ATLANTIC GRUPA

Creating flavours you love

2020

ANNUAL Report

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DONAT
- Donat

BEVERAGES
- Cedevita
- Cockta
- Kala

COFFEE
- Barcaffé
- Grand kafa
- Bonito prava kafa

SNACKS
- Najlepše želje
- Smoki
- Bananica
- Integrino

PHARMA
- Farmacia
- Bebi

SAVOURY SPREADS
- Argeta
- Montana
- Bakina Tajna
- Amfissa

Atlantic Grupa in 2020

SALES (IN HRK)	DECLINE	ORGANIC DECLINE*
5,252 million	**-3.3%**	**-0.4%**
EBITDA* (IN HRK)	EBITDA MARGIN*	EBITDA MARGIN CHANGE
716.5 million	**13.6%**	**-69** bp
NORMALIZED EBITDA* (IN HRK)	NORMALIZED EBITDA MARGIN*	NORMALIZED EBITDA MARGIN CHANGE
755.1 million	**14.4%**	**+109** bp
EBIT* (IN HRK)	EBIT MARGIN*	EBIT MARGIN CHANGE
442.2 million	**8.4%**	**-79** bp
NORMALIZED EBIT* (IN HRK)	NORMALIZED EBIT MARGIN*	NORMALIZED EBIT MARGIN CHANGE
480.8 million	**9.2%**	**+99** bp
CASH FLOW FROM OPERATING ACTIVITES (IN HRK)	FREE CASH FLOW (IN HRK)	DIVIDEND PER SHARE (IN HRK)
577.1 million	**334.4** million	**25.0**

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

The stable financial position, strength o… our brand…

Letter of the president of the management board to shareholders

EMIL TEDESCHI

PRESIDENT OF THE MANAGEMENT BOARD

During 2020, **BUSINESS OPERATIONS OF ATLANTIC GRUPA** have shown a high level of stability, despite economic disturbances caused by the COVID-19 pandemic. The stable financial position, strength of our brands, optimisation of business processes and good strategic management enabled us to keep jobs safe, actively participate in helping the community in the fight against the coronavirus, increase the employees' satisfaction and engagement in newly established working conditions, as well as to improve profitability with minimal negative consequences on consolidated revenues, record low debt and many professional awards.

The corporate development strategy we established last year helped us to maintain a clear direction towards the set objectives. Continuing its divestment of "non-core" business operations, Atlantic Grupa in 2020 concluded the agreement on the sale of the baby food brand Bebi, after the company in the previous year already exited the sports and functional food segment (Multipower), dietary supplements (Dietpharm and Multivita) and the distribution of water in gallons. We continued to direct our focus on strengthening the main categories of consumer goods, namely coffee, savoury spreads, salty snacks, chocolate, non-alcoholic and functional beverages. An important part of the corporate development strategy is also a targeted internationalisation of brands that have proven their international potential.

Numerous independent market studies have validated the success of our overall business operations, and Atlantic Grupa, among others, holds second place on the Top 5 Employer Partners in 2020 list in Croatia, it is the fifth most desirable employer in Croatia according to the research conducted by the company MojPosao, and the most desirable employer for youth in Serbia in the category of food and beverages. At the Financial Agency's 12th presentation of the awards, Atlantic received an award for the most successful long-standing entrepreneur, while at the 11th award ceremony organised by Poslovni Dnevnik and the Zagreb Stock Exchange, the Company won the first prize for best investor relations. In December 2020, we successfully issued corporate bonds in the amount of HRK 300 million under historically the most favourable conditions realised in the non-financial sector on the Croatian capital market.

Despite the crisis, we are continuing with the planned investments in business development and, owing to our focus, we are increasing profitability, while retaining full employment and culture of openness and support. Even with the uncertainty about further development of the epidemiological situation, our priorities stay the same – keeping our employees healthy, ensuring unhindered continuity of production and continuous supply to our buyers and consumers, and being socially responsible in the widest sense possible. As an employee and the President of the Management Board of Atlantic Grupa, I am proud of the care we have shown for each other and of the way in which we are facing challenges, aware of the privilege of working in an industry that is not so affected by the pandemic. The world in which we live and work is changing, and our efforts are focused on being and staying relevant – through our brands, cooperation with partners, development of our competences and care for employees and the entire social community.

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, the West European markets, Russia and the Commonwealth of Independent States (CIS). Since the company's inception in early 1990's, Atlantic Grupa 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 that had the character of transformative acquisitions, were the acquisitions of companies Cedevita and Droga Kolinska.

Today, Atlantic Grupa is a company with: (i) HRK 5.3 billion in sales revenues, (ii) 14 modern production plants (in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Macedonia), (iii) developed regional distribution infrastructure and (iv) 8 brands with above HRK 120 million, high market shares and consumer recognisability. Atlantic Grupa has a well-balanced presence in South-East Europe accounting for 91% of total sales, while 9% 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, 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, as well as functional water Donat. 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 West European market and became an international company. 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. Based on the company's business development, 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, a prominent regional producer of cosmetics and personal care products, 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 in the Group's history – 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 certainly the process related to distribution and logistics. The process of merging the distribution operations of the two companies into single distribution entities 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. In 2012 and 2013, the first stage of 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 listed integration processes, which were successfully completed by the end of 2013, transformed Atlantic Grupa into a strong producer and distributor in South-East Europe, thus creating a strong foundation for its further business development and expansion.
In 2015, Atlantic Grupa acquired the company Foodland with its recognisable brand Bakina Tajna and a range of top-quality products; in the same year, a new factory of energy bars from the product range of Sports and Functional Food in the Industrial Park Nova Gradiška started its operations.
In 2016, distribution companies in Germany and Austria were established for the purpose of facilitating the marketing of a targeted group of Atlantic Grupa's products in those markets.

In line with 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, in 2017 we initiated the process of divesting "non-core" business operations of Atlantic Grupa. At the beginning of this process, the restructuring and simplification of operations of the business unit Sports and Functional Food was carried out, under which the strategic partnership was concluded with the respectable Belgian company Aminolabs, to which two production facilities were sold – one in Bleckede (Germany) and one in Nova Gradiška (Croatia), together with associated service production on behalf of third parties (private label). In 2018, the reorganisation of the distribution operations in the German market was carried out, which were entirely assumed by the company' long-standing distribution partner in that market, as well as the sale of the company Neva with its renowned cosmetic brands Melem, Plidenta and Rosal. In 2019, through the sale of the brands Multipower, Champ and Multaben, we divested the last portion of business activities in the Sports and Functional Food segment, and retained their distribution in the markets of Croatia, Austria, Italy and Serbia. At the end of 2019, the sale of the brands Dietpharm and Multivita was carried out, by which Atlantic Grupa divested business operations of distributing bottled water for dispensers, while retaining the brand Kala and the overall operations related to the water bottling plant. The activities within this process were continued in 2020 with the concluded sale of the baby food brand Bebi to the company Nelt Grupa, headquartered in Belgrade, whose conclusion is expected by 30 June 2021.

Within the essential product portfolio focused on Atlantic taking a leading position in the Croatian coffee market and expanding into the growing segment of out-of-home consumption 2019 we entered into a strategic partnership with the company Vivas, which counts almost 300 coffee shops and bars. Following this investment, Atlantic Grupa in 2020 entered into a strategic partnership with one of the leading companies in the Croatian espresso coffee market, the company Procaffe, which is today present in more than 800 coffee shops and bars in Croatia. Further improvement of the leading position in the coffee segment in the region is also planned, as well as the strengthening of consumer experience in this category and also in the categories of savoury spreads, flips, chocolate and fruity soft drinks, in which Atlantic has leading brands (Argeta, Smoki, Najlepše Želje, Cedevita).

The corporate strategy, defined in 2019, received its definitive confirmation in the challenging 2020 and, through the new vision, Atlantic Grupa identified itself as a leader in the food and beverages industry. The defined corporate strategy gives us a clear direction for the years ahead, and it is based on three strategic goals:

TRUST AND EXCITEMENT IN KEY CATEGORIES

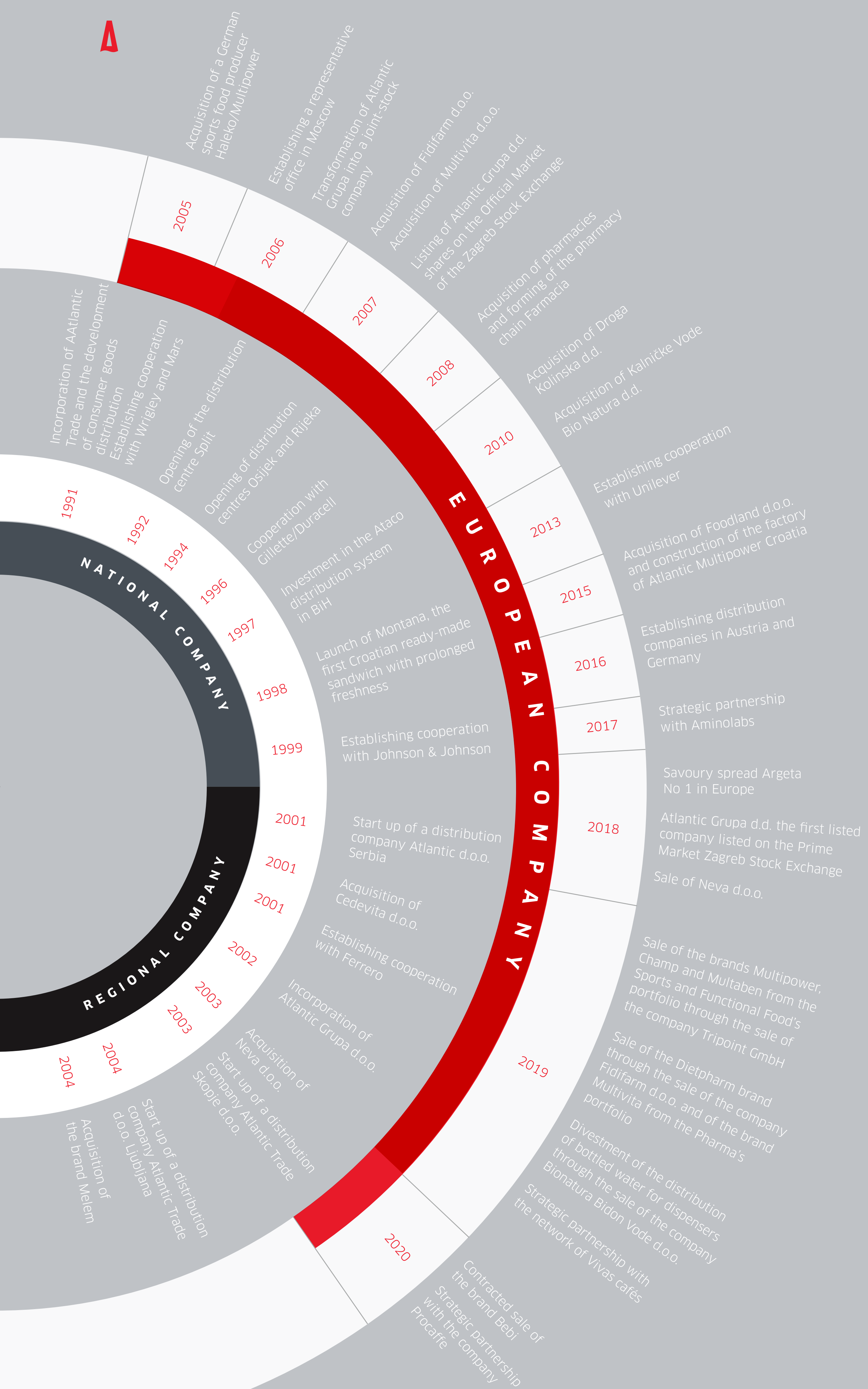
Atlantic's brands have been a part of the daily life of millions of consumers already for generations. The key for the company's success depends on consumers and their relationship with our brands, so the company's first strategic goal is focused on continuously creating and maintaining trust and excitement 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
REGIONAL COMPANY
EUROPEAN COMPANY
1991
Incorporation of AAtlantic Trade and the development of consumer goods distribution
1992
Establishing cooperation with Wrigley and Mars
1994
Opening of the distribution centre Split
1996
Opening of distribution centres Osijek and Rijeka
1997
Cooperation with Gillette/Duracell
1998
Investment in the Ataco distribution system in BiH
Launch of Montana, the first Croatian ready-made sandwich with prolonged freshness
1999
Establishing cooperation with Johnson & Johnson
2001
Start up of a distribution company Atlantic d.o.o. Serbia
2001
Acquisition of Cedevita d.o.o.
2001
Establishing cooperation with Ferrero
2002
Incorporation of Atlantic Grupa d.o.o.
2003
Acquisition of Neva d.o.o.
2003
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
2004
Acquisition of the brand Melem
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 listed company listed on the Prime Market 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 Pharma'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
Contracted sale of the brand Bebi
Strategic partnership with the company Procaffe

Companies
in 8 countries

COMPANIES + PRODUCTION FACILITIES

–

Croatia
Bosnia and Herzegovina
Macedonia
Slovenia
Serbia

COMPANIES

–

Austria
Montenegro
Russia

Organisational structure

The business organisation of Atlantic Grupa in 2020 operated within two basic segments:

- **Business Operations** and
- **Corporate Support Functions**.

Business operations of Atlantic Grupa in 2020 may be followed through business activities of special business units related to individual product type, and special sales units which cover all major markets as well as strategic sales channels.

The Atlantic Grupa's strategic priorities for the upcoming period, and certainly after the current situation normalises, include a targeted internationalisation of the brands Argeta and Donat, which is also reflected in the internal organisation defined in line with the desire to enable an additional rise of these brands on international markets together with a focused approach to our distribution partners. In line with this, the brand Donat was, at the beginning of 2020, separated from the Strategic Business Unit Beverages into the newly established Business Unit Donat, focused on the brand's specific functionality, as well as its international expansion to new markets and strengthening its position on the market. At the same time, the Global Distribution Account Management (GDAM) was reorganised for the purpose of standardising the approach towards partner distributors and divided into two smaller business units: the Distribution Unit Russia and the new GDAM focused on those international markets where Atlantic Grupa does not have its own distribution.

Accordingly, Atlantic Grupa's business operations concerning the company's product portfolio were, during 2020, organised through Strategic Business Units - Beverages, Coffee, Snacks, Savoury Spreads, Pharma and the Business Unit Donat. From the beginning of 2020, 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.

Each business unit has its own internal organisational structure which is, depending on its activity and business volume, composed of organisational areas: business units, organisational units and departments.

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.

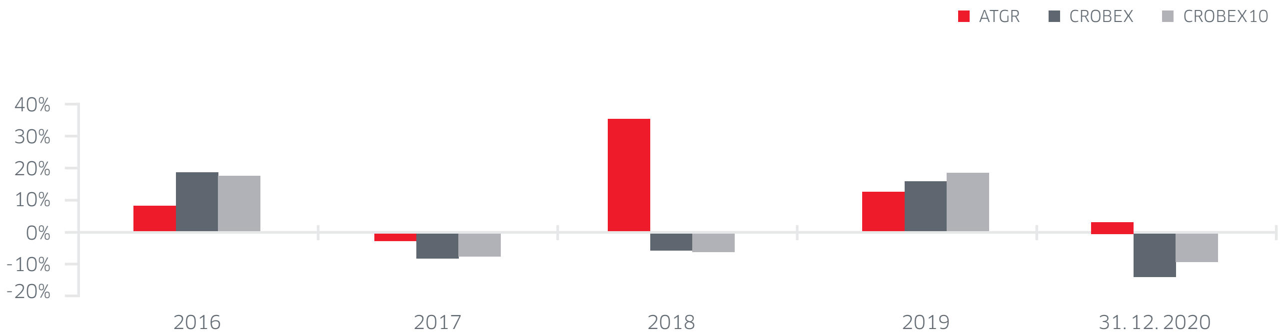
The strategic corporate function Finance, Procurement and Investment includes the following units: Corporate Reporting and Consolidation, Central Purchasing, Investments and Operational Excellence, Central Finance and Corporate Controlling, Corporate Tax, Corporate Treasury and Investor Relations.

The organisational structure also includes the Department for Corporate Strategy and Development and the Department for Transformation and Information Technology. The Department for Corporate Strategy and Development is responsible for providing support to the Company's Management Board in the segment of identifying strategic initiatives, implementing the long-term development strategy and corporate development activities with a focus on M&A, strategic partnerships and new growth through new categories and products. The Department for 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.

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.

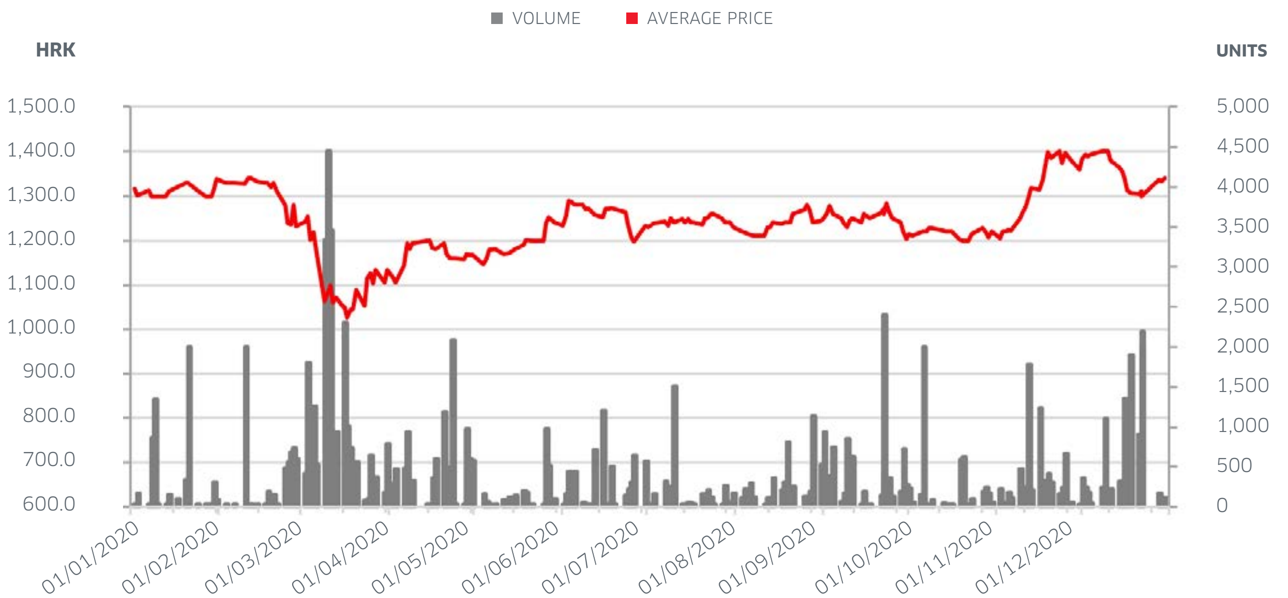
Performance on the **Croatian capital market** in 2020

The year 2020 started with solid trade statistics. However, the emergence of COVID-19 in February and the declaration of a global pandemic resulted in high market volatility, extremely intense trading and a significant index correction. In the second half of the year, the market stabilised, and the index value and market capitalisation recovered slightly. Despite the better situation compared to the first half of the year, the indices weakened, with CROBEX10 recording a -9.3% decline, and CROBEX a -13.8% decline. At the same time, the Atlantic Grupa's share recorded a growth of +3.1%.

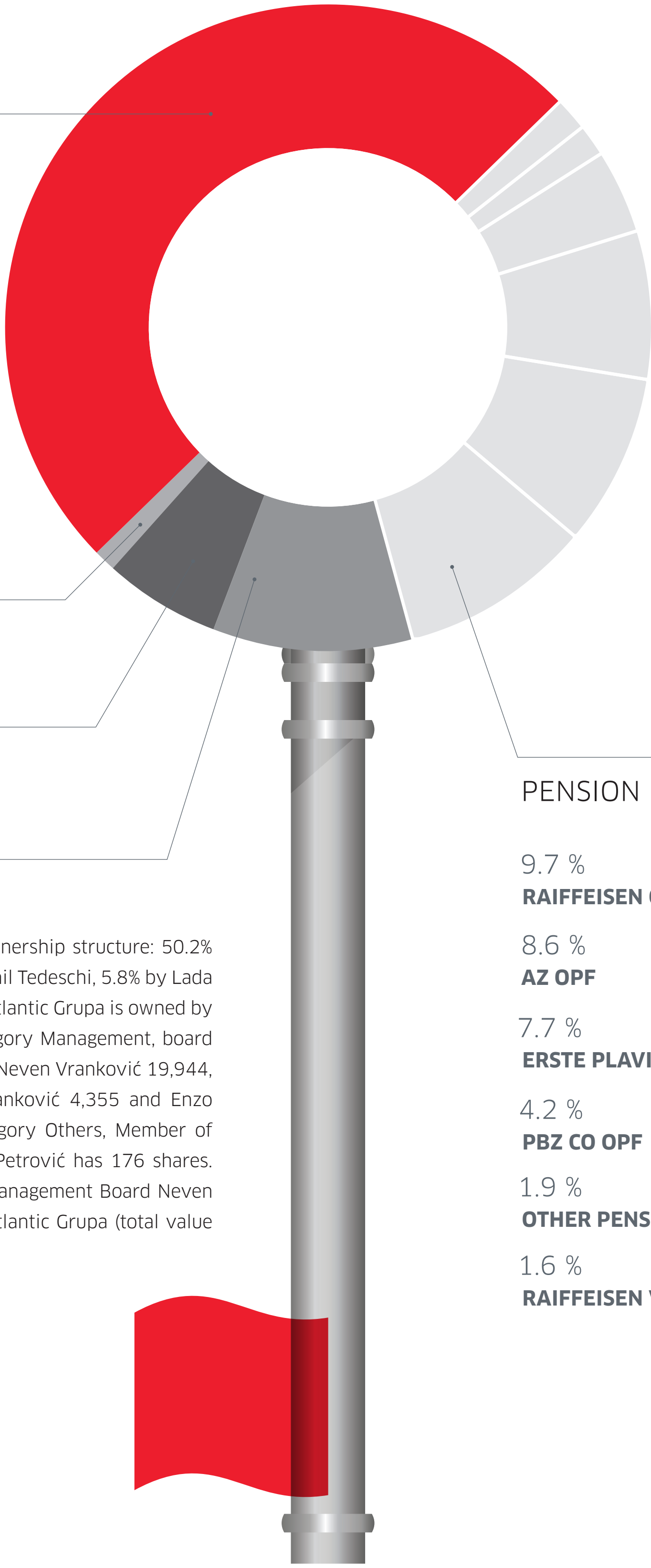


Among the components of CROBEX10, Atlantic Grupa holds the second place with the market capitalization of HRK 4,468.0 million. In November 2020, the Atlantic Grupa's share recorded the historically highest level of market capitalisation since its listing in November 2007, with the share price of HRK 1,410. According to the total turnover in 2020, the Atlantic Grupa's share holds the eighth place compared to all the shares quoted on the Zagreb Stock Exchange, with a turnover of HRK 102.3 million.

MOVEMENTS IN THE AVERAGE PRICE AND VOLUME OF THE ATLANTIC GRUPA'S SHARE IN 2020



OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2020



50.2 %
EMIL TEDESCHI

0.9 %
MANAGEMENT

5.8 %
LADA TEDESCHI FIORIO

9.5 %
OTHERS

33.6 %
PENSION FUNDS

9.7 %
RAIFFEISEN OPF

8.6 %
AZ OPF

7.7 %
ERSTE PLAVI OPF

4.2 %
PBZ CO OPF

1.9 %
OTHER PENSION FUNDS

1.6 %
RAIFFEISEN VPF

Atlantic Grupa has a stable ownership structure: 50.2% of the company is owned by Emil Tedeschi, 5.8% by Lada Tedeschi Fiorio, and 33.6% of Atlantic Grupa is owned by pension funds. Under the category Management, board members have 31,189 shares (Neven Vranković 19,944, Srećko Nakić 6,493, Zoran Stanković 4,355 and Enzo Smrekar 397). Under the category Others, Member of the Supervisory Board Siniša Petrović has 176 shares. Additionally, Member of the Management Board Neven Vranković has 150 bonds of Atlantic Grupa (total value of HRK 150,000).

OVERVIEW OF TOP 10 SHAREHOLDERS OF ATLANTIC GRUPA D.D. AS AT 31 DEC 2020

SHAREHOLDER	NO. OF SHARES	% OWNERSHIP
EMIL TEDESCHI	1,673.819	50.2%
RAIFFEISEN OPF - CATEGORY B	322,729	9.7%
AZ OPF - CATEGORY B	286,946	8.6%
ERSTE PLAVI OPF - CATEGORY B	256,019	7.7%
LADA TEDESCHI FIORIO	193,156	5.8%
PBZ CO OPF - CATEGORY B	139,359	4.2%
PBZ D.D./JOINT CUSTODIAL ACCOUNT	69,782	2.1%
RAIFFEISEN VPF	52,077	1.6%
PBZ D.D./STATE STREET CLIENT ACCOUNT	24,944	0.7%
AZ PROFIT VPF	21,276	0.6%

According to the decision of the Company's General Assembly held on 18 June 2020, the dividend distribution was approved in the amount of HRK 25.00 per share, i.e. a total of HRK 83.1 million. The dividend was distributed in July 2020.

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 2020 acquired a total of 9,899 treasury shares (1,000 treasury shares in the total nominal amount of HRK 40,000.00, representing 0.03% of the Company's share capital, were acquired on 9 March 2020, 1,340 treasury shares in the total nominal amount of HRK 53,600.00, representing 0.04% of the Company's share capital, were acquired on 10 March 2020, 4,000 treasury shares in the total nominal amount of HRK 160,000.00, representing 0.12% of the Company's share capital, were acquired on 11 March 2020, 587 treasury shares in the total nominal amount of HRK 23,480.00 were acquired on 18 March 2020, 147 treasury shares in the total nominal amount of HRK 5,880.00, representing 0.004% of the Company's share capital, were acquired on 19 March 2020, 22 treasury shares in the total nominal amount of HRK 880.00, representing 0.0006% of the Company's share capital, were acquired on 23 March 2020, 1,000 treasury shares in the total nominal amount of HRK 40,000.00, representing 0.03% of the Company's share capital, were acquired on 20 April 2020, 1,803 treasury shares in the total nominal amount of HRK 72,120.00, representing 0.05% of the Company's share capital, were acquired on 23 April 2020).

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 2020, the Company has 6,729 treasury shares in the total nominal amount of HRK 269,160.00, which represent 0.20% of the Company's share capital.

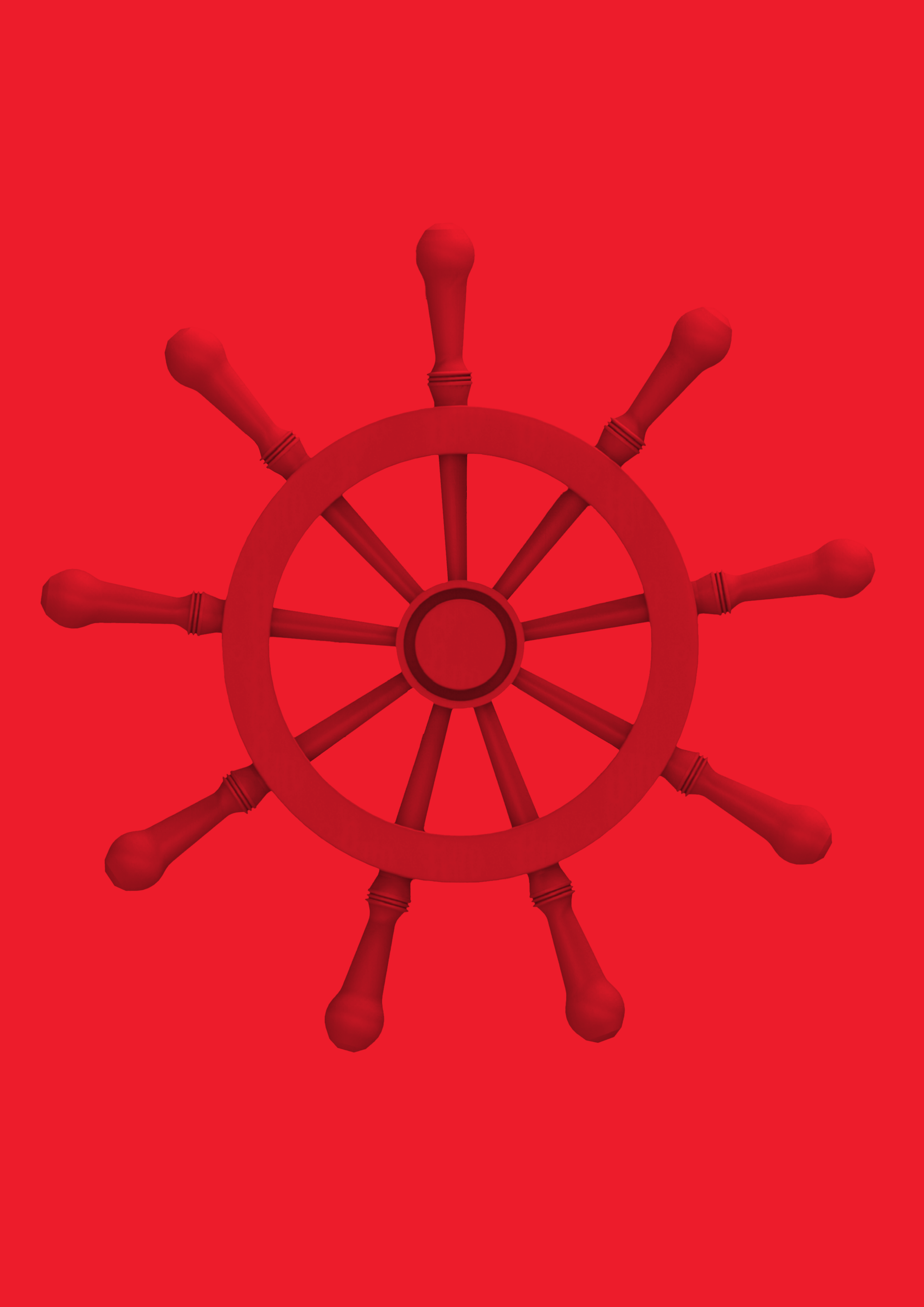
PERFORMANCE ON THE BOND MARKET

In December 2020, Atlantic Grupa successfully issued corporate bonds in the amount of HRK 300 million, denominated in HRK, at a fixed annual interest rate of 0.875% with a semi-annual payment of interest and maturity as at 11 December 2025. The bonds were issued on the domestic capital market and listed in the first quotation of the Zagreb Stock Exchange, whereby Atlantic Grupa continued its practice of continuous improvement of own sources of financing, as well as fostering the development of the domestic capital market.

INVESTOR RELATIONS IN 2020

Since its listing on the stock market, every year Atlantic Grupa won one of the awards for investor relations, and this year it won the first prize for investor relations, which is awarded for eleventh year in a row in cooperation between Poslovni Dnevnik and the Zagreb Stock Exchange. This award stands as a sign of recognition by the investment community of companies that have fair and transparent investor relations. Additionally, PwC, together with representatives of the Zagreb Stock Exchange, awarded us as the leading company in open communication with its stakeholders (PwC Building Public Trust Award). The aim of this award is to recognise and reward companies that are especially successful in ensuring clarity and transparency of corporate reporting, thus build trust in the society.

Moreover, in 2020 Atlantic Grupa participated in various domestic and foreign investor conferences, and held a large number of meetings with domestic and foreign investors.



Statement of the 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. After defining the People and Culture Strategy in the previous year (focusing 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), in 2020 we continued to analyse the ways in which all central corporate functions may be even more efficiently focused on our business strategy and embody the defined People Strategy.

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 strive to define sustainability and 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. 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 is regularly published in an annual non-financial report (AG GRI 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.

Finally, 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, promotion of correct values and the need to invest a part of its own profits into the community. The year 2020 will be remembered for many opportunities to put the above statement into action. Atlantic has again lived up to its reputation as a company by being one of the most significant corporate donors in combating the COVID-19 pandemic in the region with a total of HRK 36.7 million allocated for preventing the spread of the epidemic, of which HRK 28 for donations to central national authorities for combating COVID-19, as well as a caring employer that helps in the reconstruction of damaged homes of its employees living in Zagreb, and a significant donor and logistic partner in providing aid to earthquake victims in Banovina. Special attention is given to our employee assistance programmes, ranging from providing aid in different emergency situations through the programme Solidarity, high workplace safety standards, enabling work from home whenever possible, providing psychological assistance in the situation of a long-term pandemic, special working conditions and especially earthquakes, to internal programmes of getting involved in the company's life and our community assistance activities. We can say that in many ways we spent the year really living all our values – Passion, Growth, and particularly Care and Openness.

Corporate governance
of Atlantic Grupa

IMPLEMENTING THE PRINCIPLES OF CORPORATE GOVERNANCE

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 2020 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.
Each supervisory board committee should have at least three members.	Partially	The Audit Committee has three members, the Nomination and Remuneration Committee has three members, while the Corporate Governance Committee had two members in 2020.
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 2020.

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 Board, Management Board 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.

ORGANIZATION OF CORPORATE GOVERNANCE IN ATLANTIC GRUPA

Atlantic Grupa's corporate governance structure is based on a dual system consisting of 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 2020, one session of the General Assembly was held. 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 18 June 2020. 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 25.00 per share, in proportion to the number of shares held by each shareholder, Decision on the Approval of the Remuneration Report for 2019, Decision on remuneration of the Supervisory Board members, Decision on the Approval of the Remuneration Policy for Members of the Management Board, Decision on Amending Atlantic Grupa's Articles of Association, and appointment of an independent Auditor of the Company for the year 2020.

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

Atlantic Grupa d.d. has a Supervisory Board consisting of seven members. In 2020, the Supervisory Board held four sessions in accordance with the previously announced Schedule posted on web pages of the Company (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr). The members' attendance rate at these sessions was 100.00%.

In line with the OECD Principles of Corporate Governance and recommendations of the 2020 Code of Corporate Governance of the Zagreb Stock Exchange and HANFA, the Supervisory Board of Atlantic Grupa is mostly composed of 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

PRESIDENT

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. He is a member of the Croatian Parliament's Finance and State Budget Committee since 2017, and 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. He also continued his professional specialisation at universities in USA and UK.

SINIŠA PETROVIĆ

VICE PRESIDENT

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, as Chairman and Chief Investment Officer Peter Elam Håkansson leads East Capital's different investment teams in East Europe and Asia. Peter established East Capital's investment philosophy and strategy, which he still oversees. 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 Chairman of the Board of Swedish Music Hall of Fame and member of the Board of Bonnier Business Press. 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.

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 10 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 books published by Edward Elgar, Routlege and Cambridge University Press.

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 banking, internet, pharmaceutical, retail, and telecommunications industries. He was a member of the Economic Council of the President of the Republic of Croatia in the period 2010 - 2015. Aleksandar Pekeč holds a Ph.D. degree from Rutgers University and B.Sc. degree from the University of Zagreb.

MONIKA ELISABETH SCHULZE

MEMBER

MONIKA ELISABETH 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.

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 mbH. 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. At present he serves as a member of three Supervisory Boards, two Audit Committees (as chairman) and one Risk Committee (as chairman) in renowned companies in the region, of which two are banks. Mr. Flosbach is since 1999 a Member of the "Südosteuropa Gesellschaft", München.

The members of the Supervisory Board have been remunerated for their work and have the right to remuneration appropriate to the period of their engagement and the tasks performed, as well as the Company's situation and business performance. In line with the above, in 2020 members of the Supervisory Board received remuneration in the following gross amount: Mr. Zdenko Adrović, a total of HRK 348,724.99; Mr. Siniša Petrović, a total of HRK 242,630.69; Ms. Anja Svetina Nabergoj, a total of HRK 180,000.00, Ms. Monika Schulze, a total of HRK 180,000.00, Mr. Franz Jozef Flosbach, a total of HRK 153,513.25; Mr. Aleksandar Pekeč, a total of HRK 164,430.21 and Mr. Lars Peter Håkansson, a total of HRK 180,000.00.
Based on her professional education and long-standing lecturing experience in the field of development of design thinking and innovative processes at Stanford University, USA and University of Ljubljana, Slovenia, member of the Supervisory Board Anja Svetina Nabergoj has, during 2020, concluded three educational service contracts, with focus on their practical application. In accordance with the Companies Act, the Supervisory Board examined these engagements and, after careful review, unanimously approved them. These are: the Contract concluded on 09 March 2020 for the provision of training in the field of research of consumers' experiences and habits for the purpose of developing new products, the Contract concluded on 20 May 2020 for the provision of training in the field of innovation development and the Contract concluded on 28 July 2020 for the organisation of practical classes in the field of developing products adjusted to customer needs. In 2020, under these contracts concluded for the above purposes, member of the Supervisory Board Anja Svetina Nabergoj received a total amount of HRK 142,613.15.

SUPERVISORY BOARD COMMITTEES

Three Committees function within the Supervisory Board with the purpose of assisting the operation and functioning of the Supervisory Board: Audit Committee, Nomination and Remuneration Committee and Corporate Governance Committee. Each of these Committees consists of three members, of which two are appointed from the ranks of the Supervisory Board members, while one member is appointed from the ranks of top experts in the subject area.

THE 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, while Nina Tepeš was appointed as a member from the ranks of external experts. The Committee held five sessions during 2020, and the attendance rate of its members was 100%.

THE NOMINATION 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 was appointed as a member from the ranks of the Supervisory Board and Zoran Sušanj as a member from the ranks of external experts. The Committee held two sessions during 2020, and the attendance rate of its members was 100%.

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 was appointed as a member from the ranks of the Supervisory Board and Marko Lesić as a member from the ranks of external experts. The Committee held two sessions during 2020, and the attendance rate of its members was 83.33%.

The members of the said Committees who are not members of the Supervisory Board have received remuneration for their work and contribution to the functioning of the Supervisory Board of Atlantic Grupa. In 2020, Ms. Nina Tepeš received remuneration in the total gross amount of HRK 35,739.12, Mr. Marko Lesić in the total gross amount of HRK 6,200.40, and Mr. Zoran Sušanj in the total gross amount of HRK 11,695.92.

Report on the **corporate governance**

In the course of 2020, the Supervisory Board has performed supervision of the Company's activities in line with the decisions adopted by the Company's 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, the 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 the meetings, the Management Board duly informs the Supervisory Board on the important developments regarding the business operations of the Company.

The Supervisory Board conducted self-assessment of profiles and competencies of its members and members of its Committees. The self-assessment was conducted by the President of the Supervisory Board, without the engagement of external auditor.

As for its composition, Supervisory Board has set itself the following objectives when issuing recommendations for appointments for its members: Supervisory Board operates in optimal number of 7 members, in such way that its members as a group possess the knowledge, ability and expert experience required to properly perform its tasks considering, as well, the aspect of diversity by supporting an appropriate degree of women's representation. In view of the Company's strategy directed to internationalization, the Company benefits from candidates with an international background. 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, have 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 demonstrating commitment to the role and her/his time for this duty.

Administrative support for the preparation of Supervisory Board Sessions is provided by the Company Secretary in the 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 of Atlantic Grupa d.d. 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 is to be noted that this goal was fully achieved in Supervisory Board as women are represented with 29% in the total composition of the Supervisory Board, while in the Management Board, where there is one female member, the 17% of women membership is reached. Atlantic Grupa highly supports the diversity within the Company, therefore, in 2020 several appointments of women were introduced at the high level of the Company's management. In favor of such claim is the fact that women are represented with 53,63% in total number of managerial positions in the Company.

Management Board of Atlantic Grupa

Atlantic Grupa's Management Board is composed of six 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 and Group Vice President for Savoury Spreads, Donat and International Expansion.
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 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. the Council of the University of Rijeka and the Board of Trustees of Moscow State Institute for International Relations.

LADA TEDESCHI FIORIO

GROUP 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. In 2019, she was recognised, according to the expert jury of the business magazine Lider, as the most powerful woman in business in Croatia. 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
GROUP 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.

ZORAN STANKOVIĆ

GROUP 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.

SREĆKO NAKIĆ

GROUP VICE PRESIDENT
FOR DISTRIBUTION

SREĆKO NAKIĆ 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 HoReCa and OTG segment, and from 2010 to 2014 had a significant role in the successful integration of Droga Kolinska into Atlantic. 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

GROUP VICE PRESIDENT FOR SAVOURY SPREADS, DONAT AND INTERNATIONAL EXPANSION

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, owns Coaching and Mentoring certificate from the Oxford Brookes University, he is a Supervisory Board member in several companies, as well as President of the Slovenian Ski Association, Association President at AmCham Slovenia and the Slovenian Association of Advertisers and Vice President of the Slovenian National Olympic Committee.

REMUNERATION POLICY FOR MANAGEMENT BOARD MEMBERS

The contract on performing activities of a member of the Management Board i.e. the employment contract for board members who are employed at Atlantic Grupa lays down the rights and obligations of board members based on their function as the Management Board members, as follows:

- **monthly salary** for board members, set in the gross amount,
- **annual bonus** (bonus remuneration) per year of contract duration, set in the defined percentage of the realised principal annual gross salary, provided that at least 90% of the AG's consolidated EBITDA plan for the business year is realised. The amount of the annual salary supplement (bonus) is defined according to the realisation of the business objective, which consists of assessing the realisation of the profit objective and direct sales to external buyers (third party) at the AG consolidated level, and the realisation of the quantitative (non-financial) objective, which consists of assessing the realisation of the objective in terms of key employee retention rate. In this sense, a member of the Management Board is entitled to 75% of the realised annual bonus, payable upon expiration of 30 days from the date of adoption of the annual financial results by the Supervisory Board, while the 25% of the realised annual bonus represents the so called deferred payment – payable to a member of the Management Board with the vesting period until the end of April of the fourth year, provided that he/she is still employed by the Company or the associated company on April 1st of the respective year,
- **life insurance policy** for the members of the Management Board contracted by Atlantic Grupa at the reputable insurance companies, with the annual premium of up to HRK 8,250,
- **personal accident insurance policy** with the annual premium of HRK 8,300,
- **voluntary health insurance policy** that includes the Management Board members, with which Atlantic Grupa, as the insurance contractor, with an annual premium of up to HRK 7,500 per person, provides a quality health treatment through an annual comprehensive health examination, any required specialist medical tests with the application of most contemporary and efficient medical devices and equipment in specialised polyclinics with the best health experts,
- **right to use an official vehicle**, right to compensation of all costs incurred by the Management Board member while performing his/her functions.

All Management Board members have manager contracts which include a whole set of binding provisions as well as incentive ones, as follows:

- **confidentiality clause** – board members are obliged to keep confidential the Company's business secrets during and after their employment, regardless of the reasons for employment termination. The obligation of confidentiality extends to business secrets of AG's associated companies as well,
- **no-competition clause** – binds a board member to a period of one year from the date of receiving severance pay,
- **contract penalty** –in case of breaking the no-competition clause, any board member shall be liable to pay the contract penalty in the amount of twelve average net monthly salaries paid to that board member in the period of three months before contract termination,
- **prohibition of participation of any board member in the ownership and/or management structure,** whether directly or indirectly, in any company which is in market competition with Atlantic Grupa and associated companies, or in a company with which Atlantic Grupa and associated companies have business cooperation, as well as to act as an advisor or consultant in such companies, regardless of being paid or not for such activities,
- **other activities,** except those performed for Atlantic Grupa's associated companies, regardless of being paid or not for such activities, including the membership in supervisory boards, advisory bodies, etc. may be performed by a member of the Management Board only on the basis of prior approval of the Management Board of Atlantic Grupa,
- **employment, contract duration and termination periods** – board members are employed for an indefinite period in Atlantic Grupa or its associated companies, and the contract on performing the function of a board member is concluded for the period of 3 years, with the possibility of termination in accordance with the periods prescribed by law,
- **severance pay** – severance pay is contracted in the amount of twelve (12) average monthly gross salaries paid to that board member in the period of three months prior to contract termination. The obligation of severance payment occurs in a case of contract termination by Atlantic Grupa in the period of its duration, unless the contract is terminated due to reasons caused by the fault of the board member.

The President of the Management Board of Atlantic Grupa d.d., **Emilu Tedeschi**, in 2020 received remuneration in the gross amount of HRK 4,637,768.91, of which the amount of HRK 2,746,200.01 as the fixed part of the salary, the amount of HRK 1,544,738.00 as the variable part of the salary, and the amount of HRK 346,830.70 as other receipts in kind. The fixed part of the salary represents 59.21%, variable part of the salary 33.31%, and other receipts in kind 7.48% of the total remuneration.

Neven Vranković, the Group Vice President for Corporate Activities, in 2020 received remuneration in the gross amount of HRK 2,958,460.57, of which the amount of HRK 1,785,000.00 as the fixed part of the salary, the amount of HRK 1,091,406.25 as the variable part of the salary (payment in Company shares), and the amount of HRK 82,054.32 as other receipts in kind. The fixed part of the salary represents 60.34%, variable part of the salary 36.89%, and other receipts in kind 2.77% of the total remuneration.

Zoran Stanković, the Group Vice President for Finance, procurement and investment in 2020 received remuneration in the gross amount of HRK 2,848,037.53, of which the amount of HRK 1,731,000.02 as the fixed part of the salary, the amount of HRK 1,057,742.75 as the variable part of the salary (payment in Company shares), and the amount of HRK 59,294.76 as other receipts in kind. The fixed part of the salary represents 60.78%, variable part of the salary 37.14%, and other receipts in kind 2.08% of the total remuneration.

Lada Tedeschi Fiorio, the Group Vice President for Corporate Strategy and Development, in 2020 received remuneration in the gross amount of HRK 2,671,123.98 , of which the amount of HRK 1,680,000.01 as the fixed part of the salary, the amount of HRK 907,875.00 as the variable part of the salary, and the amount of HRK 83,248.97 as other receipts in kind. The fixed part of the salary represents 62.89%, variable part of the salary 33.99%, and other receipts in kind 3.12% of the total remuneration.

Srećko Nakić, the Group Vice President for Distribution, in 2020 received remuneration in the gross amount of HRK 2,649,723.07, of which the amount of HRK 1,679,999.99 as the fixed part of the salary, and the amount of HRK 919,171.27 as the variable part of the salary (payment in Company shares), and the amount of HRK 50,551.81 as other receipts in kind. The fixed part of the salary represents 63.40%, variable part of the salary 34.69%, and other receipts in kind 1.91% of the total remuneration.

Enzo Smrekar, the Group Vice President for Savoury Spreads, Donat and International Expansion, in 2020 received remuneration in the gross amount of HRK 2,028,550.02, of which the amount of HRK 1,301,684.00 as the fixed part of the salary, the amount of HRK 563,990.77 as the variable part of the salary that includes remuneration for Management Board membership (HRK 499,644.74 paid in shares and the rest paid in the amount of HRK 64,346.03), and the amount of HRK 162,875.24 as other receipts in kind. The fixed part of the salary represents 64.17%, variable part of the salary 27.80%, and other receipts in kind 8.03% of the total remuneration.

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, 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, as well as Executive Directors of the Business Unit, Central Purchasing, People and Culture, Corporate Controlling, Central Marketing and Corporate Strategy and New Growth.

BUSINESS COMMITTEES

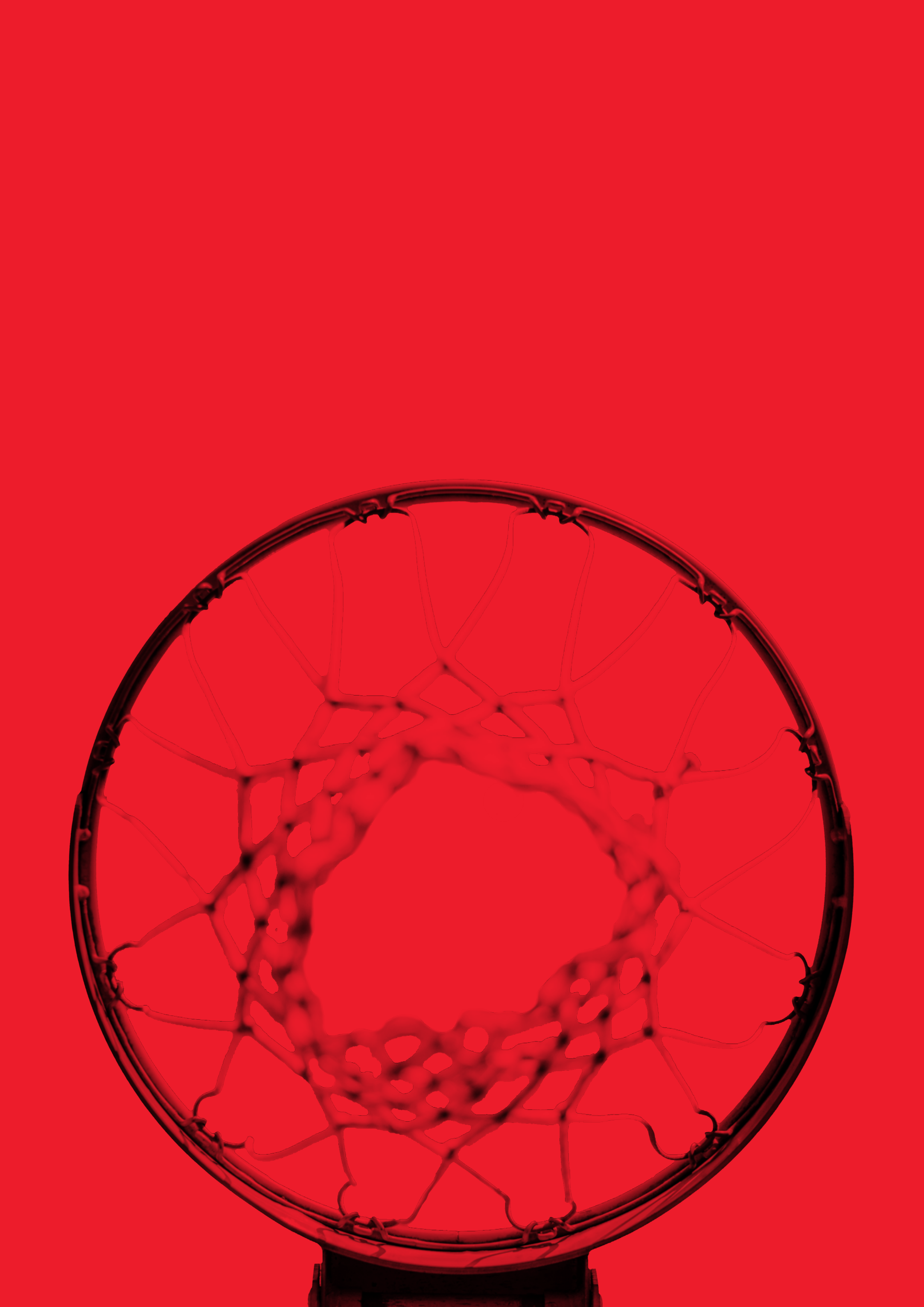
The Social Responsibility Committee contributes to the implementation of principles of sustainable development in the company's everyday operations, monitors its status and starts initiatives for the improvement of corporate social responsibility. The Social Responsibility Committee is headed by the 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 2020

The corporate internal audit of Atlantic Grupa performs an independent audit and control function 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 Audit Committee on its activities and audit plans, while its findings and recommendations help the management to improve processes, preventively eliminate potential risks or reduce risks to an acceptable level.

In 2020, seventeen audits were performed in the following areas: comparison of individual sites within SBU Beverages, maintaining production, planning process for marketing activities by using a digital tool, maintenance of equipment at customers' sites, office IT equipment, etc. These audits resulted in a total of 103 special actions to improve operation and reduce specific risks to an acceptable level.



Corporate **social responsibility**

SPONSORSHIPS AND DONATIONS

In its broader sense, corporate social responsibility is a determinant of Atlantic Grupa's actions. Through its sponsorships and donations, the company aims to promote the values shared with its social environment, namely care, openness, growth and passion. Along with continuous **care** for all stakeholders, we are always **open** towards new ideas, committed to **growth** and **passionate** about our work. Atlantic Grupa is continually taking account of the community where we live, acting as a socially responsible company in many ways. The crisis caused by the COVID-19 pandemic in the wider environment has not changed this, other than our intention to further increase efforts in helping the community.

COVID-19

28 mil.

HRK WAS DONATED TO LOCAL CRISIS HEADQUARTERS AND INSTITUTIONS COORDINATING THE MEASURES FOR CONTAINING THE SPREAD OF THE VIRUS AND PROTECTING THE POPULATION

Atlantic Grupa has been since the beginning actively involved in the joint fight against the coronavirus in all regional markets in which it operates and the Company Management Board decided to redirect almost all donations for 2020 to local crisis headquarters and institutions coordinating the measures for containing the spread of the virus and protecting the population. The largest part of HRK 28 million in total was related to donations intended for procurement of medical equipment, especially respirators, and materials necessary for efficient operation of health institutions in Slovenia, Croatia, Bosnia and Herzegovina, Serbia, North Macedonia and Montenegro, while a part also included products donated to associations within the coordination of national headquarters.

EARTHQUAKE-RELATED ACTIVITIES

Since the beginning of the 2020 crisis – starting with the pandemic, the earthquake in Zagreb, followed by the one in the area of Banovina at the end of the year – Atlantic Grupa has been actively involved in providing help, both to the internal community of its employees and to the population of affected areas. Together with its partners in the field, Red Cross and Civil Protection, Atlantic Grupa participated both financially and by donating goods in Banovina, providing the required goods and foodstuffs and, in cooperation with its principals, it also participated in distributing their donations in this area. Our employees, internally connected by a strong sporting spirit and desire to help, were happy to participate in and support the Virtual Race 53nja, a humanitarian race for the area of Petrinja and its surroundings, by paying the start fee or any other amount, which was donated to the affected local population.

Despite the really unfavourable circumstances, we also wanted students in the areas affected by the earthquake to be able to continue participating in classes without hindrance, so we donated about twenty computers to students, and initiatives for additional assistance will continue in 2021 as well. In addition to providing help and support to our colleagues from the affected area, we also continued the Solidarity programme, through which the company provides direct assistance in extraordinary life circumstances in which our employees find themselves, including this earthquake.

SPORT

- **BC CEDEVITA OLIMPIJA**
- **BC CEDEVITA JUNIOR**

BASKETBALL

Further to its activities in 2019, Atlantic Grupa continued to support the first pan-regional basketball project Cedevita Olimpija. As a reminder, in 2019 the flagship of Atlantic Grupa's sport sponsoring activities, the Basketball Club (BC) Cedevita from Zagreb and the Basketball Club Petrol Olimpija from Ljubljana merged into a single club – BC Cedevita Olimpija.

As one of the main sponsors, Atlantic Grupa continued to follow all sport-related activities in the club, including its development, and the club's new seat is at the renowned Stožice Arena in Ljubljana. As many other public and private sector spheres, this sport was not immune to the consequences of the COVID-19 pandemic and the sport season, for which there were high expectations, was suspended in order to protect the health of all persons in and related to the club, as well as the overall health of all people. First-team trainings were completely aligned with all instructions of the epidemiological services and were held when possible, always with specific measures aimed at maximally protecting the health of all involved.

Additionally, the Basketball Club Cedevita Junior is operating in Zagreb, which has in its focus primarily younger players and coaches, thus representing a club whose goal is to develop top sport talents into complete players who will be competitive in all age categories and all regions of the world. As the direct heir of the BC Cedevita's legacy, BC Cedevita Junior continues the work and best practices used by the club in working with young talents, developing the basketball school and fully utilising the capacities of the Cedevita Basketball Arena. The club and academy 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. The club's greatest challenges in the 2019/2020 season were related to the COVID-19 pandemic, which largely prevented the club's operation and the way it functioned until then. BC Cedevita Junior complied with all introduced epidemiological measures and, when measures allowed it, in line with all provisions held only first-team trainings, namely closed-type trainings where access was allowed only to players and coaches.

VALUE DAY EVERY

VALUE DAY

Atlantic Grupa since 2012 helps local communities through activities of the programme Value Day. Every year for one day from all markets come together to participate in activities that represent our values: **care, openness, passion and growth**.

The 2020 Value Day, as many other activities, looked different. Gathering and helping the community as in previous years was not possible since the circumstances did not allow us to do so. However, this does not mean we did not find a way to support our communities individually.

Atlantic employees have passionately, creatively and responsibly assisted their local communities through different forms of help, such as recording school-required readings and audio books for the blind and visually impaired, knitting and crocheting blankets and hats for children in maternity hospitals, taking care of fellow citizens, offering help to the elderly and the disabled, and holding trainings as part of actions of the Croatian Red Cross.

CULTURE AND KNOWLEDGE

25th SARAJEVO FILM FESTIVAL

In 2020, Atlantic Grupa yet again supported Sarajevo Film Festival, a central cultural manifestation in the region. Considering the circumstances, the festival's format was changed and focused on the online channel, i.e. a platform where one could watch the latest films of domestic, regional and world production on their own device.

Particular inspiration was provided by the new edition of the platform "Svi smo mi iz istog filma" (We're All From the Same Movie), which already for years promotes the Festival as a project that connects creative forces across the region and wider, all with support from Atlantic as one of the leading sponsors of the Festival. Famous film-makers, instead of coming to Sarajevo's irreplaceable red carpet, sent messages of support and inspiration to all film lovers via the online platform. "Svi smo mi iz istog filma" has already for years been a symbol of special partnership and friendship between Atlantic Grupa and Sarajevo Film Festival. Every year this project invites the public across the region to jointly spread the idea of creativity, art and cooperation, and this year it gathered in one place, united and encouraged many well-known names and favourite guests of the SFF.

OTHER ACTIVITIES IN THE COMMUNITY

In 2020, Atlantic Grupa's traditional cooperation with different educational institutions has continued. Based on the cooperation concluded with the Zagreb School of Economics and Management and the Trade School in Belgrade, the existing projects with educational institutions were upgraded in different segments, and several internship programmes for young professionals starting their career were implemented at the beginning of the year. In view of epidemiological measures and corporate responsibility, these activities were paused in the second half of the year, but will be continued when the circumstances related to the pandemic allow for their further implementation without jeopardising the health of participants.

Atlantic Grupa is aware how great things can be achieved with small steps. The already traditional action of collecting plastic bottle caps for the Association of Leukaemia and Lymphoma Patients (ALLP), which has been organised in Atlantic for years, ended 2020 with collected 180 kg and 20 jumbo bags of plastic caps.

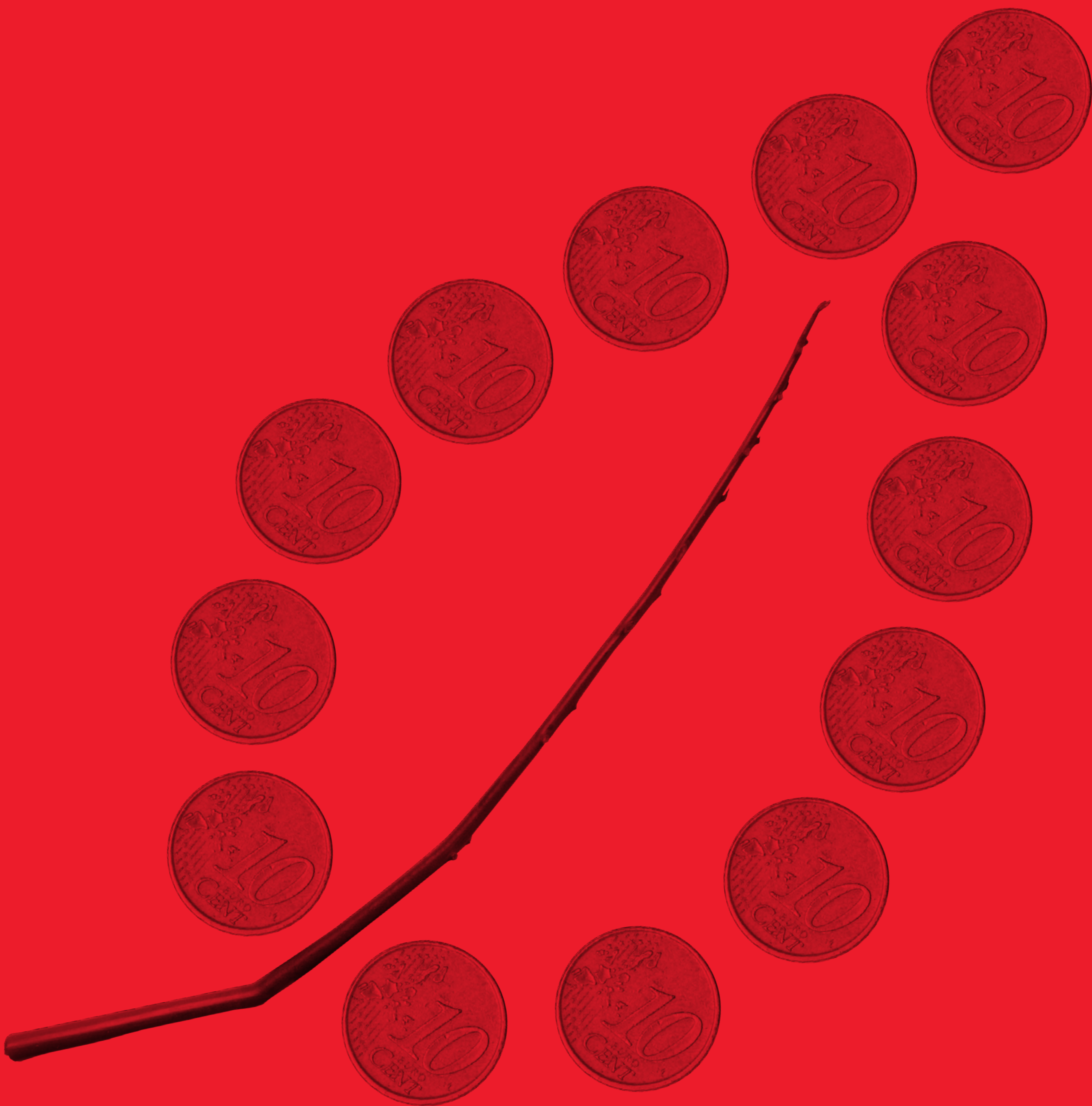
The main idea of this action is to collect plastic bottle caps and send them to the Association, which then gets funds in exchange for them. The Association was established 22 years ago and, thanks to donations, it helps its members to buy medicines, transplants or medical aids not funded by the Croatian Health Insurance Fund (HZZO).
Furthermore, Atlantic Grupa also readily supported the ALLP's additional action "Let's show patients they are not alone", within which members of the Association every year for Christmas visit their ill members and give them presents in the form of packages given by different donors, which this year included Atlantic with Cedevita and Farmacia products. The Association members were surprised with Cedevita candies, while Farmacia provided dietary supplements, dermatological cosmetics and disinfectants.

ANTI-BRIBERY AND ANTI-CORRUPTION

The terms bribery and corruption are understood to 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 subsidiaries demonstrate their adherence to integrity, governance, and responsible business practices on the marketplace, international norms, and stakeholders by acceding to the UN Global Compact Principles, the Code of Ethics in Business issued by the Croatian Chamber of Economy, and the Code of Corporate Governance issued by the Zagreb Stock Exchange and HANFA.

The reporting procedure for corruption-related misconduct is defined under the Atlantic Grupa's Whistleblowing Procedure Rules, which prescribes the reporting procedure, as well as rights and duties of each and all employees of Atlantic Grupa who in their work observe or become 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). 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.


10
CENT

Sustainable development and environmental protection in 2020

With regard to the company's integrated environmental and energy management system, our focus during 2020 was on improving energy efficiency and optimising waste management. In relation to energy management, operating companies of Atlantic Grupa whose energy management system is already certified according to the ISO 50001 standard were joined by two more – Atlantic Grand d.o.o., Belgrade, and Atlantic Štark d.o.o. at the site Palanački Kiseljak.

ENERGY AND WATER CONSUMPTION

When it comes to the integrated energy management system of Atlantic Grupa, we started its introduction into our companies six years ago as part of upgrading the environmental management system. By selecting environmentally acceptable technologies and services, managing energy-related risks and stimulating energy efficiency improvement activities, we are continuously working on preserving the environment.

In the structure of energy use of Atlantic Grupa, 30% of energy is related to electricity. The second most frequently used energy source is natural gas, with a 25% share. Liquefied petroleum gas has a share of 15%, and fuel consumption for vehicles 10% in the overall energy consumption. The remaining energy pertains to steam and fuel oil, as well as renewable sources in the form of solar and thermal energy.

The highest energy consumption among members of our Group was recorded in production plants of Atlantic Štark d.o.o., Belgrade, Atlantic Droga Kolinska d.o.o. in Izola, Atlantic Grand d.o.o., Belgrade, Atlantic Argeta d.o.o., Sarajevo, Atlantic Cedevita d.o.o. and the distribution centre Atlantic Trade d.o.o., Zagreb.
In our continuous engagement on improving energy savings, we have implemented a number of technological and organisational activities that contribute to our goal of having a positive impact on the environment. In addition to regular replacement of the existing fixtures with LED lighting, we also implemented the following activities:

- in the production plant of Foodland Atlantic Štark d.o.o., we installed electricity consumption meters on water-recirculation coolers and the tunnel pasteurizer, as well as fast-closing doors between the cold storage and the production facility;
- in the production plant of Atlantic Štark d.o.o. in Ljubovija, we reconstructed the boiler room, replaced fuel oil with liquefied petroleum gas, installed new hot-water boilers for liquefied petroleum gas, reconstructed the hot-water supply installation, and procured new recirculation pumps as well as the boiler water treatment and feed system;
- in the production plant of Atlantic Štark d.o.o. in Belgrade, we replaced the main pouring device, two transformers in the substation, cooler for the administrative building, installed new space cooling system, and insulated a part of the pipeline;
- in the production plant of Atlantic Grand d.o.o. in Skopje, we renovated pneumatic installations and replaced roller doors in the warehouse;
- in the production plant of Atlantic Droga Kolinska d.o.o. in Rogaška Slatina, we upgraded the thermal station for heating with new regulation and renovated a major part of the steam and condensed water pipeline;
- in the production plant of Atlantic Droga Kolinska d.o.o. in Mirna, we installed self-closing blinds on the ventilator, replaced the main stop valve in the boiler room and the heating plant, as well as the complete steam boiler management system, thus achieving regular monitoring of steam consumption and of water consumption for boiler feed water treatment and discharge of wastewater. In the same plant, we also optimised the compressed air and steam system and replaced the steam head on the steam installation;
- in the production plant of Atlantic Cedevita d.o.o., Zagreb and Montana Plus d.o.o., Zagreb, we continued the systematic continuous elimination of unnecessary energy consumption and upgraded the graphical-tabular analysis system;
- in the production plant of Atlantic Argeta d.o.o., Sarajevo, we optimised the finished products packaging system;
- in the production plant of Atlantic Grand d.o.o., Belgrade we replaced the compressor with a more energy efficient system and initiated the use of the compressor's heat for space heating of the compressor station;
- in the production plant of Atlantic Droga Kolinska d.o.o. in Izola, we replaced burners on steam boilers, established a new cooling system for coffee grinders and a new coffee loading system;
- in the production plant of Atlantic Štark d.o.o. in Palanački Kiseljak, we replaced filter fillings and valves on the technological water treatment system.

We estimate that the above listed improvements will reduce energy consumption by 1% per year, while the activities related to water use will reduce water consumption by 5,000 m^3 on an annual basis.

The energy consumption in 2020 was reduced by 1.5% compared to 2019, while water consumption was reduced by more than 40,000 m^3, representing over 8% of the annual water consumption. 80% of water consumption reduction was realised in three plants – Atlantic Štark in Igroš (reduced by more than 20,000 m^3), Cedevita in Apatovec (9,000 m^3) and Atlantic Štark in Palanački Kiseljak (7,000 m^3).

The requirements for recognising the effect of our business activity on the environment and planning efficient improvement activities are well-selected key performance indicators (KPIs). Our current KPIs were extended with the CO_2 emission calculation indicator for energy and fuel consumption.

In 2020, we started to consider our environmental impact in the field of water management from an additional aspect. The monitoring of water consumption and water consumption efficiency was extended with water management efficiency per source analysis.

WASTE AND WASTEWATERS

Recognising opportunities to reduce environmental impact in respect of waste management is in the focus of our activities in this area of company management. In this segment, special attention is directed towards separate waste collection for the purpose of enabling further processing. In the markets of Slovenia and Croatia, we exceeded the goal set by the EU regulatory framework by 10%, and are striving to achieve the same goal on non-EU markets.

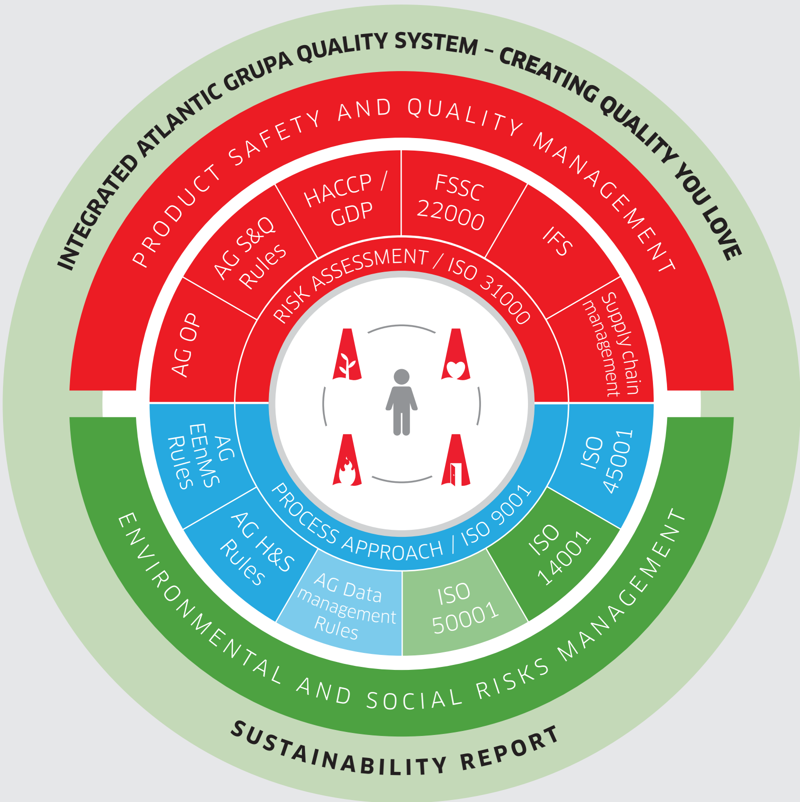
In addition to monitoring collected quantities and the share of municipal waste compared to other collected waste, we are also monitoring further processing of generated waste. Our goal is to continuously raise the level of waste management. We have restarted the project of installing and upgrading “eco-islands” at our locations, as well as placing stickers for raising the environmental awareness of employees. Additionally, we initiated the project *Wind of Change*, during which employees proposed creative ideas for further use of waste as a secondary raw material.

We are regularly performing training courses aimed at raising the environmental awareness of employees in all business locations of Atlantic Grupa. Some of the improvements achieved in this area during 2020 are as follows:

- in the production plant of Atlantic Droga Kolinska d.o.o. in Rogaška Slatina, we established a system of weighing waste on forklifts and set up an eco-station for cleaning agents and chemicals used by the wastewater treatment device;
- in the production plants of Atlantic Droga Kolinska d.o.o. in Izola and Atlantic Grand d.o.o. in Skopje, we replaced jute bags that were used for procuring a part of coffee with the so called big bags, thus minimising the amount of generated waste;
- in the production plant of Atlantic Argeta d.o.o. in Sarajevo, we installed a new type of pH electrode on the wastewater treatment device;
- in the production plants Foodland and Palanački Kiseljak of Atlantic Štark d.o.o., we completed the activities of constructing the wastewater treatment device;
- in the production plant of Atlantic Štark d.o.o. in Ljubovija, we installed a separator of light petroleum products for rainwater from roofs of facilities and road surfaces.

Compared to the previous year, in 2020 we reduced the quantity of generated waste by 266 tonnes, which is more than 3% of overall waste generated in our plants.

Integrated **process management system** in 2020



In the field of developing quality systems, the year 2020 was marked by several key projects:

1. redesign of the existing processes and definition of new processes through the relevant *Business Process Reengineering* (BPR) Project;
2. new certifications in 2020 and preparation for new certifications in 2021;
3. control system improvement;
4. system digitalisation;
5. improving knowledge and skills.

1. Redesign of the existing processes and definition of new processes through the relevant *Business Process Reengineering* (BPR) Project

The implemented BPR Project included the design and review of 290 processes at the level of the entire Atlantic Grupa by extending the scope of the process approach and redefining roles in that approach. More information on the project is provided in chapter *Information Technologies in 2020*.

2. New certifications in 2020 and preparation for new certifications in 2021

In 2020 we carried out activities for new certifications within the Group according to the IFS standard. The project covered the following companies:

- in which certification was successfully implemented during 2020:
  1. Atlantic Cedevita d.o.o. (production facility Planinska);
  2. Atlantic Droga Kolinska d.o.o. (coffee production facility in Izola);
  3. Atlantic Štark d.o.o. (production facility Ljubovija);

- in which preparatory activities for certification in 2021 were implemented:
  1. Atlantic Grand d.o.o. (production facility in Belgrade);
  2. Atlantic Štark (production facility in Belgrade).

All companies in which certification was implemented during 2020 were evaluated with the highest level of the IFS standard. At the same time, we continued the cycle of extending energy performance certificates to the following companies:
1. Atlantic Grand (production facility in Belgrade);
2. Atlantic Štark (production facility Kiseljak).

3. Control system improvement

In 2020, due to the effects of the spreading coronavirus pandemic, new control system solutions were implemented. In addition to usual on-site internal audit procedures, we also introduced the so called remote audit procedures by using digital tools without direct on-site visits; this model was also used to carry out a part of external audit procedures. In this way, we ensured the continuity of control and the continuity of all our certificates.

A total of 90 internal audit procedures were performed in 2020. The other area of focus was to improve the control system for suppliers, with an added focus on identifying and monitoring sustainable business elements.

4. System digitalisation

When it comes to quality systems, the key digitalisation project in 2020 was related to a document generation and management tool for quality systems at the level of entire Atlantic Grupa. This tool enabled standardisation across all document categories at both corporate and local level with the goal of providing every Atlantic Grupa user with easy access to information.

5. Improving knowledge and skills

All activities in 2020 were followed by continuous work of the competent staff on improving their knowledge and functional skills within the organised educational programme *"Functional Lab Quality"*. Over 5,000 participants attended different forms of internal training for developing specific knowledge related to the process approach and quality systems.

Special attention was given to training new personnel in performing audits for IFS standards.

The project *"E-Learning - Good Hygienic Practices"* was also completed in 2020; it included a number of different modules related to the company's individual business areas (*good hygienic practices* in production, *good hygienic practices* in distribution, etc.) and enabled a standardised approach for all Atlantic Grupa participants.

AG INTEGRATED CERTIFICATION								
LEGAL ENTITY (LOCATION)	MARKET	PROCESS MANAGEMENT STANDARD	FOOD SAFETY SYSTEM CERTIFICATION (FSSC/IFS)	FOOD SAFETY STANDARD	ENVIROMENTAL MANAGEMENT STANDARD	EnMS	HALAL	BIO
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 (ZAGREB)	CRO	ISO 9001		HACCP	ISO 14001	ISO 50001		BABY FOOD AND TEAS
ATLANTIC GRUPA FARMACIA SPECIALIZIRANA PRODAVAONICA	CRO	ISO 9001						
ATLANTIC GRUPA FARMACIA ZDRAVSTVENA USTANOVA	CRO	ISO 9001						
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	
ATLANTIC DROGA KOLINSKA (KAVA IZOLA)	SLO	ISO 9001	IFS	HACCP	ISO 14001			BARCAFFÈ 200 g
ATLANTIC DROGA KOLINSKA (ROGAŠKA)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001		
ATLANTIC TRADE (LJUBLJANA)	SLO							PRE-PACKAGED ORGANIC FOOD
ATLANTIC ARGETA (SARAJEVO)	B&H	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	ARGETA	
ATLANTIC GRAND (BIJELJINA)	B&H	ISO 9001		HACCP	ISO 14001			
ATLANTIC ŠTARK (BELGRADE)	SRB	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001		
ATLANTIC ŠTARK (LJUBOVIJA)	SRB	ISO 9001	IFS	HACCP	ISO 14001	ISO 50001		
ATLANTIC ŠTARK (PALANAČKI KISELJAK)	SRB	ISO 9001		HACCP	ISO 14001	ISO 50001		
ATLANTIC GRAND (BELGRADE)	SRB	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001		
ATLANTIC ŠTARK (IGROŠ)	SRB	ISO 9001	FSSC 22000	HACCP				
ATLANTIC BRANDS (BELGRADE)	SRB	ISO 9001		HACCP	ISO 14001			
ATLANTIC GRAND (SKOPJE)	MAK	ISO 9001		HACCP	ISO 14001			
ATLANTIC TRADE (SKOPJE)	MAK	ISO 9001		HACCP	ISO 14001			PRE-PACKAGED ORGANIC FOOD
ATLANTIC BRANDS (AUSTRIA)	AUT							BIO MUSLIRIEGELBIO

Supply chain

Atlantic Grupa nurtures strong and long-term relationships with its suppliers and offers many opportunities and possibilities for cooperation to its suppliers. From our suppliers we procure all the raw materials for our products, packaging, machines for producing and finishing the products, other equipment and technical devices, as well as other services that are necessary support to our processes. Our supply chain consists of both large multinational business corporations and small local suppliers. From some of the suppliers we procure products and services in significant amounts, while with others we cooperate on an occasional basis. In 2020, Atlantic Grupa cooperated with more than 4,200 suppliers.

Regardless of the supplier's category, we aim to have a high-quality relation with our suppliers, by creating through this relationship added value both for our company and for our suppliers. Although we collaborate with a large number of suppliers, we constantly need to enrich the database of our suppliers with new vendors capable to contribute to create user and consumer satisfaction by their higher quality, more innovative, functional, and competitive products or services. To ensure constant product enhancements, we continuously evaluate our suppliers and stimulate them to improve their own efficiency and to develop innovative products and technologies. In order to improve and ease the process of identification, development and on-boarding of innovations from the supply market, three years ago Atlantic Grupa established the Supplier Enabled Innovations Program. Within this program, the suppliers, both incumbent and those that would like to start cooperation with Atlantic Grupa, have a chance to work together with the professionals from Atlantic Grupa on shaping, developing and commercializing various innovative ideas, concepts and products that might be applied and brought to the market. During the last three years, several workshops were organised under this program with suppliers of packaging and raw materials which are dedicated to innovation. The result of the workshops are concepts and ideas that could be applied to Atlantic Grupa's brands or products, some of which are further developed and implemented. The ideas that are selected for further implementation refer to more sustainable products, particularly packaging, such as increase of recycled materials in PET bottles, introducing recyclable polymer foils and disposable cups, switching to much lighter plastic caps, etc.

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 moral 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.

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;
- Protection of health and personal security of their employees;
- Banning child labour;
- Prohibiting discrimination based on race, religion, sex or any other criteria as also prohibiting sexual harassment;
- Abiding by valid laws and standards of environmental protection, 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. In this respect, several activities were taken during 2020 in cooperation with our suppliers, such as continuing to promote and stimulate the sourcing of hens from standard cage-based hen farms to cage-free farming, buying more tuna with MSC certificates that guarantee sustainable tuna catching, or buying green coffee from women-owned farms. In addition to this, at some of our production locations we completely replaced multi-layer 50 kg sugar bags with 1,000 kg big bags or with the delivery of sugar in bulk, so this way we reduced waste and positively affected our CO_2 footprint.

The COVID-19 pandemic accelerated our orientation towards local sourcing of production materials wherever possible in order to help local suppliers to survive the crisis and grow with us. At the same time, by localising our supplier base, we reduced the risk of supply chain disruption to Atlantic Grupa, shortened the lead times and simplified our supply chain management.

There are many examples of such localisation of the sources, such as the one of purchasing fish from local fish farms in Slovenia, Croatia and Serbia, or cooperating with the local red pepper farmers in Serbia.

The purchasing organisation of Atlantic Grupa is committed to selecting only such suppliers that comply with these 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 reputation, 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, while intensive work was performed on the data collection and processing system as well as on the evaluation and monitoring model based on the risk management model. 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. This tool enables Atlantic Grupa to have a central repository 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 the business and of the criteria for selecting suppliers.

The 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. Aimed at improving two-way communication, Atlantic Grupa encourages the existing and potential suppliers to use the online supplier portal available at the company's website. The portal contains information on goods and services which Atlantic Grupa is procuring, selection and awarding contracts procedures etc. In addition, the portal provides the suppliers the opportunity to share their suggestions for improving the relationship with Atlantic Grupa, quality and functionality of products and services, and other aspects of cooperation.

In order to increase the process transparency and compliance, in 2020 we introduced a digital tool for collecting suppliers' quotations and performing tenders – SAP Ariba sourcing tool, that is used by the Central Procurement.

Despite the very unfavourable circumstances caused by the spread of the COVID-19 pandemic and the impact of this crisis on global and local flows of goods as well as on production capabilities of our suppliers, we succeeded in avoid interruptions or significant delays of deliveries of requested production materials. Our strong and long-term relationship with our suppliers helped us to avoid such disruptions. By doing this, we also ensured an uninterrupted supply of our products to the market.

Sustainability risk management

The corporate values (care, openness, growth and passion) and culture that Atlantic Grupa nurtures is reflected in the quality policy, confirming our commitment to the principles of sustainable development, economic efficiency, environmental responsibility and social responsibility. This means that, beyond complying with national laws and international standards, we are developing internal procedures and policies concerning the most material issues for our company as well as for our stakeholders, while taking into account local and global sustainability trends. Having high quality standards as our fundamental commitment, we are operating in ways that generate shared value for the community and help protect the environment for future generations.

How do we define sustainability? We are aware that our activities must not cause damage that will worsen the lives of future generations. But what is even more important, we strive to define sustainable development and act in a way that sees it as a process of creating new opportunities and development possibilities for our business operations, as well as for a better future for new generations.

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.

SUSTAINABLE DEVELOPMENT IN ATLANTIC GRUPA

In addition to macroeconomic conditions that largely dictate the trends in the consumption goods industry, in particular personal consumption as a component of the GDP, our company is also considering major global risks such as the financial crisis causing a recession in Europe and the region, as well as climate change and potential resource scarcity increasingly affecting our social and economic environment. By expanding our concern for the environment through the integrated environmental and energy management system, we made a big step toward sustainability, focusing on increasing the waste management efficiency and achieving energy efficiency improvements. With the consumers' expectations constantly growing, the development of the consumer goods industry is also largely influenced by the ability of a company to adapt to consumer needs and market trends, which in turn requires investments in research and development, innovation and technology.

We have integrated our commitment to corporate social responsibility into our business activities based on external initiatives, and we are actively participating in their further expansion to markets where we operate.

KEY INDICATORS AS MOTIVATORS FOR IMPROVEMENT

In 2007, Atlantic Grupa joined the United Nations Global Compact by committing to support the ten universally accepted principles with respect to human rights, labour, environment and anti-corruption. The UN Global Compact (UNGC) and the Global Reporting Initiative (GRI) signed an agreement in May 2010 to align their work in advancing corporate responsibility and transparency. Under the said agreement, GRI develops its own reporting guidelines in order to integrate problematic areas from the UNGC, while the UNGC adopts the GRI Guidelines as the recommended reporting framework for companies that joined this largest corporate responsibility platform in the world.

Atlantic Grupa has set its priority goals for action towards sustainability back in 2013. We are regularly reporting the results for the selected key progress indicators, namely: direct economic value generated and distributed; energy consumption within the organisation; IUCN Red List species and national conservation list species; waste generated; new employee hires and employee turnover; work-related injuries; average hours of training per year per employee; incidents of non-compliance concerning the health and safety impacts of products and services; and requirements for product and service information and labelling, while in 2020 we added energy intensity as the tenth indicator. Aware of how business operations of any company are connected with wider social goals, in 2020 we used, for the first time, the GRI report to analyse how our activities may be linked to and affect the global sustainable development goals (SDGs). Furthermore, as part of developing relations with investors, at the end of 2020 we re-analysed their interests described in many evaluation questionnaires. We decided to upgrade the 2020 report with four additional target areas, of which three are from the field of environment:

- CO_2 emission management;
- water consumption management and analysis of management efficiency according to the type of water source;
- detailed analysis of management of different waste types;

and one has a social aspect:
- gender equality across all company management levels.

We have also accelerated the integration of sustainable development risks and opportunities into our brand management strategies. As regards the company's business operations related to the development and production of Argeta products, in 2020 it defined its brand sustainable development strategy, established priorities for action and set progress objectives, relying on the product life cycle analysis coupled with good understanding of sustainability challenges, as well as of consumer trends and expectations. In line with the above, an independent sustainability report was prepared at the end of the year, containing the evaluation of achieved results and planning of follow-up activities.

As regards the company's business operations related to the development and production of Donat products, it decided to, within care for the environment, renew the brand by introducing 100% recycled packaging materials. 70% of the said product's users confirmed that this is not only welcomed, but also expected from the brand known for its natural origin of a unique combination of minerals from which it gets its functionality. Additionally, the objectives of these activities include using 50% recycled foil for transport and reducing label thickness by 12%. The planned activities involving collected and used bottles of Donat products are focused on their use as raw material for bottle processing, which would, in addition to reducing environmental pollution caused by plastic waste, cut CO_2 emissions by as much as 90%.

NEW REGULATORY REQUIREMENTS, ASSOCIATIONS, NEW KNOWLEDGE

Climate change and its mitigation, protection of water resources and biodiversity are the main priorities of the European Union's future development policy. In line with the EU regulation on taxonomy, which entered into force on 12 July 2020, we established guidelines for our activities in that area. In 2021, we will adjust the measuring of progress with the introduced standardised approach, and will be able to show our added value through shares of revenues, investments and costs in individual sustainability categories.

In Serbia, Atlantic Grupa is a member of the Corporate Social Responsibility Forum – the first and only network of companies in this market dedicated to social responsibility – whose activities contribute to further development of socially responsible projects and exchange of experience on the current practice. In the period 2013 – 2015, a representative of Atlantic Grupa held a position in the Governing Board of that Forum.

In Croatia, Atlantic Grupa is a member of The Croatian Business Council for Sustainable Development (HR BCSD) since 2005. The said business association gathers companies in a joint mission of seeking solutions for growth, by balancing business success, social well-being and environmental protection.

In Slovenia, representatives of Atlantic Grupa participated in a 60-hour educational programme for acquiring the title of Sustainable Business Transformation Manager, which was organised by the M3TRIX Academy and the Centre for Energy Efficient Solutions.

DEVELOPMENT OF NEW PRODUCTS AND IMPROVEMENTS IN TECHNOLOGICAL PROCESSES

Through its business activities and product portfolio, Atlantic Grupa has an impact on the creation of common values by promoting a healthy lifestyle among consumers in the markets and communities in which we operate.

In response to the main challenges, our sustainability commitments are deeply implemented in our core business:
- Risk control is implemented in the process of designing and developing or improving products when it comes to the use of raw materials, components or substances that may jeopardize human health. In Atlantic Grupa, procedures with the purpose to ensure safety and conformity of any new or improved product are in place. There are many internal demands that must be followed in terms of legal and sustainability requirements in order to ensure the production of safe foods. Furthermore, we are committed to developing new product recipes in order to improve our products and support healthy eating habits of our consumers;

- When conceptualising, planning and designing new products, in addition to the aforementioned, we take into account the aspect of environmental protection and sustainable development. Through the careful selection of raw materials and packaging; our activities are aimed at reducing adverse environmental impacts throughout the entire life cycle of the product – from raw materials to final disposal of the waste packaging after its use;
- The extension of the principle of sustainable development is reflected in the relationship with our suppliers. By including environmental criteria into the supplier selection process, we have expanded care for the environment to our entire supply chain.

The strategy implemented by Atlantic Grupa in recent years, which focuses on reducing the environmental footprint, is showing significant results. In addition to raising the bar of our internal expectations, we find it equally important to also encourage our partners and consumers to engage in environmentally responsible behaviour.

A few examples of applying these principles in 2020 are provided below:

As of 2020, Argeta products use FSC certified cardboard for transport, which is being gradually introduced into all different packaging types. By redesigning packaging units from 2x6 to 2x7, their volume was optimised, which resulted in the reduction of transport operations (by 14.2%) and paper consumption (by 12.3%). Moreover, the plan for further improvement of the nutritional profile of Argeta spreads was prepared: Junior products are going to have 20% less fat, higher protein content, and soy will be removed from recipes, while Argeta spreads will be labelled "GMO-free".

In 2020, Barcaffè introduced the use of aluminium-free foil GENEPROTECT® into its product assortment: first for the line Barcaffè BIO, which will be followed by the lines Single Origin and Selection. Environmentally acceptable foil is based on renewable sources, such as sugar cane and rapeseed (the share of renewable sources in the foil production is 70%), and it has all the required functions of protecting product freshness as aluminium-containing packaging. Another advantage of this new foil lies in its recycling potential. Additionally, Barcaffè is reducing its carbon footprint (CO2) which is, in the case of production of the foil in question, 63% lower compared to the standard production of three-layer foil. taking this step, Barcaffè successfully follows the path of an environmentally responsible coffee producer as one of the first to use innovative aluminium-free packaging for its products.

In the case of Cedevita GO products, the introduction of new packaging resulted in reducing the cap mass and volume, as well as the number of different materials. The new cap is made only from PP (polypropylene) plastic, which was not the case with the previous version, resulting in the amount of packaging waste being reduced by approximately 180 tonnes a year. The new packaging design allows for easier separation and disposal, which is a significant improvement from the environmental aspect.

In 2020, SBU Snacks offered completely new, nutritionally more valuable products under the new sub-brand Prima Grissini. New products are made from integral flour (buckwheat, oats, spelt, wheat, corn), yeast, flax and chia seeds, rich in fibre, with natural flavourings and without added additives. When it comes to one of our largest brands, Bananica, the recipe was improved by adding a natural banana extract, while further activities are focused on reducing the use of multilayer packaging, which will be implemented by transition to a new chocolate production line that will reduce the amount of packaging waste by 30%.

People & culture
in 2020

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. The key people strategy implementation principles are simplicity, impact and humanity.

The challenging 2020 has shown how much our values guide our decisions and behaviours, so the driving force that guided us through the year was caring for each other, our employees, business relationships and the community in which we operate.

Health protection measures within the company were introduced preventively and much earlier than prescribed by national regulations. Office employees were allowed to work from home, and employees who are parents received paid leave for looking after children under the age of 12. Moreover, these employees were able to being purchase furniture and electronic equipment to furnish their home offices on favourable terms from external partners. Special attention was given to our colleagues whose nature of work requires their physical presence in Atlantic's locations. All employees in production, warehouses, field activities and pharmacy units were provided with protective equipment, personal hygiene and immunity boosting products, while their effort and labour during the intensive months of the pandemic was rewarded with higher salary. In parts of the organisation where, due to and during the coronavirus pandemic, the scope of work was reduced or the need for it was completely absent, we enabled their redeployment, so they can contribute to the parts of business operations where activity was increased.

Connectedness and a sense of belonging are what makes up the core of the organisation, while culture is an intangible element that integrates all its parts into a whole. In this spirit, we initiated an interfunctional initiative Flavour of Togetherness with the intent to, via several corporate communication channels, ensure the connectedness of all employees regardless of the location from which they are doing their job. This project encouraged more interactive communication among employees and discussions about the new circumstances in their daily work, as well as provided an additional form of support for adapting to the new work circumstances as successfully as possible, such as timely delivery of information about events in the company, safety measures, available training through webinars and online workshops, organisation of gatherings to have a virtual coffee with the President of the Management Board, talking with experts, virtual recreational activities, organisation of opportunities to volunteer and help the community, as well as entertainment contents that employees can use to have fun and relax together outside their working hours.

During 2020, two elements of caring for people have gained particular importance. Through the Solidarity programme, we provided financial aid to all colleagues whose property was damaged during the earthquakes in Zagreb, Petrinja and Banovina. Aware of the fact that earthquakes, long-term isolation and the pandemic can, in general, have a negative impact on the people's mental health, in addition to providing an opportunity to follow lectures and panels of top experts on the subject of mental health, employees were also provided with a free psychological support phone line with renowned national mental health institutions, as well as with anonymous psychological assistance for individuals.

Remote working accelerated the further digitalisation of trainings organised by the company, so last year they were all held online, and employees who in their regular work do not use a computer (production and distribution) were able to participate via tablets installed in their work locations. Over 2,000 Atlantic employees participated in this form of learning.

Among the awards received in 2020, we highlight the ones through which the wider community recognised our special care that was focused on our employees in this challenging year. With the score of 99% in the CEP certification, we are still the leading Employer Partner in the region, in addition to which we received a special acknowledgement "Excellence in Challenges" for measures and activities for the protection and welfare of employees that were carried out during 2020. Our projects "Flavour of Togetherness" and "Value Day Every Day" were awarded as best practices at the Best Employer Branding Awards.

HUMAN AND LABOUR RIGHTS

Atlantic Grupa d.d. and its subsidiaries pay particular attention to their impact on internationally recognised human rights which include, at a minimum, the rights set out in the International Bill of Human Rights and the principles set out in the International Labour Organisation's (ILO) "Declaration on Fundamental Principles and Rights at Work". An organisation can impact human rights directly, through its own activities and operations, and indirectly, through its interactions and relationships with others, including governments, local communities and suppliers, as well as through its investments.

By acceding to the UN Global Compact Principles, Atlantic Grupa d.d. has committed to support and respect the protection of internationally proclaimed human and labour rights.

In this regard, the basic guidelines of Atlantic Grupa d.d. and its subsidiaries' actions are as follows:

- fostering diversity and providing equal opportunities for employment, career development and advancement to all their workers, regardless of their gender, age, disability, national or social background, and other diversity indicators;
- zero tolerance for discrimination in the workplace aimed at ensuring a working environment in which employees are protected from any form of discrimination or harassment by their employers, superiors, associates and other persons;
- supporting the right of association of workers and the work of the Union Alliance, including collective bargaining and collective agreements;
- prohibiting child labour, forced or compulsory work, as well as complying with all applicable health and safety regulations in order to ensure safe and healthy working environment for their workers.

A regulatory compliance registry for occupational safety and fire protection is established in all markets with the aim of preventive action and coordination of regularly activities, while risk assessments are regularly conducted. The Company's policies and procedures concerning human rights, equal opportunities, safe and healthy working conditions are available in the Company's internal publication, as well as on all of our bulletin boards.

Information technologies in 2020

The digital transformation in Atlantic Grupa has been successfully continued based on the foundations set in previous years. The approach is based on synchronous development of the process landscape, information and communication technology roadmap implementation, the Group project management methodology and necessary organisational changes. In the domain of process optimisation, the BPR (Business Process Redesign) project took the majority of the effort. The main purpose of the project was to carry out a critical review of the existing processes in the company in relation to the best global practices, as a prerequisite for extensive digitalisation of business operations that follows.

The first phase of the BPR project, which dealt with the redesign and harmonisation of business processes, has been completed during the summer of 2020. It included 120 workshops involving over 250 employees. This resulted in the design and review of almost 290 processes. It took 11 months for Phase 1 to be completed, in cooperation with the international consulting company Horvath & Partners. The project delivery was in accordance with the deadlines and the planned scope. Such execution, despite the unfavourable conditions of the pandemic and strong earthquake in Zagreb, confirmed that online mode of working can function well in complex project structures. As an additional process efficiency support measure, the company has decided to form the process management organisational entity, which became a part of the Project and Process Management Department.

After the successful completion of the BPR Phase 1, AG continued to develop its process and operational efficiency through kick-off of 4 strategic projects: BPR implementation, Master Data Management (MDM), Integrated Business Planning and roll-out of the new ERP system – S4 Hana SAP. Master Data Management is the framework of processes and technologies aimed at creating and maintaining a reliable, sustainable, accurate and secure data environment that represents a "single source of truth" for master data and its relationships. This is achieved through implementation and management of a new authoritative system of records and precise data governance.

Integrated Business Planning is an expanded form of Sales and Operations Planning (S&OP) that connects strategic, profitability-related objectives with short and mid-term operational planning decisions, based on new technologies and tools now available on the market and compatible with the existing AG technology landscape. Using this approach, the Company will connect financial and operational data across the organisation by linking strategic plans with sales, operational, and financial plans. S/4HANA ERP implementation has started with the definition of the global template based on the BPR results. The implementation of first projects is planned for 2021, with go-live dates set in January 2022.

In the field of information and communication technology (ICT), all major targets were successfully met despite strong pandemic challenges. This required simultaneous management of new operational issues together with implementing technology development projects and improving the service level.

The already implemented hybrid cloud concept, and associated technology consolidation, was a major prerequisite for fast and interruption-free migration to remote (home office) work for the majority of IT users. In response to new challenges, strong attention was given to all remote work aspects, including collaboration platforms, IT services availability for remote users and security issues. The unified communications concept was upgraded to support business in the new environment, so on top of all Skype For Business functions, MS Teams and Skype for Business Broadcasting were introduced. Computing power of the core infrastructure was raised in 2020 by 40% via investments in additional server resources and additional storage and backup capacity. On the network side, the capacity of network links was increased on most of the locations.

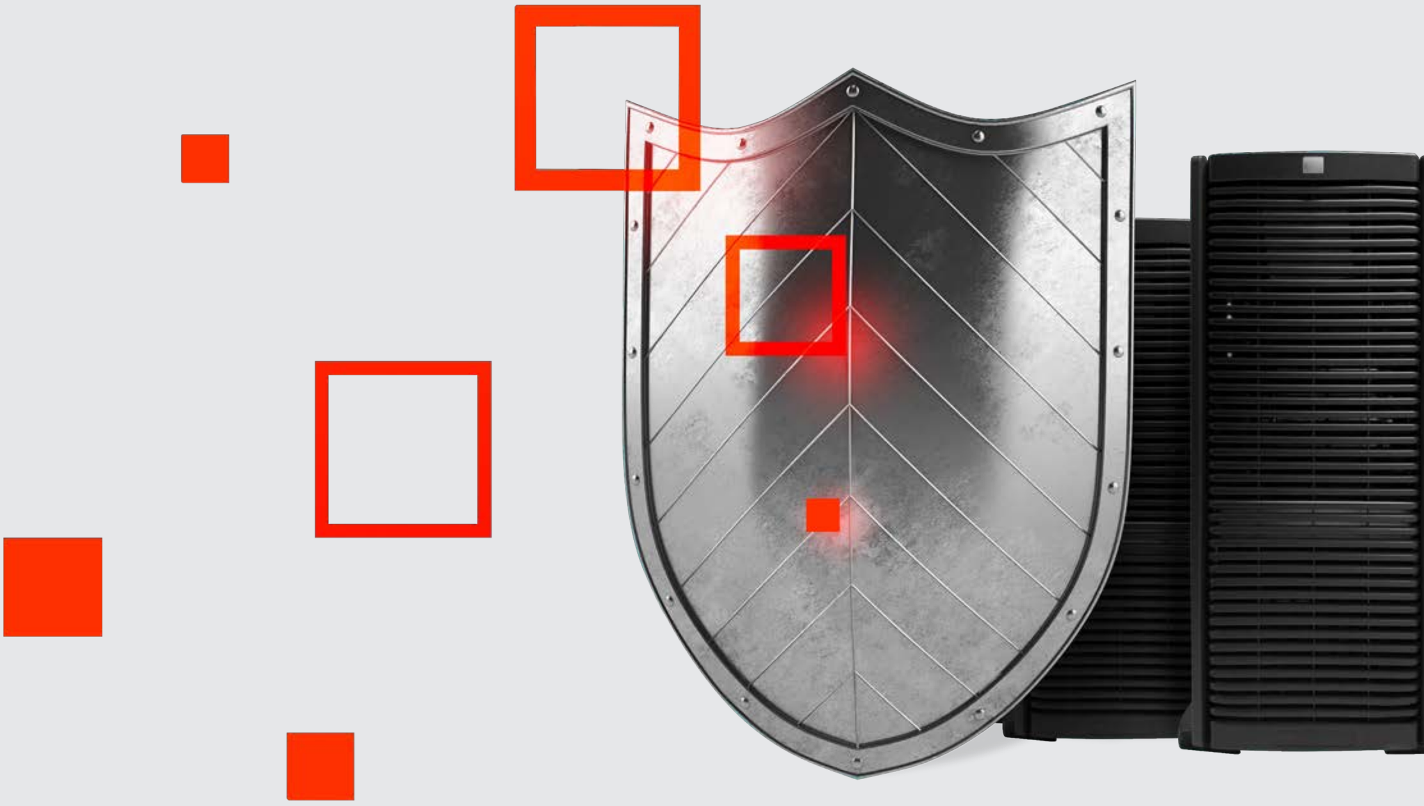
Pandemic circumstances required continuous development in the field of IT security, which included new machine learning based tools, common processes, and the introduction of 24/7 Security Operations Centre (SOC) operations. Production supporting systems in various factories are enhanced through projects dedicated to raising the efficiency, reliability and flexibility of production plants.

The performance of the complete IT landscape, including service/user view for all business applications, is managed through the execution of the IT monitoring project, while the attention given to customer experience and user satisfaction resulted in significant reduction of incidents and requests-solving time. As regards the IT business support systems, travel and epidemiological restrictions, as well as the budget revision in Q2 2020, led to postponement of some projects. Nevertheless, despite the potential challenges of remote work and online collaboration, significant achievements have been made. We emphasize major achievements here.

In the field of distribution, after the Shipment Digitalisation Project in the Strategic Distribution Unit (SDU) Croatia in 2019, the roll-out to SDU Serbia was completed during May. Warehouse layout optimisation, yard management, improved inbound pallet processing and a new solution for inventory optimisation were introduced in SDU Croatia. SDU Slovenia introduced a standard group solution for mobile sales and merchandising. Production and inventory planning enhancement projects were executed in Izola and Sarajevo. In the area of strategic procurement, SAP Ariba solution was introduced, covering modules for sourcing and spend analytics. Internal efficiency was raised via the group EDI (Electronic Data Interchange) project, connecting all major internal stakeholders, while several large external customers were successfully onboarded too.

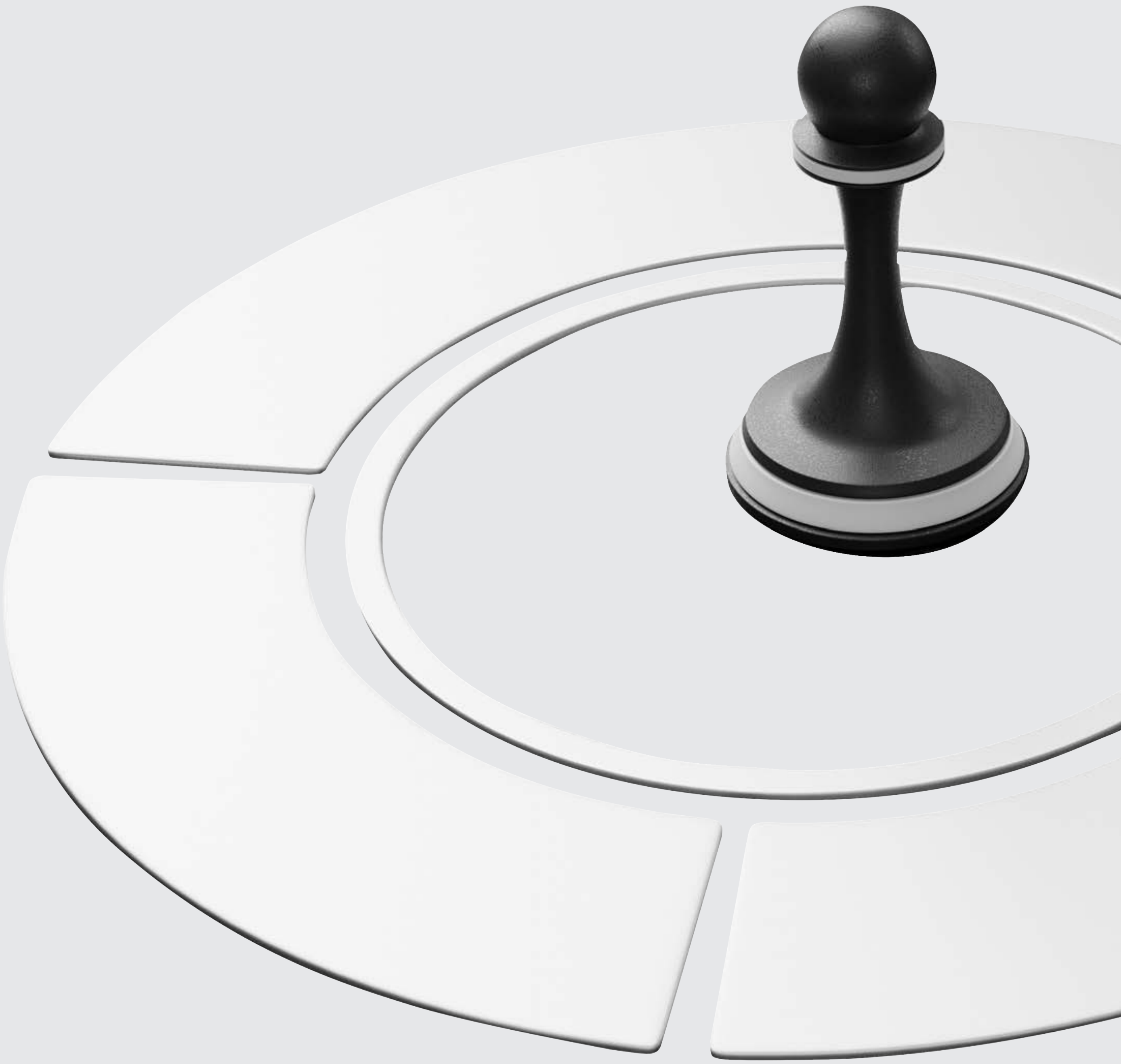
The RPA (Robotic Process Automation) efforts, started in 2019, were continued during 2020 with implementation of new processes and roll-out of several existing ones to new markets. The process of new product development (NPD) was strengthened by overall process redesign and group tool introduction with achieved transparency, efficiency, agility and time to market reduction.

The company decided to introduce a new corporate payroll solution for employees, in its first stage on the Serbian market, where this solution was rolled out and successfully implemented during 2021. Finally, as part of the overall effort to provide internal users with efficient service, Atlantic introduced an internal chatbot for the Slovenian market, thus allowing our employees quick answers to HR and COVID-related questions.



Business operations of Atlantic Grupa

STRATEGIC BUSINESS UNITS AND BUSINESS UNIT



Strategic business unit
Coffee

The Strategic Business Unit Coffee (SBU Coffee) has again in this challenging year achieved positive business results and retained its leading positions in the region. Atlantic Grupa is the leading coffee producer in the region and a market leader in the category of roasted and ground coffee in Slovenia, Serbia, Bosnia & Herzegovina and Macedonia. Key business strengths are strong brand portfolio, product and regional know/how, flexible business operations and high quality product portfolio in the categories of roasted and ground, instant and espresso coffee. The leading brands of SBU Coffee are Barcaffè, Grand Kafa and Bonito.

SBU Coffee in 2020 generated sales revenues of HRK 1,107 million, representing 21% of the Group's total turnover. Key markets in 2020 were Serbia and Slovenia, accounting for 45% and 29% of sales, respectively, followed by Bosnia and Herzegovina (9%), Croatia (8%) and Macedonia (6%). Exports to other markets in 2020 posted a record-setting result with a 20% value growth compared to the previous year.

In line with strategic priorities, the key focus was on the category of roasted and ground coffee, where Atlantic Grupa achieved additional growth in this growing category. Both the growth of market shares and retention of leading positions were facilitated by strong marketing campaigns and numerous activations in all markets, development of new products, as well as consolidation and rebranding of existing ones.

In Serbia, Atlantic Grupa retained its leading position with a growing market share in the segment of roasted and ground coffee with a 53.9% market share. In the category of roasted and ground coffee, Grand Kafa retained its position of the number one brand with a 35.4%[1] market share, while Bonito consolidated its position as the number two brand with a 18.4%[1] market share by overtaking its main competitor.

In Slovenia, Atlantic Grupa retained and additionally strengthened its strong and absolute leading position in the coffee market. This was an excellent year for Barcaffè, in which this brand celebrated its 50th anniversary, and which was also a record year in many other aspects. Barcaffè achieved a record market share of 80%[1] in the segment of roasted and ground coffee.

In Croatia, the brand Barcaffè has in 2020 taken the second position in the category of roasted and ground coffee with a 17.6%[1] market share and achieved record sales results.

In its new communication platform "Let's Have Time", Grand Kafa emphasized that we should dedicate time to ourselves and people closest to us by enjoying a cup of our favourite coffee. The new campaign was extremely well-accepted, and at the end of the year it won two prestigious awards of the Serbian Association of Market Communication Professionals. Marking the 50th anniversary of Barcaffè, the brand's visual identity was refreshed and its logo and product packaging redesigned. This ensured the brand's continuity and clarity in all coffee categories and channels, making Barcaffè more modern and fresh. New steps towards more sustainable packaging were taken by introducing new ecological, aluminium-free foil for the product Barcaffè Bio. In light of its 50th birthday, a new limited edition coffee was launched on the market in special packaging that honours all women in the world of coffee. After a longer pause, the brand Bonito in Serbia also launched the redesign with distinct communication, which brought quick results reflected in a growing market share at the expense of its main competitor.

As regards Barcaffè Espresso, given that this is a segment closely related to the HoReCa channel and subject to restrictions in 2020 due to the pandemic, excellent preparations for operations in 2021 were performed, primarily by integrating the company Vivas and acquiring the company Procaffé, one of the largest producers and distributors in the espresso category in Croatia. By doing so, we strengthened our position in the Croatian market and are now present in additional 1,300 coffee shops and bars, which is an excellent basis for future growth. Barcaffè is building the position of a regional leader and expert by transforming its visual identity, improving its market approach and acquiring prestigious HoReCa channels.

BRAND BARCAFFE CELEBRATED ITS

50th

ANNIVERSARY

SBU COFFEE GENERATED SALES REVENUE OF HRK

1,107 mil.

[1] Source: AC Nielsen Report, November 2020, value market share

In line with new consumption trends, SBU Coffee is strongly developing Barcaffè&Go, a modern and trendy concept that provides freedom of movement together with excellent quality of Barcaffè Espresso. In 2020, a 34% volume growth was realised in the region compared to the previous year.

Barcaffè Espresso was again awarded at the international competition (International Coffee Tasting), where it won two gold medals for its blends Barcaffè Divino and Barcaffè Prestigio. In the segment of instant coffee, Atlantic Grupa relaunched its portfolio under the brands Insta Grand i Barcaffè. Improved products in new packaging, supported by an attractive marketing campaign, were welcomed with excellent reactions from consumers and customers. The increased sales and market share confirm Atlantic Grupa's ambition for growth in this segment.

In 2020, Black 'n' Easy augmented its current portfolio with a new product – Black 'n' Easy Strong. The creative platform "Prava turska, budi za minut" (Real Turkish, wakes you up in a minute) was successfully continued. According to Ad Tracker measurements, BnE TV commercials within this platform are still evaluated as the best example of efficient communication in the region and within Atlantic Grupa.

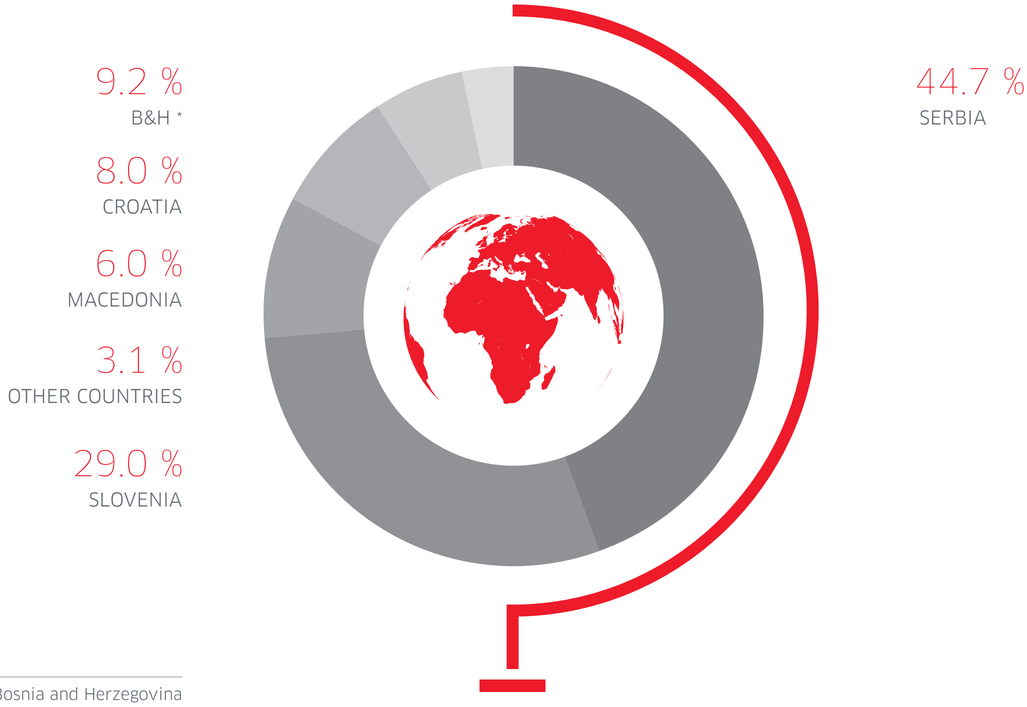
In the first year after their launching, Barcaffè Perfetto capsules showed excellent results in all countries of the region. We followed and listened to the needs of consumers and, as a result, extended the portfolio of capsules compatible with Dolce Gusto machines with one more flavour, Barcaffè Perfetto Lungo. The Barcaffè Perfetto collection was supplemented with new cups of modern design, all for the purpose of providing a complete user experience and offering a unique feeling of enjoying a perfect espresso.

Capital expenditure in 2020 amounted to HRK 40 million, the majority of which was dedicated to modernising production in all production plants. The largest individual investments were related to the new production line for instant coffee in Serbia, new production line for espresso in Slovenia, and investments in the "on the go" segment.

In the first half of 2020, the raw coffee market was marked by the same level of coffee prices as in 2019, primarily due to the expected record harvest in Brazil, and then due to lower raw coffee consumption at the global level caused by the COVID-19 crisis. Globally, coffee consumption dropped in HoReCa channels, while the at home consumption increased. In the second half of 2020, this trend reversed and raw coffee prices went up as a result of the expected lower harvest in 2021 and unfavourable weather conditions. Therefore, near the end of the year we experienced a serious rise in coffee prices. However, active management of the coffee price had a significantly more favourable result on raw material prices compared to the previous year.

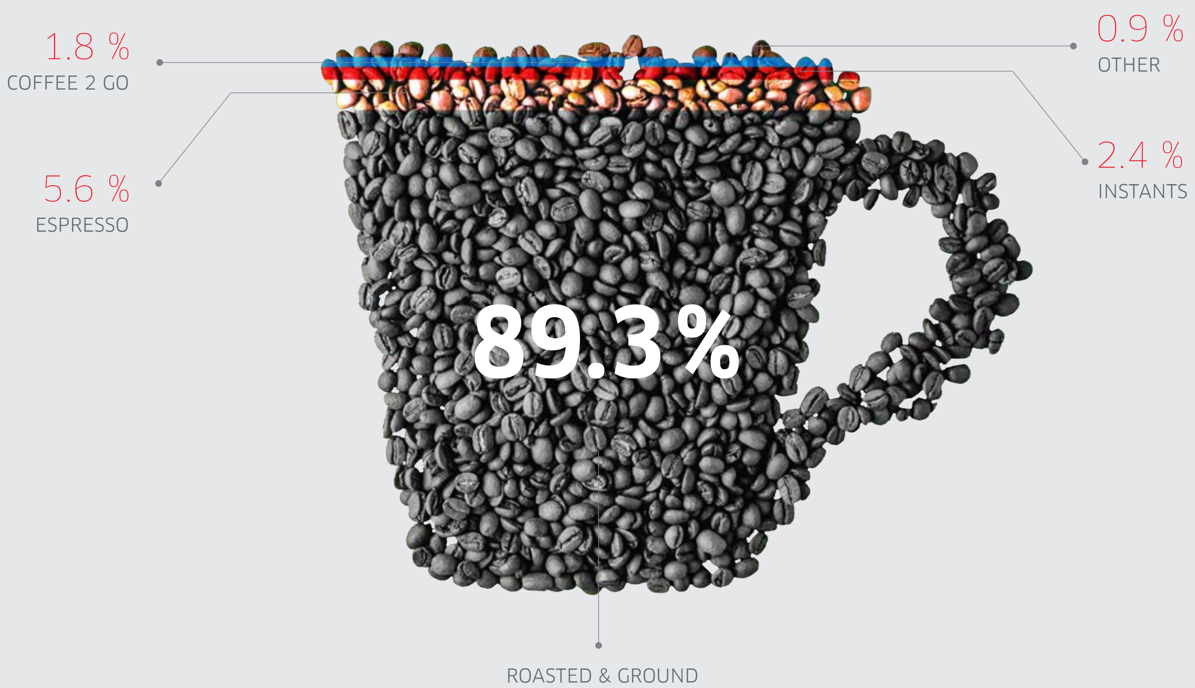
With solid foundations in the defined strategy, SBU Coffee continues to maintain its leading market positions in the category of roasted and ground coffee, while at the same time focusing on achieving higher shares in the growing categories of espresso coffee, instant coffee, and the "on the go" segment.

Sales by countries



* B&H Bosnia and Herzegovina

Sales by categories



ARGETA®
PODRŽAVAMO LOKALNO
Kosjerićka pastrmka
Bez pojačivača arome
Bez konzervansa
Bez veštačkih boja
95 g
ARGETA®
PODRŽAVAMO LOKALNO
Gacka pastrva
Bez pojačivača arome
Bez konzervansa
Bez umjetnih bojila
95 g

Strategic business unit
Savoury spreads

The year 2020 was challenging in every way, but we truly made the best of it, as we finished with growth of 9% over the last year in the region. At the same time, we have strengthened our leadership position on regional markets, growing in volume market share in all key countries. In Serbia we are closing the gap against the market leader and are strengthening our market challenger position. 2020 was also a year of new sales records despite the absence of expat consumers and low summer season, as well as the absence of the usual sales peak in the region. Record sales such as the one in Bosnia and Herzegovina where we sold over 3.500 tons, were achieved in Slovenia, Croatia, Serbia and Kosovo as well. In 2020, SBU Savoury spreads recorded sales revenues of HRK 836 million which is a increase of 15% compared to the previous year.

COVID-19 has surprised us all, but we reacted fast and adapted our marketing and sales plans and communications to the new reality. Crisis can also be a big potential for new business ideas and has brought forth a new socially responsible project of supporting and helping small local fish farms that have lost most of their revenue due to COVID-19 close-downs. We have purchased a surplus of trout from 3 farms from Slovenia, Croatia and Serbia and created new limited edition fish spreads: Posoška trout, Gacka trout and Kosjericka trout, that were launched in Slovenia, Serbia and Croatia in exclusive partnership with Mercator and Konzum. In Kosovo, North Macedonia and B&H we ran another CSR campaign where we organized a month of good deeds with an initial donation to representative medical institutions and humanitarian organizations. We have motivated more than 7,200 people in these three markets to “spread good” and stick together in difficult times.

Argeta’s success has largely spread and accelerated on international markets which have grown by 31% in 2020. We strengthened our leadership position in two key international markets. In Austria we grew by 1,5 b.p. in volume market share and achieved 39,2% value market share along with growing brand penetration and loyalty. In Switzerland we achieved the index of 110 (volume). New sales record was achieved in Germany, where an important milestone in mass market development was accomplished in 2020. Germany as a market grew with the index 132 (volume) in 2020. In Russia record sales were achieved and we finished the year with 59% more sales than last year, the main growth driver being distribution growth in top 2 retailers X5 and Tander. In line with our internationalization strategy, Argeta is currently present in 33 markets, with plans to further expand its reach in the future.

ARGETA

montana+

SBU SAVOURY SPREADS
REALIZED SALES GROWTH OF
15%
COMPARED TO 2019

RECORD SALES OF
3,500 t
REALIZED IN B&H

ARGETA IS CURRENTLY
PRESENT IN
33 markets

Additionally, new packaging design was developed in 2020 and introduced in early 2021. With it we enhanced and strengthened the high-quality feel of the Argeta brand and its products. In 2020 Argeta also launched a brand-new communication platform with the core message: “Life is what we make of it. Let's make good.” The campaign was introduced to the customers and consumers on more than 20 markets all over Europe. Since we are aware of the responsibility we carry as a brand with international dimensions, we are actively investing in achieving sustainability goals. “Spread good” is our sustainability program that started in 2020 and implements the philosophy of spreading the best for everyone in our product field, as well as in the wider sense. We have divided the commitments of our sustainability program into three key areas: commitment to users, commitment to the environment and commitment to the society at large.

Argeta Exclusive’s 2020 culinary story was written by brothers Vračko. Also, in 2020 Gregor Vračko got his Michelin Star. For this campaign, we went a step further and introduced the first sound tasting experience - we translated taste into sound with the help of science.

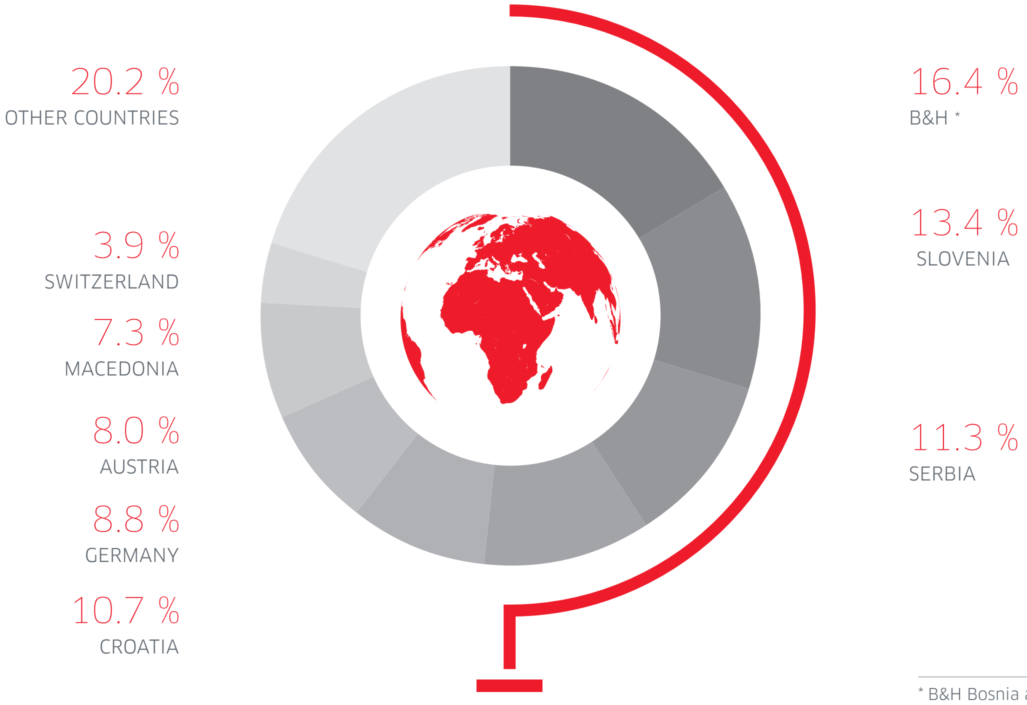
In the Junior segment we refreshed Junior brand identity. We developed a new packaging design and communication platform. In 2020 we made an upgrade to existing Junior e-books and introduced for the first time Junior edutainment platform. The digital platform is designed for 4-10-year-olds and their parents offering 5 different types of custom-made content – from already familiar interactive e-books to stand-alone games, challenges, interactive tasks and creative worksheets. Junior adventures platform represents a fresh approach, providing an effortless interaction with Duck Junior and Argeta Junior with an aim of continuous brand image building and top of mind position of Argeta Junior. In Serbia and B&H we have launched Junior KremTuna (tuna pate with 20% of dairy spread) and in Germany Junior Kikikrem (chicken pate with 20% of dairy spread). All mentioned activities have provoked a huge response from consumers, achieved high levels of engagement and strengthened brand loyalty by applying a consumer-focused approach.

In 2020 Argeta's achievements were recognized by the wider marketing community as well. Atlantic Droga Kolinska was awarded "Advertiser of the Year" by the Slovenian Chamber of Advertisers (SOZ) for the second year in a row. Argeta contributed a sizable share to obtaining this award. Furthermore, Argeta won two Netko awards – for ‘Best overall Netko project’ and ‘Best Netko presentation of product or service’.

When it comes to raw material and packaging price movements, we have recorded an average price increase of 1% compared to 2019. We have noted a 4% increase in raw material prices, while packaging prices fell by 2%. The latter is important because packaging is the "strongest" procurement category in terms of value of HRK 158 million.

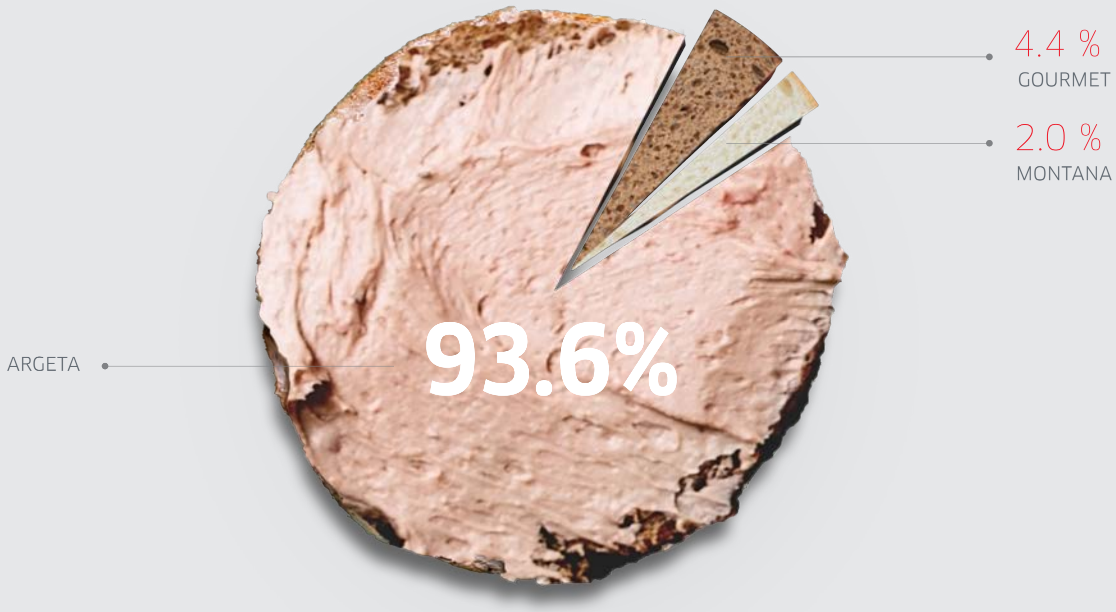
Capital investments in 2020 amounted to HRK 32 million. The most important investment was new packaging format on 95g pate. New packaging is now 2x7 units in one box. Due to COVID-19 situation we had to postpone the project of exchange of production line for 95g pate in Izola from March 2020 to February 2021.

Sales by countries



* B&H Bosnia and Herzegovina

Sales by categories




Štark
Smoki
FRESH
BAKED
PEANUTS

Strategic business unit **Snacks**

The Strategic Business Unit Snacks (SBU Snacks) operates under the legal name Atlantic Štark d.o.o. with 875 employees in two production plants in Serbia (Belgrade and Ljubovija).

The sweet production programme includes the categories of chocolate products, cookies, tea biscuits and wafers, while the salty production programme consists of snacks such as extruded products (flips) and salty long-lasting biscuits (sticks).
SBU Snacks in 2020 generated sales revenues of HRK 644 million which is a slightly lower result compared to the previous year (-5%). The geographical structure has remained more or less the same, with the market of Serbia being the dominant market with a 65% value share. Growth was achieved in Slovenia (26%) and markets outside the Adria region. The cancellation of customs restrictions enabled the return to the market of Kosovo. Cooperation was started with a new buyer in Russia, the market recognised as having a significant potential for placement in the forthcoming period. A new sales channel was opened in Serbia by establishing cooperation with Glovo and Wolt delivery companies with online orders, while the retail network of Atlantic Štark was expanded by opening the first shop in the city of Niš.

The sales growth in salty categories of flips (Smoki 11%) and sticks (Prima 5%), in conjunction with a simultaneous decline of the sweets segment by 12% led to changes in the structure of the production programme.
The success of Smoki is also reflected in its improved market position on the Serbian market, where it increased its value market share. In the year of major market challenges, excellent results were also achieved by products suitable for making desserts at home, Menaž and Petit Beurre (7% and 4% growth, respectively).
The key factor that affected the sales results in 2020 was the COVID-19 pandemic. Restricted working hours of shops, restrictions on movement of the population, as well as unexpected circumstances in their lives and businesses, have significantly altered consumer habits related to the purchase and consumption of confectionery products. A decline in out-of-home consumption, destimulation of impulse purchases, less frequent purchases, shorter time dedicated to shopping and narrowing of the focus on basic foods were observed. Concurrently, the decrease in purchasing power and longer stay in closed family surroundings, coupled with concerns about personal health, resulted in the explosion of the so called "culinary trend", i.e. increased preparation of food, especially desserts, at home. These changes have differently reflected on individual segments of the portfolio, with particularly negative effects on the categories of chocolates, biscuits and waffles. The response to the observed challenges and opportunities consisted of integrated marketing-sales efforts based on the brands that have already established stable credibility with consumers.
The increased at home consumption inspired the launching of larger packaging formats (Smoki and Bananica) and nutritionally more attractive products (Prima Grissini). The aggravated shopping conditions required a tactical defence at the points of sale by increasing supervision of positioning, while competitiveness was supported by price-motivated discounts.

Continuity in the supply chain and the organisation of the complex production process were maintained despite pandemic challenges. The production process was adjusted to the new conditions through a series of operational measures with a focus on preserving the health of employees and producing quality products within the given delivery deadlines.

During 2020, production included 408 products. After restructuring the portfolio, the year was ended with 217 active products. A total of 109 new products were launched, of which 16 new recipes. The pandemic did not suppress innovative ambitions, but redirected them to products that respond to the changed market conditions and defend the brands' sales results, which experienced price-attacks by competitors.

16
NEW RECIPES WERE LAUNCHED IN 2020

Smoki made good use of the period behind us. The year started with the launching of new products in large and innovative packaging formats and an attractive HOT challenge concept for youth. During the summer, consumer attention was maintained by launching a limited edition of Greek flavours. At the end of the year, a brave step into the fastest growing segment of salty snacks was made by launching Smoki MIX packaging with tortillas, supported by the new communication platform “Smoki nema greške!” (Smoki without a fault).

During the year, the result of Prima was tactically defended at the points of sale. In the last quarter, the segment Prima Grissini was launched, relying on trends of increased interest for healthier products.
Most of the brands in the sweets segment were jeopardised by the negative effects of the pandemic. The impulse category of bars is especially sensitive to the lack of out-of-home consumption, primarily of the school population. The category’s representative, Bananica, responded to the observed trends in the second half of the year by refreshing its design and launching a new communication platform “Kada želiš sreću da deliš!” (When you want to share happiness!) and by launching new, larger packaging formats – Mini Bananica 60g and 150g.

The categories of chocolates, biscuits and waffles are most sensitive to replacing industrial desserts with those made at home. Their lower sales performance was also affected by the decline in impulse goods and gift purchases. The launched novelties somewhat reduced these negative effects: Najlepše Želje (recipes inspired by well-known cakes Tiramisu, and Apples & Walnuts), Duet Keksići (cheery) and Nela (cheesecake).

An exception in the sweets segment are products benefiting from the expansion of the culinary trend as they can be used for making desserts at home (Menaž, Petit Beurre, Biscotti).

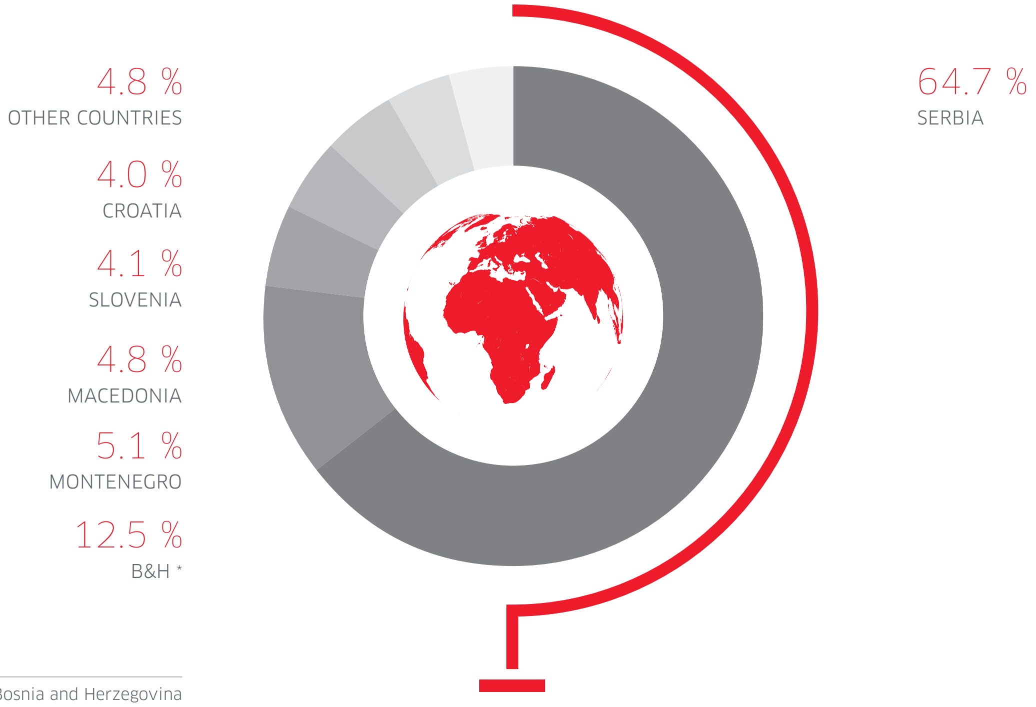
A total of 12 integrated campaigns for all strategic brands were implemented, and particularly positive responses were received for the campaign Najlepše Želje "Pokreni pažnju" (Start your attention) at the start of the pandemic due to the humane aspect of its message on providing support when that is vital and the adaptation of the Smoki campaign "Prihvati izazov, grickaj kod kuće" (Embrace the challenge, snack at home) as part of an appeal for socially responsible behaviour.

Investments in brands that remain attractive to generation of sweets and snacks lovers was recognised by the public during the last year as well. The youth preference research “Serbia Youth Awards” awarded high positions to the brands Smoki (1st place in the category “salty”) and Najlepše Želje (3rd place in the category “sweet”), while the Bananica campaign »Kada želiš sreću da deliš« was awarded by UEPS (Serbian Association of Market Communication Professionals) with a bronze medal for integrated campaign in the food category.

The certificate according to the requirements of the IFS FOOD standard, version 6.1 HIGH level is of particular importance (Ljubovija plant). It is a confirmation of the persistence of the producer to continuously deliver safe and quality products to the market. The effects of the implementation of IFS are strengthened consumer confidence with simultaneously improved cost efficiency of the production process.

Capital expenditure in 2020 amounted to HRK 45 million. The most significant individual investment is the state of the art chocolate production line Aasted with accompanying infrastructure. This equipment enables the production of chocolate products of various structures and shapes. This was the most demanding investment in financial and organisational - technical terms in the last year, and it is extremely important as a prerequisite for the future development of the strategic category of chocolates.

Sales by countries



* B&H Bosnia and Herzegovina

Sales by categories


CEDEVITA®
UKUS GENERACIJE CE
CEDEVITA
2,5L FRESH

Strategic business unit **Beverages**

The Strategic Business Unit Beverages (SBU Beverages) is active in different categories such as soft fruity drinks, carbonated cola drinks, carbonated and non-carbonated water and pressed candies. Cedevita, Cockta, Kala, Kalnička, Jupi, Tempel, Karađorđe, as well as Cedevita pressed candies and Puc Puc are the brands that SBU Beverages realises in four production facilities, two in Croatia, and one in Slovenia and Serbia.

Last year's global pandemic related to the COVID-19 virus had a major impact on the SBU Beverages' operations. The greatest impact was exerted by the closing of catering facilities, followed by changes in consumer habits due to the reduced mobility (from "on-the-go" and "out-of-home" consumption to consumption at home or in the domicile area), as well as the lack of a full seasonal impact in countries where tourism and the season bring a high share of income (Croatia, Montenegro). Additionally, the situation with earthquakes in Croatia had a negative impact, both psychologically and financially, on consumers.

Despite those circumstances, SBU Beverages maintained the level of investing in its brands and people as the key values and tools on which it continues to build its future results.

Further to the above, SBU Beverages in 2020 generated sales revenues in the amount HRK 482 million, which is a 14% decline compared to the previous year. The HoReCa segment of the product portfolio recorded a 33% and the OTG segment a 16% decline, while pressed candies, as extremely impulse goods, dropped by 20%.

SBU BEVERAGES GENERATED SALES REVENUE OF HRK

482 mil.

The majority of sales still comes from countries in the region (96%), with the highest share of 41% in the Croatian market. As regards the sales structure according to brands, Cedevita accounts for 63%, Cockta 26%, waters 5%, pressed candies 4% and 2% accounting for the rest of the assortment.

EXCELLENT SALES RESULTS WERE RECORDED BY CEDEVITA FOR AT HOME CONSUMPTION WITH GROWTH OF

8%

The decline in sales primarily caused by the pandemic was most pronounced in the markets of Croatia and Bosnia & Herzegovina, while the markets of Serbia and Slovenia participate in this result with lower indices of decline in sales.

The retail channel, despite good results in certain assortments, has not managed to compensate the loss of performance caused by lower sales in the remaining two channels, HoReCa and OTG (on-the-go).

Excellent sales results were recorded by Cedevita for at home consumption, where the markets of Serbia and Slovenia had most contributed to the 8% sales growth, while Cockta recorded a 5% decline in consumption, experienced in almost all markets in the region.

The launching of Cedevita GO in new packaging coincided with the start of the pandemic, but the well-organised distribution, as well as sales and marketing performance, resulted only in slightly lower sales.

Due to the aforementioned circumstances, markets in the region posted lower sales results compared to the previous year, while the key export markets recorded positive results, namely Austria, Canada, Germany, USA and Switzerland.

The characteristics of the creative platform "Okus Generacije CE" (The Taste of Generation CE) of our favourite and largest domestic brand Cedevita this year had the opportunity to fully show itself. The Generation CE is the first generation that does not identify itself through their year of birth, but through their state of mind and common value system. Regardless of physical distancing, we need to be next to each other, building the strength of togetherness, as well as the optimism that we desperately need at the moment. Wishing to additionally nurture solidarity and raise awareness of everyone around us, Cedevita developed the slogan #ostanidobro #ostaniCE (#staywell #stayCE) which, other than an appeal to take care of ourselves and others by staying in our homes, has an additional message. That message encourages physical, but not emotional, isolation. We also reminded consumers about functional advantages that Cedevita has, emphasising the importance of vitamins and their benefits for the immune system.

The year 2020 was also marked by successful relaunching of Cedevita GO in new packaging and with a new flavour, Red Orange. A new flavour was also launched in the HoReCa channel. The new packaging has a unique cap opening mechanism that offers full functionality for preparing a fresh beverage and easier consumption no matter where you are.

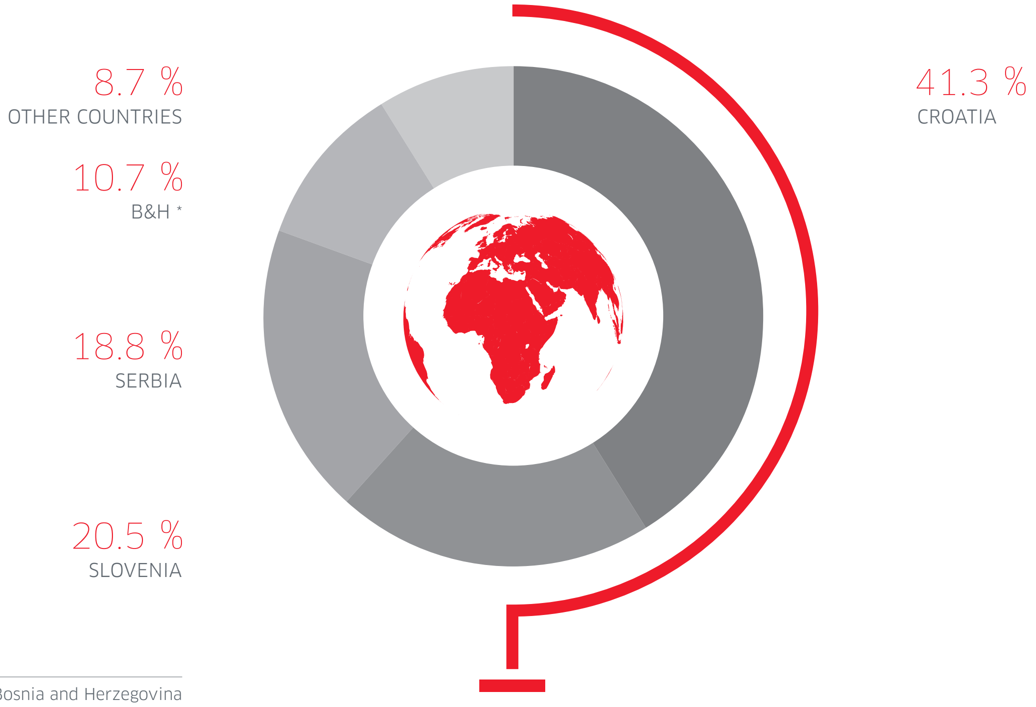
In the markets of Croatia, Slovenia and Serbia, Cedevita increased its market shares in an otherwise declining category, proving once again that it may compete with major global players on the market. The success in the market of Serbia should be noted, where the Cedevita's market share grew by 21% and now amounts to a total share of 4% in the category of fruity soft drinks. [2]

Cockta, the brand that believes in living on one's own terms, in 2020 launched a new campaign "Živi za svoju stvar" (Live for your own thing). The campaign was extremely successful and inspirational, given that it caused many reactions, mostly positive, and united the region on the topic of free choice and authenticity. Further to the above, at the Slovenian digital communication festival, Cockta won a prize for the best video.

In 2020, during annual audits performed by accredited audit firms in all production plants, the high level of quality and environmental management systems in compliance with the strict international standards (ISO 9001, 14001, HACCP, FSSC 22000, ISO 50001) was confirmed. Additionally, the certification audit in line with the IFS Food standard, one of the most demanding food safety and quality standards, was successfully completed in Atlantic Cedevita. Within the given situation, SBU Beverages continued investing in equipment and modernisation of the means of production. With regard to the key realised investments, we can point out the finalisation of investment in new Cedevita GO and an additional line to increase the capacities of retail and HoReCa assortment to provide stronger support to markets in the season. Investments in further improvement of production capacities are expected in the next cycle as well.

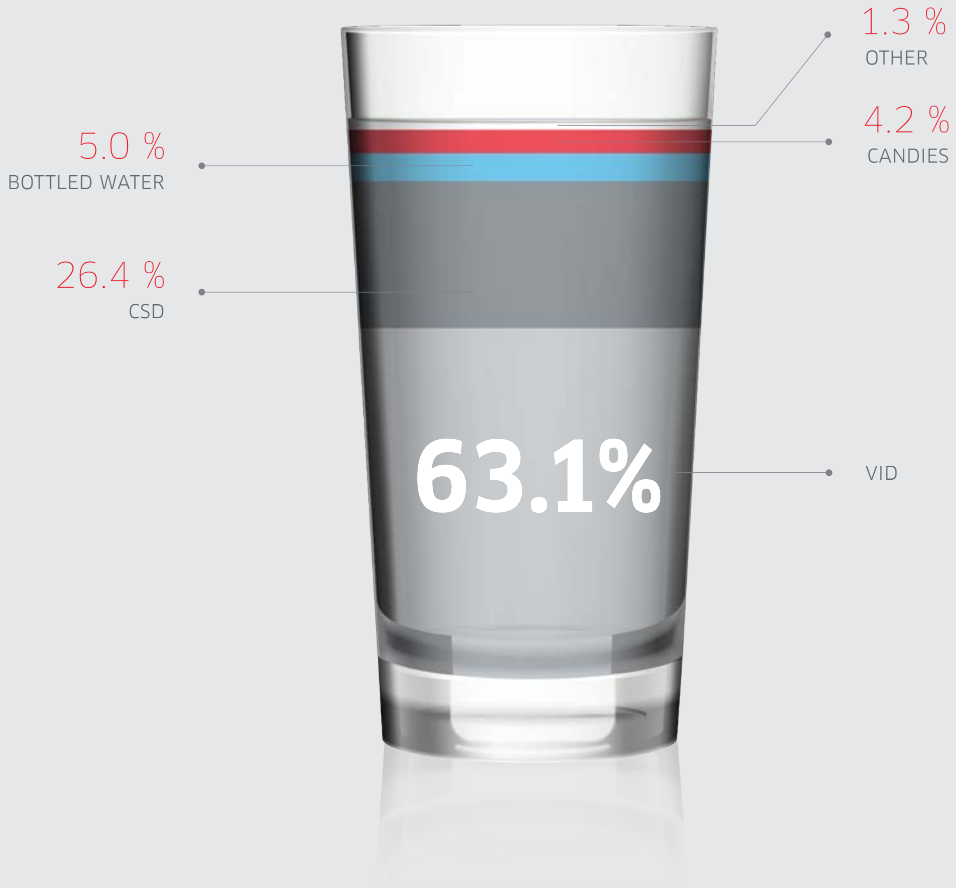
[2] Source: AC Nielsen

Sales by countries



* B&H Bosnia and Herzegovina

Sales by categories



Strategic business unit **Pharma**

In 2020, the Strategic Business Unit Pharma (SBU Pharma) achieved total sales revenues of HRK 540 million. In September 2020, Atlantic Grupa and Nelt Grupa signed the purchase and sale agreement for the brand Bebi, thus continuing the process of divesting small and "non-core" business operations in line with Atlantic Grupa's corporate strategy. The conclusion of this transaction is expected in mid-2021.

In 2020, Farmacia, despite the challenges caused by the COVID-19 pandemic and devastating earthquakes in Zagreb and the area of Banovina, continued its planned opening of new units and improving operations of existing ones. Two new units were opened, and five existing ones moved to new locations that will contribute to even more successful operations.

At the end of 2020, the pharmacy chain Farmacia consisted of 52 pharmacies and 40 specialised stores. Total revenues of Farmacia amounted to HRK 474 million, which is a 4.5% increase compared to the previous year.

During the lockdown from 19 March to 10 May 2020, in the entire country, only the stores selling food and hygienic products and pharmacies were allowed to work with shorter working hours. Farmacia did not stop providing pharmacy care even during the hardest working conditions, and citizens had constant access to medicines.

The working conditions in Farmacia were adjusted at the beginning of March in order to protect employees and all citizens who required pharmacy services during the pandemic. Protective fibreglass barriers on prescription counters, protective equipment for employees (masks and gloves), discretion lines denoting the required distance in line with epidemiological measures and disinfection at the entry into facilities were introduced, and the disinfection of premises and work surfaces was increased. Additionally, instructions regarding the number of persons allowed in shopping spaces and checking for self-isolation violations were adjusted.

Farmacia immediately joined the project initiated by the Red Cross and the Croatian Medical Chamber called "Call for Health" for dispensing and free delivery of medicines to persons with chronic diseases placed in isolation/self-isolation and persons with reduced mobility. By participating, Farmacia was part of this noble volunteering project aimed at every patient affected by this epidemic receiving expert advice from pharmacists in a safe and adequate way.

The management of Farmacia adjusted all operational activities to the new situation so that all processes in day-to-day operations could continue smoothly despite the obligation of working from home for all job positions where this is possible.

The employee training courses, which are one of the activities aimed at providing a quality pharmacy service, have since May been held online with even higher employee participation rates than before due to the increased availability of colleagues in distant parts of the country. The virtual Education Centre was formed as a good basis for further development and cost reduction.

Specialised counselling centres, as a unique additional service for clients, were in February expanded with a new dermal-cosmetics (beauty) counselling centre in our specialised store in City Center One East Zagreb. By using a skin analysis device, the type and status of face and scalp skin are determined for the client and appropriate care is individually recommended. With this additional service, pharmacy counselling in the dermatological area has been raised to a higher level with the possibility of monitoring the results of each client.

The existing specialised counselling centres have adapted their work to the new epidemiological conditions so as to continue providing advice on resolving health problems and improving the quality of life. We should point out great efforts and engagement in the work of the phitoaromatherapy counselling centre, dedicated to preventing and preserving health and immunity.

2

NEW UNITS WERE OPENED

FARMACIA GENERATED SALES REVENUE OF HRK

474 mil.

WHICH IS

4.5%

INCREASE COMPARED TO 2019

The sports counselling centre has expanded its service with a new, more advanced device for analysing body mass composition in order to provide clients with a more detailed and even more advanced level of service. Lectures and courses for athletes maintained their continuity through an online format, emphasising the importance of knowing the basics of sports nutrition as an unbreakable link between pharmacist teams and clients who place their trust in us, especially at this time of the pandemic. Additionally, the Sports Counselling Centre became the only centre in the country that has a pharmacist with an IOC (International Olympic Committee) Diploma in Sports Nutrition.

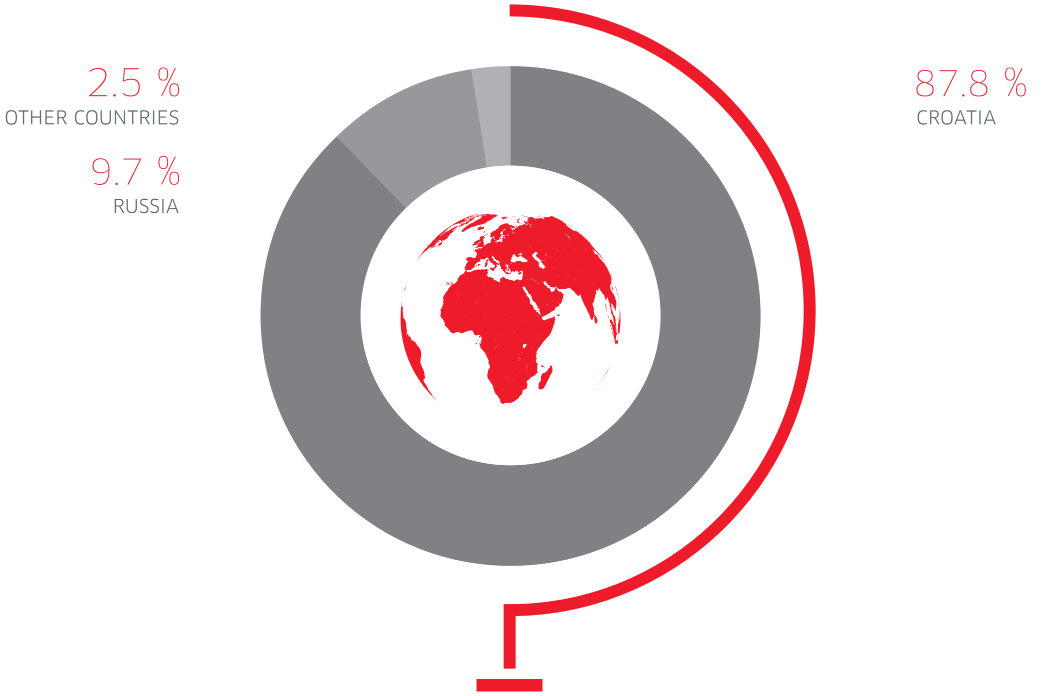
Despite the difficult business circumstances, an independent external assessment according to the requirements of ISO 9001 certification has demonstrated that Farmacia's pharmacies and specialised stores manage processes and business changes in providing pharmacy services with quality and efficiency, all for the purpose of customer satisfaction and meeting their needs and expectations.

Farmacia's web page and social network profiles have, in this year of the pandemic, justified the trust of their numerous users. Using virtual channels, we timely informed and educated our clients and patients, on a daily basis, on all verified facts and measures related to preventing the spread of COVID-19, while their contents were adapted to most frequently asked questions and interests from the "field". The webshop (launched near the end of 2019) has proven to be another excellent tool for "easing" the pandemic way of life, whereas its abundant and adjusted offer, as well as free delivery in the territory of Croatia, enabled safe and smooth use of the over-the-counter assortment.

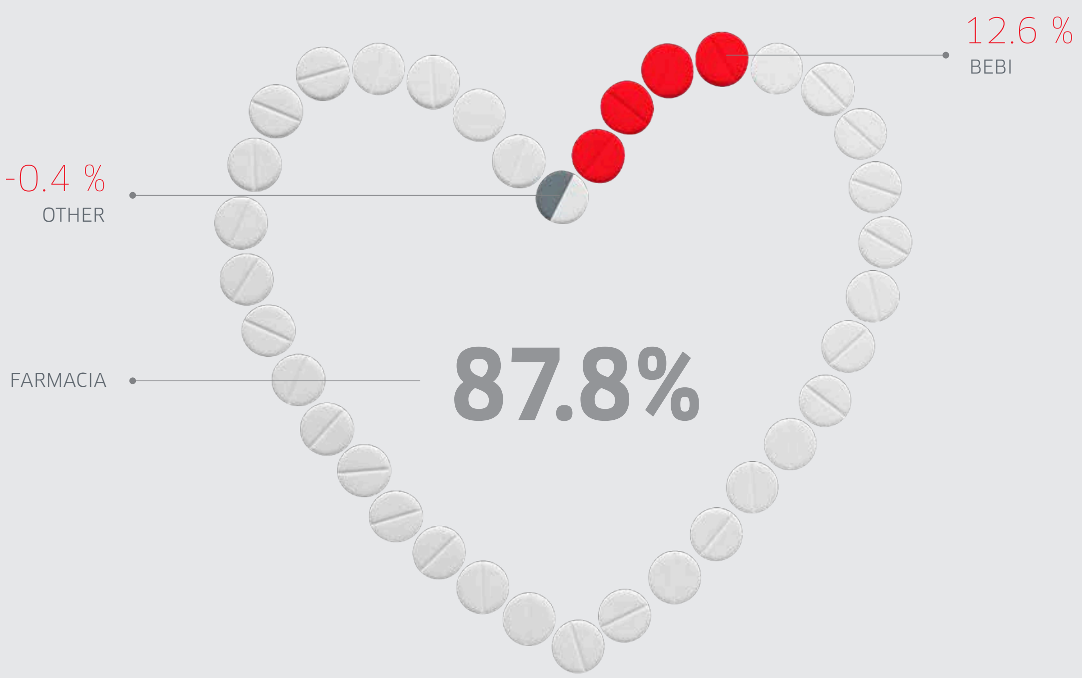
Somewhat lower sales results of Bebi in 2020 are primarily a result of the COVID-19 crisis, i.e. lower spending, mostly through periods of declared quarantines, closed shopping centres, as well as lower income of the population caused by this crisis. The rouble has significantly depreciated during 2020, which had an additional negative impact on sales results.

During 2020, special focus was maintained on the pillars of Bebi's business operations, namely children's stores, the Caucasus market and the Ukrainian market, where the brand has historically had excellent competitive positions, and this year's sales results surpassed the previous year. In this way, the team ensures the brand's smoother transition to the new owner.

Sales by countries



Sales by categories



Rogaska
Donat Mg
NATÜRLICHES MINERALWASSER MIT HOHEM GEHALT AN MINERALIEN
e1L
Natürliches Mineralwasser mit eigener Quellkohlensäure versetzt, aus der Donat – Quelle, Rogaška Slatina, Slowenien.
Verdauung: Regt die Verdauung an.
Mg^{2+} 1000 mg/l
Ca^{2+} 390 mg/l
HCO_3^- 7500 mg/l
SO_4^{2-} 2200 mg/l
NATURA SANAT 1572 ROGAŠKA SLATINA

Business unit
Donat

The new business unit Donat (BU Donat) was established at the beginning of 2020 with the aim of strengthening the brand through premiumisation and focusing on internationalisation. The new organisation is defined so that its focused approach can provide our distribution partners with an additional impetus on international markets.

In 2020, BU Donat generated sales revenue of HRK 196 million which is a increase of 3% compared to the previous year. In the year full of challenges, Donat successfully maintained its stability in the region and its leading position in Slovenia, and also recorded growth in key international markets of Russia, Austria and Italy. The year 2020 was also a year in which the fact of limited annual quantities of our unique Donat became apparent. The fact that we could not respond to the ever-growing demand led us to a clear definition of markets with the greatest potential for achieving the goal of internationalisation and premiumisation. In order to support the strategic orientation and growth in key markets, we have given up sales in 7 markets, all to enable the growth of our brand in the future.

ALREADY IN THE FIRST YEAR BU DONAT GENERATED GROWTH OF

3%

In 2020, Donat continued raising awareness about the brand by communicating its effects of “brilliant digestion”. We started the year with our Detox Programme, thus utilising consumer insights concerning new year’s resolutions related to a more healthy lifestyle. We gained 20,000 new members (in Slovenia and Croatia), thereby achieving a base of 86,000 faithful participants.

In the phase of preparing new strategic foundations of Donat, the COVID-19 pandemic occurred, which put the topic of health first, so this trend resulted in a positive impact on the perception and sales of Donat. This impact was further utilised by the adapted communication “Ostani zdrav” (Stay Healthy), which provided useful advice to consumers – how to maintain health in the “new reality” by selecting the right foods and physical activities even during the quarantine. The digital campaign was, for the first time, implemented simultaneously on all 6 key markets, both in the region (Slovenia, Croatia, Bosnia and Herzegovina) and international markets (Austria, Italy, Russia), and its results surpassed all expectations. The campaign resulted in 3.5 million new users, of which more than 400,000 searched for detailed information on Donat on our website (where they spent 100% more time compared to last year’s average and read our content, thus also improving relevance in the “user rejection level” metrics), and the number of their reactions on social networks (Facebook, Instagram) was above 950,000, which is a really great success that we are proud of.

CAMPAIGN "STAY HEALTHY" RESULTED IN

3.5 mil.

MILLION NEW USERS

As the concern of consumers about maintaining one's own health increased again in the autumn, we started providing information on the link between the natural immunity and healthy digestion, and launched the "Immuno Programme" at the end of the campaign. By doing so, using the surrounding trends and feedback received from consumers, we already started with the transition of Donat, which was until now known only as a solution for constipation, towards the brand that preventively takes care of normal functioning of digestion, thus having a beneficial effect on the whole body.
The importance of the field of healthy digestion, to which Donat is transitioning, is also seen through organic visits of Donat's web page via Google search engine. In 2020, the number of visits increased almost 20-fold; from 41,500 visitors at the end of 2019, in 2020 we posted a record: 726,000 visitors, which visited Donat.mg based on their own search.
This result confirms that the Donat's digital strategy is well-organised and that we are achieving results that surpass all expectations. From clearly defined social network contents, the plan for SEM (Search Engine Marketing) optimisation and advertising to the web page, which provides an excellent experience and over which we can explain to consumers in more detail all the benefits of Donat (which are numerous), each element of the digital strategy is well-considered and – as the figures show – really efficient.

The medical public is also very important for Donat. With year-round education on the clinical study, which is unique among products in the FMCG industry, and with education on Donat's mechanisms that affect the overall health, we are spreading knowledge and confidence not only in doctors, but also end consumers.

As a result, in 2020 we also achieved higher market shares in the markets of Croatia (5% value growth), Austria (9% value growth) and Russia (14% value growth), and in Slovenia we retained a stable leading position, while the category of natural mineral waters (flavourless) in which we operate experienced a decline in all countries.[3]

The achievements of Donat in 2020 were also recognised by the wider marketing community, where Donat received 4 major Websi awards for the Best Global Digital Project: Digital ecosystem Donat, Best Mobile Project: Mobile application Donat Moments, Best Product Web Page: Web page Donat and Best Content Marketing: Content centre Donat Detox.

[3] Source: AC Nielsen

Sales by countries

4.6 %
OTHER COUNTRIES

3.9 %
AUSTRIA

4.1 %
ITALY

6.6 %
B&H *

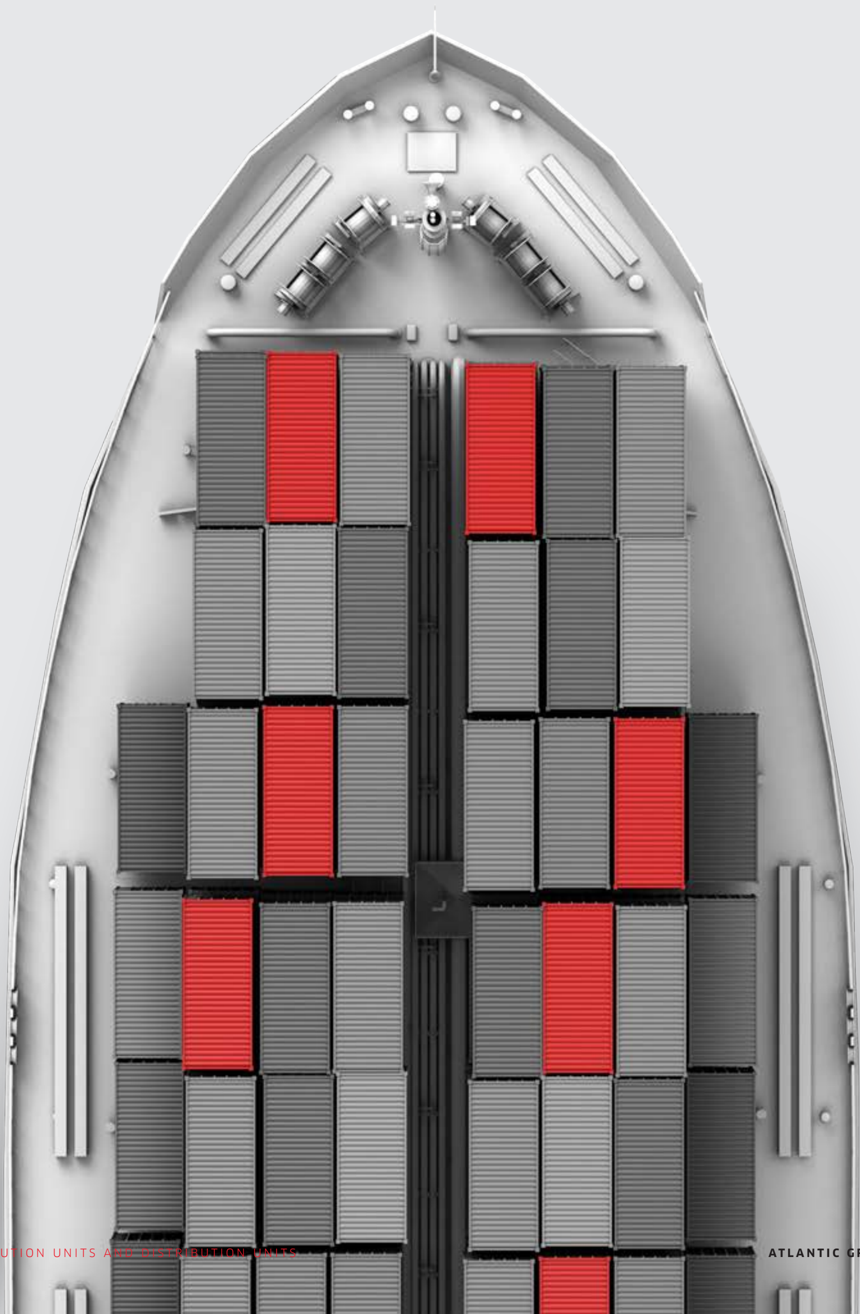
14.7 %
CROATIA

23.3 %
RUSSIA

42.9 %
SLOVENIA

* B&H Bosnia and Herzegovina

Strategic distribution units and Distribution units



STRATEGIC DISTRIBUTION UNIT CROATIA

In 2020, the Strategic Distribution Unit Croatia (SDU Croatia) generated sales revenues in the amount of HRK 1,250 million, which represents a 9% decrease compared to the previous year. The main reason for lower sales in 2020 is attributed to the COVID-19 situation, which lead to restrictions and limited operations of individual channels and buyers, as well as to a reduced number of tourists, which had a direct effect on the lower sales performance during the tourist season. Despite negative market trends, SDU Croatia set a strong focus on continuing the excellent market coverage and adapting the portfolio's scope to the current situation. By focusing on further improving the efficiency of internal logistics processes, as well as ensuring targeted seasonal teams, which resulted in a strong revenue growth during the season months in comparison with negative tourism indicators, we ensured the basis for sustainable growth in the upcoming years.

The sales results by channels showed a smaller decline in sales during last year in the retail segment of -4% (ability to adapt the product assortment to the newly created market conditions) compared to the HoReCa channel in which a -35% decline in sales was recorded (closing of facilities for more than four months in 2020).
Despite the decline in sales, the HoReCa segment achieved results above the HoReCa market average in Croatia, where the turnover decline is estimated at -50% compared to 2019. Additionally, the successful continuity of HoReCa's inventory management and receivables collection process was confirmed, resulting in lower write-offs and the collection of all outstanding receivables due to COVID-19 restrictions, using a model that further strengthened our partnership with customers.

In the second half of 2020, we established a new HoReCa RTM ("Route To Market"), which was used to optimise costs and improve our logistic service, thus creating the foundations for this channel's more profitable operations and strengthening the distribution of our portfolio.

Due to changes in purchasing and consumer habits in 2020 caused by the COVID-19 crisis, there have been significant oscillations in sales of certain product categories: a decline in sales of impulse goods and products for "on the go" consumption, and an increase in sales of cleaning and disinfection products, food categories and coffee.

Revenue movements in 2020 by key categories:

- Argeta – organic sales growth accompanied by strong marketing support;
- Barcaffe – sales growth due to a larger number of marketing activities, turnover growth in the C2G segment, as well as in at home consumption due to closure of the HoReCa channel;
- Unilever – strong sales growth of household cleaning portfolio and entry into the ice cream segment;
- Mars – strong decline in impulse goods groups (chewing gums, chocolates...) caused by less movement of consumers and a weaker season.

The strategic imperative of market activity is the provision of an optimal product portfolio, while understanding the potential of a particular sales format.

- Large format points of sale and modern trade were least affected by the crisis and their turnover remained at the 2019 level. This also includes hyper- and supermarkets, discount stores and the pharmacy channel, predominantly due to the changed way of shopping (rarer and planned shopping, all in one place).
- More significant sales drops (5-30%) were recorded by smaller formats (kiosks, petrol channel, regional buyers and small buyers) due to less movement of consumers and a weaker tourist season.

In the supply chain segment, the continuation of targeted implementation of the digital transformation in all aspects of logistic operations was ensured during 2020.
In the transport segment, cost rationalisation was ensured through the implementation of automatic routing, optimisation of the supply flowchart and the implementation of the new RtM in the HoReCa channel.

The strategy of synergistic warehouse operations and stocks of goods achieved the full potential for productivity growth. The planned expansion of the WMS (Warehouse Management System) to warehouse centres in Osijek and Rijeka at the beginning of 2021 ensured the overall support for the planned growth across all business segments.

Further development of the supply chain, started during 2020, is realised through the implementation of the development of robotisation of a part of warehousing processes together with the digitalisation of a part of input processes and inventory management.

The horizontal trade market growth was supported by capital investments in the new coffee equipment.

STRATEGIC DISTRIBUTION UNIT SERBIA

The Strategic Distribution Unit Serbia (SDU Serbia) in 2020, despite all challenges, had stable operation and generated sales of HRK 1,232 million, which represents a 3% decline compared to the previous year.

The achieved result is primarily a consequence of the decline in sales in the HoReCa channel, while the retail sales channel recorded a 1% decline in turnover compared to 2019. A significant growth within the business programme of savoury spreads, as well as the principal brands Alkaloid, Del Castello and Multivita, was recorded. Moreover, a record growth of Cedevita vitamin drinks in the retail channel was recorded, whereas its market share grew by 21% and amounts to 4% in the category of fruity soft drinks. At the beginning of 2020 was also the start of distributing the programmes Saponia and Kandit, within which Atlantic Brands strengthens its market potential with well-known brands Rubel, Faks, Arf in the category of detergents, as well as Kandi Rum bars and Kandi chocolates in the confectionery programme. After significant technological improvements in 2019 through the implementation of SAP and accompanying sales, marketing and reporting software, in 2020 the business development was continued through the project "Digital Shipment", which enabled automation and transparency of all processes, from ordering to delivery of goods. The administration in the shipment process was significantly reduced, and documents like shipping bills and invoices are now electronically exchanged with buyers, with the option of real-time tracking of each shipment via the Delivery Portal.

IN 2020 RECORD GROWTH OF CEDEVITA IN THE RETAIL CHANNEL WAS RECORDED, WHEREAS ITS MARKET SHARE GREW BY

21%

AND AMOUNTS TO

4%

IN THE CATEGORY OF FRUITY SOFT DRINKS

In 2020, the EDI process of exchanging orders, shipping bills and invoices with major buyers was initiated. This activity was started with 4 key buyers, among which there are two major retailers – Delhaize and Mercator.
According to Nielsen data, distribution indicators in 2020 are very favourable. All the key brands continued to increase or maintain their high level of number and weight distribution, while the greatest progress was recorded by Argeta, Cockta and Cedevita.

This year SDU Serbia was again focused on improving the collection of receivables by reducing the number of days for collection (7% faster collection compared to 2019), as well as by increasing the level of secured receivables. The continuous control of operating costs was continued and, in addition, a favourable structure of sales by channels was achieved, which resulted in certain savings in total costs.

SDU SERBIA RECORDS

7%

FASTER COLLECTION COMPARED TO 2019

STRATEGIC DISTRIBUTION UNIT SLOVENIA

In 2020, the Strategic Distribution Unit Slovenia (SDU Slovenia) generated sales in the amount of HRK 981 million and recorded a 4% growth compared to 2019. The continuous focus on excellence and efficiency and the scope of the diverse portfolio have contributed to the result in the retail channel, which recorded a 8% growth. The HoReCa channel recorded a 20% drop in sales caused by measures to prevent the spreading of the COVID-19 pandemic. The HoReCa channel was completely closed for 5 months. Despite this, SDU Slovenia in 2020 retained and strengthened its status of the largest distributor of consumer goods in Slovenia.

SALES GROWTH OF

8%

IN RETAIL CHANNEL

According to Nielsen, the Slovenian market grew slightly in supermarket and discount store formats, while hypermarkets and gas stations recorded a slight decline. Accordingly, our strategy is to continuously monitor and optimise the assortment according to the sale format.

The highest growth, +18%, was realised in the discount store channel, both because of the growth of the channel itself and of our activities in it. Due to the COVID-19 restrictions, consumers travelled less, which was reflected in lower sales of the "on-the-go" segment, where we are present with beverages, sandwiches and the sweets part of our portfolio. On the other hand, we recorded growth in the segment of food with a longer expiration date within the brands Argeta, Barcaffè, Cedevita, Bakina Tajna, Nutella and Knorr, as well as in the salty segment, where we are present with Smoki and Prima portfolios. The closing of the HoReCa channel has considerably increased the sales of on-the-go coffee, as well as of coffee in the retail channel, so we managed to cancel out lower sales in the HoReCa channel and, according to Nielsen, achieved a record-high value market share of 80% in the category of roasted and ground coffee.

During the year, we worked on consolidating the new principals, Saponia and Kandit, and signed a new multi-year contract with the principal Ferrero.
We continued our process optimisation and automation approach, successfully implemented the transition of the sales force to the mobile application Routemaster, and concluded a new, multi-year contract with our external logistic partner.

A RECORD-HIGH VALUE MARKET SHARE OF
80%
WAS ACHIEVED IN THE CATEGORY OF ROASTED AND GROUND COFFEE

DISTRIBUTION UNIT MACEDONIA

In the year 2020, the Distribution Unit Macedonia (DU Macedonia), achieved stable growth and increased the company's income, taking in consideration all the influences that the COVID-19 pandemic brought. DU Macedonia is the leading distribution company of FMCG in Macedonia by turnover. With a wide-ranged and diversified portfolio, with high-quality products, our company satisfies a broad range od consumer needs. Besides the familiar and famous internal brands (Argeta, Grand Kafa, Cedevita, Smoki, Bananica, Najlepše Želje, Cockta etc), DU Macedonia distributes a portfolio of well-known international companies - Ferrero, Hipp, Ficosota, Beiersdorf.

In comparison with 2019, DU Macedonia has achieved sales revenues growth of 3%, but also a decrease in profit as a result of negative effects from COVID-19 on certain business areas, as well as of investing in people as a prerequisite for improved operational efficiency in 2021. Although the HoReCa segment was most affected by the pandemic, it continued operations with the existing team members. Retail segment in some channels was slightly affected by the new situation, but still DU Macedonia succeeded to gain additional value to the company, which is not only expressed through positive business results, but also through maintaining the stability of its whole team.

DU MACEDONIA RECORDED SALES GROWTH OF
3%
COMPARED TO 2019

During 2020, we have maintained our portfolio and achieved stable performance and growth of relatively new principals in the portfolio, and we also remained focused on developing the ones we have, strengthening their power on the domestic market. SBU Coffee has the biggest share in our sales (23% from our total portfolio), followed by SBU Savoury Spreads (21%) and external principal Ferrero (17%).

Organisationally, our warehouses and delivery are segmented in accordance with the assortment – Food, Drinks, Cosmetics, Detergents and Food Supplements. The delivery from three, modernly equipped (WMS) warehouses, situated on different locations, is done with own and outsourced logistic transportation.

The continuous focus on current portfolio growth through improvement of service satisfaction and reaching excellence in execution puts DU Macedonia on the map of strong global and regional distribution partners.

DISTRIBUTION UNIT AUSTRIA

The Distribution Unit Austria (DU Austria) in 2020 has recorded turnover of HRK 105 million, which equals the growth of 21% versus the previous year in total sales. Growth is coming from all internal brands, except for the principal brand Multipower with the most significant growth drivers being Argeta, Štark assortment and Grand Kafa. It is mainly the result of new listings, market share increase and COVID-19 lockdown measures where consumers have transferred their spending from HoReCa to Retail.

DU Austria has also recorded the highest positive result in profits since its founding in 2016, which represents a growth of 26% versus the previous year.

Argeta remains the brand with the highest share in the total market sales and the category market leader.

DU AUSTRIA REALIZED RECORD EBITDA* SINCE ITS FOUNDING WITH THE GROWTH OF
26%
IN COMPARISON TO 2019

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

The highest percentage growth rates were recorded in Štark assortment with the index 156 vs. 2019 and Grand Kafa with the index 149 vs. 2019.

The retail channel remains the sales channel with the biggest share in total sales of DU Austria and continues to grow through new launches, existing and new customers, and consumers.

The sports channel has been strongly impacted by several COVID-19 lockdowns, recording -39% versus 2019 in Italy and -9% versus 2019 in Austria, leading to the total gap in the sports and functional segment of -23% versus 2019.

In the year 2021, we expect further growth in turnover and efficiency with support of the stable and highly motivated team in Austria.

GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT

Despite all the unforeseen events, Atlantic Grupa grew in all its markets in Europe, Australia and in the USA.

The Group recorded the highest growth in Germany and Switzerland while the biggest contribution to growth on both markets was the brand Argeta with 47% higher sales compared to 2019 in Germany and almost 16% higher sales compared to 2019 in Switzerland. In Germany, growth comes from improved distribution in the mass market channel, implemented trade activities and in a sense a positive impact of COVID-19. In Switzerland, growth is recorded mostly due to the trade activities which contributed to higher sales. A significant improvement of Atlantic Grupa's sales was recorded also in the USA market with 15% higher sales compared to 2019 and in Canada, where sales were 61% higher compared to 2019.

The markets of France, Ireland and Australia also recorded significant growth where the largest growth contributor was Argeta. Donat continued to grow on the Italian market and recorded 11% higher sales compared to 2019.

DISTRIBUTION UNIT RUSSIA

THE GROUP BRANDS, ARGETA, WITH A

70%

GROWTH, AND DONAT, WITH A

16%

GROWTH, STRENGTHENED THEIR POSITION ON THE RUSSIAN MARKET

The year 2020 was a year of high uncertainty and significant changes. During this year, the Distribution Unit Russia (DU Russia) chose to pursue a defined strategy and continue to focus on essential business pillars: people, brands and customers. The lean and efficient distribution team managed to improve operations, aiming to increase value and decrease the costs.
The Group brands, Argeta, with a 70% growth, and Donat, with a 16% growth, strengthened their position on the Russian market by widening distribution and improving the execution of listing, trade marketing activities and instore visibility. With the mentioned growth, decline in sales of Bebi food, primarily caused by the weakening of the Russian rubble, was completely compensated. Satisfaction and meeting customers' expectations was one of our main priorities.

Close cooperation within the supply chain with major retailers and distributors allowed us to minimise adverse effects of the pandemic and maximise opportunities, which resulted in maintaining last year's revenues with a significant increase in profitability.

Extra efforts were invested from our side to support our community in overcoming the COVID-19 challenge. We did our best to ensure that our products are always available on the shelves for the consumers. Donat was among the products actively used to support the immune system, and Argeta become part of the breakfast routine for many Russian families.

- DU CROATIA, DU SERBIA, DU SLOVENIA, DU MACEDONIA, DU AUSTRIA, GDAM AND DU RUSSIA

Quality control

The processes of quality control in Atlantic Grupa are organised through independent quality assurance departments within the company's operating structure, and directed according to balanced goals from the corporate level. Quality control departments exchange good practices between themselves, and are each year given realistic, but challenging goals, while their activities are optimised without increasing product-related risks. Such organisational structure enables the following:

- coordinated monitoring of legislation,
- implementation of best practices,
- optimal improvement and use of expert knowledge in the field of microbiological, chemical and other hazards,
- centralised supplier management in view of the quality of input materials,
- good and coordinated cooperation with other business processes,
- specialisation of the quality assurance system according to specific issues of individual Strategic Business Units in the product segments of beverages, savoury spreads, sweet and salty products, fruit and vegetable products, baby food and functional water,
- traceability and maintenance of a high quality level in transport, storage and distribution to customers.

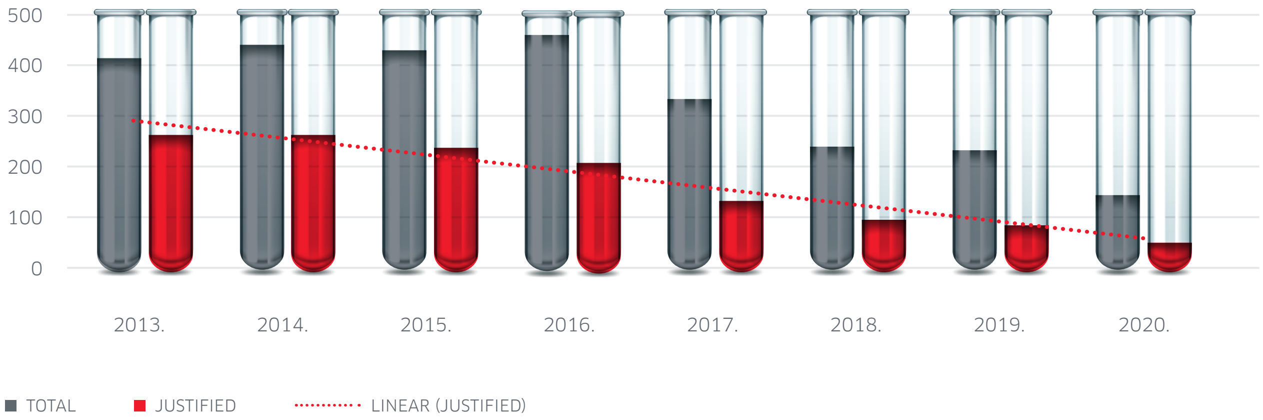
The following factors have an important role in the production of health-safe products: regular analysis of new risks, selection of source materials (non-toxic, allergen-free, GMO-free, etc.), quality control of all input materials and ingredients, monitoring of all production and distribution phases, quality assurance of finished products and monitoring customer satisfaction.

The most important novelties that were introduced in this area during 2020 are as follows:

- the entire system was regularly updated according to the requirements of FSSC 22000 v 5 and IFS Food v 6.1;
- the rules of conduct during the COVID-19 pandemic were clearly defined in the relevant manual;
- the corporate instruction for operating measuring-testing equipment at all business locations was defined;
- the acrylamide management methodology was defined, which relates to clearly defining validation processes during the development of new products, and the retrospective validation procedure was also defined;
- in line with the Internal Audit's findings aimed at process equalisation, the supplier management process for suppliers of services that could affect food safety was redefined;
- a new questionnaire for coffee suppliers with specific questions for that source material was designed. In cooperation with the purchasing department, we continue to actively work on increasing the number of suppliers who are, via a cloud-based digital platform "Ecratum", directly connected with our company;
- a new corporate procedure for the labelling (artwork) approval process was prepared, which is aligned with departments involved in the product creation process (marketing, development, legal affairs, regulatory specialists, purchasing);
- the implementation of a new digital document management solution was initiated, which enables quicker work when approving documents on both corporate and local level.

Many other enhancements that are continuously analysed and introduced in line with suggestions of the food safety department show their positive impact through the achieved results of key performance indicators, as well as indicators such as the number of consumer complaints and the number of product recalls. In 2020, all products on the market were 100% safe – no product withdrawals or recalls were performed. Great efforts were invested in collecting reactions and comments of our consumers through the call centre. In addition to complaints, we are also monitoring other categories of observations reported by our consumers in order to analyse them and maximise customer satisfaction. The trend of monitoring market complaints over the last period is showing excellent results of continuous decrease in the total number of complaints.

CONSUMER COMPLAINTS - TOTAL AND NUMBER OF JUSTIFIED



Laboratory testing of input materials, semi-finished products and finished products are carried out in three central laboratories specialised for chemical, sensory and microbiological tests with state-of-the-art measurement equipment. The accuracy of measurement results is regularly verified by the method of international interlaboratory testing.

Financial operations of Atlantic Grupa

Statement of the group vice president **for finance, procurement and investment**

The coronavirus pandemic and the measures taken at the global level to contain its spread have marked the year 2020, made it extremely unpredictable and unstable, and resulted in the global recession, whereas the key markets of Atlantic Grupa were among the most affected. Even in such an unfavourable environment, Atlantic Grupa proved to be resilient to the crisis and achieved exceptional results with record-high normalised earnings before interest, taxes, depreciation and amortisation (EBITDA*) of HRK 755.1 million. Despite negative consequences of measures to prevent the spread of the pandemic that in our case mainly reflected in a significant decrease in sales in the HoReCa channel and a decline in consumption of our products in the "on the go" and impulse goods segments, as well as the weaker tourist season in Croatia, the brands that are primarily consumed at home managed to fully cancel out this decline, and we recorded sales revenues of HRK 5,252.0 million, representing a comparable decline* of only 0.4%. All of the above, together with the stable cash flow, enabled us to continue deleveraging, which led to a further decrease in interest expenses and a record low debt, whereby the net debt to EBITDA ratio of 1.0 was recorded.

Despite the pandemic situation, record-high capital expenditure in the amount of HRK 243 million was carried out, and dividends of HRK 25 per share were paid in the total amount of HRK 83 million.

In 2020, we continued divesting non-core business operations in accordance with Atlantic Grupa's corporate strategy. Atlantic Grupa and Nelt Grupa signed the purchase and sale agreement for the baby food brand Bebi, a symbol of European quality and origin in the segment of cereals for children in Russia. The conclusion of this transaction is expected in mid-2021.

In December 2020, we successfully issued corporate bonds in the amount of HRK 300 million. The investment community has once again showed strong trust in Atlantic Grupa and we are especially proud of a historically low interest rate of 0.875% on corporate bonds in the non-financial sector achieved on the Croatian capital market. This is a strong indicator that investors, in the situation of the economic-health crisis and uncertainty regarding further development and consequences of the pandemic, recognised the business model of Atlantic Grupa as stable and low-risk. Furthermore, the investment community has once again recognised our fair and transparent investor relations by awarding us the first prize for investor relations. This award is given for the 11th consecutive year by Poslovni Dnevnik and the Zagreb Stock Exchange and Atlantic Grupa has, since its listing on the stock market, won one of the awards for investor relations every year. Additionally, we received one more award; PwC, together with representatives of the Zagreb Stock Exchange, awarded us as the leading company in open communication with its stakeholders: the PwC Building Public Trust Award. The aim of this award is to recognise and reward companies that diversify through clarity and transparency of reporting, and thus build trust in the society. In addition to the above, it should be especially noted that Atlantic Grupa in 2020 recorded the historically highest market capitalisation since Atlantic's share is traded on the ZSE.

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

Sales dynamics
in 2020

SALES PROFILE BY STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2020	2019	2020/2019
SBU Coffee	**1,106.9**	1,136.0	(2.6%)
SBU Savoury Spreads	**836.1**	726.6	15.1%
SBU Snacks	**644.3**	674.6	(4.5%)
SBU Beverages	**481.7**	556.9	(13,5%)
SBU Pharma	**539.8**	643.9	(16.2%)
BU Donat	**196.3**	191.2	2.7%
SDU Croatia	**1,250.3**	1,368.7	(8.7%)
SDU Serbia	**1,231.5**	1,263.9	(2.6%)
SDU Slovenia	**981.3**	941.6	4.2%
Other segments*	**786.9**	732.4	7.4%
Reconciliation**	**-2,802.9**	-2,804.1	n/p
Sales	**5,252.0**	5,431.7	(3.3%)

The comparative period has been adjusted to the reporting for 2020.

In 2020, Atlantic Grupa recorded sales of HRK 5.3 billion, which is a 3.3% decline compared to the previous year. If we exclude the effect of the divested business revenues, sales of the Strategic Business Unit Sports and Functional Food, sales of Dietpharm and Multivita brands and the distribution of bottled water for dispensers, the comparable sales revenue*** is almost at the last-year's levels, despite the crisis caused by the pandemic. The best results were recorded by Savoury Spreads, Donat and the pharmacy chain Farmacia.

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, Strategic Distribution Regions and Distribution Units include both sales of external principals' products and sales of own products. Comparative period has been adjusted to reflect current period reporting.

* Other segments include SBU Sports and functional food, 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 the attached document „Definition and reconciliation of Alternative Performance Measures".

The **STRATEGIC BUSINESS UNIT COFFEE** records a decrease in sales primarily in the markets of Serbia and Bosnia and Herzegovina that was partly cancelled out by the increase in the markets of Croatia, Slovenia, North Macedonia, Germany and Austria. Espresso coffee records a significant decline as a consequence of the pandemic prevention measures (restricted operation of the HoReCa channel), with Barcaffe Perfetto capsules recording doubled sales, "coffee to go" high double-digit growth rates, and instants also double-digit growth rates. Also, the growth is recorded by roast and ground coffee under the Barcaffe brand.

The **STRATEGIC BUSINESS UNIT SAVOURY SPREADS r**ecorded a double-digit growth as a consequence of excellent business results in almost all regional markets, the increase in sales in Western European markets (Germany, Austria, Switzerland, France and Italy) and in the market of Russia. The change in consumer habits amid the COVID-19 pandemic in terms of increased consumption in own homes undoubtedly had a positive impact on this business unit. The growth was recorded by both meat and fish segments of savoury spreads. Also, the categories ajvar and jams under the Granny's Secret brand record sales revenue growth.

The **STRATEGIC BUSINESS UNIT SNACKS** recorded a decrease in sales primarily in the markets of Serbia and Bosnia and Herzegovina, which was partly cancelled out by the growth in the markets of Slovenia, Austria, Kosovo (re-entry to the market after lifting customs restrictions) and Switzerland. Analysed by categories, the increase is recorded by the salty part of the range, primarily flips under the Smoki brand and Prima sticks, with the simultaneous decrease in the sweet range. The majority of brands from the sweet range is negatively affected by the pandemic following reduced OOH consumption, impulse purchases and buying of presents. The exception in the sweet range is chocolate under the Menaž brand, as a consequence of increased consumption at home (preparing sweet desserts).

The **STRATEGIC BUSINESS UNIT BEVERAGES** is the segment that is most affected by local authorities measures to prevent the spread of the pandemic. The most significant impact was made by closure of hospitality facilities, change in the consumer habits following reduced mobility (from on-the-go and out-of-home consumption to consumption at home) and the absence of the full season impact in Croatia, the dominant market of this business segment. The decrease in sales in most regional markets was partly cancelled out by the increase in the markets of Germany and Serbia. The Cedevita and Cockta brands record a significant decrease in sales in the HoReCa channel, primarily as a consequence of measures to prevent the pandemic, which was partly compensated for by the increase in sales of Cedevita for consumption at home. If we exclude the effect of absent distribution of bottled water for dispensers, divested last year, sales of this unit dropped 10.4%.

The **STRATEGIC BUSINESS UNIT PHARMA** records a sales decrease as a result of divesting Dietpharm and Multivita brands late last year and of abandoning pharmaceutical wholesale operations. If we exclude the effect of absent sales from this portfolio, sales of this unit are almost at the last-year's level. After the double-digit growth in the first quarter caused by the first wave of the pandemic, the pharmacy chain Farmacia recorded a slower growth, and after the worsening of the epidemiological situation (the so-called second-wave) in the last quarter it recorded a growth, partly caused by higher demand for drugs, food supplements, disinfectants and protective equipment due to the pandemic and on an annual level, it records a 4.5% growth. This growth fully cancelled out the decrease in sales of baby food under the Bebi brand in the Russian market caused by the further depreciation of the Russian ruble.

The **BUSINESS UNIT DONAT** records a sales growth primarily due to the double-digit growth in the market of Russia, but also to the growth in the markets of Slovenia and Italy, which fully cancelled out the sales decrease in the market of Serbia.

The **STRATEGIC DISTRIBUTION UNIT CROATIA** recorded a decrease in sales of both own and principal brands, primarily as a result of measures to combat the pandemic, which resulted in restricted operations of some channels and customers (primarily the HoReCa channel), as well as a lower number of tourists, which directly impacted lower results during the tourist season. Also, due to the pandemic, there was a decline in the OOH ("Out-of-Home") and impulse goods range consumption. This decrease was partly cancelled out by the growth of products for consumption at home, primarily Barcaffe in the coffee segment, Cedevita in the retail channel, Argeta in the savoury spreads segment and Smoki in the snacks segment, but also by the almost doubled sales of coffee under the Barcaffe brand for "on the go" consumption. If we exclude the effect of absent sales of bottled water for dispensers, divested last year, sales of this unit decreased by 6.9%.

The **STRATEGIC DISTRIBUTION UNIT SERBIA** recorded a mild decrease, primarily as a consequence of the decrease in sales in the HoReCa channel, OOH and impulse goods range in general, but also of a portion of the snacks segment and the coffee segment. The decrease in these segments was partly cancelled out by the increase in sales of Cedevita in the retail channel, Argeta and Granny's Secret in the savoury spreads segment, and Smoki and Menaž chocolate in the snacks segment. Among principal brands, new principals Kandit and Saponia stand out.

The **STRATEGIC DISTRIBUTION UNIT SLOVENIA** records an increase in sales of almost all own brands, led by savoury spreads under the Argeta brand, roast and ground coffee under the Barcaffe brand, Cedevita in the retail channel, and Smoki. Among principal brands, Unilever and new principals Saponia and Kandit stand out. As all other markets, the Slovenian market also shows an increase in consumption at home, while the HoReCa channel records a sales decrease.

OTHER SEGMENTS record a sales growth in almost all parts, except for the distribution unit Russia. If we exclude the effects of sales of the strategic business unit Sports and Functional Food, fully divested last year, other segments record an 11.7% growth.

The **STRATEGIC DISTRIBUTION UNIT MACEDONIA** recorded a sales growth due to the increase in sales of own brands, primarily Argeta in the savoury spreads segment, Grand kafa in the coffee segment, and Smoki in the flips category, but also of principal brands, led by Ferrero and new principals Beiersdorf and Ficosota.

The **STRATEGIC DISTRIBUTION UNIT AUSTRIA** recorded double-digit growth rates due to the growth of all own brands, primarily the growth of Argeta in the savoury spreads segment, roast and ground coffee under the Grand kafa brand, and Smoki and Prima sticks in the snacks segment.

The double-digit growth rates are recorded by the **GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT** following the increase in sales of all own brands, with the greatest sales growth recorded in the markets of Germany, Switzerland, France, Italy, the USA and Canada. Analysed by categories, the leaders are Argeta in the savoury spreads segment, roast and ground coffee under the Grand kafa brand, and Smoki in the snacks segment.

The **STRATEGIC DISTRIBUTION UNIT RUSSIA** is almost at the last-year's level of sales revenue, with the baby food under the Bebi brand recording a decrease that was almost fully cancelled out by the increase in the sales of savoury spreads under the Argeta brand and functional water Donat.

SALES PROFILE BY SEGMENTS

2020

COFFEE	21.1 %
SAVOURY SPREADS	15.9 %
SWEET AND SALTED SNACKS	12.3 %
PHARMA	10.3 %
BEVERAGES	9.2 %
DONAT	3.7 %
PRINCIPAL BRANDS	27.5 %

2019

COFFEE	20.9 %
SAVOURY SPREADS	13.4 %
SWEET AND SALTED SNACKS	12.4 %
PHARMA	9.9 %
BEVERAGES	10.3 %
DONAT	3.5 %
PRINCIPAL BRANDS	29.6 %

SALES PROFILE BY MARKETS

(in HRK million)	2020	% of sales	2019	% of sales	2020/2019
Croatia	**1,724.2**	32.8%	**1,885.2**	34.7%	(8.5%)
Serbia	**1,248.8**	23.8%	**1,291.3**	23.8%	(3.3%)
Slovenia	**982.1**	18.7%	**943.1**	17.4%	4.1%
Bosnia and Herzegovina	**388.2**	7.4%	**430.3**	7.9%	(9.8%)
Other regional markets*	**418.9**	8.0%	**419.3**	7.7%	(0.1%)
Key European markets**	**251.8**	4.8%	**220.5**	4.1%	14.2%
Russia and CIS	**139.2**	2.7%	**156.5**	2.9%	(11.0%)
Other markets	**98.8**	1.9%	**85.5**	1.6%	15.6%
Total sales	**5,252.0**	100.0%	**5,431.7**	100.0%	(3.3%)

- The **MARKET OF CROATIA** recorded a decrease in sales caused primarily by the decrease in sales in the HoReCa channel, OOH and impulse goods range in general, and as a consequence of measures to prevent the pandemic, and weaker tourist season also contributed to the decrease. The increase in sales of Barcaffe in the roast and ground coffee category, Argeta in the savoury spreads segment, Smoki in the snacks segment and the pharmacy chain Farmacia partly cancelled out the decline in sales of Barcaffe espresso and Cedevita and Cockta in the HoReCa channel. The decrease in sales of principal brands was most significantly affected by lower impulse consumption If we exclude the effect of sales of divested business, the distribution of bottled water for dispensers, sales of the Dietpharm brand and the related abandoning of the pharmaceutical wholesale business, the market of Croatia dropped 3.9%.

- The **MARKET OF SERBIA** records a decrease as a consequence of measures to prevent the pandemic, mostly reflected in the decrease in sales in the HoReCa channel, and the out-of-home (OOH) and impulse goods consumption in general. The decrease in sales is recorded by Grand kafa in the coffee segment, a portion of the snacks segment, and Cedevita and Cockta in the HoReCa channel in the beverages segment, which was partly cancelled out by the increase in sales of Argeta in the savoury spreads segment, Cedevita in the retail channel, and Smoki in the snacks segment. Among principal brands, Alkaloid and new principals Saponia and Kandit stand out.

- The increase in sales in the **MARKET OF SLOVENIA** is based on the increase in sales of almost all product categories, especially roast and ground coffee under the Barcaffe brand, savoury spreads under the Argeta brand, Cedevita in the retail channel, and flips under the Smoki brand. Also, new principals Saponia and Kandit and the growth of Unilever significantly contributed to the growth.

- The **MARKET OF BOSNIA AND HERZEGOVINA** recorded a decrease in sales due to the decrease in sales of Grand kafa in the coffee segment, a portion of the snacks range, and a significant decrease in sales of Cedevita and Cockta in the HoReCa channel. The decline was partly cancelled out by the growth of Argeta in the savoury spreads segment and flips under the Smoki brand. If we exclude the effect of the divested business i.e. the sales of the Dietpharm brand, this market records a decrease of 6.7%.

- **OTHER REGIONAL MARKETS** record sales revenues almost at the same level as in the previous year. Macedonia and Kosovo record increase in sales, mainly as a result of the growth of Argeta in the savoury spreads segment, which fully cancelled out the decrease in sales in the market of Montenegro caused by the measures to prevent the pandemic and a significantly weaker tourist season.

- **KEY EUROPEAN MARKETS** record growth in all markets, where the markets of Austria and Switzerland record double-digit growth due to growth of Argeta in the savoury spreads segment and Smoki in the snacks segment. If the sales of brands from the Strategic Business Unit Sports and Functional Food in the market of Germany are excluded, the Key European markets would record a 29.3% growth.

- The **MARKET OF RUSSIA AND THE COMMONWEALTH OF INDEPENDENT STATES** records a decrease in sales as a consequence of the decrease in sales of the baby food under the Bebi brand, which was largely compensated for by the increase in sales of functional waters under the Donat brand and savoury spreads under the Argeta brand. If we exclude the effect of the divested business, sales of the Multivita brand, the sales of this unit decreased by 2.0%.

* Other regional markets: Macedonia, Montenegro, Kosovo
** Key European markets: Germany, Switzerland, Austria, Sweden
The comparative period has been adjusted to the reporting for 2020.

- The double-digit sales growth is recorded by **OTHER MARKETS** primarily as a result of 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 Australia, the United States and France. If the sales of brands from the Strategic Business Unit Sports and Functional Food and sales of the Dietpharm brand are excluded, Other markets would record a 20.8% sales growth.

SALES PROFILE BY PRODUCT CATEGORY

2020

OWN BRANDS	63.5 %
PRINCIPAL BRANDS	27.5 %
FARMACIA	9.0 %

2019

OWN BRANDS	62.0 %
PRINCIPAL BRANDS	29.6 %
FARMACIA	8.3 %

The comparative period has been adjusted to the reporting for 2020

OWN BRANDS recorded sales of HRK 3,332.9 million, which is a mild decrease following the decrease in sales of roast and ground coffee under the Grand Kafa brand, Najlepše želje in the snacks segment, and Cockta and Cedevita in the HoReCa channel. The decrease was partly mitigated by the growth of: (i) Argeta in the savoury spreads segment, (ii) roast and ground coffee under the Barcaffe brand, (iii) Smoki in the snacks segment, (iv) Cedevita in the retail channel, and (v) functional water Donat.

PRINCIPAL BRANDS record a decrease of 10.3%, with sales of HRK 1,445.2 million, as a consequence of the decrease in sales of principals with a significant share of the impulse goods range and range for out-of-home consumption, including the HoReCa channel. The decrease was partly mitigated by the new principals including Saponia and Kandit in Slovenia and Serbia, and Ficosota and Beiersdorf in North Macedonia, and the existing principals Unilever, Hipp and Phillips. If we exclude the effect of the absence of sales of Sports and Functional Food range, sales of Dietpharm and Multivita in the part in which their distribution was discontinued and sales of principal brands through the divested company Bionatura Bidon Vode d.o.o. (BNBV), principal brands record a 1.7% decrease.

The pharmacy chain **FARMACIA** recorded a sales growth with sales at HRK 474.0 million, due to the increase in sales of the existing Farmacia locations and higher sales following higher demand for drugs, food supplements, disinfectants and protective equipment as a consequence of the COVID-19 pandemic. As at 31 December 2020, Farmacia consists of 92 pharmacies and specialised stores.

Profitability dynamics in 2020

PROFITABILITY DYNAMICS IN 2020

(in HRK million)	2020	2019	2020/2019
Sales	**5,252.0**	**5,431.7**	(3.3%)
EBITDA*	**716.5**	**778.7**	(8.0%)
Normalised EBITDA*	**755.1**	**721.8**	4.6%
EBIT *	**442.2**	**500.4**	(11.6%)
Normalised EBIT *	**480.8**	**443.5**	8.4%
Neto profit *	**342.3**	**390.4**	(12.3%)
Normalised Net profit*	**377.7**	**333.4**	13.3%
Profitability margins			
EBITDA margin*	**13.6%**	**14.3%**	-69BP
Normalised EBITDA margin*	**14.4%**	**13.3%**	+109BP
EBIT margin*	**8.4%**	**9.2%**	-79BP
Normalised EBIT margin*	**9.2%**	**8.2%**	+99BP
Net profit margin*	**6.5%**	**7.2%**	-67BP
Normalised Net profit margin*	**7.2%**	**6.1%**	+105BP

In 2020, EBITDA amounts to HRK 716.5 million, which is a 8.0% decrease compared to the previous year, or a 4.6% increase if we exclude the effect of one-off items.
The increase in profitability of business units Coffee, Savoury Spreads and Donat and the distribution units Slovenia, Russia and GDAM, and divesting of the non-profitable Sports and Functional Food segment contributed to the increase in normalised EBITDA. Normalized EBITDA was also positively impacted by lower marketing investments as a consequence of divested business, but also the reallocation of activities due to extraordinary circumstances caused by the pandemic and lower staff costs as a consequence of divested business. Also, lower other operating expenses, primarily entertainment, business trips and fuel costs, as a result of measures to prevent the pandemic spread, positively impacted the increase in normalized EBITDA.
In addition to the described above, normalized net profit records an increase due to lower interest expense despite the negative impact of foreign exchange differences primarily arisen due to the depreciation of the Croatian kuna against the Euro.

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

OPERATING EXPENSES STRUCTURE

(in HRK million)	2020	% of sales	2019	% of sales	2020/2019
Cost of goods sold	**1,564.5**	**29.8%**	**1,600.6**	**29.5%**	(2.3%)
Change in inventory	**-26.7**	**(0.5%)**	**-18.2**	**(0.3%)**	n/a
Production materials	**1,374.9**	**26.2%**	**1,421.0**	**26.2%**	(3.2%)
Energy	**58.5**	**1.1%**	**62.5**	**1.2%**	(6.4%)
Services	**317.4**	**6.0%**	**330.4**	**6.1%**	(4.0%)
Staff costs	**855.6**	**16.3%**	**880.5**	**16.2%**	(2.8%)
Marketing and selling expenses	**267.1**	**5.1%**	**321.5**	**5.9%**	(16.9%)
Other operating expenses	**197.8**	**3.8%**	**197.9**	**3.6%**	(0.0%)
Other (gains)/losses, net	**3.0**	**0.1%**	**-68.4**	**(1.3%)**	(104.4%)
Depreciation and amortisation	**274.3**	**5.2%**	**278.3**	**5.1%**	(1.4%)
Total operating expenses*	**4,886.5**	**93.0%**	**5,006.0**	**92.2%**	**(2.4%)**

The cost of goods sold records a decrease due to lower sales of principal brands.

Costs of production materials record a decrease due to lower sales of own products and lower average prices of production materials, primarily coffee.

Energy costs decrease due to lower production of own products.

Costs of services record a decrease, primarily due to lower costs of transport and logistics services, as a consequence of lower sales.

Lower staff costs are a consequence of a reduced number of employees as a result of divested business despite incentive compensations in the amount of 15% of the salary for all employees that were unable to work from home during the beginning of the pandemic (from March to May) because of the nature of their jobs. As at 31 December 2020, Atlantic Grupa had 5,443 employees, 22 employees less compared to the previous year.

Lower marketing expenses are a consequence of divested business and the reallocation of activities due to extraordinary circumstances caused by the pandemic.

Other operating expenses include HRK 36.7 million of donations and other expenses related to COVID-19. When these one-off expenses are excluded, other expenses record a significant decrease due to lower travel expenses, fuel expenses and entertainment costs, as a consequence of measures for the pandemic prevention (working from home, absence of business trips, etc.)

Other (gains)/losses – net: Mainly relate to the one-off gain of HRK 57.0 million realised by divestment in 2019, while this-year's amount mainly relates to negative foreign exchange differences.

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

OPERATING RESULT OF STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2020	2019	2020/2019
SBU Coffee	**284.3**	**266.6**	6.7%
SBU Savoury Spreads	**191.3**	**149.5**	27.9%
SBU Snacks	**114.9**	**126.0**	(8.8%)
SBU Beverages	**87.0**	**88.2**	(1.4%)
SBU Pharma	**29.4**	**58.2**	(49.5%)
BU Donat	**90.0**	**89.1**	1.1%
SDU Croatia	**48.6**	**62.1**	(21.7%)
SDU Serbia	**34.1**	**41.2**	(17.3%)
SDU Slovenia	**62.5**	**60.0**	4.2%
Other segments*	**(225.7)**	**(162.3)**	(39.1%)
Group EBITDA**	**716.5**	**778.7**	**(8.0%)**

STRATEGIC BUSINESS UNITS AND BUSINESS UNITS: The SBU Coffee recorded better profitability as a result of more favourable gross margin following lower prices of raw coffee and savings on marketing expenses. The SBU Savoury Spreads recorded a significant profitability growth due to the increase in revenue, despite higher marketing expenses and staff costs. The SBU Snacks recorded a decrease in profitability following lower sales with retaining the last-year's relative gross margin. The SBU Beverages records a mild decrease in profitability despite the significant decrease in sales. The SBU Pharma records lower profitability as a consequence of divested business (Multivita and Dietpharm) and lower profitability of baby food, despite higher profitability of the pharmacy chain Farmacia. The BU Donat records an increase in profit due higher sales, a more favourable gross profit margin and lower marketing investments, despite higher staff costs.

STRATEGIC DISTRIBUTION UNITS AND DISTRIBUTION UNITS: The decrease in profitability of the SDU Croatia is a result of lower sales, despite lower staff costs and transportation costs. The SDU Serbia records a decrease in profitability following lower sales and higher staff costs (increased legally prescribed minimum wage and new employees as a result of the distribution portfolio extension) and higher transportation costs. The SDU Slovenia records a profitability growth following higher sales revenue and lower staff costs, despite higher transportation costs.

OTHER SEGMENTS: If we exclude one-off expenses of HRK 38.6 million, mainly related to donations and other expenses related to COVID-19, and HRK 57.0 million of one-off gain realised last year by divesting, Other segments record a profitability growth as a consequence of divesting the negatively profitable Sports and Functional Food segment, the increase in profitability of the DU Austria, GDAM and the DU Russia and lower costs of central functions.

The comparative period has been adjusted to the reporting for 2020.

* Other segments include SBU Sports and Functional Food, DU Austria, DU Russia, Global Distribution Account Management, DU Macedonia and business activities not allocated to business and distribution units (headquarters and support functions in 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 the attached document „Definition and reconciliation of Alternative Performance Measures“.

Financial indicators
in 2020

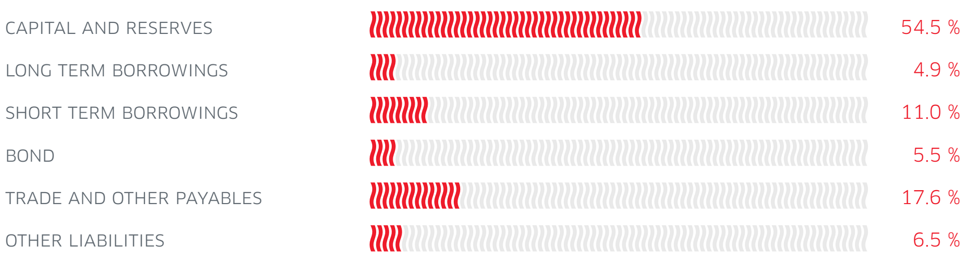
FINANCIAL INDICATORS

(in HRK million)	31.12.2020	31.12.2019
Net debt*	740.1	922.7
Total assets	5,411.7	5,247.3
Total Equity	2,948.0	2,669.8
Current ratio*	1.3	1.3
Gearing ratio*	20.1%	25.7%
Net debt/EBITDA*	1.0	1.3
Interest coverage ratio*	29.4	20.5
Capital expenditure*	242.7	225.2
Free cash flow*	334.4	361.1
Cash flow from operating activities	577.1	586.4

Among key determinants of the Atlantic Grupa's financial position in 2020, the following should be pointed out:

- The gearing ratio decreased by as much as 562 basis points due to the decrease in net debt of HRK 183 million compared to the end of 2019.
- The indebtedness measured as the net debt to normalized EBITDA ratio dropped from 1.3 at the end of 2019 to 1.0 at the end of 2020.
- Free cash flow records a decrease due to higher capital expenditure.

THE ATLANTIC GRUPA'S EQUITY AND LIABILITIES STRUCTURE AS AT 31 DECEMBER 2020



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

OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENT

Cash flow from operating activities records a decrease as a results of payments related to pandemic (donations and internal prevention costs) and as consequence of movements in the working capital, primarily the increase in inventories, despite lower finance costs and lower tax.

Capital expenditure in 2020 were made in line and in scope as planned, despite the changed circumstances in the manner of implamentation, caused by the pandemic situation.

Among significant investments, we should mention:

SBU BEVERAGES: Successfully completed investment projects of the new line for Cedevita GO and the new line for Cedevita HoReCa 19g.

SBU COFFEE: Completed investment project of production and packaging of instant coffee. In line with the changed consumer habits, investments in the purchase of Coffee2Go equipment were increased.

SBU SAVOURY SPREADS: Investment projects of lines for the new format of secondary packaging in Izola plant and Hadžići plant are completed. A new investment cycle for the new additional packaging line in Izola plant has been initiated.

SBU SNACKS: Installation of a new line for chocolate moulding with the cutting-edge technology, the first line of this kind in the CEE region is completed. An investment project related to the mentioned line that will implement a new way of packaging chocolate has been initiated.

IT: investment in infrastructure, digital technologies and implementation of business applications and the replacement of equipment.

Management's expectations for 2021

MANAGEMENT'S VIEW ON MACROECONOMIC EXPECTATIONS

After 5 years of solid economic growth, the Croatian economy is recording a significant decline in economic activity, as a result of the global pandemic and prevention measures. Taking into account the great uncertainty related to the course of the pandemic, the expected vaccination of the population, the EU aid package and the great dependence of the Croatian economy on the success of the tourist season, the Atlantic Grupa's management expects a partial recovery of the Croatian economy this year and a full return to pre-crisis activity in 2022.

In 2021, the COVID-19 pandemic will continue to affect the countries of the region, but with the introduction of milder measures and restrictions, aided by the introduction of vaccines, management expects an economic recovery from mid-2021. The main generator of Slovenian growth will be public investment, encouraged by EU funds. Also, the growth of the Serbian economy is expected, which recorded one of the smallest contractions in the region in 2020.

In 2020, eurozone economies were significantly affected by the impact of the global pandemic, and were marked by a general decline and slowdown in activity. Taking into account delays in vaccine procurement and vaccination itself, and general concerns about potentially new coronavirus mutations, most countries have extended the lockdown and strict measures to combat the pandemic, which slowed down eurozone's recovery. This year, we expect a modest recovery in the eurozone, and we expect GDP to return to pre-crisis levels only in mid-2022.

As well as on all the mentioned economies, the pandemic also had a negative impact on the Russian economy, which was additionally negatively affected by the decrease in oil prices due to the pandemic. Fiscal tightening is expected, which will reduce personal consumption, and only weak economic growth is expected in 2021.

ATLANTIC GRUPA'S MANAGEMENT STRATEGIC GUIDANCE FOR 2021

Despite the discovery of a vaccine for COVID-19, the uncertainty remains extremely high and it is difficult to predict the future course of the pandemic and the responses of economies to it.

In addition to the previously described macroeconomic expectations, Atlantic Grupa's management in 2021 expects a bit higher average prices of raw coffee on global commodity markets that will partly be annulled by the expected weakening of the US dollar, due to the purchase of this raw material in the US dollar currency. In addition, the prices of a significant portion of our key raw materials and packaging materials such as powdered milk, cocoa and aluminium, have already increased or the increase is very likely.

Under the assumption that significant vaccination coverage will be achieved in the first half of the year and that pandemic control measures will be mitigated or abolished, we expect a medium single-digit organic growth in sales revenue compared to 2020, which will be accompanied by more intensive marketing investments. In addition, in the first half of 2021 we plan to launch two new brands that will be accompanied with significant initial investments, which, in combination with the above, is likely to result in a slightly lower normalised EBITDA compared to the one achieved in 2020.

In 2021, we plan slightly higher capital expenditure than in the previous year.

In 2021, management will continue to focus on (i) strengthening the position of prominent regional brands, (ii) internationalisation of certain brands, primarily Argeta and Donat, (iii) creating new brands that will drive new growth, (iv) development of distribution operations by strengthening the existing and acquiring new principals, (v) further divestment of non-core business operations that do not have a significant growth potential, and (vi) possible mergers and acquisitions.

Definition and reconciliations 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

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)	2020	2019	2020/ 2019
Sales	**5,252.0**	**5,431.7**	(3.3%)
Sales of divested business - SBU SFF		**27.8**	
Sale of divested business - brand Dietpharm		**57.6**	
Sale of divested business - brand Multivita		**16.4**	
Exit from pharma wholesale business		**33.4**	
Sale of divested business (BNBV)		**25.7**	
Comparable sales	**5,252.0**	**5,270.8**	(0.4%)

(in HRK million)	SBU Beverages	SBU Pharma	SDU Croatia	Other segments
Reported 2019	**556.9**	**643.9**	**1,368.7**	**732.4**
Sales of divested business - SBU SFF				27.8
Sale of divested business - brand Dietpharm		57.6		
Sale of divested business - brand Multivita		16.4		
Exit from pharma wholesale business		33.4		
Sale of divested business - BNBV*	19.4		25.7	
Comparable sales 2019	**537.5**	**536.6**	**1,343.0**	**704.5**
Reported 2020	481.7	539.8	1,250.3	786.9
2020/2019	**(10.4%)**	**0.6%**	**(6.9%)**	**11.7%**

(in HRK million)	Croatia	Serbia	Slovenia	Bosnia and Herzegovina
Reported 2019	**1,885.2**	**1,291.3**	**943.1**	**430.3**
Sales of divested business - SBU SFF				
Sale of divested business - brand Dietpharm	32.6	6.2	0.3	12.6
Sale of divested business - brand Multivita		0.3		1.6
Exit from pharma wholesale business	33.4			
Sale of divested business - BNBV*	25.4		0.3	
Comparable sales 2019	**1,793.8**	**1,284.8**	**942.5**	**416.0**
Reported 2020	1,724.2	1,248.8	982.1	388.2
2020/2019	**(3.9%)**	**(2.8%)**	**4.2%**	**(6.7%)**

(in HRK million)	Other regional markets	Key European markets	Russia and CIS	Other markets
Reported 2019	**419.3**	**220.5**	**156.5**	**85.5**
Sales of divested business - SBU SFF		25.9		2.0
Sale of divested business - brand Dietpharm	3.9		0.3	1.7
Sale of divested business - brand Multivita	0.4		14.0	
Exit from pharma wholesale business				
Sale of divested business - BNBV*				
Comparable sales 2019	**415.0**	**194.7**	**142.1**	**81.8**
Reported 2020	418.9	251.8	139.2	98.8
2020/2019	**0.9%**	**29.3%**	**(2.0%)**	**20.8%**

(in HRK million)	2020	2019	2020/219
Sales of principal brands	**1,445.2**	**1,610.3**	**(10.3%)**
Sales of divested business - SBU SFF		27.8	
Sale of divested business - brand Dietpharm		57.6	
Sale of divested business - brand Multivita		16.4	
Exit from pharma wholesale business		33.4	
Sale of divested business - BNBV		5.3	
Comparable sales of principal brands	**1,445.2**	**1,469.9**	**(1.7%)**

(in HRK million)	2020	2019	2020/219
Sales of own brands	**3,332.9**	**3,367.9**	**(1.0%)**
Sale of divested business - BNBV		20.4	
Comparable sales of own brands	**3,332.9**	**3,347.4**	**(0.4%)**

* It relates to the sales of bottled water which is included within SBU Beverages to which it belongs, but also to SDU Croatia through which products are distributed.

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 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 combination, acquistions 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 items that mainly relate to expenses/income as a result of tax inspections. The Group's Management Board reviews 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.

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

(in HRK million)	2020	2019	2020 /2019
Operating profit	**442.2**	**500.4**	(11.6%)
Depreciation, amortisation and impairment	**274.3**	**278.3**	(1.4%)
EBITDA	**716.5**	**778.7**	(8.0%)
Divestment costs and (gains), net	**6.4**	**(57.0)**	
COVID- 19 costs	**36.7**		
Other one off (income) and costs, net	**(4.5)**		
Normalized EBITDA	**755.1**	**721.8**	4.6%
Sales	**5,252.0**	**5,431.7**	
EBITDA margin	**13.6%**	**14.3%**	
Normalized EBITDA margin	**14.4%**	**13.3%**	

EBIT AND NORMALIZED EBIT, EBIT MARGIN AND NORMALIZED EBIT MARGIN

EBIT (Earnings before interest and tax) equals to 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 million)	2020	2019	2020/2019
Operating profit	**442.2**	**500.4**	(11.6%)
EBIT	**442.2**	**500.4**	(11.6%)
Divestment costs and (gains), net	**6.4**	**(57.0)**	
COVID- 19 costs	**36.7**	**0.0**	
Other one off (income) and costs, net	**(4.5)**	**0.0**	
Normalized EBIT	**480.8**	**443.5**	8.4%
Sales	**5,252.0**	**5,431.7**	
EBIT margin	**8.4%**	**9.2%**	
Normalized EBIT margin	**9.2%**	**8.2%**	

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 million)	2020	2019	2020/2019
Net profit	**342.3**	**390.4**	(12.3%)
Divestment costs and (gains), net	**6.4**	**(57.0)**	
COVID - 19 costs	**33.5**		
Other one off (income) and costs, net	**(4.5)**		
Normalized Net profit	**377.7**	**333.4**	13.3%
Sales	**5,252.0**	**5,431.7**	
Net profit margin	**6.5%**	**7.2%**	
Normalized Net profit margin	**7.2%**	**6.1%**	

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 million)	31 Dec 2020	31 Dec 2019
Non current borrowing	299.5	412.6
Non current lease liabilities	263.5	295.5
Current borrowings	511.7	517.3
Current lease liabilities	84.8	80.0
Derivative financial instruments, net	7.1	1.8
Cash and cash equivalents	-426.5	-384.5
Net debt	740.1	922.7
Normalized EBITDA	755.1	721.8
Net debt/Normalized EBITDA	1.0	1.3

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 borrowings.

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 a Group's ability to cover its short-term debt with its current assets.

(in HRK million)	2020	2019
Current assets	2,259.5	2,170.5
Current liabilities	1,674.5	1,648.4
Current ratio	1.3	1.3

GEARING RATIO

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)	2020	2019
Net debt	740.1	922.7
Total equity	2,948.0	2,669.8
Gearing ratio	20.1%	25.7%

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)	2020	2019
Normalized EBITDA	755.1	721.8
Total interest expense	25.7	35.2
Adjusted interest coverage ratio	29.4	20.5

FREE CASH FLOW

Free cash flow shows the ability of the Group to generate cash to pay dividends, repay financial liabilities, finance possible acquisitions, 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)	2020	2019
Net cash flow from operating activities	**577.1**	586.4
Capex	**242.7**	225.2
Free cash flow	**334.4**	**361.1**

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.

In conclusion, it should be pointed out that the Atlantic Grupa's Pan-European strategy is reflected in the combination of recognisable European brands in the segment of savoury spreads with the brand Argeta, and in the segment of functional waters with the brand Donat and regional brands in the segment of coffee with leading brands Barcaffè and Grand Kafa, in the segment of beverages with leading brands Cedevita and Cockta, in the segment of snacks with leading brands Najlepše Želje, Bananica, Štark and Smoki and, finally, in the segment pharma with the leading pharmacy chain Farmacia.

As previously stated, political and general social risk is inherent to all components of a society and therefore cannot be individually influenced by any single company. However, Atlantic Grupa, as the company that operates in several different countries, significantly reduces these risks through diversification.

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. The sales of the Group's production and distribution portfolio are influenced by macroeconomic variables like personal consumption, the level of disposable personal income 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 potentially 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. By diversifying both its production and distribution portfolio, 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.

At the beginning of the business year 2020, an additional risk of the pandemic occurred, i.e. the impact of the COVID-19 virus on business operations.

This risk has manifested particularly when, in response to the COVID-19 pandemic, governments of the countries in which the Group operates decided to implement measures for preventing the spread of the pandemic (lockdown) that partially prevented the Group and the Group's business partners from perfor-

ming their sales and procurement activities with their buyers and partners. These measures had and, on the date of approving/writing this report, are still having a negative impact on parts of the Group's operations, mostly related to sales in the HoReCa channel ((primarily from the Strategic Business Units Beverages and Coffee), "on the go" category (primarily from the Strategic Business Unit Beverages) and the impulse goods portfolio (primarily from the Strategic Business Unit Snacks and external principals).
In order to reduce the potential impact of the aforementioned events, the Group has taken the following measures and activities since the beginning of the COVID-19 pandemic:

- Educating employees on the symptoms and prevention of COVID-19 and ensuring sufficient and adequate hygiene protection;
- Strengthening safety and public health protocols;
- Prohibiting all business trips and postponing of all team building activities, conferences and trainings, other than via video calls;
- Instructing employees to hold meetings via video calls and postponing meetings with external partners that are not organised via a video call;
- Permitting work from home for all employees whose positions allow it;
- Harmonisation of IT systems and support for the new working conditions (home office);
- Notifying suppliers to introduce enhanced hygiene measures;
- Increasing inventories of raw materials and finished products, as well as ensuring continuous communication with suppliers to ensure that raw materials and consumables are procured smoothly;
- Ensuring additional liquidity;
- Identifying critical business processes and identifying measures for their sustainability;
- Ensuring sufficient/additional levels of raw materials and packaging materials to avoid more significant problems in the supply chain.

INDUSTRY AND COMPETITION RISKS

CONSUMER GOODS INDUSTRY AND RETAIL (PHARMACIES)

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, which in turn requires investments in research and development, marketing and technology.

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 43 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. 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 enforcement more pronounced. 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.) on global markets, weather conditions or the tourist season efficacy. 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 2020 continued to actively manage its own brands.

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). Thirdly, in addition to the volatility of price lists, a significant risk also arises from the risk of delayed payment of receivables by HZZO, which was especially evident during 2020, which as a result aggravates quality and sensible working capital management. However, Atlantic Grupa uses particular activities aimed at decreasing 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.

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. However, our regional markets 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. However, with the 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 the "alternative distribution channels" like 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 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. Some of these programmes and activities are:

- the employee equity programme, implemented in 2019, which was joined by 126 employees during 2019 and 2020;
- the value bonus programme, which offers employees to defer the payment of their bonus for a period of 1-3 years with stimulating rates of return;
- the flexible working hours programme;
- extended leave (sabbatical) that has a two-fold value by providing employees in key positions with the option of using free leave to achieve personal growth, while on the other hand enabling their potential successor to develop skills for taking over the position during their absence;
- the sport activities programme aimed at promoting a healthier lifestyle of employees;
- the flexible benefits programme adapted to individual needs and choices of employees;
- medical exam for all employees;
- continuous development of employees through trainings; and many other.

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).

Abbreviations

BC	Basketball Club
BiH	Bosnia and Herzegovina
BPR	Business Process Reengineering
CIS	Commonwealth of Independent States (ex-Soviet Union countries)
CO_2	Carbon dioxide
DEG	German Investment and Development Corporation
DMF	Voluntary Pension Fund
DPS	Dividend per share
EBIT	Earnings before interest and taxes
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
EMS	Environmental Management System
ERP	Enterprise Resource Planning
EV	Enterprise value
FSSC	Food Safety System Certification
GDP	Gross domestic product
GMO	Genetically Modified Organism
GMP	Good Manufacturing Practices
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
IFS	International Food Standard
IT	Information Technology
KPI	Key Performance Indicators
M&A	Mergers and Acquisitions
OECD	Organization for Economic Cooperation and Development
OOH	Out of Home
OPF	Obligatory Pension Fund
OTG	On the Go
OTC	Over The Counter
PAH	Polycyclic Aromatic Hydrocarbons
PET	Polyethylene Terephthalate
R&D	Research and Development
RPA	Robotic process automation
SBU	Strategic Business Unit
SDU	Strategic Distribution Unit
SFF	Sports and Functional Food
UAE	United Arab Emirates
UN	United Nations
USA	United States of America
ZSE	Zagreb Stock Exchange

Auditor's Report
and Consolidated
Financial Statements

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ATLANTIC GRUPA D.D.
31 DECEMBER 2020

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 audited consolidated financial statements for 2020 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 2020 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 2021

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 unless it is inappropriate to presume that the Group will continue in business.

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 2021.

Emil Tedeschi
President and Chief Executive Officer

Srećko Nakić
Group Vice President for Distribution

Zoran Stanković
Group Vice President for Finance,
Procurement and Investment

Lada Tedeschi Fiorio
Group Vice President for Corporate
Strategy and Growth

Neven Vranković
Group Vice President for Corporate
Activities

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

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 2020, 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 a summary of 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 2020 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 EU (IFRS as adopted by the EU).

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), 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 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 1,495,664 thousand as at 31 December 2020. The carrying amount of the goodwill and indefinite life intangible assets represents 28% 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 (2020) actual results with the figures included in the prior year (2019) 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 also assessed the completeness of the impairment charges. 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 included in the Group's Annual Report for year 2020

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report which includes the Management report and Corporate Governance Statement, other than the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

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.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 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 for the 2020 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;

2.the enclosed Management report for 2020 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Group's Annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's Annual report for the year 2020 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated financial statements;

In addition, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Group's Annual report. 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 as adopted by the EU, 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.

- 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.

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

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. This appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 18 June 2020, representing a total period of uninterrupted engagement appointment of four years.

Kulić i Sperk REVIZIJA d.o.o. was initially appointed as auditors of the Company on 18 June 2020, representing a total period of uninterrupted engagement appointment of one year.

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 18 March 2021 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.

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 Board and Certified auditor
29 March 2021
Ernst & Young d.o.o.
Radnička cesta 50
Zagreb
Republic of Croatia

Janja Kulić,
Director and Certified auditor
29 March 2021
Kulić i Sperk REVIZIJA d.o.o.
Radnička cesta 52
Zagreb
Republic of Croatia

(all amounts expressed in thousands of HRK)	**Note**	**2020**	**2019**
Revenues	5	5,328,674	5,506,404
Cost of trade goods sold		(1,564,512)	(1,600,586)
Change in inventories of finished goods and work in progress		26,659	18,235
Material and energy costs		(1,433,412)	(1,483,503)
Staff costs	6	(855,631)	(880,472)
Marketing and promotion costs	7	(267,113)	(321,462)
Depreciation, amortisation and impairment	13, 13a 14,15	(274,315)	(278,306)
Other operating costs	8	(515,184)	(528,288)
Other (losses)/gains - net	9	(2,982)	68,411
Operating profit		**442,184**	**500,433**
Finance income	10	7,608	5,930
Finance costs	10	(38,144)	(42,956)
Finance costs - net	10	(30,536)	(37,026)
Profit before tax		**411,648**	**463,407**
Income tax expense	11	(69,378)	(73,040)
Net profit for the year		**342,270**	**390,367**
Attributable to:			
Owners of the parent		341,730	388,880
Non-controlling interests		540	1,487
		342,270	390,367
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		102.72	116.73
- diluted		102.72	116.73

(all amounts expressed in thousands of HRK)	**Note**	**2020**	**2019**
Net profit for the year		**342,270**	**390,367**
Other comprehensive loss:			
Items that will not be reclassified to profit or loss			
Actuarial losses from defined benefit plan, net of tax		(1,000)	(2,385)
		(1,000)	**(2,385)**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences, net of tax	22	25,641	8,675
Cash flow hedges, net of tax	**22**	(4,306)	(2,965)
		21,335	**5,710**
Total other comprehensive gain for the year, net of tax		**20,335**	**3,325**
Total comprehensive income for the year		**362,605**	**393,692**
Attributable to:			
Owners of the parent		362,016	392,198
Non-controlling interests		589	1,494
Total comprehensive income for the year		362,605	393,692

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2020**	**31 December 2019**
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,070,338	971,915
Right-of-use assets	13a	338,838	372,247
Investment property		316	312
Intangible assets	15	1,657,026	1,658,675
Deferred tax assets	25	36,285	31,796
Financial assets through other comprehensive income	17	1,404	1,025
Trade and other receivables	18	47,999	40,813
		3,152,206	3,076,783
Current assets			
Inventories	19	572,274	501,287
Trade and other receivables	18	1,248,658	1,269,915
Prepaid income tax		6,661	9,175
Cash and cash equivalents	20	426,513	384,526
		2,254,106	2,164,903
Non-current assets held for sale	14	5,382	5,583
Total current assets		2,259,488	2,170,486
TOTAL ASSETS		**5,411,694**	**5,247,269**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	881,851	881,323
Treasury shares	21	(7,647)	(5,884)
Reserves	22	(51,451)	(73,064)
Retained earnings		1,985,908	1,728,691
		2,942,033	2,664,438
Non-controlling interests		5,952	5,363
Total equity		2,947,985	2,669,801
Non-current liabilities			
Borrowings	24	299,528	412,550
Lease liabilities	13a	263,479	295,526
Deferred tax liabilities	25	150,090	153,228
Other non-current liabilities		9,356	2,204
Provisions	26	66,782	65,515
		789,235	929,023
Current liabilities			
Trade and other payables	23	954,458	933,191
Borrowings	24	511,696	517,337
Lease liabilities	13a	84,824	80,032
Derivative financial instruments	16	7,132	1,778
Current income tax liabilities		8,677	7,261
Provisions	26	107,687	108,846
		1,674,474	1,648,445
Total liabilities		2,463,709	2,577,468
TOTAL EQUITY AND LIABILITIES		**5,411,694**	**5,247,269**

	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 2019	1,014,555	(81,628)	1,451,656	2,384,583	3,869	2,388,452
Comprehensive income:						
Net profit for the year	-	-	388,880	388,880	1,487	390,367
Other comprehensive income	-	5,703	(2,385)	3,318	7	3,325
Total comprehensive income	-	5,703	386,495	392,198	1,494	393,692
Transaction with owners:						
Share based payment (Note 21)	7,680	-	-	7,680	-	7,680
Purchase of treasury shares (Note 21)	(13,424)	-	-	(13,424)	-	(13,424)
Transfer	-	2,861	(2,861)	-	-	-
Dividends (Note 21)	-	-	(106,599)	(106,599)	-	(106,599)
Balance at 31 December 2019	**1,008,811**	**(73,064)**	**1,728,691**	**2,664,438**	**5,363**	**2,669,801**
Balance at 1 January 2020	1,008,811	(73,064)	1,728,691	2,664,438	5,363	2,669,801
Comprehensive income:						
Net profit for the year	-	-	341,730	341,730	540	342,270
Other comprehensive income	-	21,286	(1,000)	20,286	49	20,335
Total comprehensive income	-	21,286	340,730	362,016	589	362,605
Transaction with owners:						
Share based payment (Note 21)	9,787	-	-	9,787	-	9,787
Purchase of treasury shares (Note 21)	(11,022)	-	-	(11,022)	-	(11,022)
Transfer	-	327	(327)	-	-	-
Dividends (Note 21)	-	-	(83,186)	(83,186)	-	(83,186)
Balance at 31 December 2020	**1,007,576**	**(51,451)**	**1,985,908**	**2,942,033**	**5,952**	**2,947,985**

(all amounts expressed in thousands of HRK)	**Note**	**2020**	**2019**
Cash flows from operating activities:			
Cash generated from operations	29	674,371	697,531
Interest paid		(22,896)	(33,445)
Income tax paid		(74,355)	(77,705)
		577,120	586,381
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13,14,15	(242,727)	(225,248)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		1,031	3,518
Acquisition of subsidiary and proceeds from sale of subsidiary – net of cash disposed	28	26,876	149,830
Loans granted and deposits placed	18	(10,353)	(2,790)
Repayments of loan and deposits granted	18	3,305	6,637
Interest received		5,060	1,028
		(216,808)	(67,025)
Cash flows used in financing activities			
Purchase of treasury shares	21	(11,022)	(13,424)
Proceeds from borrowings, net of fees paid	24	748,642	273,362
Repayments of borrowings	24	(983,571)	(623,251)
Issuance of bonds, net of fees paid	24	140,025	-
Purchase of bonds	24	(43,796)	-
Principal elements of lease payments	13a	(86,999)	(79,992)
Dividends paid to Company shareholders	21	(83,186)	(106,599)
		(319,907)	(549,904)
Net increase/(decrease) in cash and cash equivalents		**40,405**	**(30,548)**
Exchange gains on cash and cash equivalents		1,582	1,411
Cash and cash equivalents at beginning of year		384,526	413,663
Cash and cash equivalents at end of year	20	**426,513**	**384,526**

NOTE 1 – GENERAL INFORMATION

Operating as a vertically integrated multinational company, Atlantic Grupa d.d. (the Company) and its subsidiaries (as disclosed in Note 32 "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 food & beverage producers in Southeast Europe with prominent coffee brands Grand Kafa and Barcaffe, a range of beverage brands Cockta, Donat and Cedevita, a portfolio of sweet and salted snacks brands Smoki, Najlepše želje and Bananica, and the savoury spread brand Argeta. Additionally, the Group owns the leading pharmacy chain in Croatia under the Farmacia brand. With its own distribution network in Croatia, Slovenia, Serbia, Austria and North Macedonia, 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 firms and representative offices in 12 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 2020 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

- ***Conceptual Framework in IFRS standards – revised*** issued on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- ***IFRS 3: Business Combinations (Amendments) -*** amendments in Definition of a Business aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted.

- ***IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)*** effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of 'material' and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of 'material' is consistent across all IFRS Standards.

- ***Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)*** effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards issued but not yet effective and not early adopted

At the date of authorization of these financial statements the following standards, amendments and interpretations were in issue but not yet effective:

- ***IFRS 17 Insurance Contracts*** effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU and is not applicable to the Group.

- ***IFRS 17: Insurance Contracts (Amendments), IFRS 4: Insurance Contracts (Amendments)***
The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time. The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023. The Amendments to IFRS 17 have not yet been endorsed by the EU and are not applicable to the Group.

- ***Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU and the Management anticipates that the adoption will have no material impact on the financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued but not yet effective (continued)

- ***IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments),*** effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU and management anticipates that the adoption will have no material impact on the financial statements of the Group.

- **IFRS 3 *Business Combinations*; IAS 16 *Property, Plant and Equipment*; IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as well as Annual Improvements 2018-2020 (Amendments)** effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

➢ **IFRS 3 *Business Combinations* (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

➢ **IAS 16 *Property, Plant and Equipment* (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

➢ **IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.

➢ **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

The amendments have not yet been endorsed by the EU and management anticipates that the adoption will have no material impact on the financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued but not yet effective (continued)

- **IFRS 16 *Leases*- Covid 19 Related Rent Concessions (Amendment)** applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

➢ The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
➢ Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
➢ There is no substantive change to other terms and conditions of the lease.

This amendment did not have an impact on the Group's financial statements.

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)** In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. Management anticipates that the adoption of Phase 2 of this reform will not have a material impact on the Group's financial statements.

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, has been identified as the Strategic Management Council.

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

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 20 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 (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 (5 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 asset at fair value through other comprehensive income (OCI), financial assets at fair value through profit or loss 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:
- the financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows,
- 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:
- the financial asset is held within a business model with the objective of holding the financial assets to collect and selling contractual cash flows,
- 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 2%, representing unsecured risk of the Company was used for new and modified leases whose maturity is above 5 years (2019: 3%), and incremental borrowing rate of 1%, representing the secured risk of the Company was used for new and modified leases with maturity of 5 years and less (2019: 2%).

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 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. 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’.

(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. 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. 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. Sale of goods are recognised when a group entity sells a product to the customer. Retail sales are usually 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 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. 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 other comprehensive income 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.

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 Comparatives

In order to ensure comparability, operating results of segments for the year ended 31 December 2019 have been restated according reporting logic applied in 2020. Thus, the results of the BU Donat segment were separated from the SBU Beverages and the results of the Global distribution network management segment were presented within the position “Other segments”. The impact of these changes on comparative data for 2019 is as follows:

(in thousands of HRK)	**Sales revenues**	**Operating profit**	**Goodwill**	**Brands**
BU Donat	191,198	78,329	79,476	46,553
SBU Beverages	(191,198)	(78,329)	(79,476)	(46,553)
SBU Pharma	(11,047)	(25,891)	-	-
Global distribution network management	(378,478)	(13,301)	-	-
Other segments	331,066	39,192	-	-
Reconciliation	58,459	-	-	-

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's 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 EURO, 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 2020 did not have a significant impact on Group's results (2019: positive impact of HRK 2,340 thousand). The depreciation of Russian ruble against EUR in 2020 resulted in HRK 1,327 thousand foreign currency loss (in 2019 did not have an 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 2020 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	337,360	331,227	1,403	17,668
Cash and cash equivalents	87,482	11,297	112	1,348
Trade and other payables	(388,793)	(151,887)	(11,306)	(9,279)
Borrowings	(152,392)	(153,840)	(1,442)	-
Lease liabilities	(331,564)	(1,515)	-	-
Net balance sheet exposure	**(447,907)**	**35,282**	**(11,233)**	**9,737**

31 December 2019 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	306,638	345,255	3,146	19,214
Cash and cash equivalents	103,028	48,815	3,148	1,345
Trade and other payables	(336,968)	(171,963)	(21,687)	(8,067)
Borrowings	(562,900)	-	(1,559)	-
Lease liabilities	(360,257)	(1,675)	-	-
Net balance sheet exposure	**(850,459)**	**220,432**	**(16,952)**	**12,492**

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 EUR against HRK and RSD, assuming all other variables remain constant, the profit after tax for the year would have been HRK 3,772 thousand higher (2019: HRK 641 thousand lower), and other comprehensive income would be HRK 28,309 thousand higher (2019: HRK 11,386 thousand higher), due to the translation differences arising on consolidation of subsidiaries whose functional currency is EUR.
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 1,406 thousand higher (2019: HRK 195 thousand lower) and other comprehensive income would be HRK 26,812 thousand higher (2019: HRK 10,022 thousand higher), assuming no change in other variables.
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 721 thousand higher (2019: HRK 142 thousand higher) and other comprehensive income would be HRK 16,403 thousand higher (2019: HRK 122 thousand higher), assuming no change in other variables.

(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 2020, 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 2020, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2019: 100 basis points), the profit after tax would have been lower/higher by HRK 4,182 thousand (2019: HRK 5,935 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 committed credit facilities and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping committed 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 committed 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 2020, the Group held cash and cash equivalents in the amount of HRK 426,513 thousand (2019: HRK 384,526 thousand) and short-term deposits in the amount of HRK 22 thousand (2019: HRK 30 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 2020				
Trade and other payables	914,582	-	-	914,582
Borrowings	513,861	310,500	-	824,361
Lease liabilities	103,118	213,341	109,687	426,146

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
31 December 2019				
Trade and other payables	912,099	-	-	912,099
Borrowings	531,790	423,808	-	955,598
Lease liabilities	92,316	211,518	126,432	430,266

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 2020	**517,337**	**412,550**	**80,032**	**295,526**	**1,305,445**
Cash flow	(234,929)	96,229	(86,999)	-	(225,699)
Acquisitions, modifications, and leases expirations	-	-	9,834	44,682	54,516
Prepaid fee amortized	-	154	-	-	154
Current portion	212,069	(212,069)	80,805	(80,805)	-
FX movement	17,856	111	1,152	4,076	23,195
Other	(637)	2,553	-	-	1,916
31 December 2020	**511,696**	**299,528**	**84,824**	**263,479**	**1,159,527**

Line ‘Other’ includes the effect of unwinding discount related to provisions and the effect from disposal of subsidiaries. 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 is 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:

	2020	2019
	(in thousands of HRK)	
Total borrowings (Note 24)	811,224	929,887
Lease liabilities (Note 13a)	348,303	375,558
Derivative financial instruments (Note 16)	7,132	1,778
Less: Cash and cash equivalents (Note 20)	(426,513)	(384,526)
Net debt	740,146	922,697
Total equity	2,947,985	2,669,801
Total capital and net debt	**3,688,131**	**3,592,498**
Gearing ratio	**20%**	**26%**

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or 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

Expected useful lives of brands 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. Intangible assets with indefinite useful lives are tested for impairment on an individual asset basis 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 2020**	**31 December 2019**
SBU Pharma	171,059	171,059
	171,059	**171,059**

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 2020**	**31 December 2019**
SBU Savoury Spreads	242,131	239,101
SBU Snacks	120,237	138,390
SBU Coffee	102,570	101,286
BU Donat	47,143	46,553
Baby food	7,537	8,487
	519,618	**533,817**

(iii) Goodwill

Operating segment *(in thousands of HRK)*	**31 December 2020**	**31 December 2019**
SBU Snacks	220,887	218,087
SBU Pharma	168,183	168,183
SBU Savoury Spreads	126,564	125,010
BU Donat	80,483	79,476
SBU Coffee	63,988	63,180
SDU Croatia*	57,675	37,005
SDU Serbia	51,960	51,320
SDU Slovenia	26,584	26,257
DU Macedonia	6,042	5,967
SBU Beverages	2,621	2,621
	804,987	**777,106**

*Includes provisional goodwill in the amount of HRK 20,199 thousand from the acquisition of Procaffe d.o.o. (Note 28).

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	2020	2019
BU Donat	7.5%	6.7%
SBU Coffee	8.2%	7.3%
SBU Snacks	9.2%	7.8%
SBU Savoury Spreads	7.3%	6.9%
SBU Pharma	6.0%	6.5%
Baby food	-	7.0%
SDU Croatia	6.4%	4.3%
SDU Serbia	9.1%	5.7%
SDU Slovenia	5.2%	4.3%
DU Macedonia	9.1%	6.0%

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 (2019: 2.0%). Discount rates after taxes in 2020 are generally higher than in 2019 among segments, based on the increase in equity risk premium (ERP) in all markets as a result of the pandemic.

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 and licences are as follows:

	2020	2019
Barcaffe	5.0%	5.0%
Najlepše želje	6.0%	6.0%
Bananica	5.0%	5.0%
Smoki	7.0%	7.0%
Argeta	8.0%	8.0%
Donat	8.0%	8.0%
Bebi	-	3.0%

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 20,961 thousand was recognised (2019: HRK 19,677 thousand) in respect of impairment of brands with indefinite useful lives. In 2019 the impairment loss of HRK 6,215 thousand was recognised in respect of impairment of goodwill (Note 15).

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 15,845 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 brands would be HRK 11,146 thousand higher, while a decrease in the royalty rate by 50 basis points, with other variables unchanged would imply additional impairment of brands of HRK 49,380 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 not lead to an impairment of goodwill and licences. Also, the value of goodwill and licences would remain unchanged with a decrease in the terminal growth rate by 100 basis points, with other variables unchanged, as well as with a decrease in expected free cash flow by 500 basis points, with other variables unchanged.

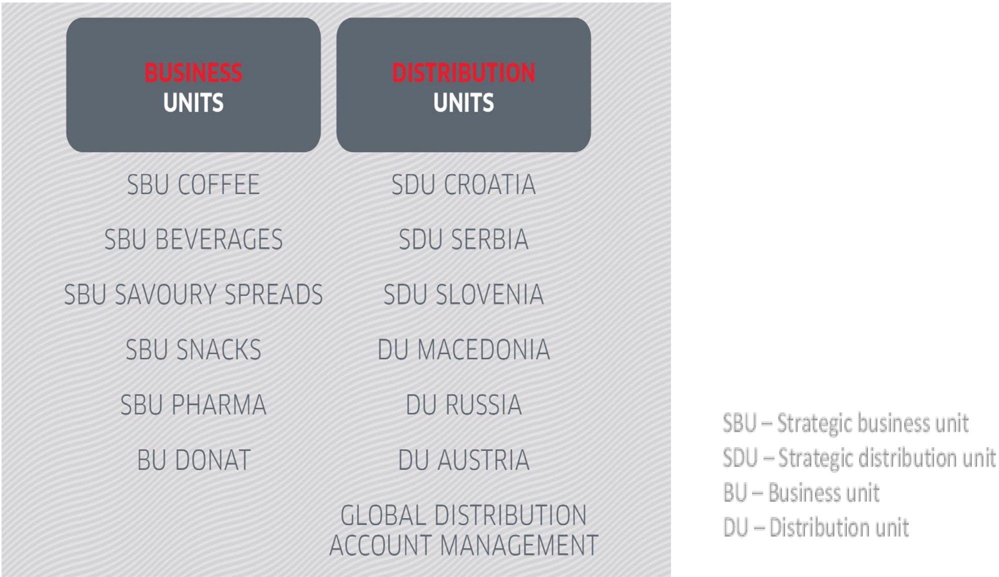
(c) Deferred tax asset recognition

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 business unit Donat which has been separated from strategic business unit Beverages since 1st January 2020.

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.



Strategic Management Council is responsible for strategic and operational issues. 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 SBU Sports and Functional Food do not meet quantitative thresholds, required by IFRS 8 for reportable segments, they are reported within “Other segments”. SBU Sports and Functional Food was entirely divested in early April 2019. The “Other segments” category comprises also of non-allocable business activities (headquarters and support functions in Serbia, Slovenia, Bosnia and Herzegovina and North Macedonia) which are excluded from the reportable operating segments.

The Strategic Management Council monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA (earnings before interest taxes, depreciation, amortisation and impairment) and operating profit or loss. Group financing and income taxes are managed on the Group level 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.

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues* *(in thousands of HRK)*	**2020**	**2019**
SBU Coffee	1,106,940	1,135,957
SBU Savoury Spreads	836,088	726,619
SBU Snacks	644,251	674,624
SBU Pharma	539,786	643,933
SBU Beverages	481,671	556,914
BU Donat	196,302	191,198
SDU Croatia	1,250,286	1,368,717
SDU Serbia	1,231,482	1,263,857
SDU Slovenia	981,260	941,614
Other segments	786,864	732,363
Reconciliation	(2,802,901)	(2,804,064)
Total	**5,252,029**	**5,431,732**

Operating results	**For the year ended 31 December 2020**		
(in thousands of HRK)	**Operating profit before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	284,323	36,152	248,171
SBU Savoury Spreads	191,335	18,165	173,170
SBU Snacks	114,891	40,612	74,279
BU Donat	90,028	4,777	85,251
SBU Beverages	86,960	30,671	56,289
SBU Pharma	29,423	24,933	4,490
SDU Slovenia	62,528	8,206	54,322
SDU Croatia	48,624	36,509	12,115
SDU Serbia	34,103	22,278	11,825
Other segments	(225,716)	52,012	(277,728)
Total	**716,499**	**274,315**	**442,184**

* Comparative period has been adjusted to reflect 2020 reporting

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results*	**For the year ended 31 December 2019**		
(in thousands of HRK)	**Operating profit before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	266,586	32,935	233,651
SBU Savoury Spreads	149,543	22,134	127,409
SBU Snacks	126,043	17,421	108,622
BU Donat	89,058	10,729	78,329
SBU Beverages	88,179	31,531	56,648
SBU Pharma	58,208	52,631	5,577
SDU Croatia	62,111	36,374	25,737
SDU Slovenia	60,022	8,287	51,735
SDU Serbia	41,244	18,702	22,542
Other segments	(162,255)	47,562	(209,817)
Total	**778,739**	**278,306**	**500,433**

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:

	2020	**2019**
	(in thousands of HRK)	
Serbia	1,015,005	1,010,984
Croatia	970,484	922,560
Slovenia	928,050	914,399
Other	152,979	155,206
Total geographically allocated non-current assets	**3,066,518**	**3,003,149**

* Comparative period has been adjusted to reflect 2020 reporting

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2020 *(in thousands of HRK)*	2020 %	2019 *(in thousands of HRK)*	2019 %
Croatia	1,724,168	32.8	1,885,169	34.7
Serbia	1,248,766	23.8	1,291,292	23.8
Slovenia	982,100	18.7	943,140	17.4
Bosnia and Herzegovina	388,246	7.4	430,294	7.9
Other regional markets*	418,889	8.0	419,341	7.7
Key European markets**	251,759	4.8	220,530	4.1
Russia and CIS countries	139,248	2.7	156,468	2.9
Other markets	98,853	1.8	85,498	1.5
Total sales by markets	**5,252,029**	**100.0**	**5,431,732**	**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	2020 *(in thousands of HRK)*	2020 %	2019 *(in thousands of HRK)*	2019 %
Sales by type of products				
Own brands	3,332,885	62.6	3,367,885	61.2
Principal brands	1,445,153	27.1	1,610,334	29.2
Farmacia	473,991	8.9	453,513	8.2
Total sales by type of products	**5,252,029**	**98.6**	**5,431,732**	**98.6**
Other income /i/	76,645	1.4	74,672	1.4
Total revenues	**5,328,674**	**100.0**	**5,506,404**	**100.0**

/i/ Other income mainly comprises of interest income, rental income and income from the reversal of unused provisions.

NOTE 6 – STAFF COSTS

	2020	2019
	(in thousands of HRK)	
Gross salaries /i/	739,686	740,778
Public transport	17,238	18,624
Termination benefits	1,534	4,449
Christmas and Easter bonuses and holiday allowances	39,512	45,274
Other staff costs /ii/	57,661	71,347
	855,631	**880,472**

In 2020, the average number of employees was 5,409 (2019: 5,557).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2020 amounted to HRK 139,084 thousand (2019: HRK 134,062 thousand).

/ii/ Other staff costs include bonuses, education expenses, accruals for unused vacation days and jubilee awards.

NOTE 7 – MARKETING AND PROMOTION COSTS

	2020	2019
	(in thousands of HRK)	
Marketing and promotion costs - external	247,863	279,230
Marketing and promotion costs - related parties (Note 30)	3,065	4,258
Sponsorships and donations - external	16,185	37,974
	267,113	**321,462**

NOTE 8 – OTHER OPERATING COSTS

	2020	**2019**
	(in thousands of HRK)	
Transportation costs	131,702	146,556
Maintenance	115,626	108,995
Non-production material	35,934	29,362
Rentals (Note 13a)	28,454	26,812
Donations – Covid 19	25,429	-
Provision for impairment of inventories (Note 19)	23,955	25,095
Taxes and contributions not related to operating results	21,868	25,715
Provision for impairment of trade receivables (Note 18)	20,862	5,382
Intellectual services	17,577	18,256
Fuel	14,031	19,621
Telecommunication services	10,283	10,967
Non-production services	9,572	16,537
Entertainment	8,335	23,012
Production services	7,989	6,919
Bank charges	7,835	8,433
Travel expense and daily allowances	5,029	15,348
Supervisory Board fees	1,496	1,174
Provision for impairment of other receivables (Note 18)	412	2,475
Collection of previously impaired receivables (Note 18)	(10,470)	(2,911)
Other – related parties (Note 30)	2,332	2,225
Other	36,933	38,315
	515,184	**528,288**

NOTE 9 – OTHER (LOSSES)/GAINS – NET

	2020	**2019**
	(in thousands of HRK)	
Gain on sale of subsidiaries – net of transaction expenses	5,178	56,946
Fair value (losses)/gains on financial assets	(4,913)	5,703
Foreign exchange (losses)/gains– net	(3,927)	3,555
Gain on sale of property, plant and equipment	130	612
Other gains – net	550	1,595
	(2,982)	**68,411**

NOTE 10 – FINANCE COSTS – NET

	2020	2019
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings and lease liabilities	7,608	5,930
	7,608	5,930
Finance costs		
Interest expense on bank borrowings	(8,796)	(15,245)
Interest expense on lease liabilities	(9,315)	(10,201)
Interest expense on bonds	(6,393)	(6,386)
Interest expense on provisions for employee benefits	(785)	(682)
Other interest expense /i/	(420)	(2,704)
Total interest expense	(25,709)	(35,218)
Foreign exchange losses on borrowings and lease liabilities	(12,435)	(7,738)
	(38,144)	(42,956)
Finance costs - net	**(30,536)**	**(37,026)**

/i/ Other interest expenses relate to interest arising from unwinding of discount and default interests.

NOTE 11 – INCOME TAX

	2020	2019
	(in thousands of HRK)	
Current income tax	79,066	79,415
Deferred tax (Note 25)	(9,688)	(6,375)
	69,378	**73,040**

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:

	2020	2019
	(in thousands of HRK)	
Profit before taxation	**411,648**	**463,407**
Income tax calculated at Croatian statutory income tax rate of 18%	74,097	83,413
Tax effects of:		
Lower income tax rates overseas	(4,619)	(27,140)
Income not subject to tax	(19,746)	(19,556)
Expenses not deductible for tax purposes	19,931	28,465
Effect of utilized tax incentives	-	(8,701)
Utilisation of previously unrecognized tax losses	(2,769)	(11,481)
Tax losses for which no deferred tax assets were recognised	3,002	28,565
Effect of utilized tax losses	(518)	(525)
Tax expense	**69,378**	**73,040**

The effective tax rate was 16.9% (2019: 15.8%). The increase compared to the previous year is mainly because this year the tax relief related to capital investments in Atlantic Cedevita d.o.o. was not realized and due to different levels of utilization of tax losses.

In 2020, the following members of the Group were subject to an audit by Tax Authority: Atlantic Argeta d.o.o. for value added tax returns and customs duties for the period from 1 January 2018 until 31 May 2020, Atlantic Grand d.o.o. Bijeljina for corporate income tax return for the period 2015 until 2020, Atlantic Štark d.o.o for the income tax return from 2018 and Atlantic Grupa d.d. and Atlantic Cedevita d.o.o for the income tax return from 2017 and value added tax return for the period 1 January 2017 until 31 December 2017. All audits were completed in 2020. The outcome of an audit of the income tax return from 2017 with the company Atlantic Grupa d.d. was the additional income tax liability in the amount of HRK 139 thousand.

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.

	2020	2019
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	341,730	388,880
Weighted average number of ordinary shares in issue	3,326,936	3,331,481
Basic earnings per share *(in HRK)*	102.72	116.73

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 2018					
Cost	96,464	936,444	1,714,996	98,614	2,846,518
Accumulated depreciation	-	(545,744)	(1,333,914)	-	(1,879,658)
Net book amount	**96,464**	**390,700**	**381,082**	**98,614**	**966,860**
At 1 January 2019					
Opening net book amount	96,464	390,700	381,082	98,614	966,860
Additions	-	-	-	160,478	160,478
Transfer	-	24,909	105,832	(130,741)	-
Transferred from investment property	-	963	-	-	963
Disposals	(1,124)	(98)	(1,684)	-	(2,906)
Depreciation	-	(23,174)	(96,641)	-	(119,815)
Impairment charge	-	(4,917)	(4,232)	(7,475)	(16,624)
Divestment of subsidiary	(4,490)	(9,439)	(7,053)	(24)	(21,006)
Foreign exchange differences	306	1,639	1,731	289	3,965
Closing net book amount	**91,156**	**380,583**	**379,035**	**121,141**	**971,915**
At 31 December 2019					
Cost	91,156	951,594	1,720,444	121,141	2,884,335
Accumulated depreciation	-	(571,011)	(1,341,409)	-	(1,912,420)
Net book amount	**91,156**	**380,583**	**379,035**	**121,141**	**971,915**
At 1 January 2020					
Opening net book amount	91,156	380,583	379,035	121,141	971,915
Additions	44,688	-	-	171,425	216,113
Transfer	-	9,811	120,280	(130,091)	-
Disposals	-	-	(697)	-	(697)
Depreciation	-	(22,119)	(102,528)	-	(124,647)
Impairment charge	-	-	(4,080)	-	(4,080)
Acquisition of subsidiary	-	-	2,801	-	2,801
Foreign exchange differences	953	4,005	3,366	609	8,933
Closing net book amount	**136,797**	**372,280**	**398,177**	**163,084**	**1,070,338**
At 31 December 2020					
Cost	136,797	970,038	1,850,685	163,084	3,120,604
Accumulated depreciation	-	(597,758)	(1,452,508)	-	(2,050,266)
Net book amount	**136,797**	**372,280**	**398,177**	**163,084**	**1,070,338**

Property, plant and equipment with a net book value of HRK 177,509 thousand as at 31 December 2020 (2019: HRK 192,831 thousand), have been pledged as collateral for borrowings (Note 24).

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**
At 1 January 2019	**304,126**	**95,545**	**1,586**	**401,257**
Additions	13,209	33,004	236	46,449
Disposal of subsidiaries	(513)	(2,806)	-	(3,319)
Lease modification	3,738	6,924	443	11,105
Depreciation	(44,963)	(38,062)	(787)	(83,812)
Foreign exchange differences	274	289	4	567
At 31 December 2019	**275,871**	**94,894**	**1,482**	**372,247**
Additions	25,854	38,666	323	64,843
Lease modification	17,151	1,127	765	19,043
Lease expiration	(20,004)	(8,557)	(244)	(28,805)
Depreciation	(48,248)	(40,941)	(660)	(89,849)
Foreign exchange differences	715	638	6	1,359
At 31 December 2020	**251,339**	**85,827**	**1,672**	**338,838**

	31 December 2020	**31 December 2019**
Lease liabilities		
Current	84,824	80,032
Non-current	263,479	295,526
	384,303	375,558

(ii) Amounts recognized in the income statement

(in thousands of HRK)	**2020**	**2019**
Depreciation charge of right-of-use assets	89,849	83,812
Interest expense (included in finance cost)	9,315	10,201
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)	28,454	26,812

The total cash outflow for leases in 2020 was HRK 86,999 thousand (2019: HRK 79,992 thousand).

NOTE 14 – NON-CURRENT ASSETS HELD FOR SALE

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Opening net book amount	5,583	5,583
Disposals	(205)	-
Foreign exchange differences	4	-
Closing net book amount	**5,382**	**5,583**

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 2018							
Cost	840,109	210,739	776,712	16,418	163,361	26,331	2,033,670
Accumulated amortisation and impairment	(27,601)	(48,580)	(105,342)	(14,802)	(130,525)	-	(326,850)
Net book amount	**812,508**	**162,159**	**671,370**	**1,616**	**32,836**	**26,331**	**1,706,820**
At 1 January 2019							
Opening net book amount	812,508	162,159	671,370	1,616	32,836	26,331	1,706,820
Foreign exchange differences	4,609	-	3,046	3	58	15	7,731
Additions	-	-	-	-	-	38,553	38,553
Transfer	-	8,900	1,077	132	30,898	(41,007)	-
Acquisition of subsidiary	1,201	-	-	5,205	-	-	6,406
Divestment of subsidiary	(34,997)	-	(6,474)	-	(638)	(671)	(42,780)
Amortisation	-	-	(12,859)	(803)	(17,821)	-	(31,483)
Impairment charge	(6,215)	-	(19,677)	-	-	(680)	(26,572)
Closing net book amount	**777,106**	**171,059**	**636,483**	**6,153**	**45,333**	**22.541**	**1,658,675**
At 31 December 2019							
Cost	810,922	219,639	759,260	21,811	191,902	22,541	2,026,075
Accumulated amortisation and impairment	(33,816)	(48,580)	(122,777)	(15,658)	(146,569)	-	(367,400)
Net book amount	**777,106**	**171,059**	**636,483**	**6,153**	**45,333**	**22,541**	**1,658,675**
At 1 January 2020							
Opening net book amount	777,106	171,059	636,483	6,153	45,333	22,541	1,658,675
Foreign exchange differences	7,654	-	8,043	38	111	13	15,859
Additions	-	-	-	-	-	17,994	17,994
Transfer	-	2,592	114	-	29,388	(32,094)	-
Acquisition of subsidiary	20,227	-	-	-	10	-	20,237
Amortisation	-	(388)	(10,525)	(1,097)	(21,929)	-	(33,939)
Impairment charge	-	-	(20,961)	(839)	-	-	(21,800)
Closing net book amount	**804,987**	**173,263**	**613,154**	**4,255**	**52,913**	**8,454**	**1,657,026**
At 31 December 2020							
Cost	838,803	222,231	768,895	5,210	220,682	8,454	2,064,275
Accumulated amortisation and impairment	(33,816)	(48,968)	(155,741)	(955)	(167,769)	-	(407,249)
Net book amount	**804,987**	**173,263**	**613,154**	**4,255**	**52,913**	**8,454**	**1,657,026**

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).
Intangible assets with a net book value of HRK 565,252 thousand as at 31 December 2020 (2019: HRK 581,470 thousand) have been pledged as collateral for borrowings (Note 24).

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Financial assets at amortised cost		
Trade receivables	1,079,003	1,096,703
Loans and deposits given	51,956	44,433
Other financial assets at amortized cost	20,649	66,399
Cash and cash equivalents	426,513	384,526
	1,578,121	1,592,061
Financial assets at fair value through OCI		
Financial assets at fair value through OCI	1,404	1,025
Total financial assets	**1,579,525**	**1,593,086**
Total current	1,530,122	1,551,248
Total non-current	49,403	41,838
Financial liabilities at amortised cost		
Borrowings	811,224	929,887
Trade and other payables	914,313	911,721
	1,725,537	1,841,608
Derivatives used for hedging		
Derivative financial instruments	7,132	1,778
Lease liabilities	348,303	375,558
Financial liabilities at fair value through profit or loss		
Contingent consideration for acquisition of subsidiaries	9,597	2,554
Total financial liabilities	**2,090,569**	**2,221,498**
Total current	1,518,234	1,511,246
Total non-current	572,335	710,252

NOTE 17 – FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME (OCI)

Investments in financial assets through 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 2020 and 2019, there were no impairment provisions on financial assets through OCI.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	41,442	33,912
Other non-current receivables	6,557	6,901
	47,999	40,813
Current receivables		
Trade receivables /ii/	1,079,003	1,096,703
Loans receivable and deposits /i/	10,514	10,521
Other receivables /iii/	159,141	162,691
	1,248,658	1,269,915
	1,296,657	**1,310,728**

	31 December 2020	31 December 2019
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans receivable and deposits	51,956	44,433
Trade receivables	1,079,003	1,096,703
Other receivables	20,649	66,399
	1,151,608	**1,207,535**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/i/ Loans receivable and deposits are as follows:

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Non-current receivables		
Deposits	6,307	1,664
Loans	37,841	32,298
Current portion	(2,706)	(50)
	41,442	33,912
Current receivables		
Loans – related parties (Note 30)	738	1,633
Loans	7,048	8,808
Deposits	22	30
Current portion of non-current receivables	2,706	50
	10,514	10,521
	51,956	**44,433**

The fair value of loans and deposits approximates the carrying amounts.

/ii/ Trade receivables are as follows:

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Gross trade receivables	1,066,670	1,088,398
Trade receivables – related parties (Note 30)	74,887	81,088
Provision for trade receivables	(62,554)	(72,783)
	1,079,003	**1,096,703**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/iii/ Other receivables are as follows:

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Receivables from government institutions	53,846	25,773
Outstanding advances	23,126	10,556
Prepaid expenses and accrued income	68,077	66,864
Interest receivable	753	393
Interest receivable – related parties (Note 30)	201	134
Receivables from the sale of subsidiaries	-	43,738
Other	13,138	15,233
	159,141	**162,691**

Due to uncertainty in collection, other receivables of HRK 412 thousand were impaired (2019: HRK 2,475 thousand), (Note 8).

/iv/ Accrued interest up to the balance sheet date is recorded within other income.

As of 31 December 2020, trade receivables in the amount of HRK 62,554 thousand (2019: HRK 72,783 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 2020	31 December 2019
	(in thousands of HRK)	
Up to 3 months	4,227	690
3 to 6 months	1,227	93
Over 6 months	57,100	72,000
	62,554	**72,783**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2020, trade receivables in the amount of HRK 129,630 thousand (2019: HRK 145,999 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 2020	31 December 2019
	(in thousands of HRK)	
Up to 3 months	110,683	101,513
3 to 6 months	9,622	24,800
Over 6 months	9,325	19,686
	129,630	**145,999**

The carrying amounts of the Group's financial assets are denominated in the following currencies:

	31 December 2020	31 December 2019
	(in thousands of HRK)	
EUR	337,360	306,638
HRK	369,520	432,300
RSD	331,227	345,255
Other	113,501	123,342
	1,151,608	**1,207,535**

Movements on the provision for impairment of trade receivables are as follows:

	2020	2019
	(in thousands of HRK)	
As at 1 January	72,783	96,454
Provision for receivables impairment (Note 8)	20,862	5,382
Collected amounts reversed (Note 8)	(10,470)	(2,911)
Receivables written off	(7,179)	(20,848)
Divestment of subsidiary	-	(5,656)
Transfer to long-term loans given	(13,080)	-
Exchange differences	(362)	362
As at 31 December	**62,554**	**72,783**

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 2020	31 December 2019
	(in thousands of HRK)	
Raw materials and supplies	111,220	87,740
Work in progress	14,906	13,354
Finished goods	193,148	163,487
Trade goods	253,000	236,706
	572,274	**501,287**

As of 31 December 2020, inventories of HRK 23,955 thousand (2019: HRK 25,095 thousand) were impaired due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Current account and cash on hand	297,083	205,647
Foreign currency account	129,025	178,879
Deposits up to three months /i/	405	-
	426,513	**384,526**

/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 2020	31 December 2019
	(in thousands of HRK)	
EUR	87,482	103,028
HRK	297,074	205,633
RSD	11,297	48,815
Other	30,660	27,050
	426,513	**384,526**

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 2019	**3,334,206**	**133,372**	**881,275**	**(92)**	**1,014,555**
Purchase of treasury shares	(11,441)	-	-	(13,424)	(13,424)
Share based payments	6,525	-	48	7,632	7,680
31 December 2019	**3,329,290**	**133,372**	**881,323**	**(5,884)**	**1,008,811**
Purchase of treasury shares	(9,899)	-	-	(11,022)	(11,022)
Share based payments	8,180	-	528	9,259	9,787
31 December 2020	**3,327,571**	**133,372**	**881,851**	**(7,647)**	**1,007,576**

All shares issued are ordinary shares, including all relevant rights. All shares have the right to vote at the Company's General Assembly, as well as the right to dividend payment.

The founder and majority owner of the Company is Mr. Emil Tedeschi, President of the Management Board. Mr. Tedeschi is the ultimate controlling party of the Group.

The ownership structure of the Company is as follows:

	31 December 2020		31 December 2019	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	322,729	9.68	322,729	9.68
AZ Obligatory pension fund	286,946	8.61	286,946	8.61
Erste Plavi Obligatory pension fund	256,019	7.68	246,926	7.41
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	31,189	0.93	30,211	0.90
Other shareholders	563,713	16.91	575,503	17.26
Treasury shares	6,729	0.20	5,010	0.15
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Dividend distribution

According to the decision of the Company's General Assembly from 18 June 2020, the distribution of dividend in the amount of HRK 25.00 per share, or HRK 83,186 thousand in total was approved. Dividend was paid in July 2020.

In 2019 the distribution of dividend in the amount of HRK 32.00 per share, or HRK 106,599 thousand in total was approved. Dividend was paid in July 2019.

NOTE 21 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (continued)

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 (equity- settled transactions).

One part of share options is conditional on the relevant employee's completing two or three years of service (vesting period) and the other part is available without restrictions.

The fair value of the shares granted in 2020 is determined as of the grant date, at the estimated market price of share of HRK 1,168.65 (2019: HRK 1,170.67).

In 2020, Management and employees have received 7,603 non-conditional shares granted in 2020, 380 conditional shares granted in 2016 and 197 conditional shares granted in 2018.

In 2019, Management and employees have received 6,199 non-conditional shares granted in 2019 and 326 conditional shares granted in 2017.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves /i/**	**Translation reserves /ii/**	**Cash flow hedge reserves /ii/**	**Total**
At 1 January 2019	**17,325**	**(96,925)**	**(2,028)**	**(81,628)**
Foreign exchange differences	-	8,668	-	8,668
Transfer from retained earnings	2,861	-	-	2,861
Cash flow hedge	-	-	(2,965)	(2,965)
At 31 December 2019	**20,186**	**(88,257)**	**(4,993)**	**(73,064)**
Foreign exchange differences	-	25,592	-	25,592
Transfer from retained earnings	327	-	-	327
Cash flow hedge	-	-	(4,306)	(4,306)
At 31 December 2020	**20,513**	**(62,665)**	**(9,299)**	**(51,451)**

/i/ Reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association. These reserves are distributable.

/ii/ Movements represent amounts attributable to the owners of the Company only.

Components of Other comprehensive income:

	2020	**2019**
	(in thousands of HRK)	
Cash flow hedges:		
Currency forward contracts		
Reclassification during the year to profit or loss	4,977	(948)
Net (loss)/gain during the year (except not-yet matured contracts)	(1,569)	343
Net loss during the year of not-yet matured contracts	(7,714)	(2,360)
	(4,306)	**(2,965)**

NOTE 23 – TRADE AND OTHER PAYABLES

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Trade payables	655,957	667,242
Trade payables – related parties (Note 30)	1,918	2,054
Other payables	296,583	263,895
	954,458	**933,191**

Other payables recorded as at 31 December are as follows:

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Gross salaries payable	43,314	40,375
Liabilities to state institutions	(3,719)	(22,761)
Accrued expenses (suppliers)	145,199	134,487
Vacation accrual	17,269	20,259
Contractual obligation to customers	63,602	55,045
Termination benefits payable	281	3,478
Deferred income	1,477	343
Dividend payable	171	107
Other	28,989	32,562
	296,583	**263,895**

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 2020	31 December 2019
	(in thousands of HRK)	
EUR	388,793	336,968
HRK	320,579	348,062
RSD	151,887	171,963
Other	53,323	55,106
	914,582	**912,099**

NOTE 24 – BORROWINGS

	31 December 2020	**31 December 2019**
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions	609	212,567
Bonds /i/	298,919	199,983
	299,528	**412,550**
Short-term borrowings:		
Financial institutions /ii/	511,696	517,213
Bonds /i/	-	124
	511,696	**517,337**
	811,224	**929,887**

/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 2021.

/ii/ Short-term loans from financial institutions include eleven loans. As at 31 December 2019, short-term loans from financial institutions included 8 short-term loans and current portion of long-term loans from the loan package granted by the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC, World Bank member), Raiffeisenbank Austria Zagreb and Zagrebačka banka, which were fully repaid in 2020.
As at 31 December 2020, EUR 22 million of the committed line was unused (31 December 2019: EUR 18 million).

Borrowings from financial institutions are secured by pledges over property, plant and equipment (Note 13), intangible assets (Note 15) and shares of Atlantic Trade d.o.o. Zagreb and its subsidiaries: Atlantic Droga Kolinska d.o.o., Atlantic Grand d.o.o. Serbia and Atlantic Štark d.o.o.. Total net assets value of Atlantic Trade d.o.o. sub-consolidation as at 31 December 2020 was HRK 2,156,122 thousand (2019: HRK 2,041,618 thousand). Furthermore, issued bonds and 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 2020	**31 December 2019**
	(in thousands of HRK)	
Fixed interest rate	654,803	200,107
Up to 3 months	153,838	429,550
3 to 6 months	2,583	300,230
	811,224	**929,887**

NOTE 24 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows:

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Between 1 and 2 years	-	411,918
Between 2 and 5 years	299,528	632
	299,528	**412,550**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 0.72% (2019: 1.22%). The effective annual interest rate related to bonds at the balance sheet date was 3.10% (2019: 3.19%).

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)	2020	2019	2020	2019
Long-term borrowings				
Financial institutions	609	212,567	609	212,567
Bonds	298,919	199,983	300,750	201,160
	299,528	**412,550**	**301,359**	**413,727**

The carrying value of borrowings and bonds is translated from the following currencies:

	31 December 2020	31 December 2019
	(in thousands of HRK)	
HRK	503,550	365,428
EUR	152,392	562,900
RSD	153,840	-
USD	1,442	1,559
	811,224	**929,887**

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 17,412 thousand (2019: HRK 18,997 thousand) in respect of losses that arose in the Company and its five subsidiaries (2019: three 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 74,664 thousand (2019: HRK 96,203 thousand) expire over the next five years, while the tax losses in the amount of HRK 13,939 thousand (2019: HRK 7,648 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	**Tax losses**	**Provisions**	**Other**	**Total**
At 1 January 2019	**2,777**	**12,161**	**17,005**	**31,943**
(Charged)/credited to the income statement (Note 11)	111	1,571	(2,742)	(1,060)
(Charged)/credited to other comprehensive income	-	53	450	503
Divestment of subsidiary	-	(444)	-	(444)
Exchange differences	792	23	39	854
At 31 December 2019	**3,680**	**13,364**	**14,752**	**31,796**
(Charged)/credited to the income statement (Note 11)	351	755	3,868	4,974
(Charged)/credited to other comprehensive income	-	99	1,011	1,110
Exchange differences	(1,278)	50	(367)	(1,595)
At 31 December 2020	**2,753**	**14,268**	**19,264**	**36,285**

Deferred tax liabilities

(in thousands of HRK)	**Fair value uplifts of assets acquired in business combinations**	**Other**	**Total**
At 1 January 2019	**160,378**	**59**	**160,437**
Charged/(credited) to the income statement (Note 11)	(7,435)	-	(7,435)
Charged/(credited) to other comprehensive income	-	(248)	(248)
Exchange differences	285	189	474
At 31 December 2019	**153,228**	**-**	**153,228**
Charged/(credited) to the income statement (Note 11)	(4,714)	-	(4,714)
Exchange differences	1,576	-	1,576
At 31 December 2020	**150,090**	**-**	**150,090**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal proceedings**	**Other provisions**	**Total**
At 31 December 2019	94,039	58,477	21,845	174,361
Analysis of total provisions:				
Non-current	52,832	11,341	1,342	65,515
Current	41,207	47,136	20,503	108,846
At 1 January 2020	**94,039**	**58,477**	**21,845**	**174,361**
Additions	51,137	1,820	8,388	61,345
Used during the year	(38,481)	(96)	(19,860)	(58,437)
Reversed during the year	(4,789)	(231)	-	(5,020)
Interest expense	785	-	-	785
Exchange differences	1,554	146	(265)	1,435
At 31 December 2020	**104,245**	**60,116**	**10,108**	**174,469**
Analysis of total provisions:				
Non-current	53,939	11,484	1,359	66,782
Current	50,306	48,632	8,749	107,687

Legal proceedings

The Group has recognized provision in the amount of HRK 38,529 thousand (2019.: HRK 38,529 thousand) arising from the agreement for the sale and purchase of shares in company Neva d.o.o. which was concluded in 2018. Namely, based on the above agreement for the sale and purchase of shares, the Company is liable to the Buyer for any additional tax liabilities arising from a pending court case with the Croatian Tax Authorities. Since the Administrative Court has issued a negative decision in this case during 2018, the Company has recognized the above amount. In 2020 the Company provided additional amount of HRK 1,153 thousand related to default interests (2019: HRK 689 thousand). The same will not become due until the appeal to the High Administrative Court which has been filed by Neva d.o.o. is decided upon.

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 2020.

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 2021. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 3,563 thousand that will be paid out within the period of 12 months from the balance sheet date.

Other provisions

Other provisions mainly relate to estimated legal obligation from the supply agreement.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2020 but not yet incurred amounted to HRK 47,034 thousand (2019: HRK 67,364 thousand) for property, plant and equipment and HRK 2,212 thousand for intangible assets (2019: HRK 1,445 thousand).

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES

/i/ At the beginning of December 2020, Atlantic Grupa has entered into a strategic partnership with the company Procaffe d.o.o., one of the leading players in the Croatian espresso coffee market that is currently present in more than 800 HoReCa entities in Croatia and it will continue its business development within the Atlantic Grupa. This new partnership will ensure a stronger presence of Atlantic Grupa in the espresso coffee segment in the HoReCa channel.

Atlantic Grupa acquired 99% of the shares in the company Procaffe d.o.o. Non-controlling interest in the acquired company is recognized at the fair value. Because of this transaction, the provisional goodwill of HRK 20,199 thousand has been recognized as the difference between the cost of acquisition and the carrying value of net assets acquired. Provisional goodwill is subject to final purchase price allocation which will be completed within the 12 months period from the acquisition date.

Cash paid and liability for acquisition of subsidiary: *(in thousands of HRK)*	
Cash paid	12,782
Liability for acquisition of subsidiary *	7,437
Total purchase consideration	**20,219**
Carrying value of net assets acquired	(20)
Provisional goodwill	**20,199**

Carrying value of net asset acquired *(in thousands of HRK)*	
Property, plant, and equipment	2,801
Intangible assets	10
Trade receivables and other receivables	703
Cash and cash equivalents	20
Trade payables and other payables	(3,514)
	20

*Pursuant to the share purchase agreement, purchase consideration will be paid to previous owners of the acquired company in two additional tranches if sales target in following two years are achieved. As at reporting date, the fair value of contingent consideration was determined based on discounted cash flows taking into consideration the probability of meeting performance targets. The liability is classified as Other non-current liabilities since the agreed terms of payment of tranches are in January 2022 and April 2023.

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES (continued)

Cash flow from acquisition of subsidiary *(in thousands of HRK)*	
Cash paid	12,782
Cash in subsidiary acquired	(20)
Payments for acquisition of subsidiary - net	**12,762**

Acquired subsidiary contributed HRK 14 thousand of revenues and HRK 958 thousand of loss to the Group in 2020.

During 2020 the Group collected outstanding receivables from the sale of subsidiaries in 2019: HRK 12,628 thousand from the sale of Fidifarm d.o.o. and HRK 4,500 thousand from the sale of Bionatura bidon vode d.o.o.

The Group also collected remaining receivable of HRK 26,738 thousand from the sale of subsidiary Neva d.o.o. in 2018 and realized additional loss in the amount of HRK 1,153 thousand related to provision for legal dispute.

Furthermore, in 2020, the Group realized additional gain from the sale of sports and functional food factories in 2017 in the amount of HRK 6,331 thousand.

The Group has no outstanding receivables related to the sale of subsidiaries as at 31 December 2020.

/ii/ At the end of 2019 the Group entered into a strategic partnership with the network of Vivas cafés, which counts almost 300 coffee shops and bars. In this way, Atlantic Grupa significantly strengthened the espresso coffee segment. The partnership with Vivas cafés is a part of a well-defined strategy aimed at developing coffee business in Atlantic Grupa, taking a leading position in the Croatian coffee market and realising expansion in the growing out of home segment. Atlantic Grupa initially acquired 98.85% share in company Vivascaffe Professional d.o.o. and remaining 1.15% share was acquired in 2020, after which the company was merged into Atlantic Trade d.o.o. Zagreb.

Details of the net assets acquired and goodwill are as follows:

Cash paid and liability for acquisition of subsidiary: *(in thousands of HRK)*	
Cash paid in 2019	2,206
Cash paid in 2020	4,228
Total purchase consideration	**6,434**
Fair value of net assets acquired	(5,205)
Goodwill	**1,229**

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES (continued)

Details of the values of assets and liabilities are as follows:

(in thousands of HRK)	**Fair value**	**Carrying value**
Customer contracts	5,205	-
Cash and cash equivalents	5	5
Current income tax liabilities	(5)	(5)
Net assets	5,205	**-**

Cash flow from acquisition of subsidiary *(in thousands of HRK)*	
Cash paid in 2019	2,206
Cash in subsidiary acquired	(5)
Payments for acquisition of subsidiary in 2019	2,201
Payments for acquisition of subsidiary in 2020	4,228

During 2019 Atlantic Grupa has continued its corporate strategy of divesting the non-core business operations. As at 1 April 2019, Atlantic Grupa and the German company Genuport, a long-time partner in the distribution of sports and functional food, concluded an agreement on sales of the Sports and Functional Food business unit, which includes brands *Multipower*, *Champ* and *Multaben* within which the sports and functional food's production plants had already been previously divested to the Belgian company Aminolabs.

Atlantic Grupa and PharmaS Group signed an agreement in early October 2019 to sell company Fidifarm d.o.o., owner of Croatia's leading food supplements brand – Dietpharm. PharmaS has also acquired Multivita, a regional food supplement brand, whose product Multivita Vitamin C is the leading effervescent vitamin C on the Russian market. Transaction was closed on 31 December 2019.

As at 31 December 2019, Atlantic Grupa has sold distribution of water bidons, which is the core activity of the company Bionatura Bidon Vode d.o.o., while maintaining the business connected with the brand Kala.

The Group realized a gain from the sale of subsidiaries in the amount of HRK 32,070 thousand.

Cash received and receivables from sale of subsidiaries: *(in thousands of HRK)*	
Cash	103,031
Receivables	17,000
Total sales consideration	**120,031**
Carrying value of net asset disposed	(83,757)
Transaction expenses	(4,204)
Gain from sale of subsidiaries	**32,070**

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES (continued)

Carrying value of net asset of sold subsidiaries *(in thousands of HRK)*	
Property, plant and equipment	21,006
Right-of-use assets	3,319
Intangible assets	42,780
Deferred tax assets	444
Inventories	26,857
Trade and other receivables	30,864
Cash and cash equivalents	8,432
Provisions	(3,246)
Lease liabilities	(3,343)
Current income tax liabilities	(638)
Trade and other payables	(42,718)
	83,757

Cash flow from sale of subsidiaries (in thousands of HRK)	
Cash received	103,031
Cash in subsidiaries sold	(8,432)
Proceeds from sale of subsidiaries - net	**94,599**

Disposed subsidiaries contributed HRK 140 million of revenues and HRK 14 million of loss to the Group in 2019.

During 2019, the Group also collected HRK 55,972 thousand from the sale of the production plants in 2017 and realized additional gain in the amount of HRK 24,778 thousand.
Also, amount of HRK 1,460 thousand was collected from the sale of Neva in 2018 and additional gain of HRK 98 thousand was realized.

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2020	2019
Net profit for the year		**342,270**	**390,367**
Income tax	11	69,378	73,040
Depreciation, amortisation and impairment	13, 13a, 14, 15	274,315	278,306
Gain on sale of property, plant and equipment	9	(130)	(612)
Gain on sale of subsidiaries - net of transaction expenses	9	(5,178)	(56,946)
Provision for current assets	8	45,229	32,952
Foreign exchange differences - net		4,827	1,808
(Decrease)/increase in provision for risks and charges	26	(1,830)	15,415
Fair value losses /(gains) on financial assets	9	4,913	(5,703)
Share based payment	21	9,787	7,680
Interest income		(5,060)	(1,028)
Interest expense	10	25,709	35,218
Other non-cash items - net		12,105	(954)
Changes in working capital:			
Increase in inventories		(94,942)	(59,329)
Increase in current receivables		(37,331)	(80,856)
Increase in current payables		30,309	68,173
Cash generated from operations		**674,371**	**697,531**

NOTE 30 – 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 2020 and as at 31 December 2019 and transactions recognized for the years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2020	2019
RECEIVABLES			
Current receivables			
Other entities	18	75,826	82,855
LIABILITIES			
Trade and other payables			
Other entities	23	1,918	2,054
REVENUES			
Sales revenues			
Other entities		448,514	510,621
Other revenues			
Other entities		807	3,043
EXPENSES			
Marketing and promotion costs	7		
Other entities		3,065	4,258
Other operating costs	8		
Other entities		2,332	2,225
Purchase of property, plant and equipment			
Other entities		623	-

Management board compensation

In 2020 members of the Management Board received total gross amount of HRK 17,794 thousand relating to salaries and bonuses (2019: HRK 11,841 thousand).

NOTE 31 – AUDITORS' FEES

Statutory audit services fees to the auditors of the Group's financial statements amounted to HRK 3,009 thousand (2019: HRK 2,354 thousand), while fees related to other services amounted to HRK 153 thousand (2019: 68 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 financial covenants calculation.

NOTE 32 – 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:

	2020	2019
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%
- Vivascaffe Proffesional d.o.o., Croatia (merged to Atlantic Trade d.o.o. Zagreb in 2020)	-	99%
- Procaffe d.o.o., Croatia (acquired in 2020)	99%	-
Farmacia Holding d.o.o., Croatia	100%	100%
- Atlantic Pharmacentar d.o.o., Croatia (merged to Farmacia - specijalizirana prodavaonica d.o.o. in 2020)	-	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	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%
Atlantic Multipower UK Ltd, Great Britain (liquidated in 2020)	-	100%
Atlantic Multipower Srl, Italy (liquidation in proceedings)	100%	100%
Atlantic Brands GmbH, Austria	100%	100%

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 2021, 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 2020" enclosed with this Decision.

II The audited non-consolidated and consolidated annual financial statements for 2020 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 2020, 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 2020 to 31 December 2020 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.

V 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 (3 May 2021);

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 (3 May 2021);

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 (3 May 2021), 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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