**Note**	**2022**	**2021**
RECEIVABLES			
Current receivables	18		
Other entities		95,549	84,174
LIABILITIES			
Trade and other payables	23		
Other entities		2,909	2,238
REVENUES			
Sales revenues			
Other entities		562,857	496,471
Other revenues			
Other entities		211	671
EXPENSES			
Marketing and promotion costs	7		
Other entities		7,882	4,168
Other operating costs	8		
Other entities		2,364	2,202
Purchase of property, plant and equipment			
Other entities		-	289

Management board compensation

In 2022 members of the Management Board received total gross amount of HRK 24,101 thousand relating to salaries, bonuses and other receipts in kind (2021: HRK 20,119 thousand).

NOTE 30 – AUDITORS' FEES

Statutory audit services fees to the auditors of the Group's financial statements amounted to HRK 3,469 thousand (2021: HRK 3,311 thousand), while fees related to other services amounted to HRK 146 thousand (2021: 160 thousand). Other services relate to subscription to online learning portal, Report on remuneration of the Management Board and the Supervisory Board, related party reports and agreed upon procedures in relation to received government grants in Republic of Serbia.

NOTE 31 – SUBSIDIARIES

The Group is comprised of the Company and the following subsidiaries in which the Company has an ownership interest above 50% and exercises control:

	31 December 2022	31 December 2021
Atlantic Cedevita d.o.o., Croatia	100%	100%
Atlantic Trade d.o.o., Croatia	100%	100%
- Atlantic Droga Kolinska d.o.o., Slovenia	100%	100%
- Atlantic Štark d.o.o., Serbia	100%	100%
- Atlantic Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- o.o.o. Atlantic Brands, Russia	100%	100%
- Atlantic Grand d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Atlantic Grand d.o.o., Bosnia and Herzegovina	100%	100%
- Atlantic Grand d.o.o.e.l., North Macedonia	100%	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., North Macedonia	75%	75%
- Procaffe d.o.o., Croatia	100%	99%
Farmacia Holding d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	100%
- ZU Ljekarne sv. Kuzma i Damjan, Croatia (acquired in 2022)	100%	-
Montana Plus d.o.o., Croatia	100%	100%
Atlantic Point d.o.o., Croatia	100%	100%
Hopen Investments, BV, Netherlands	100%	100%
- Atlantic Management GmbH, Germany	100%	100%
- Hopen Cyprus Ltd., Cyprus	100%	100%
Atlantic Brands GmbH, Austria	100%	100%

NOTE 32 - EVENTS AFTER THE REPORTING PERIOD

In accordance with the Law on the Introduction of the Euro as the official currency in the Republic of Croatia, effective 1 January 2023, the EUR became the official currency and legal tender in the Republic of Croatia. The fixed rate of conversion is HRK 7.5345 for 1 EUR.

The introduction of the EUR as the official currency in the Republic of Croatia represents a change in the functional currency, which will be calculated prospectively and does not represent an event after the reporting period that requires adjustment.

Apart from the change in the functional currency, there were no other events after the reporting period that would have a significant impact on the Group's financial statements as of 31 December 2022 or for the year then ended.

The Management Board of Atlantic Grupa d.d. (hereinafter: Atlantic Grupa or the Company), pursuant to the provisions of Articles 250a, 250b, 300a and 300b of the Companies Act and Articles 462 and 463 of the Capital Market Act, at its session held on 29 March 2023, rendered the following

DECISION

I The Annual Report of Atlantic Grupa d.d. is hereby determined, as stated in the text of the "ANNUAL REPORT 2022" enclosed with this Decision.

II The audited non-consolidated and consolidated annual financial statements for 2022 are hereby determined, which consist of the following: statement of financial position (balance sheet), income statement, statement of other comprehensive income, cash flow statement, statement of changes in equity and notes to the financial statements, as stated in the text that forms an integral part of the Report referred to in item I of this Decision.

III It is hereby determined that the auditor, Ernst & Young d.o.o. from Zagreb, Radnička cesta 50, Croatia and Kulić i Sperk Revizija d.o.o. from Zagreb, Radnička cesta 52, Croatia, produced the Auditor's Report for 2022, as stated in the text that forms an integral part of the Report referred to in item I of this Decision.

IV The Management Board's Report on the Status of the Company / Management Report for the period from 1 January 2022 to 31 December 2022 is hereby determined, as stated in the text that forms an integral part of the Report referred to in item I of this Decision.

V Pursuant to Article 463 of the Capital Market Act, the Company's Management Board adopted the decision to publish the reports referred to in items I, II and III of this Decision, indicating that the Supervisory Board has yet to decide on them, i.e. they have not yet been approved by the competent body of the issuer Atlantic Grupa d.d.

VI Pursuant to Article 300b of the Companies Act:

1. The reports referred to in items II and IV of this Decision shall be submitted to the Supervisory Board for examination together with a proposal that the Supervisory Board approves those Reports at its session scheduled according to the published calendar of events (15 and 16 May 2023);

2. The Auditor's Report referred to in item III of this Decision shall be submitted to the Supervisory Board, so that the Supervisory Board could take its position at the session scheduled according to the published calendar of events (15 and 16 May 2023);

3. After the Supervisory Board adopts the decisions referred to in items 1 and 2, the Company's Management Board shall, concurrently, at the session of the Supervisory Board scheduled according to the published calendar of events (15 and 16 May 2023), submit to the Supervisory Board the Proposal of decision on the distribution of profits, so that the Supervisory Board could take its position;

4. The decision of the Company's Supervisory Board on approval of annual reports, as well as the consequently adopted proposal of the Management Board and Supervisory Board on the distribution of profits, shall be published in accordance with Article 463 paragraph 4 of the Capital Market Act.

Atlantic Grupa d.d.

Emil Tedeschi, President of the Management Board

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