ATLANTIC GRUPA

Creating flavours you love

2021 Annual report

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COFFEE
- Barcaffè
- Grand
- Bonito prava kafa

SAVOURY SPREADS
- Argeta
- Montana
- Bakina Tajna
- Amfissa

SNACKS
- Najlepše želje
- Smoki
- Bananica
- Prima

PHARMA
- Farmacia

BEVERAGES
- Cedevita
- Cockta
- Kala

DONAT
- Donat

NEW GROWTH
- Boom Box
- Jimmy Fantastic

Atlantic Grupa in 2021

SALES
(IN HRK)

5,702.5 million

GROWTH

8.6%

ORGANIC GROWTH*

9.4%

EBITDA*
(IN HRK)

724.4 million

EBITDA MARGIN*

12.7%

EBITDA MARGIN CHANGE

-94 bp

NORMALIZED EBITDA*
(IN HRK)

735.0 million

NORMALIZED EBITDA MARGIN*

12.9%

NORMALIZED EBITDA MARGIN CHANGE

-149 bp

EBIT* (IN HRK)

437.9 million

EBIT MARGIN*

7.7%

EBIT MARGIN CHANGE

-74 bp

NORMALIZED EBIT*
(IN HRK)

448.6 million

NORMALIZED EBIT MARGIN*

7.9%

NORMALIZED EBIT MARGIN CHANGE

-129 bp

CASH FLOW FROM OPERATING ACTIVITIES (IN HRK)

735.8 million

FREE CASH FLOW*
(IN HRK)

502.5 million

DIVIDEND PER SHARE
(IN HRK)

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

Awards and recognitions in 2021

ORGANISER	COUNTRY	AWARD/RECOGNITION	WINNER
Poslovni dnevnik and Zagreb Stock Exchange	Croatia	Best Investor Relations, 1st place	**Atlantic Grupa**
HANFA and Jutarnji list	Croatia	Best corporate governance compliance on the Prime Market of the Zagreb Stock Exchange	**Atlantic Grupa**
Moj Posao	Croatia	5th Most Desirable Employer	**Atlantic Grupa**
Moj Posao	Croatia	Best Employer, 3rd place	**Atlantic Grupa**
Infostud Serbia	Serbia	Best HR Practices – 2nd place for the recruitment campaign	**Atlantic Grupa**
		First Employer Branding Award in Serbia – 1st place for the recruitment campaign	
CEE Logistics & SCM Excellence Award	Hungary	Excellence Award in the category Manufacturers	**Atlantic Grupa**
Zlatna košarica (Golden Basket)	Croatia	Product of the Year – Argeta Gacka Trout	**Argeta**
Slovenian Advertising Festival (SOF)	Slovenia	Silver award in the category Sound	**Argeta Exlusive**
		Silver award in the category Brand Management	**Argeta Exlusive**
		Gold award in the category Innovation	**Argeta Exlusive**
		Silver award in the category Design (Packaging Redesign Project)	**Argeta**
		Silver award for the project "We Support Local"	**Argeta**
SMK's Marketing Excellence Awards	Slovenia	Award for the project "We Support Local"	**Argeta**
Digital Communications Awards	Germany	2nd place in the category Website (Corporate, Microsite, Career)	**Donat**
Effie Slovenia	Slovenia	Platinum award	**Donat**
		Gold award for the campaign "Take Care of Your Digestion, Take Care of Yourself" in the category Products – Beverages	**Donat**
		Silver award for the campaign "'Life is What We Make of It" in the category Products – Food	**Argeta**
		Bronze award for the campaign #WeSupportLocal in the category Response for Survival	**Argeta**
		First prize of the students' jury for the campaign "Take Care of Your Digestion, Take Care of Yourself" in the category Response for Survival	**Donat**
		Recognition for the Most Efficient Brand	**Donat**
		Recognition for the Most Efficient Advertiser	**Atlantic Grupa**

ORGANISER	COUNTRY	AWARD/RECOGNITION	WINNER
WEBSI	Slovenia	Category Events and Leisure: Jimmy Fantastic „Make It Funtastic“, 1st place	**Jimmy Fantastic**
		Category Social Networks: “Your Love, Your Thing”, 1st place	**Cockta**
		Category Socially Responsible Projects: “Live for Your Thing”, 1st place	**Cockta**
		Category Global Digital Projects: Renewal of the Donat brand for international markets, 1st place	**Donat**
		Category Innovative Future Creators: Sound Tasting, 2nd place	**Argeta**
		Category Mobile Projects: Argeta Junior Platform, 2nd place	**Argeta**
		Category Product Information Pages, Landing Pages and Personalized Websites, 1st place	**Jimmy Fantastic**
		Category Websites: New Website Development, 1st place	**Donat**
		Category Marketing Content: Best Content Source Donat, 2nd place	**Donat**
		Category Marketing Content: Best Content Source Argeta Junior Platform, 3rd place	**Argeta**
		Category Best Content: “Your Love, Your Thing”	**Cockta**
		Category Best Digital Campaign: Jimmy Fantastic Joke Arena	**Jimmy Fantastic**
		Category Best Client: Atlantic Grupa	**Atlantic Grupa**
FINANCE + Eco Found of Slovenia	Slovenia	Environmentally Friendly Procedure, first prize	**Donat**
IdejaX	Croatia	Bronze award for “Live for Your Thing” in the category Beverages	**Cockta**
IAB MIXX Awards	Serbia	Best Social Influencer Award for the campaign #JustEnjoy	**InstaGrand**
Disrupt Festival	Serbia	Gold award for Social Influence	**InstaGrand**
Trusted Brand Slovenia	Slovenia	Award for brand	**Barcaffè**
Superbrands Slovenia		Award for brand	**Barcaffè**
International Coffee Tasting Competition	Italy	2 golden awards in the category Espresso blend	**Barcaffè Espresso Single Origin India** **Barcaffè Espresso Prestigio**
UEPS (Serbian Association of Market Communication Professionals) Festival	Serbia	Gold award for Direct Marketing	**Grand Single Origin**
		Silver award in the category Integrated Promotion Campaigns (Beverages)	**Grand Single Origin**
		Bronze award for the Internet Element and Application	**Black’n’Easy**
Kaktus Festival	Serbia	Best Direct Marketing Award	**Grand Single Origin**

Letter of the President and CEO to shareholders

"Despite the uncertainty of the pandemic development and a number of challenges ahead, we continue with all planned investments."

EMIL TEDESCHI

PRESIDENT AND CEO

During 2021, **ATLANTIC GRUPA** has shown a high level of stability despite economic disturbances caused by the prolonged COVID-19 pandemic and difficulties with global supply chains. Stable financial position, strength of our brands, optimisation of business processes and good strategic management enabled us to keep jobs safe and to improve not only results, but also practices that are part of good corporate management traditions. Last year also represents a juncture at which we decided to, for the first time, report on 2021 in the form of an integrated report before you, which combines the former annual business report and the non-financial GRI report. The result is added value created through content that addresses all our stakeholders in a quality way, making us proud of another step forward in the quality of our corporate practices.

Briefly turning to business operations, it should be noted that Atlantic Grupa ended 2021 with the highest revenues in its history. With excellent sales results of own and principal brands, organic growth was recorded by all units thanks to, among other things, significant marketing and capital investments, as well as an improved epidemiological situation in all markets, the easing of measures to prevent the pandemic, and a significantly better tourist season in Croatia compared to the previous year. Despite the uncertainty of the pandemic development and a number of challenges ahead, which at the beginning of 2022 are led by the uncertainty of the war in Ukraine, we continue with all planned investments, including especially investments in Atlantic Štark technology, new forms of packaging and redesign of Cedevita and the new Argeta factory near Varaždin.

The corporate development strategy we established before the crisis helped us maintain a clear direction towards the set objectives. Among the business highlights, it is worth noting that in 2021, continuing our disinvestment of non-core business operations and following the sale of the baby food brand Bebi a year before, we found a quality and promising strategic partner that took over the production plant in Mirna, Slovenia, where the said product range was produced. We continued to direct our focus on strengthening the main categories of consumer goods, namely coffee, savoury spreads, salty snacks, chocolate and beverages. Our basic priorities in the following period 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.

Numerous independent market studies also validated the success of overall business operations and approach, and this year Atlantic Grupa, for the fifth time, received the first prize for investor relations, which is awarded under the auspices of Poslovni Dnevnik and the Zagreb Stock Exchange. Also, according to a survey conducted by MojPosao, Atlantic is the third best employer in Croatia, while our prominent brands won a series of market communication awards at regional competitions.

Corporate profile of Atlantic Grupa

INTEGRATED REPORTING

As a company committed to transparency and responsible business operations, in 2013 we decided to improve our reporting practices and to start annual reporting about our economic, social and environmental performance following for the first time GRI sustainability reporting guidelines. Since then, we have been developing and improving our reporting practices every year, thoroughly following the changes and updates of the GRI guidelines, and of the relevant EU and national regulations.

This year for the first time, reporting on sustainability performance is an integral part of Atlantic Grupa's Annual report, thus symbolically reflecting that sustainability is an integral part of all aspects of our operations. In addition, this year's report brings data on performance for a wider range of material topics, in line with the sustainability objectives of Atlantic Grupa and new reporting requirements under EU and national regulations.

The content of this report is aligned with the requirements of:

- European Union (EU) Non-Financial Reporting (NFRD) Directive,
- Accounting Act of the Republic of Croatia,
- UN Global Compact,
- Standard Global Reporting Initiative Standards.

ABOUT THE COMPANY

ATLANTIC GRUPA 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, and the Commonwealth of Independent States (CIS) (predominantly in Russia). Since the company's inception in early 1990's, Atlantic pursued a growth strategy based on the combination of organic growth and almost 50 acquisitions of different sizes, of which most prominent ones, or those with a transformative character, were the acquisitions of companies Cedevita and Droga Kolinska.

Today, Atlantic Grupa is a company with: (i) HRK 5.7 billion in sales revenues, (ii) 13 modern production plants (in Croatia, Slovenia, Serbia, Bosnia and Herzegovina, and North Macedonia), (iii) developed regional distribution infrastructure and (iv) 8 brands with sales above HRK 120 million, high market shares and consumer recognisability. Atlantic Grupa has a well-balanced presence in South-East Europe accounting for 91.5% of total sales, while 8.5% refers to the company's presence in West Europe, CIS countries and other countries.

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

COMPANY HISTORY

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

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

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

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

In line with the strategy outlined during 2017 and confirmed in 2018 and the decision on focusing the company's future business operations on key brands, i.e. major categories in its product portfolio, as well as those with a strong growth and sustainability potential, the company initiated the process of divesting non-core business operations of Atlantic Grupa This process included the divestment of all operations in the segments of sports and functional food and cosmetics, followed by the brands Dietpharm and Multivita, the company Bionatura Bidon and the distribution of water in gallons and, during the last two years, the sale of the baby food brand Bebi followed by the 2021 sale of the production site for this part of the product assortment in Mirna, Slovenia. At the beginning of 2021, we launched two new brands – Jimmy Fantastic and Boom Box – in the markets of Croatia and Slovenia.
By refining its portfolio and focusing on key categories, predominantly in the segment of food and beverages, Atlantic Grupa, in a new vision, identified itself as a leader in this industry that wants to inspire people to add flavour to their everyday moments. The corporate strategy is an extension of this vision, giving us a clear direction for the years ahead, and it is based on three strategic goals, namely:

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

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

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

The corporate strategy ensures that we have a common goal within the company, i.e. that we are connected by a common vision focused on the future in which we will build a unique corporate culture, the pillars of which are the core values we nurture:

CARE: We create a better environment
We are an organisation that cares – we care about each other, care about the well-being of our colleagues, nurture business relationships, and take care of what kind of world we are leaving to future generations.

OPENNESS: We create better with an open mind
Whatever we do, we never cease to be curious, always fearless (and learning from mistakes!) and thirsty for fresh ideas and new experiences. We accept diverse approaches and different opinions, knowing that they will lead us to better solutions for everyday tasks and challenges.

GROWTH: We create new value
Because we always strive for progress and never lose our appetite for constant and stable growth. We are stepping out of our comfort zone, always hungry for new challenges, striving to grow our brands, markets and profits, and to develop the potential of our employees.

PASSION: We create enthusiasm
It's not just a matter of what we do, but how we do it. Like a special spice, the passion with which we enrich our work makes a difference and helps us achieve better results. Commitment is the secret ingredient that makes our products better and our future brighter.

NATIONAL COMPANY

1991 Incorporation of Atlantic Trade and the development of consumer goods distribution
Establishing cooperation with Wrigley and Mars

1992 Opening of the distribution centre Split

1994 Opening of distribution centres Osijek and Rijeka

1996 Cooperation with Gillette/Duracell

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

1999 Establishing cooperation with Johnson & Johnson

REGIONAL COMPANY

1997 Investment in the Ataco distribution system in BiH

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

Acquisition of Cedevita d.o.o.

Establishing cooperation with Ferrero

2002 Incorporation of Atlantic Grupa d.o.o.

2003 Acquisition of Neva d.o.o.

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

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

Acquisition of the brand Melem

EUROPEAN COMPANY

2005 Acquisition of a German sports food producer Haleko/Multipower

2006 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

Establishing a representative office in Moscow

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

2016 Establishing distribution companies in Austria and Germany

2017 Strategic partnership with Aminolabs

2018 Savoury spread Argeta No 1 in Europe

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

Sale of Neva d.o.o.

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

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

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

Strategic partnership with the network of Vivas cafés

2020 Sale of the brand Bebi

Strategic partnership with Procaffe

2021 Sale of the production plant Mirna

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

Offices and production facilities
in 8 countries

The headquarters of the parent company is located in Croatia, Zagreb, Miramarska 23.

OFFICES + PRODUCTION FACILITIES

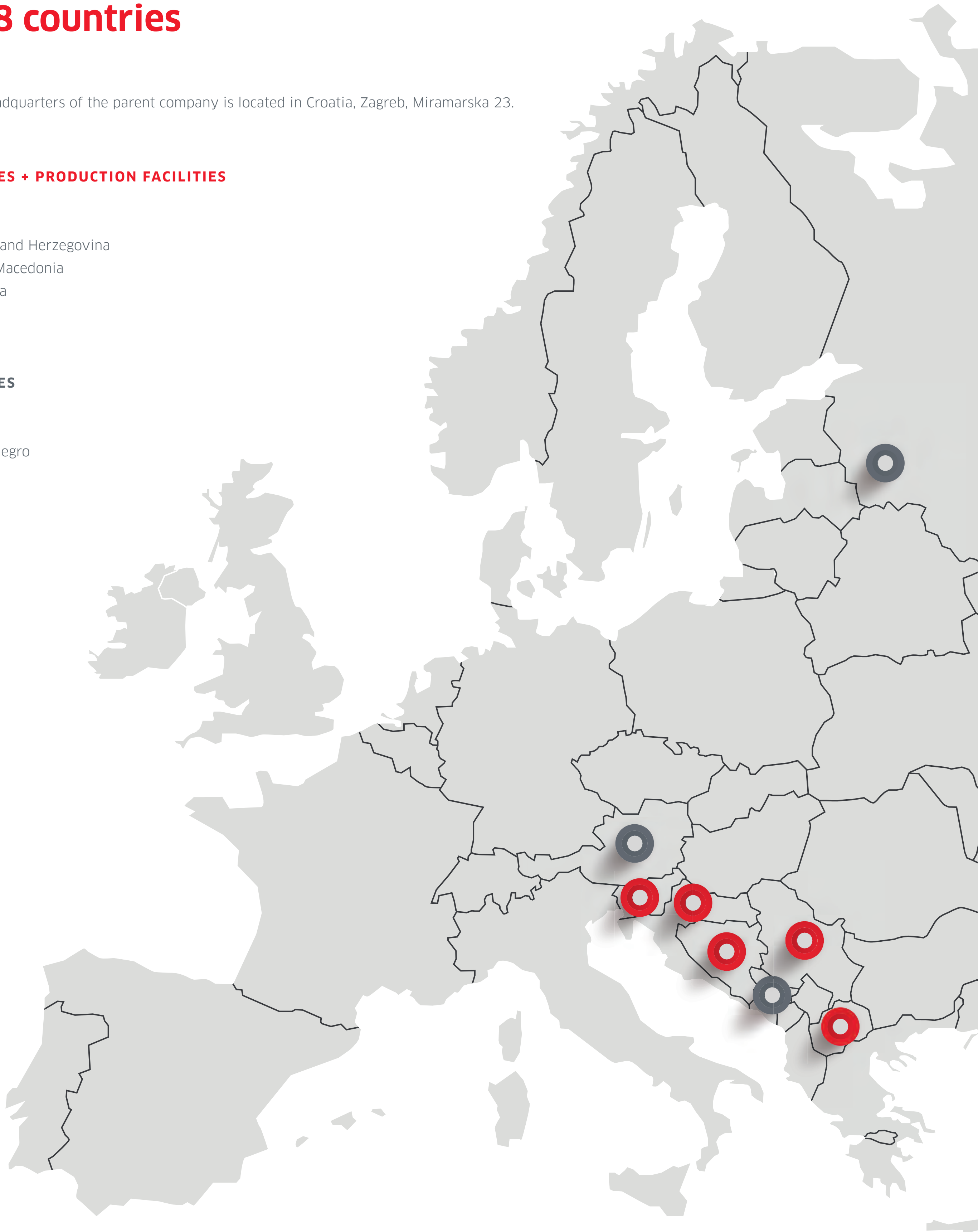
–

Croatia
Bosnia and Herzegovina
North Macedonia
Slovenia
Serbia

OFFICES

–

Austria
Montenegro
Russia



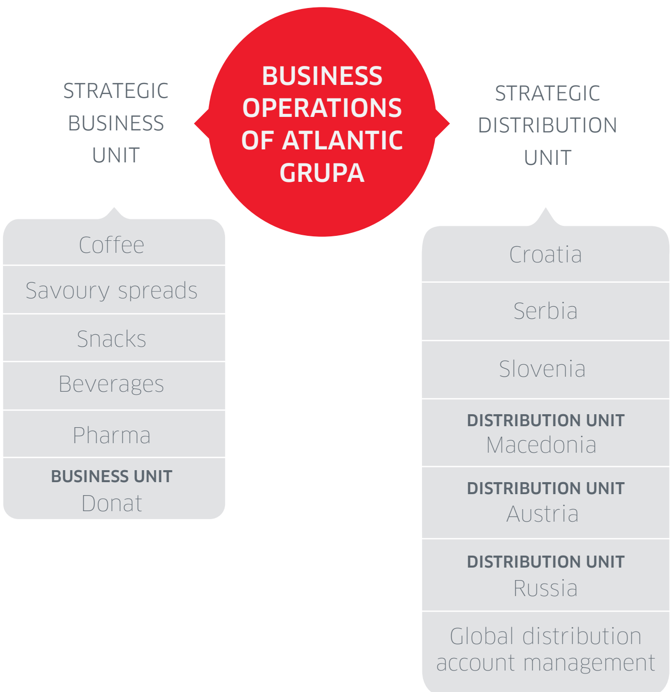
Organisational structure

Operations of Atlantic Grupa are organised within two basic segments:

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

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

During 2021, Atlantic Grupa's business operations concerning the company's product portfolio were organised through Strategic Business Units - Beverages, Coffee, Snacks, Savoury Spreads, Pharma, and Business Unit Donat. The company's distribution operations are organised through six distribution units and the global distribution account management. The markets in which Atlantic Grupa provides a complete distribution service consist of Strategic Distribution Units Croatia, Serbia, Slovenia and Distribution Units Macedonia, Austria and Russia, while the markets which we dominantly manage through our distribution partners have been grouped into a single distribution area, Global Distribution Account Management.



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 Investment;
- Corporate Strategy and Development; and
- Transformation and Information Technology.

The strategic corporate function Corporate Activities includes the following departments: Secretariat General, People and Culture, Corporate Communications, Corporate Legal Affairs, Quality Management and Asset Management, and Corporate Services.

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

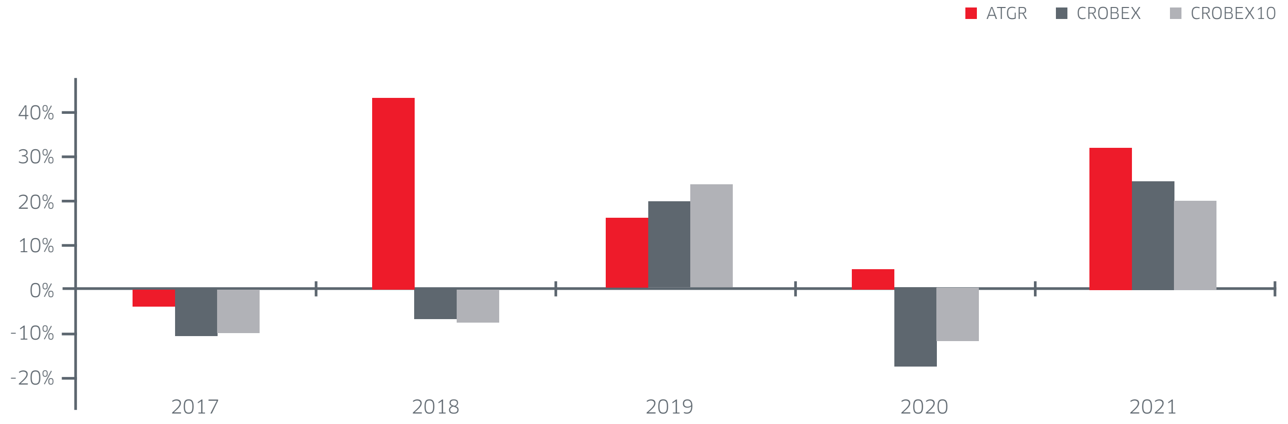
The strategic corporate function Corporate Strategy and Development covers strategic initiatives, implementation of the long-term development strategy and corporate development activities with focus on M&A and strategic partnerships, as well as new growth through the detection of new areas and categories for developing business operations and creating new brands.

The strategic corporate function of Transformation and Information Technology is responsible for managing information communication technology functions required for maintaining and improving Atlantic Grupa's operations, level of service and competitiveness with special focus on digital transformation of overall and individual business segments.

In addition to the above, the organisational structure also includes the support function of Internal Audit, which operates as an independent function that reports to the Supervisory Board of Atlantic Grupa.

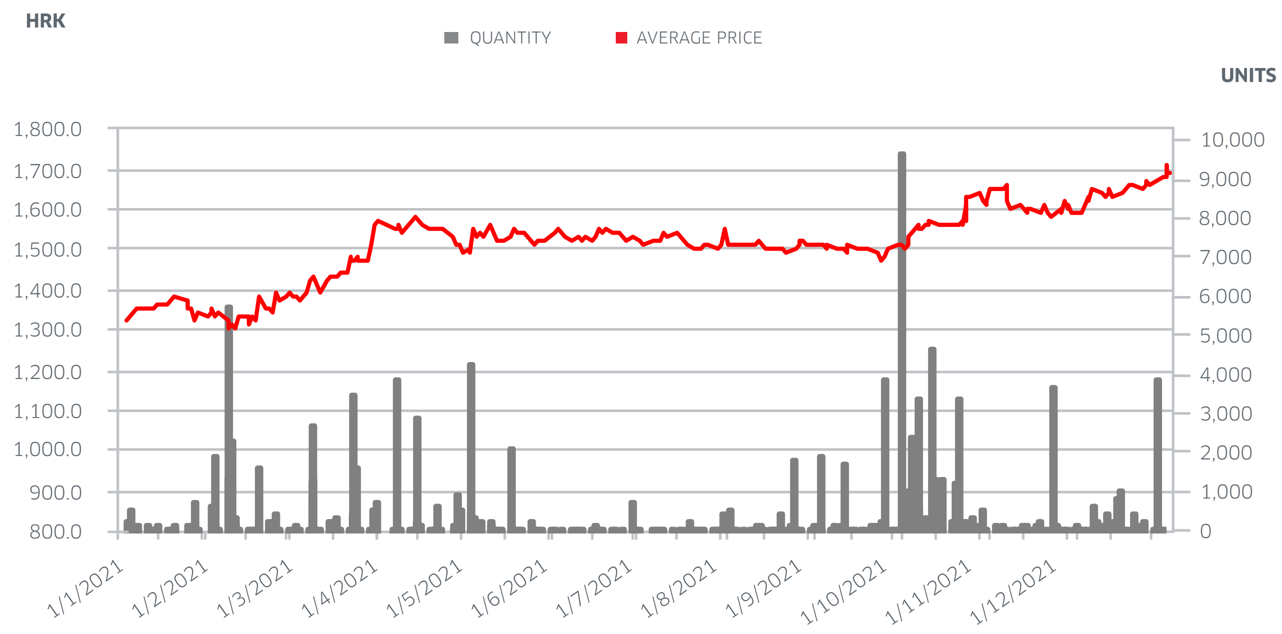
Performance on the **Croatian capital market** in 2021

As opposed to the previous year, the capital market in the first half of 2021 recorded strong growth due to economic recovery and returned optimism. Despite a better and encouraging start of the year, somewhat weaker capital market activity was recorded in the second half of the year. Indices posted a double-digit growth, whereas CROBEX10 increased by 16.0%, and CROBEX by 19.6%. At the same time, the Atlantic Grupa's share recorded a significant 25.4% growth.



Among the components of CROBEX10, Atlantic Grupa holds the second place with the market capitalization of HRK 5,601.6 million. In December 2021, 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 1,680. According to the total turnover in 2021, the Atlantic Grupa's share holds the seventh place compared to all the shares quoted on the Zagreb Stock Exchange with a turnover of HRK 70.5 million.

MOVEMENTS IN THE AVERAGE PRICE AND VOLUME OF THE ATLANTIC GRUPA'S SHARE IN 2021



OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2021

50.2 %
EMIL TEDESCHI

1.0 %
MANAGEMENT

5.8 %
LADA TEDESCHI FIORIO

8.1 %
OTHERS

34.9 %
PENSION FUNDS

Atlantic Grupa has a stable ownership structure: 50.2% of the company is owned by Emil Tedeschi, 5.8% by Lada Tedeschi Fiorio, and 34.9% of Atlantic Grupa is owned by pension funds. Under the category Management, board members have 33,464 shares (Neven Vranković 20,555, Srećko Nakić 6,992, Zoran Stanković 4,950 and Enzo Smrekar 967). 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.

10.9 %
RAIFFEISEN OPF

8.6 %
AZ OPF

7.4 %
ERSTE PLAVI OPF

4.2 %
PBZ CO OPF

2.2 %
OTHER PENSION FUNDS

1.6 %
RAIFFEISEN VPF

OVERVIEW OF TOP 10 SHAREHOLDERS OF ATLANTIC GRUPA D.D. ON 31 DECEMBER 2021

SHAREHOLDER	NO. OF SHARES	% OWNERSHIP
EMIL TEDESCHI	1,673,819	50.2%
RAIFFEISEN OPF - CATEGORY B	361,839	10.9%
AZ OPF - CATEGORY B	286,946	8.6%
ERSTE PLAVI OPF - CATEGORY B	247,821	7.4%
LADA TEDESCHI FIORIO	193,156	5.8%
PBZ CO OPF - CATEGORY B	139,359	4.2%
PBZ D.D./JOINT CUSTODIAL ACCOUNT	64,038	1.9%
RAIFFEISEN VPF	52,077	1.6%
AZ PROFIT VPF	24,249	0.7%
NEVEN VRANKOVIĆ	20,555	0.6%

According to the decision of the Company's General Assembly held on 16 June 2021, the dividend distribution was approved in the amount of HRK 40.00 per share. The dividend was distributed in July 2021.

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 2021 acquired a total of 19,801 treasury shares (1,365 treasury shares in the total nominal amount of HRK 54,600.00, representing 0.04% of the Company's share capital, were acquired on 23 March 2021, 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 8 April 2021, 3,000 treasury shares in the total nominal amount of HRK 120,000.00, representing 0.09% of the Company's share capital, were acquired on 15 April 2021, 569 treasury shares in the total nominal amount of HRK 22,760.00, representing 0.02% of the Company's share capital, were acquired on 22 April 2021, 1,890 treasury shares in the total nominal amount of HRK 75,600.00 were acquired on 17 May 2021, 339 treasury shares in the total nominal amount of HRK 13,560.00, representing 0.01% of the Company's share capital, were acquired on 18 May 2021, 799 treasury shares in the total nominal amount of HRK 31,960.00, representing 0.02% of the Company's share capital, were acquired on 28 June 2021, 100 treasury shares in the total nominal amount of HRK 4,000.00, representing 0.003% of the Company's share capital, were acquired on 23 August 2021, 1,900 treasury shares in the total nominal amount of HRK 76,000.00, representing 0.06% of the Company's share capital, were acquired on 24 August 2021, 139 treasury shares in the total nominal amount of HRK 5,560.00, representing 0.0004% of the Company's share capital, were acquired on 9 September 2021, 1,849 treasury shares in the total nominal amount of HRK 73,960.00, representing 0.05% of the Company's share capital, were acquired on 10 September 2021, 3,851 treasury shares in the total nominal amount of HRK 154,040.00, representing 0.11% of the Company's share capital, were acquired on 22 November 2021).

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 Share 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 2021, the Company has 14,821 treasury shares in the total nominal amount of HRK 584,680.00, which represent 0.45% of the Company's share capital.

In respect of very ambitious growth plans, the Dividend Policy of Atlantic Grupa d.d. is based on the concept by which the major part of the earnings accomplished in the business year is retained for the purpose of its investment in the development of the Company. The Company's Dividend Policy will be implemented in accordance with the development plans and the situation on the capital market, as well as according to the growth of the net profit, revenue levels, expected increase of the property value of Atlantic Grupa, and other relevant factors.

In September 2021, the Company adopted and published its new Dividend Policy. The former Policy contained a general guideline indicating the intention to pay shareholders up to 25% of the consolidated profit in the form of dividends.

The Dividend Policy was amended in order to reflect a more realistic percentage of the dividend that was paid out in relation to the total consolidated profit in recent years of the Company's operations. Therefore, the new Dividend Policy, published in September 2021, indicates the Company's intention to pay out up to 45% of the consolidated profit in the form of dividends, provided that the abovementioned conditions are met.

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

INVESTOR RELATIONS IN 2021

Atlantic Grupa has won every year one of the awards for investor relations, which is awarded for a twelfth year in a row in cooperation between the Zagreb Stock Exchange and the Association of Croatian Pension Funds Management Companies and Pension Insurance Companies. This year it won the first prize for investor relations for a fifth time. This award stands as a sign of recognition by the investment community of companies that have fair and transparent investor relations. Atlantic Grupa also won another significant recognition: an award for the highest compliance with the corporate governance code on the Prime Market of the Zagreb Stock Exchange.

Moreover, in 2021 Atlantic Grupa participated in various domestic and foreign webcast investor conferences, and held a large number of meetings with domestic and foreign investors.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“We can say that in many ways we spent the year really living all our values – Passion, Growth, and particularly Care and Openness.”

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. Our People and Culture strategy is focused on the simplicity of organisational design with the consumer at its heart, selection and promotion of authentic leaders who insist on personal accountability, and consideration of employees as individuals who need opportunities for growth and development. In the past year, after conducting an in-depth analysis of the processes in central functions during 2020, we continued to implement the conclusions of analyses that showed us 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 continuously strive to act in a way that sees sustainable development as a process of creating new opportunities and development possibilities for our business operations, as well as for a better future for new generations. Sustainability is an integral part of our business operations. With the aim of improving environmental, social and economic objectives, the way in which we recognise and consequently act in relation to sustainability risks and opportunities is multi directional, covering the development of new products, technological processes, employee development, communication S buyers and consumers, investor relations and supply chain management. We have also accelerated the integration of sustainable development risks and opportunities into our brand management strategies. The efforts that Atlantic Grupa focused on reducing the environmental footprint in recent years are already showing significant results, and the relevant information, which was until now regularly published in an annual non-financial report (AG GRI Report), is as of this year published in an integrated format, together with the annual business report. In addition to raising the bar of our own expectations, we find it important to also encourage our partners and consumers to engage in environmentally responsible behaviour.

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 and the promotion of correct values, while we spent the year behind us focusing primarily on caring for our employees, thus setting a good example for the wider social environment. Special attention is given to assistance programmes for our colleagues, ranging from providing aid in different emergency situations through the programme Solidarity, high workplace safety standards in still uncertain pandemic circumstances, enabling work from home whenever possible and developing hybrid work models, to internal programmes of getting employees involved in the company's life and our community assistance activities, such as the remarkably successful case of continuing the tradition of the Sports Weekend that could not be held live. In this year's online format, we seized the opportunity and coupled physical activities of individuals organised into teams with a humanitarian character. Teams in all markets collected points through their own activities and then selected local associations to which the collected funds were donated, and almost 700 employees participated in this internal competition. We can say that in many ways we spent the year really living all our values – Passion, Growth, and particularly Care and Openness.

Corporate management of Atlantic Grupa

IMPLEMENTING THE PRINCIPLES OF CORPORATE MANAGEMENT

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

In accordance with relevant regulations, Atlantic Grupa in 2021 issued a Statement of Application of the Code of Corporate Governance, thereby confirming its actions and development in accordance with the good corporate governance practice in all business segments. The Statement of Application of the Code of Corporate Governance has been published on the Company's website (www.atlanticgrupa.com) as well as on the website of the Zagreb Stock Exchange (www.zse.hr) and HANFA (www.hanfa.hr), whereas the following corporate governance issues differ, in terms of their definition, from the ones stipulated in the Code of Corporate Governance of the Zagreb Stock Exchange and HANFA:

The company's articles of association and/or internal acts prescribe that major decisions affecting the company's strategy, expenditure, risk exposure and reputation require the supervisory board's prior approval.	No	Responsibilities of the Supervisory Board are set within the framework of the valid Companies Act.
The remuneration policy should include provisions specifying the circumstances in which part of a management board member's remuneration would be withheld or recovered.	No	The remuneration policy does not contain such provisions.
All persons listed in Article 81 of the Code attended the General Assembly in the last 12 months.	Partially	The maximum possible attendance of the listed persons was achieved in 2021.

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 the importance 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 the main elements of that system, 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 its committees, as well as information on the Company's shareholders, are an integral part of this Corporate Governance Statement.

ORGANISATION OF CORPORATE MANAGEMENT IN ATLANTIC GRUPA

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

GENERAL ASSEMBLY

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

In 2021, one regular General Assembly of Atlantic Grupa d.d. was held on 16 June in order to decide on issues prescribed by law and the Company's Articles of Association. 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 40.00 per share, in proportion to the number of shares held by each shareholder, Decision on the Approval of the Remuneration Report for 2020, Decision on the election of two Supervisory Board members, Decision on the election of one Audit Committee member, Decision on Amending Atlantic Grupa's Articles of Association, and appointment of an independent Auditor of the Company for the year 2021.

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

In 2021, the Supervisory Board of Atlantic Grupa d.d. comprised seven members and held five sessions. The members' attendance rate at these sessions was 100.00%.

In line with the OECD Principles of Corporative Governance and the recommendations of the 2020 Code of Corporate Governance of the Zagreb Stock Exchange and HANFA, the Supervisory Board of Atlantic Grupa is 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. In 2021, members of the Company's Supervisory Board were:

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, continuing his professional specialisation through his long career in the financial industry 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

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.

LARS PETER ELAM HÅKANSSON, As Chairman and Chief Investment Officer Mr. Peter Elam Håkansson leads East Capital's different investment teams in East Europe and Asia. Mr. Peter established East Capital's investment philosophy and strategy. He has worked within emerging and frontier markets since the early nineties and continues to travel and visit companies throughout the world. Mr. 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, Mr. 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. Mr. Peter has a degree from Stockholm School of Economics and has also studied at l´EDHEC in Lille. He is a fellow of The Royal Swedish Academy of Engineering Sciences and is fluent in Swedish, English and French.

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. Mr. Aleksandar Pekeč holds a Ph.D. degree from Rutgers University and B.Sc. degree from the University of Zagreb.

MONIKA ELISABETH SCHULZE
MEMBER

FRANZ-JOSEF FLOSBACH
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. Ms. Monika is Board Member at Schloss Wachenheim, a sparkling wine company based in Trier, Germany.

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.

At its session held on 7 December 2021, the Supervisory Board adopted the proposed decision on the election of Dr. Vesna Nevistić and Mr. Zoran Vučinić as new members of the Supervisory Board. With the adoption of the said Decision by the General Assembly on 20 January 2022, the composition of the Supervisory Board was expanded from the former seven members to a total of nine members. Dr. Vesna Nevistić has gained extensive experience working globally across many different industries while holding senior executive positions at some of the world’s leading institutions. Mr. Zoran Vučinić has more than 33 years of experience, advancement and exceptional results in international corporate operations, strategic marketing and change management. Strengthening the Management Board is a logical continuation of the process of defining the corporate strategy and priorities for the Company’s further development.

The members of the Supervisory Board 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 2021 members of the Supervisory Board received remuneration in the following (gross 1) amount: Mr. Zdenko Adrović, a total of HRK 360,000.00; Mr. Siniša Petrović, a total of HRK 240,000.00; 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 180,000.00; Mr. Aleksandar Pekeč, a total of HRK 180,000.00 and Mr. Lars Peter Håkansson, a total of HRK 180,000.00.

SUPERVISORY BOARD COMMITTEES

Three Committees function within the Supervisory Board with the purpose of facilitating the operation and functioning of the Supervisory Board: Audit Committee, Leadership Development and Remuneration Committee and Social Responsibility 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 SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE COMMITTEE defines a system of mechanisms for ensuring a balance between the rights of shareholders and the needs of management to direct and manage the company's operations. It provides a framework to establish the Company's objectives and define the funds required to achieve those objectives, as well as to monitor their implementation and efficiency. The Committee is chaired by the member of the Supervisory Board Mr. Siniša Petrović, Ms. Monika Elisabeth Schulze was appointed as a member as well from the ranks of the Supervisory Board and Ms. Nina Tepeš as a member from the ranks of external experts. The Committee held four sessions throughout 2021, whereby the attendance percentage of its members was 100%.

THE LEADERSHIP DEVELOPMENT AND REMUNERATION COMMITTEE proposes candidates for the Management Board, Supervisory Board and senior management personnel as well as contents of contracts with the members of Management Board, structure of their compensation and compensation of the Supervisory Board's members. The Committee is chaired by the member of the Supervisory Board Mr. Aleksandar Pekeč, Mr. Lars Peter Elam Håkansson was appointed as a member as well from the ranks of the Supervisory Board and Mr. Zoran Sušanj as a member from the ranks of external experts. The Committee held five sessions during 2021, and the attendance rate of its members was 93.33%.

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 the member of the Supervisory Board Mr. Franz-Josef Flosbach, Mr. Zdenko Adrović was appointed as a member as well from the ranks of the Supervisory Board and Mr. Marko Lesić as a member as well from the ranks of external experts. The Committee held two sessions during 2021, and the attendance rate of its members was 100%.

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 2021, Ms. Nina Tepeš received (gross 1) remuneration in a total of HRK 30,000.00, Mr. Marko Lesić in a total of HRK 12,000.00, and Mr. Zoran Sušanj in a total of HRK 30,000.00.

Supervisory Board's report on **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 and established that the Company acted fully in compliance with the decisions of the General Assembly.

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

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

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

In view of the process of defining corporate strategy and priorities in the further development of the Company, taking into account the value of candidates with international experience, the Supervisory Board considered expanding the number of its members to candidates whose global-level expertise would further strengthen its functioning in the future. In line with the above, at its session held on 7 December 2021, the Supervisory Board adopted the proposed decision on the election of Dr. Vesna Nevistić and Zoran Vučinić as new members of the Supervisory Board. This was confirmed by the Decision of the General Assembly on 20 January 2022, under which the composition of the Supervisory Board was expanded from the former seven members to a total of nine members.

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

In 2020, the Supervisory Board set the target of the proportion of women in the Supervisory Board and the Management Board at the minimum 25% out of the total number of members of the respective Board. The target is set to be reached in the following five-year period. It should be noted that this goal was achieved in the Company's Supervisory Board already in 2021 since 29% of the Supervisory Board members are women. Furthermore, in the new strengthened composition of the Supervisory Board as of January 2022, this percentage is 33%, while in the Management Board, where there is one female member, the percentage of women is 17%. Atlantic Grupa highly supports diversity within the Company. Therefore, during 2021 several women were appointed to senior management positions. This is also supported by the fact that women hold 53.63% of all managerial positions in the Company.

Management Board of **Atlantic grupa**

Atlantic Grupa's Management Board is composed of six members – President and CEO, 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 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 AND CEO

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 and the Council of the University of Rijeka.

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.

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.

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. She was recognised, according to the expert jury of the business magazine Lider, as the most powerful woman in Croatian business for the last three years. 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.

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, AMP at the Harvard Business School, he is a Supervisory Board member in several companies, President of the Slovenian Ski Association, 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 Atlantic Grupa'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 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. 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 a 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** under which Atlantic Grupa, as the insurance contractor, with an annual premium of up to HRK 7,500 per person, provides Management Board members with 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 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 Atlantic Grupa'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 the Management 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 and CEO of Atlantic Grupa d.d., **Emil Tedeschi,** in 2021 received remuneration in the (gross 1) amount of HRK 5,048,082.28, of which the amount of HRK 2,746,200.00 as the fixed part of the salary, the amount of HRK 2,179,160.75 as the variable part of the salary, and the amount of HRK 122,721.53 as other receipts in kind. The fixed part of the salary represents 54.40%, variable part of the salary 43.17%, and other receipts in kind 2.43% of the total remuneration.

Neven Vranković, the Group Vice President for Corporate Activities, in 2021 received remuneration in the (gross 1) amount of HRK 3,092,079.46, of which the amount of HRK 1,790,400.00 as the fixed part of the salary, the amount of HRK 1,231,596.88 as the variable part of the salary (payment in Company shares), and the amount of HRK 70,082.58 as other receipts in kind. The fixed part of the salary represents 57.90%, variable part of the salary 39.83%, and other receipts in kind 2.27% of the total remuneration.

Zoran Stanković, the Group Vice President for Finance, Procurement and Investment in 2021 received remuneration in the (gross 1) amount of HRK 2,988,593.74, of which the amount of HRK 1,736,400.00 as the fixed part of the salary, the amount of HRK 1,199,345.50 as the variable part of the salary (payment in Company shares), and the amount of HRK 52,848.24 as other receipts in kind. The fixed part of the salary represents 58.10%, variable part of the salary 40.13%, and other receipts in kind 1.77% of the total remuneration.

Lada Tedeschi Fiorio, the Group Vice President for Corporate Strategy and Development, in 2021 received remuneration in the (gross 1) amount of HRK 3,010,133.88, of which the amount of HRK 1,680,000.00 as the fixed part of the salary, the amount of HRK 1,243,060.50 as the variable part of the salary, and the amount of HRK 87,073.38 as other receipts in kind. The fixed part of the salary represents 55.81%, variable part of the salary 41.30%, and other receipts in kind 2.89% of the total remuneration.

Srećko Nakić, the Group Vice President for Distribution, in 2021 received remuneration in the (gross 1) amount of HRK 2,981,274.85, of which HRK 1,685,400.00 as the fixed part of the salary, the amount of HRK 1,248,000.00 as the variable part of the salary (payment in Company shares), and the amount of HRK 47,874.85 as other receipts in kind. The fixed part of the salary represents 56.53%, variable part of the salary 41.86%, and other receipts in kind 1.61% of the total remuneration.

Enzo Smrekar, the Group Vice President for Savoury Spreads, Donat and International Expansion, in 2021 received remuneration in the (gross 1) amount of HRK 2,998,803.51, of which HRK 1,623,231.70 as the fixed part of the salary, the amount of HRK 1,148,255.75 as the variable part of the salary, of which HRK 1,097,250.00 refers to the payment in shares and the rest to the payment in the amount of HRK 51,005.75, and the amount of HRK 227,316.06 as other receipts in kind. The fixed part of the salary represents 54.13%, variable part of the salary 38.29%, and other receipts in kind 7.58% 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, analyses operations, key decisions, defines priorities and coordinates between organisational units. During 2021 the Council was consisted of 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 Central Purchasing, People and Culture, Central Finance and Corporate Controlling, Central Marketing and Corporate Strategy and New Growth.

BUSINESS COMMITTEES

The company has the Social Responsibility Committee which 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 2021

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 Supervisory Board’s 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 2021, twenty-five audits were carried out in the following areas: comparison of production facilities within SBU Coffee, chicken and fish procurement process, complaints management process for non-compliant finished products, management of free goods dissemination by distributors, corporate investor relations management and others. These audits resulted in a total of 66 recommendations for improving operation and reducing specific risks to an acceptable level.

Social responsibility

Ethics in business

ANTI-BRIBERY AND ANTI-CORRUPTION

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

Atlantic Grupa d.d. and its subsidiaries respect good and responsible business practices on the marketplace, as well as international norms, and in their operations treat everyone with integrity. This is formally shown by acceding to the UN Global Compact Principles, the Code of Ethics in Business issued by the Croatian Chamber of Economy, and the Code of Corporate Governance issued by the Zagreb Stock Exchange and HANFA.

WHISTLEBLOWING PROCEDURE

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

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

ETHICAL CODE OF PURCHASING ORGANISATION

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

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

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

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

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

Sustainable development

In Atlantic Grupa, we understand sustainability 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.

The company's quality policy confirms 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 value for the community and help protect the environment for future generations.

Atlantic Grupa is a signatory of the UN initiative Global Compact since 2007, and our practices comply with the requirements of sustainability standards and global sustainable development goals. For more transparency, the Global Reporting Initiative Standards (GRI) Content Index including the references to global sustainable development goals (SDGs) is annexed to this report.

In what way we support UN Global Compact principles:

UN Global Compact principles	AG Policies and practices
Human rights Principle 1 – Businesses should support and respect the protection of internationally proclaimed human rights. Principle 2 – Businesses should make sure that they are not complicit in human rights abuses.	**The corporate values and culture, company's policies and procedures** concerning human rights, equal opportunities, safe and healthy working conditions are available on the company's intranet and on all of our bulletin boards. **Ethical code of the purchasing organisation** **Humanitarian actions supporting vulnerable social groups**
Labour Principle 3 – Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. Principle 4 – Businesses should uphold the elimination of all forms of forced and compulsory labour. Principle 5 – Businesses should uphold the effective abolition of child labour. Principle 6 – Businesses should uphold the elimination of discrimination in respect of employment and occupation.	Atlantic Grupa strongly supports the **right of association of its employees** and the work of its unions. In 2021, 73% of our employees were covered with company collective agreements. Atlantic Grupa is one of the signatories of the Diversity Charter – the initiative started by 16 EU Member States, which was developed in Croatia within the project of the Croatian Business Council for Sustainable Development. Atlantic Grupa is one of the members of The Alliance for Gender Equality in the Workplace, network of companies launched in 2019.
Environment Principle 7 – Businesses should support a precautionary approach to environmental challenges. Principle 8 – Businesses should undertake initiatives to promote greater environmental responsibility. Principle 9 – Businesses should encourage the development and diffusion of environmentally friendly technologies.	**Fully Integrated Quality and Environmental Management System (EMS) and Energy Management System (EnMS)** is implemented on all business locations. **Five pillars of sustainability agenda and priority goals** were defined in 2021. **Innovation process** used for designing new products includes mandatory criteria for environmental and social responsibility.
Anti-Corruption Principle 10 – Businesses should work against corruption in all its forms, including extortion and bribery.	**Code of Corporate Governance of Atlantic Grupa** **Code of Corporate Governance issued by the Croatian Financial Services Supervisory Agency (HANFA) and ZSE** **Code of Ethics in Business issued by the Croatian Chamber of Economy** **Whistleblowing Procedure Rules**

EU TAXONOMY

In line with the nature of Atlantic Grupa's business operations, the activities Atlantic Grupa engages in cannot be classified as economic activities that contribute to the climate goals described in delegated acts adopted pursuant to Article 10(3) (Substantial contribution to climate change mitigation) and Article 11(3) (Substantial contribution to climate change adaptation) of Regulation (EU) 2020/852. During the assessment, we used the EU taxonomy tool for sustainable activities ("Taxonomy Compass"). Consequently, pursuant to Article 10 of Regulation (EU) 2021/2178, Atlantic Grupa discloses that it has no proportion of exposures to Taxonomy-eligible economic activities in its total turnover, as well as capital and operational expenditure. Total revenues, investments and expenses attributed to Taxonomy-ineligible activities are presented in the chapter "Financial operations of Atlantic Grupa" and in the consolidated financial statements.

STAKEHOLDER ENGAGEMENT

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

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

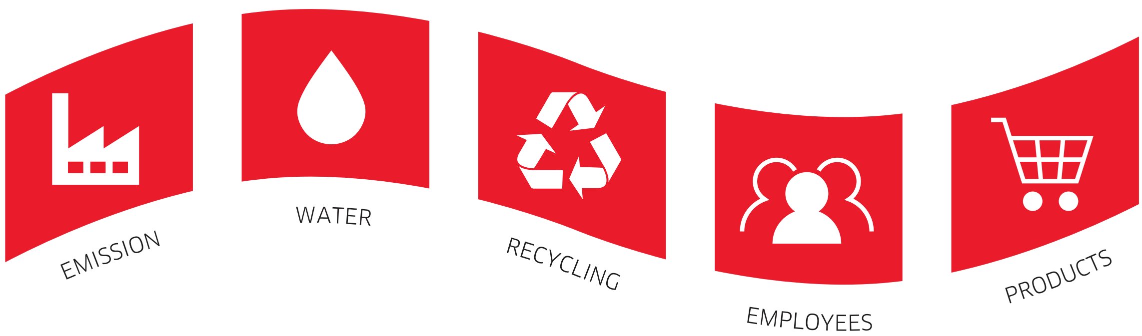
Stakeholder consultations are carried out regularly through many channels. Topics of interest for our stakeholders are addressed in various sections of this report.

Key stakeholders	Communication channels	Areas of interest and mutual benefits
Employees	Regular employee engagement survey Corporate interactive intranet Annual U3 process (setting personal goals) Trainings and internal workshops Offline and online newsletter	Highly engaged and capable employees, gender equity and no work injuries Talent development and career opportunities Community Engagement High food safety culture and embedded sustainability issues into business processes and objectives
Consumers and shoppers	Regional contact centre Brands' websites Brands' Social Media Channels Information on the product Marketing campaigns and events Education of consumer/shopper on points of sales	Orientation towards consumer needs and expectations Healthy life style Products with low environmental impact
Communities and environment	Regional contact centre Donations and sponsorships procedure Direct cooperation with local community representatives Atlantic Grupa LinkedIn profile	Environmental protection Acceptable technologies and products New jobs Community Engagement
Customers and users of company services	Sales agreements Meetings and B2B events	Meeting consumer needs by offering them choice and quality Economic value Sustainable procurement and supply chain
Suppliers	Supplier portal Purchasing agreements Quality and sustainability agreements	Innovative and efficient products and services Economic value Supply chain with low environment impacts, preserving biodiversity, fair human rights and animal welfare practices Business ethics in the supply chain
Shareholders and Creditors	General Assembly Corporate web page Meetings and conferences Transparent reporting	Delivering strong sustainable earnings and dividends, thus establishing supportive shareholder base Transparent governance Economic impacts Development strategies
Public authority bodies	Meetings and consultations Participation in forums, industry platforms and collaborative programmes on issues of common interest	Collaboration on contributing to public good Economic effects Transparent governance

MATERIALITY

Our first systematic materiality assessment guided by the criteria defined by the Global Reporting Initiative was done already in 2013. All relevant topics (economic value, energy, water, biodiversity, emissions, waste, employment, occupational health and safety, product safety and healthy diet, training, later included also the diversity and equal opportunity) were reported in Atlantic Grupa's Sustainability reports, issued annually from 2014 to 2021.

After careful review of stakeholder and global trends, the new strategy and goals, and taking into consideration the EU Green deal and non-financial reporting requirements, in 2021 we singled out the most important pillars on which we build up high priority social and environmental goals. These five pillar that represent the main sustainable development priorities are:



INTEGRATING SUSTAINABILITY IN BUSINESSES AND FUNCTIONS' STRATEGIES

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

- reducing the greenhouse gas emissions,
- responsible water usage,
- complete recyclability of packaging,
- highly engaged and capable employees, no injuries, gender equity,
- constant improving of recipes in terms of improved nutrition value, clean labels and reduced unnecessary packaging.

AG SUSTAINABILITY INDEX

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

SUSTAINABLE GOALS PILLAR	KEY PERFORMANCE INDICATORS	CONTRIBUTION SHARE
Emissions	Direct and indirect CO2 emissions Share of renewable energy sources	15%
Water	Water consumption for production operations	15%
Recycling	Share of recyclable packaging materials Share of recycled plastic in the total amount of purchased plastic	15%
Employees	Highly engaged employees ratio Training and education hours per employee Number of work-related injuries Share of women in managerial positions	40%
Products	Improved recipes in terms of a healthy lifestyle or reduced environmental impact Improved packaging of products with reduced environmental impact	15%

We have aligned measurement practices through the whole organisation, and the year 2020 was defined as a baseline for measuring progress. Management results are disclosed in relevant sections of this report.

For the coming years, binding objectives were set at all organisational levels of operations, and at the corporate level they were additionally embedded into the remuneration model of the Management Board and senior management.

Besides being committed to corporate sustainability priorities and goals, Business and Distribution Units, and the key corporate activities develop their own sustainability strategies, tailored to the specific stakeholders and values of each of them. In the future, we plan to improve measurement practices, strengthen the knowledge, and actively search and develop new possible partnerships, to speed up the progress towards ambitious goals.

SUSTAINABLE PRODUCTS

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

The table gives the data about all improved recipes and packaging forms in the last two years.

Summarized results for all Atlantic Grupa's brands	**2020**	**2021**
Number of new recipes per year in claimed* category	**48**	**48**
Number of products with improved packaging from the aspect of reduced GHG emissions (light-weighting and other innovations)	**161**	**8**

*Claimed categories include: Organic, certified Cocoa Horizons, Vegan, no added sugar, less sugar, free from additives, palm fat free, high fibres, improved nutritional value, low energy, functional ingredients.

Sponsorships and donations

The company values – Care, Openness, Growth and Passion – are also promoted through numerous sponsorships and donations. 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.

SPORT

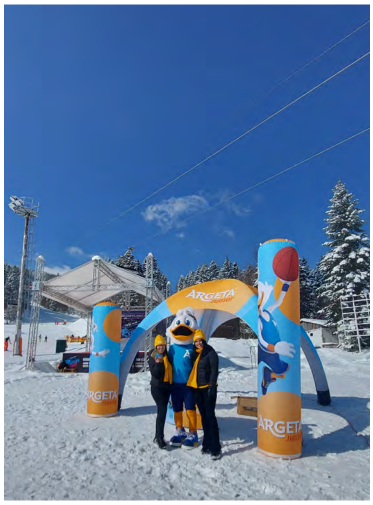
BASKETBALL

- **KK CEDEVITA OLIMPIJA**
- **KK CEDEVITA JUNIOR**

In 2021, Atlantic Grupa again gave priority to the promotion of sports, particularly basketball, and healthy lifestyle. As one of the main sponsors, Atlantic Grupa continued to support the Basketball Club Cedevita Olimpija from Ljubljana. After a pandemic year that halted most events in the sports world, 2021 was much more active for BC Cedevita Olimpija. In the second season since BC Cedevita from Zagreb and BC Petrol Olimpija from Ljubljana merged, BC Cedevita Olimpija has established itself as an undeniable value in Europe with numerous successes. The club entered the TOP 16 phase of the second strongest European club competition, 7DAYS Eurocup, took 5th place in the regional ABA League and won the title of the Slovenian national champion of the Nova KBM League. The senior team is coached by Jurica Golemac and the team has a number of Slovenian national team members, and six of them were among those who brought Slovenia a place in the top four at the Olympic Games in Tokyo in the summer of 2021. In addition to BC Cedevita Olimpija, seated in the magnificent Stožice Arena in Ljubljana, there is also the Basketball Club Cedevita Junior operating in Zagreb, which has in its focus primarily younger players, thus also representing a sort of basketball academy whose goal is to develop top sport talents into quality senior players who bring quality to their respective representations in the region. The pandemic 2020 stopped most sports events, and the young Cedevita Junior team had the opportunity to show itself in the best light only in the last season. BC Cedevita Junior advanced from the First League into the elite Croatian club league, HT Premier League, in which it achieved many successes under new coach Damir Mulaomerović. As the direct heir of the legacy that BC Cedevita left in Zagreb, BC Cedevita Junior continues the work and development of one of the most attended basketball schools in the region, fully utilising the capacities offered by a modern training centre, Cedevita Basketball Arena, at Zagrebački Velesajam. The club and Basketball School actively work in more than 20 basketball schools organised in Zagreb's elementary schools, thus ensuring both the future of this sport and the option of a healthy and active lifestyle. The club's quality and ambition is also proven by the fact that the Cedevita Junior youth team was the only one of all clubs in Croatia to enter the top four teams of the Croatian Championship in all age categories.

SKIING

In the previous year, Croatian and Slovenian ski teams achieved a number of successes with the support of Atlantic Grupa. Endorsed by Atlantic brands, Filip Zubčić stepped on the podium in the World Cup slalom for the first time in his career. The Slovenian ski team also achieved exceptional successes. The girls from the Slovenian team, Andrea Slokar, Ana Bucik and Neja Dvornik, have set the bar high in their first slalom of the ski season, taking 4th, 11th and 16th place, respectively. All of the most spectacular winter sports were supported by Atlantic, such as ski jumping (Skoki Ljubno, Pokal Argeta Junior).



OTHER SPORT ACTIVITIES

The last two years were focused mostly on health, which also featured sports and their role in maintaining health. That is why last year Atlantic Grupa allocated the most funds to sports. Atlantic Grupa provided its support to tennis players (iTeam, Zagreb, WTA tournament BOL). Handball players and guests of the Masters Handball World Cup (Omiš), as well as the International Handball Goalkeeper Camp enjoyed numerous Atlantic products. Supporting active engagement in sports from an early age is an important goal. For this reason, Atlantic Grupa supported the work of the Children's Sports School Sporti, the challenge for children Urbani Gladiatorček (Urban Gladiator), the volleyball camp Volleycamp for young volleyball talents and the Sports Days event. An increasingly popular extreme sport is freestyle BMX riding, and one of the best riders is Jaka Remec. Jaka is only 17 years old, and they are already calling him the future of BMX. His competitive "ups and downs" in this year were supported by Atlantic Grupa brands. In 2021, Atlantic Grupa readily provided its support to the table tennis club Malinska, as well as to the water polo club Jadran Split. This year's competitive street challenge in Lipik, along with the best European 3x3 basketball teams, provided an attractive extra content blended with Atlantic Grupa brands.

WTA TURNIR BOL ~ WTA URNABI GLADIATORČEK BOL ~ VK JADRAN SPLIT
VOLLEYCAMP POREČ ~ JAKA REMEC ~ TENNIS CLUB ITEAM ~ GREEN RUN
WORLD HANDBALL VETERAN CHAMPIONSHIP ~ SPORT SCHOOL SPORTI
INTERNATIONAL HANDBALL GOALKEEPERS CAMP ~ STREET CHALLENGE LIPIK
STK MALINSKA ~ ZAGREB NIGHT RUN ~ ŽUMBERAK TRAIL

VALUE DAY EVERY

VALUE DAY

The Value Day was created nine years ago as an annual employee activity aimed at organising individual assistance in the community in which company employees live and work. In a single dedicated day of the year in all our markets, this project offers numerous opportunities for employees to get personally involved in actions that best suit their sensibility – from blood donation, assistance in orphanages and animal shelters, forest cleaning, landscaping around the company sites, etc. The pandemic also brought changes to this project, so the project was expanded to activities throughout the year, i.e. Value Days, with activities carried out every day – recording school-required readings and audio books for the blind and visually impaired children, daily care for fellow citizens, donations to disadvantaged persons as part of the Atlantic Grupa Sports Games and many other activities.

CULTURE AND KNOWLEDGE

26TH SARAJEVO FILM FESTIVAL

With the support from Atlantic as one of the leading sponsors, the Sarajevo Film Festival team has been working for many years on connecting creative forces throughout the region and beyond, and this year they have gone a step further. In April, the regional festival meeting of the Adriatic Region Festival Network was held for the first time. At the initiative of SFF, four festivals from four countries, Croatia, Bosnia & Herzegovina, Serbia and Montenegro, were merged. This collaboration also continued at the regular editions of the said festivals, and at this year's SFF, the Adriatic Audience Award was presented for the first time. Through the joint programme, they want to encourage audience to discover contemporary European films, and through the awards they want to support the efforts of cinema operators in the region to bring back their viewers.

OTHER DONATIONS IN THE COMMUNITY

Atlantic Grupa promotes its values through numerous activities that help the community. "Plastic Bottle Caps for Expensive Medicines" is a valuable action that Atlantic employees are happy to respond to every year. The main idea of the action is to collect plastic caps and send them to the Association of Leukaemia and Lymphoma Patients (ALLP), which then gets funds in exchange for them. Thanks to donations, the Association helps its members to purchase medicines, transplants or medical aids not funded by the Croatian Health Insurance Fund (HZZO). This year, Atlantic Grupa delivered to the Association 35 full containers, as well as several boxes and bags of caps. In addition, 60 empty cap containers and 20 big bag-type bags for further collection were donated. It should be noted that, at the beginning of the year, a significant quantity of IT equipment was donated to schools and students in the earthquake-affected area of the cities of Glina and Petrinja and their surroundings.

People & culture

The People Strategy in Atlantic Grupa has three main directions currently employed by the People and Culture(P&C) 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.

As part of our strategy to keep employees at the centre of everything we do, we have continued our good practice of conducting a comprehensive engagement survey, and this year we achieved a record turnout and percentage of people who expressed high engagement and satisfaction with the work environment in Atlantic.

To get even closer to our employees, we have developed additional "pulse checking" channels, with special emphasis on production facilities and distribution centres. We are now able to gain quick and targeted insights into the needs and desires of employees, which allows us to adjust our practices and programmes on an individual level.

The focus in 2021 was on the development of agility, education and training of subunits for independent management and decision-making, so that as an organisation we could respond with more stability and quality to rapidly changing and uncertain living, working and business conditions.

The return to offices and adjustment to office work were managed in a structured way to keep up with changing epidemiological circumstances. In parallel, we looked into the future of work from home, and have prepared models and policies for long-term hybrid work enabling employees to choose a model they feel the most comfortable – those that can do their work at a workplace, remotely from home or combine both work schemes.

In 2021. **we virtualised Atlantic's most popular culture programme, Sport Games,** as means of bringing all our employees together and strengthening the sense of belonging. In this virtual edition of Sports Games, the key motivating factor for employees was the humanitarian character of the Games. By solving various sport challenges, employees collected points that were then converted into a humanitarian fund which the winning teams could donate to the cause of their own choice.

Among the awards received in 2021, we should highlight the one for TOP 3 Best Employer in Croatia, a title granted based on independent research of our employee's satisfaction and engagement.

AG KPI

HIGHLY ENGAGED EMPLOYEES RATIO (%)

2020 baseline 83

2021 85

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER

All ads for open positions are done by job systematization, job description, specific knowledge and desired skills and competencies. A required criterion is clearly listed without any sign of discrimination, and it is clearly stated that all genders may apply, as well as that we support equal rights for employment.

All managers go through HR for non-HR selection interview training where they are informed about interview form and warned about any possible signs of discrimination.

In external advertising, employees are used as employer brand ambassadors. Authentic external representation is maintained, and it is always aimed to have an equal representation of all groups of employees on these job visuals.

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

CANDIDATE EXPERIENCE

In 2020 we put focus on the importance of candidate experience throughout the recruitment process and measured NPS as well as overall candidates satisfaction. We've worked on implementation and upgrade of critical segments like interview guidelines, prompt feedback, application to job boards, etc., which resulted in significant increase of positive feedback and candidate experience in 2021.

	2020	2021
NPS	20	58
OVERALL SATISFACTION	66%	83%

TRAINING AND EDUCATION

In 2021 we continued with focus on digital learning and strengthening our employee's capabilities for remote work. Ten modules of MS Teams workshops were organised for all PC users in Atlantic Grupa. New e-learning programs were introduced – number of internal e-learning materials was doubled, e-learning platform for language learning was established and we set the base for piloting VR learning and online coaching platform that will be happening in 2022. Obligatory good hygiene practices course was implemented as e-learning material and non-PC population from all production and distribution units went through this course via tablets set in facilities. With all new initiatives and further utilization of remote learning opportunities number of total training hours per employee increased from 12 to 15.

Annual average vocational Training hours per employees (Sustainability agenda trainings Specifically stated)	2020	Target 2021	2021
	12	min 12	15

Average hours of training per year per employee

Employees by organizational level	Average hours of training per year per employee			
	2018	2019	2020	2021
Senior Management	85	90	41	13
Middle Management	57	70	37	21
Others (First line managers, Professional and Paraprofessional career stream)	10	12	11	15
Total	11	13	12	15
Employees by gender	**2018**	**2019**	**2020**	**2021**
F	13	14	13	16
M	9	11	11	14
Total training hours	53,735	67,351	61,350	71,969

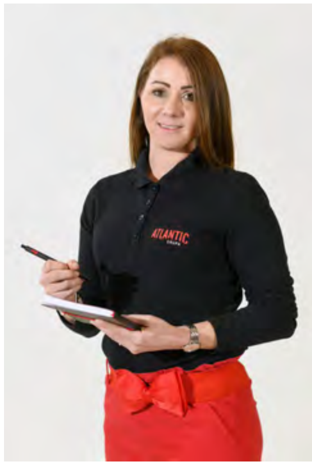
DIVERSITY AND EQUAL OPPORTUNITY

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

The targets and KPIs (Key Performance Indicators) are stored in our HRIS (HRnet) and on our Recruitment Portal (SAP SuccessFactors), as well as in the excel spreadsheets reporting system. In addition, our P&C Business Partners report on a series of P&C KPIs related to the People & Culture segment within their regular meetings and reports on the parts of business operations inherent to them. Also, internal systems are integrated with our Management reporting tool (Power BI) and a subset of P&C KPIs are tracked and assessed by the Management Board.

In observed results there is no salary gap between men and women in Atlantic Grupa.

AG KPI	2020 baseline	2021
share of women in managerial positions (%)	53.63	53.58



Diversity of governance bodies and employees

Employee category by level	No. of employees	%	M	F	M%	F%	Age group in numbers			Age group in %		
							<30	30-50	>50	<30	30-50	>50
Board	6	0.12	5	1	83.33	16.67	0	2	4	0.00	33.33	66.67
SMC wo Board	18	0.35	12	6	66.67	33.33	0	10	8	0.00	55.56	44.44
Manage Others	629	12.08	292	337	46.42	53.58	22	432	175	3.50	68.68	27.82
Para-Professional	3,576	68.70	1,877	1,699	52.49	47.51	655	2,113	808	18.32	59.09	22.60
Professional	976	18.75	352	624	36.07	63.93	152	645	179	15.57	66.09	18.34
Total	5,205	100.00	2,538	2,667	48.76	51.24	829	3,202	1,174	15.93	61.62	22.56

OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety is managed through Atlantic Grupa's corporate security and protection process, which covers all employees, external suppliers or employees of external suppliers who perform their work at our locations in all markets in which we operate. The established process is based on the full application of all legal requirements of individual markets, additionally we apply all best practices of applicable international standards.

The year 2021 was another year of global crisis, due to the COVID-19 pandemic. Therefore, we still put special attention on taking appropriate and rapid measures in response to the spread of the COVID-19 pandemic, such as:

- daily record of coronavirus infections at Atlantic Grupa sites and markets,
- continuous compliance with instructions from public health bodies,
- providing adequate protection means,
- adjustment of internal rules and providing information and guidance related to COVID-19,
- continuously organising and conducting testing on COVID-19 at work sites,
- monitoring the implementation of defined measures and their improvement.

In those circumstances we succeed to ensure a safe working environment for all our workers, contract partners and external contractors. The total number of occupational injuries was 48. There were no injuries with fatal result or severe consequences. There was a single injury of an external supplier at our location. Also, we didn't have any fire accidents in 2021.

Work related injuries by type and by gender	2018		2019		2020		2021	
	F	M	F	M	F	M	F	M
Minor injuries	28	33	23	25	39	13	22	17
Major injuries	6	2	2	2	5	5	6	3
Fatalities	0	0	0	0	0	0	0	0
Total AG	69		52		62		48	

Among injuries, the most common injuries are same-level slips and falls, injuries while loading and unloading trucks and during forklift transport, injuries caused by machinery and work equipment and cases of road traffic accidents in the course of work.

We set upper target limits for lost working hours due to injuries in the work process, we are well inside the limits in 2021. Total number of lost working hours were much lower in 2021 compared to 2019 and 2020.

AG KPI	2020 baseline	2021 result
work related injuries (IR)	1.20	0.90
work related injuries (LDR)	20.6	19.18

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

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

Despite travel restriction rules, all planned occupational health and safety education and external process performance monitoring have been conducted according to plans. According to our action plan for 2022 we will continue with the re-education of all employees, suppliers, and external partners in production and distribution facilities with focus on the importance of safe work in accordance with the procedures.

Supply chain

From over 4,000 of 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. These materials, equipment and services are procured through diverse and often complex supply chains that involve both large global corporations and small local 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 also for our suppliers, nurturing strong and long-term relationships and offering them many opportunities and possibilities for cooperation. In this sense, we are fully open to expand the existing supplier base in order to, by establishing cooperation with new suppliers, ensure a continuous flow of new ideas, materials and products from supply markets and to apply them in products and our processes.

The added value of establishing such cooperative relationships with suppliers is also reflected in higher satisfaction of our consumers with greater innovation, better functionality and top quality of our products.

To enable efficient exchange of information, ideas and suggestions for improvement with our suppliers, we continuously organise interactive workshops of joint teams of Atlantic Grupa and our suppliers, with the aim of ensuring continuous product improvements. In addition, we regularly evaluate our suppliers and stimulate them to improve their own efficiency and to develop innovative products and technologies. Such joint projects with our suppliers in the past period resulted in a large number of innovative solutions implemented in our products, including those whose implementation had a positive impact on the sustainability of our products. Our relations with suppliers are built on criteria of professionalism, transparency and fair relationship, while fully respecting both the legal requirements and high ethical and 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,
- protecting the health and personal safety of employees,
- prohibiting the use of child labour,
- prohibiting discrimination based on race, religion, sex or any other criterion, as well as prohibiting sexual harassment,
- complying with applicable laws and standards on environmental protection and preservation of nature, animal and plant species

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

In this regard, during 2021 we continued with the implementation of numerous activities in cooperation with our suppliers aimed at contributing in various ways to even more expressed overall sustainability of our products. We will list just a few of these activities:

- increasing the share of chicken meat in our pate sourced from free-range hens,
- introducing packaging foils for coffee that do not contain an aluminium barrier, thus enabling the complete recycling of foils after use of the product,
- transitioning to PET packaging for functional waters made of 100% recycled PET,
- introducing low plastic content caps for OTG vitamin instant drinks,
- enabling complete traceability of procured raw coffee beans from their plantation to their packaging for our particular coffee brands using blockchain technology,
- introducing FSC certified cardboard and paper packaging for a larger number of our products, which confirms that packaging is produced from wood raw materials sourced from sustainably managed forests.

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

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

Raw materials used in AG by category	2018	2019	2020	2021
Critically endangered	0	0	0	0
Endangered	0	0	0	0
Vulnerable	0	0	0	0
Near threatened	1	1	1	1
Least concern	1	1	1	1

The purchasing organisation of Atlantic Grupa is committed to selecting only such suppliers that comply with these high standards for conducting the business with our company. Monitoring standards and performance of our suppliers is challenging but crucial to protect our business and our company's and most importantly our consumers who use our products.

The common model for monitoring the Atlantic Grupa's suppliers was defined and established in 2014 and successfully used since then. The system includes unique criteria for approval, evaluation and auditing of suppliers. In order to streamline a whole process of collecting, monitoring and evaluating suppliers' documentation on quality standards and certificates, Atlantic Grupa implemented in 2017 an on-line tool called Ecratum, which is still in use. This tool enables Atlantic Grupa to have a central database of all required suppliers' documentation related to necessary quality standards and practices, such as FSSC 22000/ IFS/ BRC, HACCP or GMP, ISO 9001, ISO 14001, ISO 50001. By this time, the vast majority of vendors have started using Ecratum as a platform to share such certificates and documents with us, which contributes to the transparency of business operations and of the criteria for selecting suppliers.

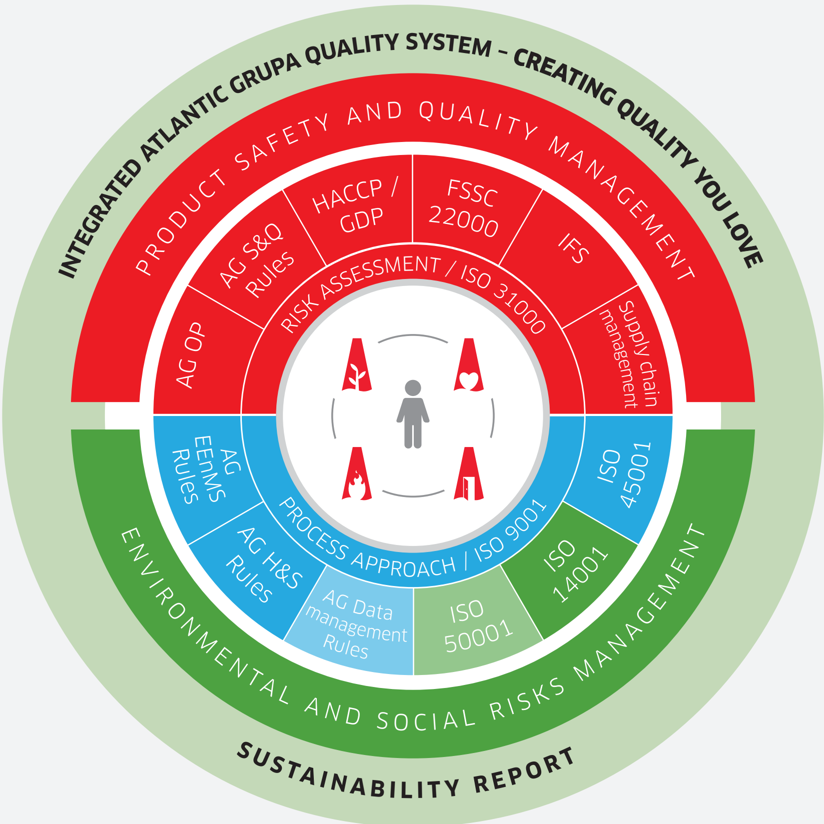
Evaluation of suppliers is conducted once a year, and is generally based on two main criteria: quality and commercial terms and conditions. The evaluation based on quality of delivered materials and suppliers' quality systems is performed in the Quality Assurance Department, after which each supplier receives feedback about their rating and required improvements. 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.

During 2021, we continued to use the digital tool for collecting suppliers' tenders and conducting tenders within the Central Purchasing Department – SAP Ariba Sourcing, with the aim of increasing the transparency and compliance of procurement processes, i.e. the selection of suppliers.

The whole process of procuring production materials, technical materials and equipment, consumables and services during 2021 was carried out in extremely unfavourable circumstances of strongly rising prices, limited availability of certain goods, significantly extended delivery times, and more difficult logistic flows, as a result of both global economic recovery and growing consumption. Irrespective of the fact that such circumstances have contributed to significantly higher operating costs, we are pleased with managing to ensure the stability of the supply chain and thus also the continuity of our production and logistics processes.

Integrated **quality system**

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



CERTIFICATES AND STANDARDS

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

- ISO 9001 (Quality Management System),
- ISO 14001 (Environmental Management System),
- ISO 50001 (Energy Management System).

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

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 (ZAGREB)	CRO	ISO 9001			ISO 14001	ISO 50001		
ATLANTIC CEDEVITA (ZAGREB)	CRO	ISO 9001	IFS		ISO 14001	ISO 50001		
ATLANTIC CEDEVITA (APATOVAC)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001		
ATLANTIC MONTANA PLUS (ZAGREB)	CRO	ISO 9001		HACCP	ISO 14001			
ATLANTIC TRADE (VUKOVINA)	CRO	ISO 9001		HACCP	ISO 14001	ISO 50001		PRE-PACKAGED ORGANIC FOOD
ATLANTIC GRUPA FARMACIA SPECIJALIZIRANA 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		ISO 14001	ISO 50001		BARCAFFÈ ORGANSKA
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	IFS	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	IFS	HACCP	ISO 14001	ISO 50001		
ATLANTIC ŠTARK (IGROŠ)	SRB	ISO 9001	FSSC 22000	HACCP				
ATLANTIC BRANDS (BELGRADE)	SRB	ISO 9001		HACCP	ISO 14001			PRE-PACKAGED ORGANIC FOOD
ATLANTIC GRAND (SKOPJE)	MAC	ISO 9001	IFS	HACCP	ISO 14001			
ATLANTIC TRADE (SKOPJE)	MAC	ISO 9001		HACCP	ISO 14001			PRE-PACKAGED ORGANIC FOOD
ATLANTIC BRANDS (VIENNA)	AUT							PRE-PACKAGED ORGANIC FOOD

The year 2021 was marked by new IFS certifications of the following member companies of Atlantic Grupa:

- Atlantic Grand (Belgrade),
- Atlantic Grand (Glavičice),
- Atlantic Grand (Skopje).

All members of Atlantic Grupa certified according to the IFS Food standard were rated as "high level", and the average rating of all certified companies exceeded 97%, which ensures high trust of our customers. In 2022, two more plants will be prepared for IFS certification: Atlantic Štark plant in Belgrade (certification in 2023) and Atlantic Štark plant in Palanački Kiseljak (certification in 2022).

SYSTEM IMPROVEMENT

Recognising the pandemic risks, we introduced additional supervisions already in 2020, which were performed through internal remote audits using digital tools without visiting the site (so-called online audits). In this way, we ensured the continuity of supervising the system efficiency at all our sites during the most severe consequences of the pandemic.

Despite all the 2021 challenges, 71 internal audits were conducted. Their role is not only to assess the system efficiency, but also to exchange good practices and generate opportunities for improvement. Over 260 proposals for system improvements were implemented in 2021 at various facilities of Atlantic Grupa.

WE CREATE THE QUALITY YOU LOVE

The project of the new Integrated Quality Policy **We Create the Quality You Love** was developed to raise the awareness of all employees about the importance of their contribution to the development of the **Product Safety and Quality Culture** as an integral part of our corporate culture.

We create **the quality you love**

~

OPENNESS IN **NOURISHING LOYALTY**

• We look for creative and innovative solutions in a continuous improvement of processes.

• We encourage the best practices by building partner relationships with stakeholders.

~

GROWTH WITH **RESPONSIBILITY**

• We grow together by respecting the law, standards and customers' demands.

• We continuously and fully manage the risks.

~

PASSION FOR **SATISFACTION OF CUSTOMERS' NEEDS AND DESIRES**

• Our high goals are focused on the excellence of brands and services.

• We build Food Safety culture based on the highest world standards.

~

CARE FOR **CREATING A BETTER ENVIRONMENT**

• Sustainable development with an accent on awareness of climate changes and endangered biodiversity is a part of our strategic goals.

• Care for a better environment develops a culture of continuous improvement.

We give special attention to the development of employee knowledge and skills. Functional Lab Quality is a specially developed educational platform with modules in the field of quality systems:

- Development of quality systems (generic standards, improvement, monitoring – Internal Auditor Community),Sigurnost i kvaliteta proizvoda (najbolje prakse i standardi vezani uz sigurnost i kvalitetu proizvoda),
- Product safety and quality (best practices and standards related to product safety and quality),
- Environmental and energy management (best practices and standards related to the environment, energy and sustainability),
- Good laboratory practice (best practices and standards for control laboratories),
- Digital tools (quality system digitalisation practices and tools).

Almost 3,000 employees participated in various Functional Lab Quality trainings and educations.

When it comes to training in 2022, we will put special attention on the development of the Internal Auditor Community Programme aimed at developing future leaders in this field – Lead Auditors.

Quality **control**

The product safety management system of Atlantic Grupa is comprehensive and covers all hazards and all aspects of various hazards, such as food safety, food protection, food fraud, and traceability. All production plants are certified according to FSSC22000, IFS or Codex HACCP standards, depending on customer requirements and priority target markets.

The processes of quality control in Atlantic Grupa are organised through independent quality assurance departments within the company's operating structure, and balanced quality goals are defined on the corporate level. Additionally, the achievement of quality goals requires intense involvement of the expert team of the Corporate Quality Management Department, which provides regulatory and laboratory services and expertise for the implementation, digitalisation and improvement of product safety and quality processes.

Such organisational structure enables the following:

- coordinated monitoring of news and legislation,
- optimal solutions, 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,
- additional specialisation in the field of quality assurance 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 dietary supplements,
- 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 2021 are:

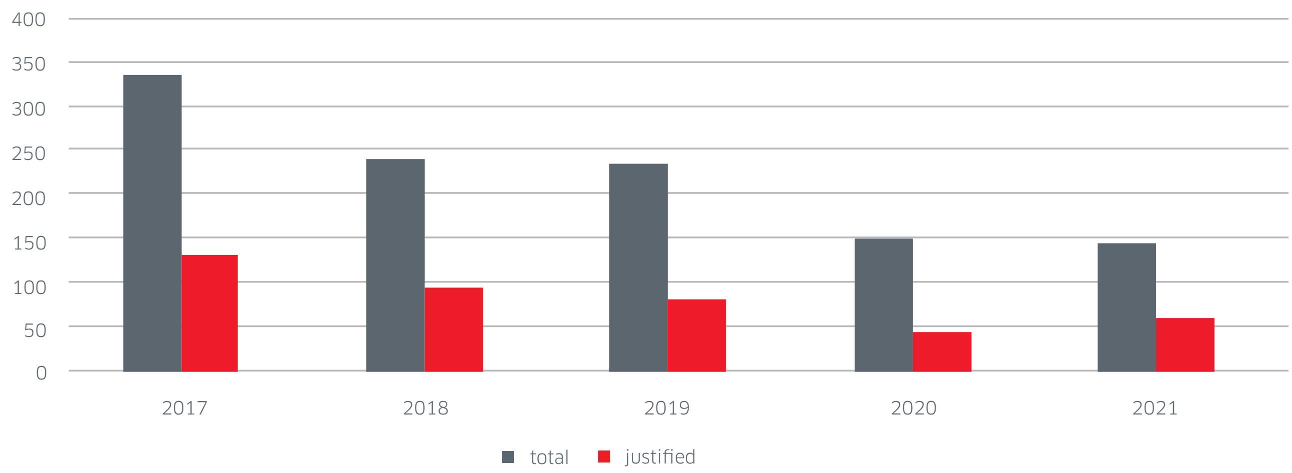
- the entire system was regularly updated according to the requirements of IFS Food v.7. i IFS Logistic 2.2;
- the methodology of food safety culture was defined;
- HACCP methodologies for production and distribution were revised;
- the methodology for foreign object risk management was significantly revised;
- the consumer complaint process was redefined;
- a new questionnaire for fish suppliers with specific questions for that source material was designed.

Many other enhancements that are continuously analysed and introduced show efficiency through the key indicators, such as the number of consumer complaints and the number of product recalls. In 2021, there were no recalls of products under the company's own brands, while one recall was performed at the request of the principal, namely of the product Multipower Protein Layer White Chocolate Salty Almond, which was distributed through our distribution chain.

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

Great efforts were invested in collecting all reactions and comments of our consumers. The trend of monitoring market complaints over the last period is showing excellent results of continuous decrease in the total number of complaints. More information on complaints is shown below.

CONSUMER COMPLAINTS – TOTAL AND NUMBER OF JUSTIFIED 2017 - 2021



Environmental and energy **management**

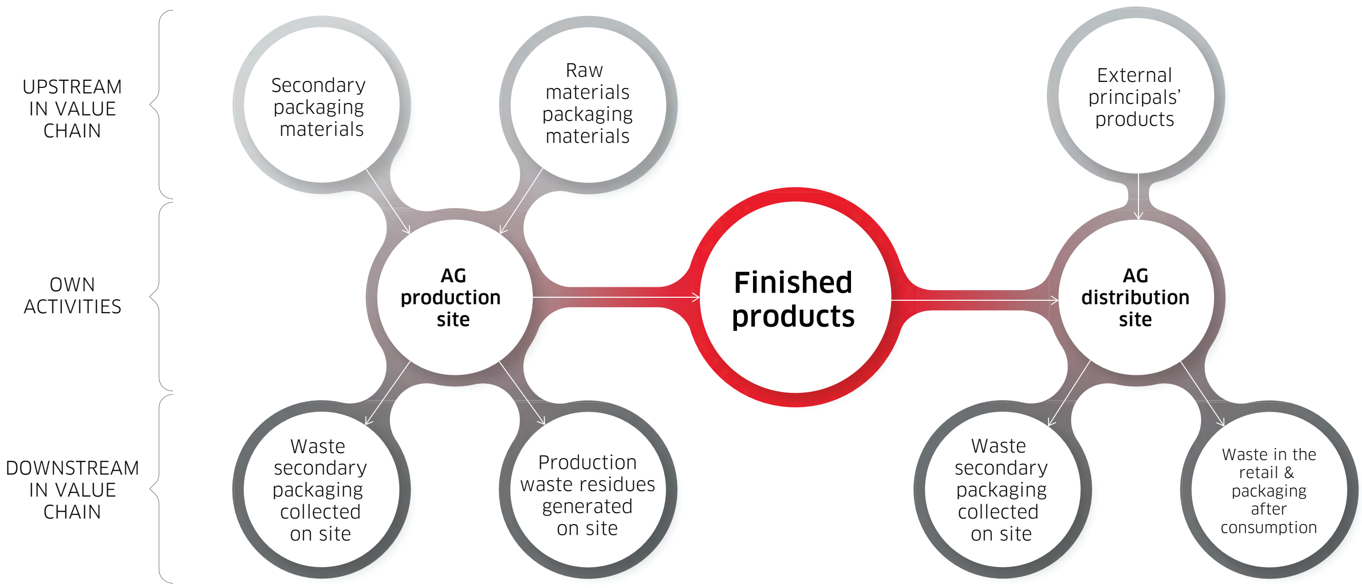
During 2021, Atlantic Grupa continued to improve its own environmental and energy management systems by continuously monitoring parameters aimed at reducing environmental impacts.

To improve process management, trainings of internal auditors of the energy management process were organised for 12 colleagues, and two of them were promoted to new leading auditors according to ISO 14001 and ISO 50001.

WASTE AND EMISSIONS

To reduce waste and emissions, we are continuously looking for complete solutions using both internal and external knowledge for all environmental components: waste management in the broadest sense, wastewater, waste hazardous substances, and proper use and handling of hazardous substances, measuring emissions into the air, proper disposal of raw materials. finished products and packaging that are unfit for any reason and declared waste, cooperation in selecting "clean technologies" and compliance with environmental standards in the design and reconstruction of plants, drainage and rehabilitation of sewage systems, monitoring via laboratory control - authorised laboratory.

Diagram of waste generation points



Waste is managed according to the highest available standards and applicable regulations using optimal disposal and recycling methods. The most common categories of waste generated at our facilities during regular operation are: paper, plastic, wood, metal, multilayer packaging, glass, textiles and non-compliant products.

In order to select more environmentally friendly packaging materials for our products, we initiated activities of finding potential solutions related to recycling waste generated in our companies during their regular operation by contacting our partners with the aim of placing such waste as part of a future circular economy project.

We are continually and successfully implementing activities related to action plans for achieving the limit values for emissions to water and air. In 2021, a new wastewater treatment plant was installed at the production site in Igroš (Atlantic Štark, Serbia).

ENERGY

Adverse environmental impacts are reduced by saving all energy sources and applying the most environmentally friendly materials in all technological processes. Additionally, fuel consumption of our vehicles and vehicles of our partners is reduced by optimising delivery routes and using the transport management system.

In 2021, Atlantic Grupa continued to take decisive actions to reduce its adverse environmental impact by transitioning to energy sources with lower CO2 emissions, investing in new, more efficient energy facilities, contracting of electricity from renewable sources, and revising the corporate energy management system rules with stronger application of all requirements of the ISO 50001 standard for the purpose of improving energy management.

In the structure of energy use of Atlantic Grupa, electricity accounts for more than 35% of energy, natural gas more than 29%, liquefied petroleum gas 15%, while fuel for cars, transport vehicles and personal vehicles accounts for 13%.

Even though the total energy consumption grew by more than 3%, which is a result of increased activities, while maintaining approximately the same unit consumption, CO2 emissions were reduced by 38%, mostly due to the aforementioned contracting of electricity from renewable sources and transitioning from fuel oil to natural gas at two production facilities.

WATER

All production and distribution facilities are located in areas without water stress. In addition to regularly monitoring and ensuring the compliance of wastewater at all facilities, our primary concern within the environmental management system is to reduce water consumption for technological processes.

The consumption of technological and sanitary water at the AG level primarily depends on activities at our production sites. In 2021, the mass of manufactured products in kg increased by 6%.
The total consumption of technological and sanitary water grew by 2% as a result of reduced unit water consumption for technological purposes at production facilities.

Water abstraction for technological and sanitary needs (m3) from own sources represented 29% of the total technological and sanitary water consumption in 2021. Compared to 2020, water abstraction for technological and sanitary purposes from own sources increased by 11%.
Water that was used as a product and bottled is not included in the above data.

AG KPI – environment	2020 baseline	2021 result
Direct and indirect emissions (t CO2)	49,694	30,935
Direct emissions (t CO2)	17,856	18,473
Delivered energy (t CO2)	31,838	12,462
Share of renewable energy sources (%)	0.21	12.3
Water consumption in production operations (m3/t of products)	2.51	2.42
Recyclable packaging (% of the total amount of packaging)	89	96
Share of recycled plastic (% of the total amount of purchased plastic)	0	15.5

Information technology

The year 2021 brought the continuation, i.e. additional momentum in transformation activities through simultaneous and integrated optimisation of business processes and accelerated technological development. The beginning of 2021 also meant entering a new cycle of the strategic development plan in this area, which supports our strategy, with additional emphasis on automation and general raising of the company's efficiency.

As expected, the year behind us also brought the continuation of the hybrid work model, a combination of work from office and work from home. The successful overcoming of these challenges was enabled by the achievements of the previous strategic plan - Atlantic Grupa's hybrid cloud, comprehensive security system design that allows for remote work, mobile versions of important business applications, standardisation of IT services for all users along with the organisation of high level support for remote users. The hybrid work model progressed even further during 2021 through the advanced integration of Microsoft Teams cloud solutions with the existing collaborative communication systems, and the Atlantic Office-to-Go platform was expanded with new mobile applications.

Operational priorities remained the same: protection against cyber threats, ensuring the highest reliability of IT systems and technological innovations that bring practical benefits to users.

Great attention was constantly given to improving the user experience, and significant increases in the IT user satisfaction index were achieved. Such a trend was also favoured by successful completion of the complex Monitoring Project which, after 14 months and over 200 participants, brought the implementation of the integrated monitoring system of all IT services based on the service catalogue.

"Great attention was constantly given to improving the user experience, and significant increases in the IT user satisfaction index were achieved."

Additional reliability of IT services was ensured by completing the Microsoft SQL consolidation project and logical separation of the management of industrial and office wireless local area networks (WLAN). Under the planned increased investment in the required resources within the data centre, the capacities of high-availability servers were significantly increased, and the new generation data storage system was implemented (including complete data migration).

We have strengthened the process-technological transformation by launching strategic projects for implementing IT systems with process changes in accordance with the results of the Business Process Redesign (BPR) Project.

The new generation ERP, SAP S/4HANA, was implemented through the Group programme that brought a unique version of the distribution, i.e. production ERP system to the entire Atlantic Grupa. The first project in this programme was launched in February 2021 with the aim of designing and implementing S/4HANA solutions in the company Atlantic Grand in Serbia. As part of this project, development of the corporate IT template for production companies was initiated. In addition to the ERP system, this template includes MES (Manufacturing Execution Solution), WMS (Warehouse Management Solution) and is linked to all standard IT systems of Atlantic Grupa. After the template is designed, it will be implemented, with the planned launch date of the new ERP at Atlantic Grand in 2022, and further introduction in all production companies within Atlantic Grupa in the coming years.

The Master Data Management (MDM) Project brings the process-technology framework for creating and maintaining an accurate and secure database of all key aspects of business operations (materials, suppliers, customers, etc.), thus creating a single data "source of truth" for all other systems and applications. During 2021, the supplier of the technological solution was selected and the implementation of the IT system for master data management was initiated. The introduction of the MDM system in Atlantic Grupa will take place by areas, and the production launching of the MDM system for the first area, materials, is expected by the end of the first quarter of 2022.

The Integrated Business Planning (IBP) Project, aimed at merging strategic and operational planning in the supply chain and integrating these plans with financial planning, was initiated by evaluating potential IT solution suppliers, with the implementation expected to start in the second quarter of 2022. Other process changes are also implemented through the integrated Group project; in order to structure activities in these areas, new organisational units for process management and data management were established and now work in synergy with the project management department at the Group level.



When it comes to the digitalisation of procurement, a project to implement the SAP Ariba P2P (Procure To Pay) solution was launched; this solution will bring a significant increase in operational and commercial efficiency across the whole process of communication with suppliers. The first use of the P2P solution is expected in the first half of 2022 in the selected pilot companies, which will be followed by further introduction in all companies within Atlantic Grupa.

As in previous years, numerous automation, digitalisation and robotics projects were carried out with the aim of increasing competitiveness and operational efficiency in logistics. With regard to the process of goods entering distribution centres, the Yard Management IT solution (management of warehouse entry and exit ramps) was, after its implementation in previous years, introduced in all distribution warehouses of the company in Croatia and Serbia. The solution for digitalisation of delivery was expanded in Serbia with an additional module for digitalisation of relations between warehouses and carriers. All our warehouses in Croatia and Serbia are covered by the new mobile solution for quality system management, which will significantly reduce administrative work and facilitate data processing. Additionally, autonomous robots of the company Gideon Brothers were successfully connected to our WMS solution and testing activities are underway.

As part of our operations in the Croatian market, we have successfully implemented an advanced solution for automated recording of the field situation, which enables the analysis of the share on shelves using advanced technologies for photo processing. Furthermore, the strong expansion of EDI (Electronic Data Interchange) exchange with business partners continued, and was most pronounced in our Serbian market, where a significant number of key customers are included in the EDI document exchange. In addition to the above, our RPA (Robotic Process Automation) Centre of Excellence during 2021 further automated a number of processes using software robots, thus continuing the trend of increasing the company's operational efficiency, while operations in the pharmacy chain Farmacia were facilitated by consolidating POS terminals of different banks into a single device.

Business operations of Atlantic Grupa

STRATEGIC BUSINESS UNITS AND BUSINESS UNIT

Strategic business unit
Coffee

Atlantic Grupa remains 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 North Macedonia. Regardless of the challenging 2021, we recorded an 8% sales growth, which confirms the strength of our brands. The leading brands of the Strategic Business Unit (SBU) Coffee are Barcaffè, Grand Kafa and Bonito.

SBU Coffee in 2021 generated sales revenues of HRK 1,196 million, representing 21% of the Group's total turnover. Key markets in 2021 were Serbia and Slovenia, accounting for 45% and 27% of sales, respectively, followed by Bosnia and Herzegovina (10%) Croatia (9%) and North Macedonia (6%). Exports to other markets (Montenegro, Kosovo, Austria, Germany, Switzerland, France, Italy) in 2021 posted a record-setting result with a 15% value growth compared to the previous year.

1,196 mil.

SBU COFFEE GENERATED SALES REVENUE OF HRK

In line with strategic priorities, the key focus remained on the category of roasted and ground coffee, where we achieved a 5% growth compared to 2020. In the espresso segment, significant growth was achieved in all relevant markets in the region. Excellent results after the re-launch of the instant coffee portfolio confirm Atlantic Grupa’s ambition to strengthen its presence in this segment.

In 2021, we actively worked on strengthening our position in the HoReCa channel; to this end, we strengthened our Barcaffè Espresso brand with the brand Procaffe in the Croatian market, additionally invested in the Serbian market and the on-the-go segment, and in the OOH (out-of-home) segment we recorded a 37% sales growth compared to the previous year, which demonstrates our focus on further development of this segment.

In the category of roasted and ground coffee, Atlantic Grupa retained its leading positions in all key markets and recorded market share growth, which was 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, Slovenia, Bosnia & Herzegovina and North Macedonia, we retained our leading position in this segment with significant market share growth, while in Croatia in 2021 the brand Barcaffè took second place in the category of roasted and ground coffee and achieved record sales results.

Atlantic Grupa is the first company in the region to use the innovative Farmer Connect platform based on the blockchain technology, thanks to which consumers of Single Origin coffee under the brands Grand and Barcaffè, in addition to enjoying premium coffee, explore coffee’s entire journey from plantation to cup. These products visibly support Atlantic Grupa's commitment to sustainable development and en-vironmental protection, as they are packaged in an environmentally friendly, aluminium-free Genprotect foil, which consists of recyclable bioplastics from renewable sources. In addition, its production generates 63% less greenhouse gases compared to aluminium foil. The Grand Single Origin campaign received two prestigious awards of the Serbian Association of Market Communication Professionals (UEPS), for integra-ted campaign and for direct marketing, as well as the "Cactus" award for direct marketing.

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

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. Not wanting to leave things just on a message, in the month of the fight against breast cancer Grand Kafa carried out the CSR activity "Let's Have Time for an Exam", through which it provided free mammography examinations in several Serbian cities, thus highlighting the importance of taking care of our own health. Such communication was recognised in all markets, so Grand Kafa in 2021 won the consumer award for the “Must Have” brand in Bosnia and Herzegovina, as well as the award for the most recognisable brand in the coffee category in North Macedonia.

In 2021, Barcaffè protected its unique magenta colour as a trademark, which is a great and extremely rare success.

ETHIOPIA RWANDA COLOMBIA

Barcaffè delighted its loyal customers by offering new bean coffee for in-house espresso machines, Barcaffè Single Origin Rwanda, which uses the aforementioned blockchain technology, and also flavoured coffee Barcaffè Hazelnut. Furthermore, before the end of the year, coffees with personalized messages appeared on the shelves for the first time, and they were well received by consumers in Slovenia and Croatia. Consumer loyalty and love for the brand are proven by the Superbrand and Trusted Brand awards, which Barcaffè has been continually receiving for years.

Despite restrictions in the first part of the year, Barcaffè Espresso achieved excellent results, primarily due to the pre-established strategy of strategic partnerships and the implementation of strategic initiatives: organic sales growth by strengthening the image through a complete redesign of the portfolio, POSM and espresso expertise.

2021

FIRST BARCAFFÈ ACADEMY OPENED

Over the last two challenging years, Barcaffè Espresso has opened 2,250 new points of sale in the HoReCa segment with significant sales volume growth compared to the base 2019. Barcaffè Espresso was again recognised at the International Coffee Tasting Competition, where it won two gold medals for its blends of Barcaffè India and Barcaffè Prestigio, which makes a total of 13 medals for Barcaffè won in this prestigious competition. As the crown of success, the first Barcaffè Academia was opened in Zagreb at the end of 2021, a training centre intended for customer education and various events, as well as a place for espresso enthusiasts.

The significant increase in sales and market shares across the region confirms Atlantic Grupa's ambition to grow in the instant coffee segment. With the #samouzivaj (#justenjoy) campaign, Insta Grand won an international award for the best Social Influencer campaign at the IAB MIXX competition.

Black'n'Easy has been growing for the sixth year in a row. When markets are concerned, Serbia stands out with a 15% growth compared to the previous year. The Black'n'Easy Travel campaign achieved high rates of consumer engagement through a digital game and received a bronze medal for the Internet application in 2021 at the UEPS awards.

In the capsule category, Barcaffè Perfetto recorded excellent results and our growth is faster than the growth of the category.

The raw coffee market in 2021 experienced a sharp spike in raw coffee prices caused by the drought that hit Brazil during the coffee ripening period. This was followed by severe frost that affected coffee-growing areas in late July 2021. Consequently, the price of raw coffee sky-rocketed as it was estimated that both drought and frost would result in reduced coffee production for at least the next two years. The situation with available coffee is still uncertain, and we expect prices to remain at such high levels in 2023 as well. All these problems with the lack of raw coffee were aggravated by difficulties in logistics and transportation of raw coffee from all countries of origin, which further raised its price. The challenging logistics situation is not expected to improve by the end of 2022.

In 2021, capital expenditure in coffee operations amounted to approximately HRK 50 million, of which 50% was related to investments in HoReCa equipment and a new espresso training centre in Zagreb. We made additional investments in improving production lines at all coffee production facilities.

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

Strategic business unit **Savoury spreads**

ARGETA

Nr. 1

meat & fish pâté in Europe

In 2021, the Strategic Business Unit (SBU) Savoury Spreads recorded sales of HR 885 million, which is a 6% growth compared to the previous year. For Argeta, 2021 offered its challenges, but we finished the year with a 5% growth versus last year. It has been especially tough in Slovenia and Croatia, where we have been fighting to retain our market positions despite very active competition. By strengthening our marketing plans and introducing new activities we finished last year with a moderate growth of 1% over the last year in the region, which was a record one and 13% over 2019. At the same time, we have maintained our leadership position on our biggest regional market BIH and continued market share growth in Serbia where we are closing the gap against the market leader. In countries like Serbia, Kosovo and North Macedonia, 2021 was a year of new sales records.

Argeta's success has spread and accelerated on international markets managed by GDAM, which have grown by 14% in value compared to 2020. A new sales record was achieved in Germany (1,724 tones) with value index 111 compared to 2020 We grew distribution expansion and Argeta can now be found in all regions of Germany. In Austria, we implemented a new category growth strategy in 2021 focused on growing both brand and category penetration that realises in complete localisation of the marketing mix. New strategy implementation resulted in record sales volumes as well as MS (2.9 p.p. in value).[1] We strengthened our leadership position in Switzerland and were successful in growing Argeta sales on markets like Netherlands and Sweden, where competitive and retail environment was especially challenging in 2021 Argeta's success continued in Russia as well driven by growing distribution, NPDs (New product development) and increased focus on communication.

Since 2021 we are happy to claim Argeta is the No. 1 meat and fish pate in Europe, according to Nielsen data. Argeta has been No. 1 meat pate since 2018, but last year Argeta also obtained the title of No. 1 fish pate in Europe.

885 mil.

SBU SAVOURY SPREADS GENERATED SALES REVENUE OF HRK

6%

MORE COMPARED TO 2020

[1] Source: AC Nielsen

2021

COMPLETE VISUAL REDISGN OF PRODUCT PACKAGING

Argeta's biggest project in the past year affecting all our markets has been a complete visual redesign of our product packaging. After six years, Argeta brought a new, modern, and colourful look to its consumers. With this redesign, we distanced ourselves from the industrial look which is predominant with our competitors around the world within the meat and fish pate categories. The new image of Argeta's cans addresses consumers with illustrations that bring together the character and story of each individual taste. The new look encompasses the full range of Argeta, Argeta Junior and Argeta Exclusive meat and fish spreads.

Another big change was improving the nutritional value of Argeta Junior spreads. Even before that, Argeta Junior spreads were prepared from carefully selected and high-quality ingredients with no additives, but in 2021 we further improved the recipe of these products by drastically reducing fat and salt content. Despite the new recipe, Argeta Junior spreads remain exactly what children (and those who are only children at heart) know and love.

We added two new names to the Argeta Exclusive family. A new limited-edition creation was devised by chef Nina Čarman from Restaurant Danilo and her brother Gašper Čarman, an awarded sommelier. The siblings presented a complementary combination of the gentle Posoška trout, traditional but prominent tarragon and Sulec white wine, which was created by Gašper especially for Argeta Exclusive. Despite the uncertainties and restaurant closures due to COVID-19, we continued our mentorship program Argeta Exclusive Academy which aims to help develop young culinary talents in Slovenia and Croatia.

In 2021 Argeta's achievements were also noticed by the wider marketing community. We are very proud of our very own Digital Strategy Manager who was awarded the title of "Best digital persona of the year" by Websi. Our 'support local' initiative Posoška trout was the grand winner of SMK's Marketing Excellence awards. It also received a silver award at SOF (Slovenian Advertising Festival) and a bronze Effie. Another highly awarded project was Argeta Exclusive sound-tasting which turned Argeta Exclusive spreads into music to support the launch of two limited edition spreads at the end of 2020. It received one gold and two silver SOF awards in three different categories. Additionally, we received a silver SOF award for Argeta's redesign and a silver Effie for the 'Life is what we make of it' campaign.

As a strong player in our category, we are aware of the responsibility we have towards our users, society, and the environment. In 2021 we launched our Spread Good sustainability program – a 10-year plan with ambitious sustainability goals and commitments. We continue sticking to our 'Free From' promise for all our products. We improved our chicken pates with kulen, sudzuk and jagdaufstrich which previously still contained some additives. Now the only product that isn't additive-free is posna pate (contains thickeners). In regard to our transport packaging, we switched from 2x6 to 2x7 transport packaging. With this, we managed to reduce paper usage and optimize logistic parameters to achieve lower CO2 emissions.

In 2021 5.4% of raw tuna materials were MSC (Marine Stewardship Council) certified. Based on our sustainability commitments, we started cooperating with WWF (World Wide Fund for Nature) Adria. They will help us achieve fish and seafood targets which are focused on responsible fish supply. Our goal regarding chicken is that by 2030 we will only have barn range and organically raised chicken. In 2021, we already exceeded our goal for the 2021/2022 period. Our suppliers provided us 62% of barn range chicken and more than 6% of free-range and organic chicken.

5%

GROWTH OF MATERIAL COSTS COMPARED TO 2020

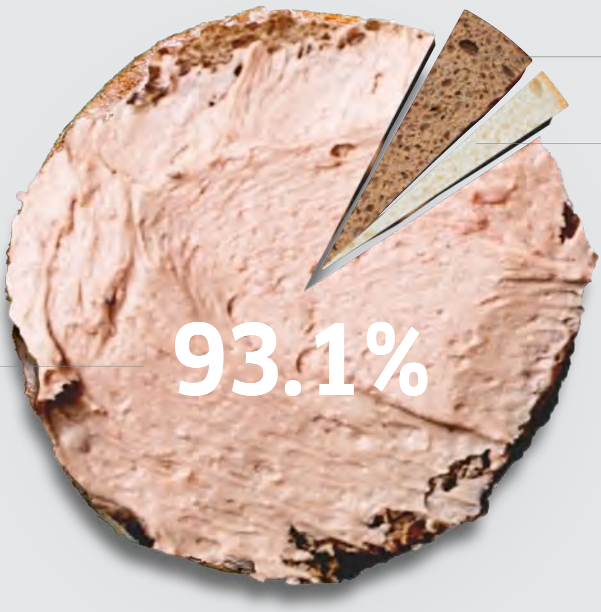
In 2021, we witnessed tectonic disruptions in the supply chain and the shortage of various raw materials on the global market. This led to sky-high prices. In addition, we are in the biggest crisis in history in terms of energy and service prices. With our good purchasing strategies, we were able to largely eliminate the negative price impact as we managed to conclude a long-term contract for the most important materials beforehand. Nevertheless, we recorded an average increase of 5% in the growth of material costs compared to 2020. As the global crisis persists, we will continue to face a major challenge in 2022 with issues of availability and high prices of materials.

In 2021 we spent HRK 34 million on capital investments. Our most important projects were exchange of production line for 95 g pate in Izola, overhaul of production line for 95 g pate in Sarajevo, and a new wastewater treatment plant in Igroš. Based on business development plans and Argeta's growth in the category, Atlantic Grupa decided to invest in the construction of a new production factory for Argeta in the vicinity of Varaždin in Croatia since our two existing factories in Izola and Hadžići are already running at full capacity and barely keeping up with the demand. With the realisation of the project, up to 150 new jobs are planned.

Sales by countries

* B&H - Bosnia and Herzegovina

Sales by categories




RL POW

Strategic business unit **Snacks**

The Strategic Business Unit (SBU) Snacks includes the sweet production programme in the categories of chocolate products, cookies, tea biscuits and wafers; the salty production programme consists of snacks such as extruded products (flips) and salty long-lasting biscuits (sticks).

In the second year of altered business conditions due to the COVID-19 pandemic, SBU Snacks recorded sales revenues of HRK 684 million, which represents a 6% growth compared to the previous year. Sales are higher across the region, especially in Montenegro (19%), Slovenia (11%) and BiH (10%). Significant growth was recorded in the Austrian market (42%) as a result of breaking out of the “ethnic” sales channel. A slight increase in sales outside Serbia was recorded, which accounted for 37% of total sales revenues.

As regards product categories, bars are achieving extraordinary success, primarily the brand Bananica that posted record-high sales and annual growth of 33%. A double-digit growth was also recorded in the categories of flips (Smoki 13%) and sticks (Prima 13%), which increases the share of salty snacks in the structure of the production programme. The market position of the strategic brand Smoki has been defended and improved at the regional level.

In the demanding conditions of 2021, it has become more challenging than ever to procure, manufacture and deliver a product that consumers will value as a confirmation of their choice. This task was further aggravated by disturbances in the global market of raw materials (cocoa, sugar, vegetable fat, corn grits, wheat flour, polymers, cardboard, paper, etc.), rising energy prices in general, as well as distribution and logistics constraints caused by the pandemic. In the new market circumstances, objectives were largely achieved through a timely response in the pricing policy based on systematic operational-financial market monitoring, as well as through optimised management.

By adjusting operations to extraordinary circumstances, the focus has expanded from maintaining the continuity of the production process to the identified opportunities to improve its efficiency. As a result, a new set of key operational indicators was defined and the performance measurement and incentive system was developed for rewarding employees in production and technical maintenance. The production process of flips was adapted to the use of new "big bag" packaging of peanuts, which achieves lasting cost savings together with easier manipulation in the procurement-production chain.

The following effects of measures taken in accordance with the corporate strategy of sustainable development were detected:

- share of recyclable packaging material increased from 85.6% to 99.2%,
- share of plastics in total packaging was reduced from 51% to 21.6% with an increase of recyclables in their composition,
- all paper and cardboard packaging is procured from FSC certified suppliers (76.9% of total packaging).

With the studious portfolio optimisation, the year ended with 226 active products. All innovative activities in the field of product portfolio management were carried out through the newly introduced “stage gate” procedure. A total of 79 products were launched, of which 19 new recipes. Portfolio changes were supported by 13 integrated marketing campaigns with a special focus on digital communication.

684 mil.

SBU SNACKS GENERATED SALES REVENUE OF HRK

226

ACTIVE PRODUCTS

Smoki Street Art Pack

In the year before its jubilee (2022 marks its 50th anniversary), Smoki confirmed the regional position of the brand with a vision. The new Smoki Street Art design, based on unique drawings by three graffiti artists from Serbia, Croatia and Slovenia, with an integrated "No Mistake" campaign, introduces a philosophy of relaxation through creation and everyday situations. As per the target group, the campaign includes digital activations with focus on Instagram, and a Tik Tok series called Little School of Street Art.

Smoki Sport Mix Challenge

During the European Football Championship, Smoki addressed the younger population with the Sport Challenge concept by launching a limited edition with an extremely spiced combination of flip flavours.

Smoki & Tortilla Cheddar

The Smoki portfolio was enriched with a new flavour, Smoki and Tortilla Cheddar.

Choco Smoki Perfect match

The regional campaign for Choco Smoki, a modern story about the perfect combination of crispy flips and the finest chocolate, was also based on the communication platform "No Mistake", and generated significant sales growth.

Prima redesign

In line with the cover slogan "Life With Flavour", the natural development of the brand Prima continued with the packaging redesign. The visual identity of the entire portfolio was harmonised and the brand's commitment to promoting healthy choices among snacks further emphasized.

Ice Bananica

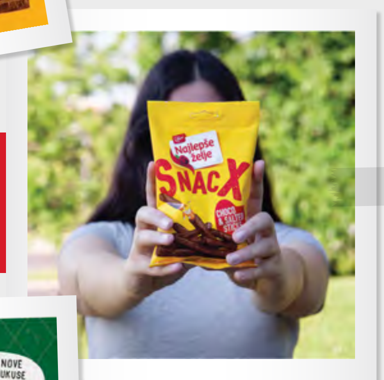
As a brave step forward, Ice Bananica upgraded this cult brand. The innovative combination of candy and refreshment in modern-design packaging is key for the success of this limited edition, which has managed to survive in the standard product assortment. The slogan "To Freeze From Happiness" continued the brand's communication with candy lovers who recognise pleasure in their everyday environment.

Bananica campaign

Packaging editions with imaginative and fun prints were launched on the same platform, thus adding dynamism, surprise and joy to this decades-old brand.

Najlepše želje

The new technical and technological conditions marked the beginning of transforming Najlepše Želje chocolates and building a brand that is fully relevant to modern consumers. Atlantic Stark became the first regional strategic partner of the leading global manufacturer of the cocoa mass Barry Callebaut, which produces cocoa masses according to our recipe. The new communication platform "Do Everything You Do With All Of Your Heart" supports the redesign of products and packaging that highlight heart motifs with clear symbolism of emotion at the core of the brand.



Najlepše želje

Furthermore, the brand is approaching the younger target group by launching chocolate-coated sticks, following the global "snackfactionary" trend of sweet and salty snacks.

Najljepše Želje winter edition

The year's end was greeted with winter editions "čarobna đanduja" (magic gianduja) and „zimski kolačić" (winter cookie) in the format of chocolate bars and pralines

Napola Tanke

The new playful concept of Napola Tanke refreshed Štark Napolitanke by combining coated and uncoated waffles in the same packaging. Under the slogan "The Best of Both Worlds", this concept was communicated to the targeted younger audience by engaging a well-known YouTuber.

Menaž drops

In response to the observed consumer habits of making desserts at home, a solid Coolinary communication platform has been defined, which combines traditional Petit Beurre, Piškote(Biscotti) and Avala biscuits with Menaž chocolate. In order to rejuvenate the target group, the Menaž portfolio was supplemented with white and black chocolate buttons, suitable for making and decorating desserts.

Coolinary

In order to promote the Coolinary portfolio, the first Štark application "I Love Desserts" was developed.

Ice Cream

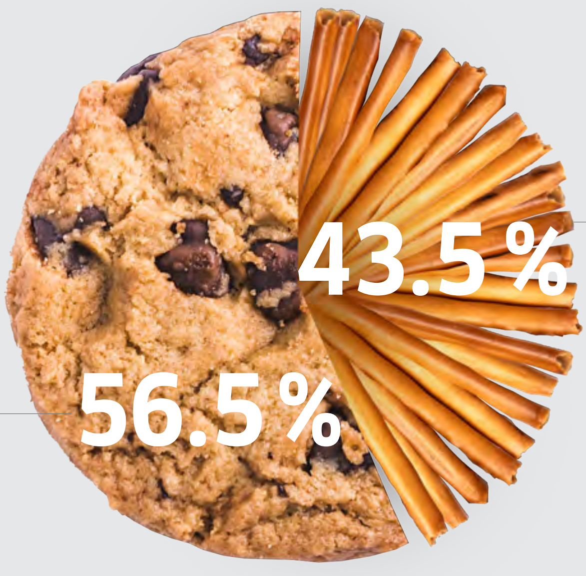
During the summer, Štark stores for the first time offered its "craft" ice creams. These were ice treats with well-known flavours – Najlepše Želje, Bananica, Smoki and Menaž – as an attraction for younger consumers and also a kind of preliminary test for the extension of strategic brands into new categories.

Capital expenditure in 2021 amounted to HRK 48 million. A modern line for the production and packaging of chocolates was fully implemented. The capacity was increased and preconditions for innovative development created. The new equipment enables the application of "frozen cone" technology and the "multifill" structure of chocolate products. This investment, extremely demanding from both the financial and organisational-technical aspect, marked the past year. Preparations were made in accordance with the approved capital projects for new production equipment on the lines for waffles (Belgrade) and biscuits (Ljubovija), which will improve the quality of finished products and enable ambitious innovations in these categories that will be the focus of the future period. For these lines, an agreement with the Ministry of Economy of the Republic of Serbia was signed with a 20% subsidy and the already paid first instalment.

Sales by countries

* B&H - Bosnia and Herzegovina

Sales by categories



Strategic business unit **Beverages**

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

The previous year's pandemic circumstances continued with a reduced impact on business operations in 2021 as well, and were most evident in restricting the working hours of catering facilities in the first quarter of the year. Despite this, a significant recovery (16%) was recorded in this segment compared to 2020, especially during the season months, while the main source of continuous growth (11%) for this period compared to 2020 was the retail segment in all major categories. We achieved these results thanks to maintaining the level of investment in our brands and people during 2020 as well as additional growth in investment in 2021 by 16% for brands and 9% for people. The commitment to maintaining investments in the key values is reflected in retaining or advancing the market positions of our brands in this segment, of which the greatest progress was made in the segment of Cedevita vitamin drinks.

In 2021, SBU Beverages generated sales revenues in the amount of HRK 536 million, which is an 11% growth compared to the previous year. Growth was recorded in all markets, while Croatia, Serbia and BiH stand out as the regional markets that generated the highest growth rates. As for international markets, which also achieved a positive growth index, Austria, the USA and Germany should be highlighted.

Cedevita GO, which underwent a redesign the year before, continued its good sales results in 2021 and recorded a 27% sales growth compared to 2020; sales of Cedevita for home consumption grew by 3%, Cockta 14%, candies 25%, and water 12%.

The summer season (June-September) should be highlighted as the key part of the year since the sales results in almost all markets exceeded even the record-breaking 2019. The majority of sales in 2021 were still generated on regional markets (97%), of which Croatia leads the way with a 42% share in total sales, Serbia with 19% and Slovenia with 18%.

536 mil.

SBU BEVERAGES GENERATED SALES REVENUE OF HRK

27%

SALES GROWTH GENERATED CEDEVITA GO COMPARED TO 2020

2021

NEW FLAVOUR
RED ORANGE LAUNCHED

In 2021, Cedevita packaging for home consumption was marked by two novelties. The first one refers to the launch of a new flavour – Red Orange, which in the previous year proved itself as an accepted flavour in On The Go (OTG) and HoReCa variants. The second is the new packaging and design of the overall range of home consumption products, the biggest innovation so far in this part of the Cedevita product assortment. This project started by researching consumer preferences in terms of packaging, and then, based on those preferences, placing on the market a practically solid medium packaging modelled according to the best rated 200g packaging. This makes pouring Cedevita directly into a glass easy, and also simplifies refilling by taking on the role of a container. In addition, it allows consumers an extremely easy way of opening and closing the packaging when it is used, while at the same time retaining maximum quality and freshness. The largest packaging is fitted with a cap that provides consumers with a simple and controlled way to pour their favourite beverage directly into a glass or easily transfer Cedevita into a medium or small packaging. Except functional improvements, new Cedevita packaging was significantly improved in terms of sustainability, as the packaging development process endeavoured to replace particular non-recyclable materials with more sustainable ones, i.e. recyclable materials.

In addition to the primary packaging, the secondary packaging in the so-called shelf-ready packaging is easier to handle and place on the shelf. An additional benefit of this form of packaging is the introduction of outer cardboard packaging made from renewable sources, thus significantly reducing the amount of plastic packaging used.

As far as product appearance is concerned, Cedevita was given a completely new visual identity which at first sight brings closer the favourite taste of Cedevita that awaits the consumer inside the packaging.

The replacement of the existing packaging with new ones across the markets was initiated at the end of the year, and 360º activation is planned in the first quarter of 2022.

As part of another pandemic year and the consequences that this long-term situation has on people's mental health, Cedevita, as the largest brand in the region within its segment, decided to use its strength and, as a socially responsible brand, help people maintain good mental health. The platform "Be Good. Be CE" was launched, where visitors can find practical and useful advice from professionals in the form of articles or videos that educate how people can help themselves in certain situations and maintain or improve their mental health. The platform has more and more visitors and plans to soon expand to other countries in the region.

2021

NEW MESSAGE PRESENTED, BE GOOD, BE CE

In 2021, the message spread through all media and campaigns was always: "Be Good. Be CE."

In 2021, Cockta continued to attract attention with its campaign "Live for Your Thing" and was extremely active, especially on digital channels. The campaign won a number of awards in this year as well; this includes the award for socially responsible projects and the award for the best social network campaign (Websi). The campaign was also awarded the third place in the Idea x competition for the best campaign on the market. In Croatia and Slovenia, it was rated as the best campaign among Atlantic Grupa's brands.

The year 2021 was marked by a slight recovery of the OTG segment, so Cockta grew the most in these formats. The market share growth in this highly competitive category was recorded in the markets of Croatia and Serbia.

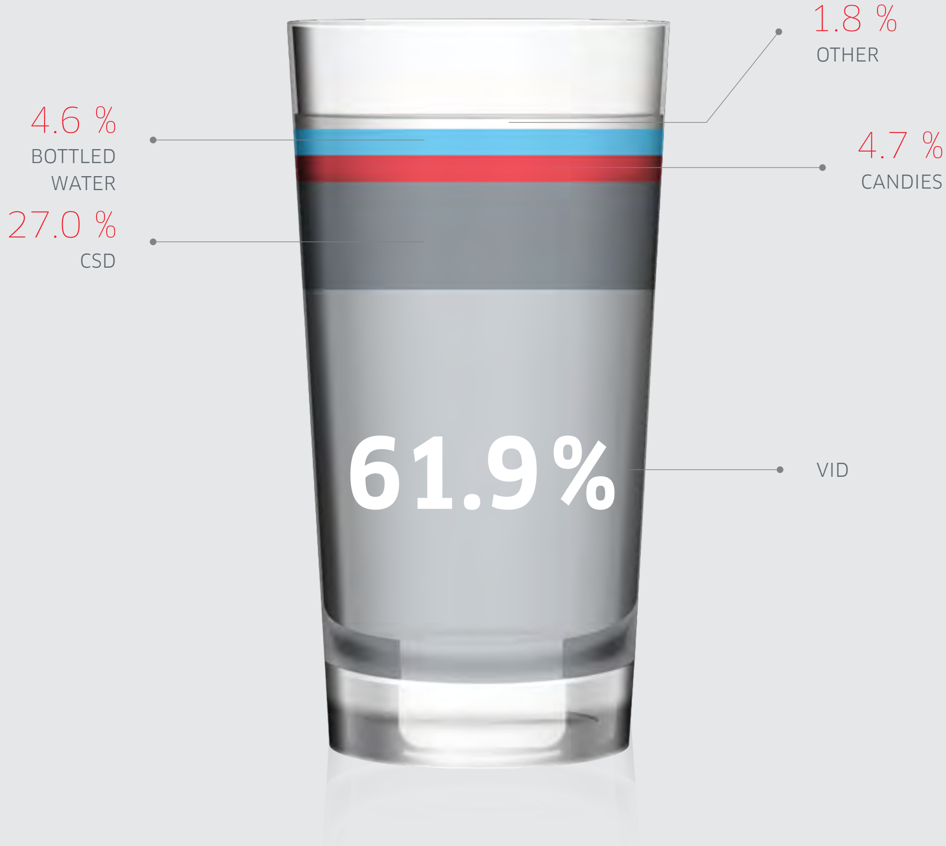
In SBU Beverages, quality, environmental and energy management systems are aligned with international standards (ISO 9001, 14001, 50001, HACCP, FSSC 22000 and IFS). IFS Food, the most demanding food safety and quality standard, was implemented in Atlantic Cedevita, which was for the second year in a row assessed as having a high level of compliance, while bottling plants in Croatia and Slovenia comply with the FSSC 22000 food safety standard.

The most important investments in enhancing production capacities and product development in this investment cycle were focused on the largest segment of vitamin instant drinks for home consumption, whereas investment in this segment was related to three packaging lines; new packaging was placed on the market in late 2021 and early 2022.

Sales by countries

* B&H - Bosnia and Herzegovina

Sales by categories



Strategic business unit
Pharma

In 2021, the Strategic Business Unit (SBU) Pharma achieved total sales revenues of HRK 563 million, which included the operations of pharmacies and specialised stores for medicinal products under the brand Farmacia and the production of baby food for the brand Bebi. At the end of 2021, Atlantic Grupa signed an agreement with Austrian company Gittis Naturprodukte GmbH on the sale of the production plant in Mirna, Slovenia, thus concluding the earlier process of selling the brand Bebi to Serbian Nelt Grupa. At the end of June 2021, the brand Bebi became the property of the company Fabrika Dečje Hrane d.o.o / Baby Food Factory LTD Serbia. This activity is part of the process of divesting non-core business operations in line with Atlantic's corporate strategy. The company Gittis takes over the entire production plant with employees and has long-term plans to fully activate the plant in Mirna, as well as to invest in its further technological development and its employees, which is an excellent prospect for this production plant.

Despite the challenges caused by the continuing COVID-19 pandemic, in 2021 Farmacia proceeded with the planned opening of new units and improving operations of existing ones. Four new units were opened, one was relocated, and one has rearranged its space, which will contribute to even more successful business operations.

The turnover in 2021 amounted to HRK 531 million, and by the end of the year, the Farmacia chain had 53 pharmacies and 43 specialised stores. One new location is the pharmacy in Kraljevica opened after its acquisition from the Galler Pharmacy, and the remaining three new units are specialised stores Marti Retail Park in Rijeka, and Matrix Office Park and Z Centre in Zagreb. The existing specialised store in the City Center Split was relocated to a more attractive position within the shopping centre, while the specialised store in Osijek (Kaufland) was refurbished.

In December 2021, Farmacia completed negotiations on the takeover of the health institution Kuzma and Damjan Pharmacies, which has three pharmacy units, two in Zagreb and one in Zadar. Kuzma and Damjan Pharmacies will be acquired by Atlantic Grupa on 1 January 2022. The completion of the merger with the health institution (HI) Farmacia is expected in the spring.

Despite the pandemic circumstances, in 2021 Farmacia realised additional sales of HRK 57 million and recorded a 12% growth compared to 2020, which is partly a result of making up for lower sales during the 2020 lockdown period, and partly a result of the very successful tourist season and return of citizens to shopping centres. The COVID-19 product range still accounted for a significant share of sales, and Farmacia ensured uninterrupted supply of citizens with these products.

The working conditions in Farmacia are still adjusted to the pandemic circumstances in order to protect employees and all citizens who require pharmacy services during the pandemic.

Farmacia joined national projects of the Ministry of Health, Croatian Institute for Health Insurance (HZZO), and Croatian Chamber of Pharmacists, and since September 2021 has been organising vaccination against COVID-19 in two pharmacies (Zagreb (Božidara Magovca) and Glina) every week and will continue to do so as long as citizens are interested. The second project was vaccination against influenza in pharmacies, which was carried out in late November and early December in three pharmacies (Zagreb (Božidara Magovca), Glina and Ivanska). With these projects, Farmacia is positioning itself in new roles that are expected in the pharmacy sector in the future.

farmacia®

FARMACIA GENERATED SALES REVENUE OF HRK

531 mil.

12%

SALES GROWTH GENERATED FARMACIA COMPARED TO 2020

The management of Farmacia continued adjusting all operational activities to the epidemiological 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 in Farmacia aimed at providing a quality pharmacy service, have been taking place in the virtual Training Centre on the Microsoft Teams platform with exceptionally high employee participation rates, which is an impetus for further digitalisation after the pandemic.

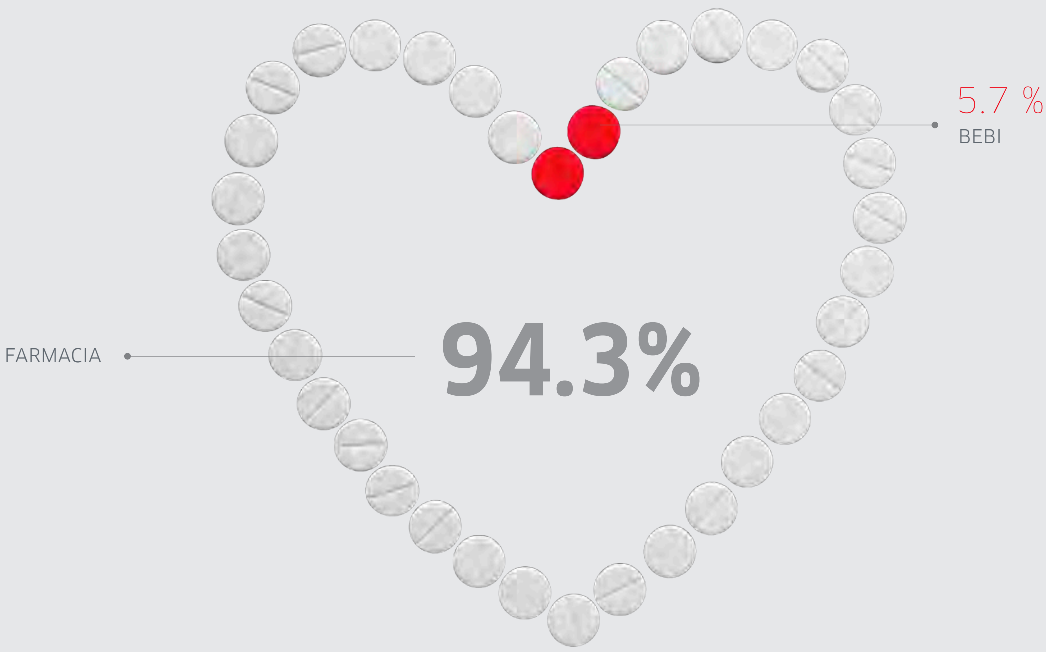
Existing specialised counselling centres, despite adjusting to work in new epidemiological conditions, recorded a growing interest of clients in counselling to solve their health problems and improve their quality of life. The sports and dermal-cosmetics counselling centres participated in outdoor projects and events as required by the epidemiological situation, where masters of pharmacy and pharmaceutical technicians were positioned as the most important Farmacia brand ambassadors.

Farmacia's web page and social network profiles have justified the trust of their numerous users. Using virtual channels, our clients and patients were informed on a daily basis about regular monthly activities, while the section Farmacia Expert brought articles by experts in specific areas to broaden knowledge of the wider community. After citizens changed their habits in the pandemic, our web-shop, with its abundant and adjusted offer, has proven to be an excellent tool for purchasing the over-the-counter assortment.

The introduction of canvas branded bags reduced the use of plastic bags in pharmacies and specialised stores, and the additional introduction of paper bags for sale and paper bags without handles in July positioned Farmacia as an institution that cares about environmental impacts.

Sales by countries

Sales by categories




Donat
Mg^{2+}
Ca^{2+}
HCO_3^-
SO_4^{2-}
KLINIČKI
POTIČE
BLAGOTVORNO
DJELUJE NA
Rogaška Slatina

Business unit **Donat**

In its second year of operation as a separate Business Unit (BU), BU Donat achieved significant milestones. It followed the long-term strategy of brand internationalisation and its premiumisation, which is to be reached on consumer insight and a profound understanding of the value that the Donat brand brings to consumers. Simultaneously to establishing Donat's new position, we began constructing a development concept for new products in the field of sustainable healthy digestion where products are in line with key advantages (natural ingredients, scientifically proven efficacy, sustainable production, and packaging) and compatible (but not comparable) with the functionality of Donat.

In 2021, BU Donat recorded sales revenues in the amount of HRK 219 million, which is a 12% growth compared to the previous year. Despite significant increase of RSP (Retail Sale Price) on all markets due to premiumisation, sales also increased in volume. In value sales Slovenia grew for 16%, Croatia 15%, BiH 15%, Italy 6%, Austria 7%, and Russia 2% vs PY. Great sell results are visible in context of category (Carbonated Natural mineral waters). Our value in key markets grew faster than category itself, meaning that Donat influenced the category development. Accordingly, in 2021, we achieved an improved market share in Croatia, where a 10% value market share was achieved for the first time; in Austria, the value market share increased by 0.2% and now stands at 1.6%; in Russia ,our value market share is 1.7%, while in Slovenia we have maintained a stable leading position with a 43% value market share.[2]

DONAT GENERATED SALES REVENUE OF HRK
219 mil.
WHICH IS
12%
GROWTH WHEN COMPARED TO 2020

In the first quarter of the year, Donat introduced to the public its new position of the brand using a new communication platform and slogan "Take care of your digestion, take care of yourself." The new position pertains to the disclosure of additional product functionalities which benefit digestion not only in the form of relief with issues, but also as a preventative measure against occurrence of the latter. The launch comes at a time where the significance of maintaining healthy digestion began to be intensively acknowledged and promoted by media. New scientific discoveries (gut – brain axis) have furthermore confirmed the significance of healthy digestion for the health of the entire body. Consumers became aware of the importance of healthy digestion which was confirmed through several studies (group focus, quantitative research, Con Joint). Consequently, the demand for such products continues to grow and people are willing to pay more for products that are natural and as effective as advertised, which Donat most certainly is.

[2] Source: AC Nielsen

The new position is being clearly expressed through the changes in the product design, with high emphasis on the explanation describing how Donat effects the entire digestive system (using intestine symbolism), as well as importance of its unique mineral composition - and not just the magnesium - that makes Donat effective. For this purpose, we removed MG from the logo and placed it next to other minerals. As a consequence, we renamed Donat Mg brand in Donat, to prevents wrong interpretations that have appeared in the past, suggesting that Donat is beneficial exclusively because as magnesium supplement.

During repositioning we changed also packaging material. We abolished the returnable bottle as its sales had drastically fallen for a few consecutive years. Based on the LCA (Life cycle analysis), the returnable bottle is not particularly environmentally friendly (weight, water consumption, detergents, and energy sources for cleaning). We launched a 100% recyclable plastic bottle and by doing so, we managed to decrease the CO2 footprint by a staggering 90% compared to the so-called virgin plastic bottle. This means that Donat primary packaging is now 100 % recyclable and 95% recycled (only the caps and the label foil aren't recycled). To do that, we successfully joined the circular economy system in the Slovenian and Austrian market in cooperation with the partner company Alpla Slovenija d. o. o. This company gets the entire quantity of the green fraction of PET packaging for the Slovenian and Austrian market, which is needed for the production of 100 % recycled Donat bottles. Along with that, 50% recycled LDPE wrapping foils were implemented. This way, we reduced the impact on the environment further. This is not where the tendency to create as environmentally friendly packaging as possible ends. We are in the process of evaluating and selecting other materials which could suit both; tendencies to decrease the CO2 footprint, as well as the consumers who, nevertheless, put convenience as their priority.

A significant influence for excellent results comes from three pillars which solidify the position of the Donat brand. These are medicinal marketing, exposure of product's exceptional nature at the point of sale through branding of the primary position in category (shopper marketing) and building relations with retailers (consumer marketing). Due to limited quantities and a clear premiumisation strategy, Donat does not use price discounts, and is therefore focused to present itself at points of sale through content activation.

Raising awareness and educating consumers on the importance of healthy digestion for the entire body, was a very important task of Donat in 2021 and will continue to be in the future years. That was done through advertising, media cooperation (content marketing), through Guided health programs teaching people about healthy habits, through cooperation with professional organisations and associations. In 2021, we established a partnership with the Gastro association from Croatia with a mutual goal of raising awareness and promoting prevention on digestive health by advocating participation in programs for early detection of colon diseases.

With educational materials on healthy digestion, including healthy menus and practical advices of how to keep digestion in normal function, we try to help specially to doctors of general practice and nurses in their mission to comprehensively introduce patients to habits that will maintain a healthy digestion.

In 2021, the achievements of Donat were recognised also by the expert community. In addition to the exceptional awards received in the digital field, Donat received an award for sustainable responsibility, a result of implementing 100% recycled plastic bottles and for the establishment of circular economy for packaging, making us the first company to do so in Slovenia. We were the receiver of a highly regarded Effie award for the brand with the most effective communication and for the first time in Slovenia, a platinum Effie award for the exceptionally effective communication platform “Take care of your digestion, take care of yourself.”

2021

EFFIE AWARD FOR MOST EFFICIENT CAMPAIGN

The fact that our first step towards realisation of the Donat brand's mission was done excellently brings even more responsibility and ambition to reach out and educate an even larger number of people in the year ahead. Therefore, we have already at the end of 2021, prepared and scientifically proved the efficacy of the new Guided health program, Vital, agreed on a partnership with SVIT program in Slovenia (a program for early detection of colon cancer), and began expanding the network to successfully engage medical public even in key internationalisation countries, such as in Austria and Russia.

Sales by countries

4.5 %
OTHER COUNTRIES

3.7 %
AUSTRIA

4.0 %
ITALY

6.8 %
B&H *

15.2 %
CROATIA

21.3 %
RUSSIA

44.5 %
SLOVENIA

* B&H - Bosnia and Herzegovina


BROWNIE & SALTED CARAMEL
JIMMY FANTASTIC
180 GRAM
BROWNIE & SALTED CARAMEL
FANTASTIC
cocoa HORIZONS
180 GRAM
CRISPY WAFERS
HAPPY BIG BITE


BOOM BOX
THE BEST OF OATS
BREZ DODANEGA SLADKORJA
CHOCOLATE & ALMONDS
ZOBENA | OVSENA
GRANOLA
METAL
PORTABLE STEREO RADIO CASSETTE RECORDER
CUE/REVIEW & FULL AUTO STOP MECHANISM

New **growth**

2021

NEW BRANDS BOOM BOX AND JIMMY FANTASTIC WERE BORN

In order to create new sources of growth, Atlantic Grupa in 2019 formed a department which is exclusively focused on the development of new brands. The selected projects developed in this organisational unit rely on long-term consumer trends, as well as on the strategy and strengths of the company itself. In less than two years marked by the pandemic, through this organisational unit the company managed to develop brand concepts and product portfolios for two new brands: Boom Box and Jimmy Fantastic. Both brands were launched in the markets of Croatia and Slovenia in spring 2021.

BOOM BOX: IN STEP WITH THE TREND OF PLANT-BASED NUTRITION

Boom Box is Atlantic's new brand with a unique proposition: small oat-based meals, 100% plant-based, and 100% no added sugar.

The market opportunity that Boom Box successfully uses consists of recognising major global trends emerging in local markets (plant based trend), changes in consumer needs and growing concerns about refined sugar intake, as well as creating an attractive identity that stands out in design and communication. Likewise, it consists of the practicality of Boom Box products reflected in the portion packaging of cereals and cookies, which brings an advantage over competitive products because it addresses more opportunities for consumption.

Boom Box is an oat platform that ends the year 2021 with 34 products in 4 categories: oatmeals, granola, plant-based beverages and biscuits.

The brand was launched in a relatively short development period of 11 months, in April 2021, in the markets of Croatia and Slovenia, and ends the year with good results, among which the following are key: seizing the position of the 2nd brand in value terms in the category of plant-based beverages in Croatia (11% value market share)[3] ; achieving an admirable result with oat cookies in the category of healthy biscuits in Croatia (10% value market share)[4] ; contributing to a 25% growth of the complex cereals category and a 3.5% value market share of Boom Box in Croatia[5] .

The development of Boom Box products was characterised by the involvement of nutritionists in identifying the main nutritional trade-offs that the consumer makes by consuming "mainstream" products of the target categories. A critical barrier to consumption and a source of consumer distrust in the key cereals category for Boom Box is adding refined sugar to products. Boom Box effectively removes this roadblock by relying on natural sources of sweetness such as oats, fruits, polyols and prebiotics in its products. In the category of plant-based beverages, Boom Box successfully removes consumer barriers by developing barista formulations of extremely pleasant and full flavours by offering products that combine oats with almond paste, hazelnuts and coconut. The advantage of Boom Box cookies is, in addition to removing the obstacle of excessive amounts of added refined sugar in biscuit formulations, the practicality of its 50-gram bag as a suitable portion packaging, and a square cookie that fits in a bite.

[3] Source: AC Nielsen Report, November 2021
[4] Source: Internal report
[5] Source: AC Nielsen Report, October 2021

The launch of the brand was supported by a strong media campaign whose goal in the first year was to present Boom Box and its basic features: "Totally oat", with no added sugar, in several categories. The noticeable media campaign achieved extremely good results[6] and aroused the target group's interest, which was reflected in the rapid sales growth. The investment in the 360° marketing mix has demonstrated its effectiveness despite special conditions of living in the pandemic.

The year 2021 was also marked by the rapid expansion of the brand with new products. Inspired by the beloved chocolate combinations, five months after its launch, the New Growth team ensured the growth of the Boom Box product range through new oatmeals in portion packaging. The observed new consumer need for higher proportions of protein in an increasing number of product categories resulted in the launch of both oatmeal and granola enriched with a high proportion of plant proteins. Concurrently, at the request of consumers, family packs (200g) of popular Boom Box cookies in all existing flavours were also launched.

The first incomplete year of Boom Box business operations proved that we have created new value for the consumer. In the future, Boom Box expects to expand into all regional markets, as well as develop an oat platform through new products and categories.

[6] Source: Ipsos, Ad Post Test, August 2021

JIMMY FANTASTIC: ENTERING THE CATEGORY OF CHOCOLATE BARS IN CROATIA AND SLOVENIA

The category of chocolate bars in Croatia and Slovenia is a very stable and large category with an extremely high share of promotion sales, which heightens consumers' price sensitivity. In addition to all the above, the category has expressed seasonality with an emphasis on the last quarter, i.e. the Christmas period. In both markets, the shares of competitors are stable over the years with minimal changes.

Jimmy Fantastic was created as a new proposal to the market aligned with the wishes and needs of consumers: higher quality product, familiar flavours combined in a different way, specific shape and thickness of the bar, introduction of a new 180g size (more suitable for consumption), modern design that makes this product an ideal gift, Cocoa Horizons certificate, consistent thickness across all sizes and consistent price across all flavours, as well as the brand concept, i.e. communication that speaks the consumer's language.

Jimmy Fantastic was launched in March 2021 in Croatia and Slovenia. The initial product portfolio consisted of six flavours: milk chocolate, roasted almond & hazelnut, crispy wafers, brownie & salted caramel, coconut & crunchy cookie, and caramelized mini rice. All six flavours were launched on the market in 180g packaging size, while four of those flavours were also available in a smaller 100g version.

78%

OF BRAND RECOGNITION AFTER FIRST WAVE OF COMMUNICATION

Marketing support was comprehensive and began with an internal launch during which we distributed gift packages to all employees in Croatia and Slovenia. The TV campaign lasted 23 weeks. It started in April and was followed by two waves of the OOH (Out of Home) campaign. Our digital campaign "Joke Arena" achieved record results in both countries and provided for us 3 WEBSI awards in Slovenia, including the one for the best digital campaign of the year. Advertising activities led to a 25% annual SOV (Share of Voice).

Already in initial months after its market launch, Jimmy achieved a 5% market share in Croatia (June)[7] and a 4% share in Slovenia (May)[8] . In October 2021, as part of the campaign's second wave, we expanded our portfolio with a new format, Jimmy Fantastic 50g in three flavours: milk chocolate, roasted almond & hazelnut, and crispy wafers. With Jimmy 50g, we also captured part of the sales at checkout and expanded the brand's visibility to another location at the point of sale.

We ended the year with Christmas packages for all customers in Croatia and Slovenia, as expected from a serious player in the category. The reactions of buyers and consumers were excellent, as well as additional positions with our largest buyers. Brand recognition exceeded 60% after the first wave of the campaign, and in Croatia this figure has risen to 78%[9] .

After the successful launch, focus in the next year will be on building the market share by widening distribution, providing attractive discount packages, new flavours and tailor-made activities for key buyers, as well as by continuing the successful communication adapted to mainstream consumers.

[7] Source: AC Nielsen Report, June 2021
[8] Source: AC Nielsen Report, May 2021
[9] Source: Valicon, December 2021

Sales by countries

Sales by categories

Strategic distribution units
and Distribution units

STRATEGIC DISTRIBUTION UNIT CROATIA

In 2021, the Strategic Distribution Unit (SDU) Croatia generated sales revenues in the amount of HRK 1,403 million, which represents a 12% growth compared to the previous year and a 4% growth compared to the record 2019. Higher revenues are primarily a result of the continued strong focus on outstanding market coverage, above-average seasonal and holiday spending, and further portfolio expansion with successful innovations (Jimmy Fantastic and Boom Box).

1,403 mil.

REVENUE OF HRK GENERATED BY SDU CROATIA WHICH IS

12%

MORE COMPARED TO 2020

Shopping and consumption habits caused by the COVID-19 crisis are gradually returning to their pre-pandemic normals, which is confirmed by the sales results in specific channels and categories.

The retail segment recorded an 11% sales growth compared to the previous year:

- Large format points of sale (hyper- and supermarkets, discount stores) recorded the highest growth rates,
- Smaller formats showed visible recovery compared to the previous year (kiosks, petrol channel, regional buyers and small customers) due to greater consumer movement and significantly better tourist season.

A 30% growth was achieved in the HoReCa channel due to a significantly smaller base in 2020 (closure of facilities for more than four months and a weak tourist season). Owing to the new RTM (Route-to-Market), which was used to optimise costs and improve our logistics service, we have ensured more profitable channel operations and strengthened the distribution of our portfolio.

As regards categories and brands, the highest growth was recorded by:

- Beverages – recovery of consumption in the HoReCa channel and recovery of the tourist season with organic sales growth accompanied by strong marketing support,
- Ferrero – recovery of impulse consumption, successful innovations and strong marketing support,
- Philips – strong sales growth supported by a significant increase in promotional activities in the market.

Through continuous optimisation of internal logistic and operational processes, we provide the basis for sustainable growth in the coming years as well. Despite the continued COVID-19 restrictions in 2021, SDU Croatia further improved inventory management and receivables collection process, resulting in lower write-offs and the collection of all outstanding receivables.

In the supply chain segment, the continuation of targeted implementation of the digital transformation in all aspects of operations was ensured during 2021 as well. This transformation is realised through implementing the development of robotisation of a part of warehousing processes together with the digitalisation of a part of input processes and inventory management.

STRATEGIC DISTRIBUTION UNIT SERBIA

The Strategic Distribution Unit (SDU) Serbia achieved the best sales results in the last 10 years. SDU Serbia recorded sales revenues in the amount of HRK 1,335 million, which represents an 8% turnover growth compared to the previous year and 6% compared to the former record-high 2019. The HoReCa channel fully recovered after an extremely challenging 2020, achieving significant growth compared to 2020, and a 10% growth of compared to 2019.

Most of the key brands achieved excellent results, namely: Grand instant, which recorded significant growth compared to 2020 and 2019, taking the second place in the category; brands Cockta, Cedevita VIN and Cedevita GO which, supported by the comprehensive PICOS (Picture of success) project, have been making significant progress for the second year in a row; brands Banana and Smoki which have been achieving record sales results and market share growth, thus increasing dominance in their categories. Another great year for Red Bull in Serbia with record-high sales of over 6 million cans. This outstanding result enabled a new distribution partnership between Red Bull and Atlantic in the North Macedonian market. Significant progress was made in the second year of cooperation with Saponia with a 26% growth of compared to 2020 and increased shares in most categories where the Saponia assortment is present. An exceptional addition to the distribution portfolio in Serbia is Intersnack, with which we signed a co-operation agreement at the end of 2021. Cooperation with Intersnack will increase our competitiveness in the salted snack category with a wide assortment of chips, and we also expect gradual growth in shares in the following years. We ended the year with an extremely favourable customer mix and excellent results in the traditional trade channel (traditional and small stores' channel).

In logistics, KPI Delivery on time was improved to 98.61% along with the implementation of more advanced tools. The ASN (Advanced Shipping Note) tool enabled automated receipt through WMS (Warehouse Management System) and SAP in all 4 distribution centres. The implementation of the Mobile Dispatching tool as an upgrade to the already implemented Digital Shipment enabled the complete digitalization of receipt and discharge of goods and other materials, thus enabling the E-archiving option, which is an innovation in the regional market.

The improved process of monitoring the profitability of brands while maintaining the standard level of control over operating costs enabled us to improve the distribution margin. We also continued to improve working capital by reducing the period of collection of receivables from clients (4.5% faster average receivables collection compared to 2020) with a significant reduction in average inventory days.

STRATEGIC DISTRIBUTION UNIT SLOVENIA

In 2021, the Strategic Distribution Unit (SDU) Slovenia had stable operations and generated sales revenues of HRK 1,013 million, which represents a 3% growth compared to 2020. We continued our continuous focus on business excellence and efficiency and, in the second half of the year, strengthened our sales team and maintained our status among the leading consumer distributors in Slovenia.

The diverse portfolio and the team's commitment contributed to the result in the retail channel, which recorded a 3% growth. The highest growth, +26%, was realised in pharmacy and kiosk channels, the latter of which recovered from the impact of the last year's COVID-19 pandemic. The discount store channel continued its growth with +8%, both because of the growth of the channel itself and of our activities in it. In the last quarter, COVID-19 measures affected larger sale formats and petrol stations, and recorded a drop compared to the previous year. Accordingly, our strategy remains to continuously monitor and optimise the assortment according to the sale format.

Consumers of our products were more mobile again in 2021, which caused a slight decline in the category of spreads. New players entered the same category but, according to Nielsen data, we managed to retain the leading position in meat spreads. We strengthened Donat's value market share to a record 43% and maintained almost 80% of the value market share of Turkish coffee. In addition to the current product portfolio, we have launched two completely new brands on the Slovenian market: Jimmy Fantastic, with which we entered the category of chocolates, and Boom Box, with which we entered 4 new categories: oatmeals, granola, plant-based beverages and biscuits.

The HoReCa channel was entirely closed for the first four months due to the measures for preventing the spreading of COVID-19 pandemic. The remainder of the year, particularly the last quarter, brought a smaller number of visitors to catering facilities due to PCT conditions (certificate of recovery, vaccination, negative test). Still, despite this, we recorded a 5% growth. One of the factors contributing to this growth is our strategic partnership with one of the largest vending machine operators on the market.

We continued successful cooperation with our partners. During the year, we measured their satisfaction through an anonymous survey, and we are pleased that both our customers and principals are generally satisfied with SDU Slovenia. In order to continue maintaining a high level of their satisfaction, we will repeat this measurement every year and make corrections if necessary.

We worked on the optimal mix of products, prices, activities, distribution depth, and speed of launching new products on the market with all our principals to ensure their availability and attractive offers to consumers. Our field team further enhanced this with excellent additional positions. Thus, together with the Unilever team, we successfully launched three new product categories, improved the sales shares of our largest clients, and optimised our operations to the extent that we have no problems with shelf life. We are delighted with their exceptional satisfaction, which resulted in a new multi-year contract with them.

With the principal Ferrero, we managed to further strengthen our share in the snack segment to one-third of the category, and in December we achieved an excellent share in praline sales, according to Nielsen data as much as 34.2%. With the principal Hipp, we achieved growth in shares of all baby food categories relevant to us. According to Nielsen data, we achieved a 17.9% share in the entire children's category and realised growth above the category's average. At the end of the year, we signed a new multi-year contract with our very satisfied partner Upfield.

We are continuously working on the optimisation and automation of our processes, and we have successfully implemented EDI operations for over 90% of output documents and over 70% of input documents.

DISTRIBUTION UNIT MACEDONIA

In 2021, the Distribution Unit (DU) Macedonia) continued its steady growth and increased the company's income, despite the prolonged presence and impact of the COVID-19 pandemic. DU Macedonia is maintaining the position of the biggest distributor company of consumer goods in North Macedonia by turnover. With a wide-ranged and diversified portfolio, with high-quality products, our company satisfies a broad range of consumer needs. Besides the familiar and famous internal brands (Argeta, Grand kafa, Cedevita, Smoki, Bananica, Najlepše Zelje, Cockta etc), DU Macedonia distributes a portfolio of well-known international companies - Ferrero, Hipp, Ficosota, Beiersdorf.

In comparison with 2020, DU Macedonia has achieved sales revenues growth of 7%, as well as increase in profit, as a combined result of strong brands, continuous market investments, operational efficiency and more focused organisation achieved with the reorganisation of Key Accounts and Brand Operations departments. Besides COVID-19 pandemic, DU Macedonia remained a stable partner on the North Macedonian market and contributed to the positive performance of all brands in its distribution portfolio. Although the HoReCa segment was directly affected by the pandemic for most of the year, growth was accomplished due to positive effects of the summer season. Certain channels in the Retail segment, which were affected by COVID-19 pandemic in 2020, also had their recovery in 2021. DU Macedonia succeeded in realising additional value for the company, not only expressed through positive business results, but also in the human potential and culture segment.

During 2021, we have maintained our portfolio and achieved stable performance and growth of all principals in the portfolio, and strengthened their power on the domestic market. SBU Coffee has the biggest share in our sales (22% from our total portfolio), followed by SBU Savoury Spreads (21%) and principal brand Ferrero (17%).

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

Every day, 211 employees organised in different departments by function, including the HoReCa segment, are focused on the development and promotion of our company and the brands we distribute.

Continuous focus on the current portfolio growth through the improvement of service satisfaction and reaching excellence in execution puts DU Macedonia on the map of strong global and regional brands as a prospective distribution partner.

In the near future we expect further growth of income and investment in operational efficiency, with existing portfolio, as well as new brands.

DISTRIBUTION UNIT AUSTRIA

The Distribution Unit (DU) Austria in 2021 recorded turnover of HRK 115 million, which equals a 10% growth versus the previous year in terms of total sales. Growth came from most of the internal brands, whereas Argeta and brands from the Atlantic Štark product portfolio had the most significant growth effect in the total result. Biggest growth drivers were new listings, increase in market share and stronger focus on in-store activations. In order to support further growth in the Austrian market, Argeta has re-launched all products with changed recipe based on meat made in Austria. Argeta remains the brand with a highest share in the total market sales and the category market leader with a 42.1% market share according to Nielsen data, which is 2.9% increase vs. the previous year.

During 2021, Route Master application for field sales team and demand planning tool have been implemented with the purpose of increasing market understanding and improving the value proposition for customers.

Furthermore, DU Austria has successfully implemented EDI invoicing system with all big customers and has now paperless invoicing for more than 95% of customers.

GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT

Even though the COVID-19 pandemic has continued to pose unprecedented challenges, Atlantic Grupa in this segment recorded sales revenues of HRK 258.0 million, a significant increase of 9.4% compared to 2020. Growth was recorded in almost all European markets and in the USA. The exception where the sales stayed on the level of sales in 2020 are the United Kingdom, Netherlands, Australia and Canada.

In the country cluster consisting of Germany, Switzerland and Benelux, Atlantic Grupa recorded the highest growth in Germany due to distribution development and in Switzerland due to implemented trade activities. The biggest growth contributor remained Argeta with 10% higher sales in 2021 compared to 2020 in Germany and 8% higher sales in Switzerland. Due to the development of the Mass Market channel in Benelux, there was distribution growth as a result of implemented trade marketing activities mainly by Argeta. Significant sales increase was recorded on the USA market with 19% higher sales compared to 2020. By individual brand, the largest growth contributor is Argeta and Granny Secret.

When it comes to other Western European countries, Atlantic Grupa recorded significant sales growth in France and in Sweden. By individual brand, the largest contributor on both markets were Argeta and Stark due to improved distribution in France while significant sales increase in Sweden was driven by implemented trade marketing activities.

The key market in the region of Central and Eastern Europe is Albania with 13% higher sales in 2021 compared to 2020, while the largest contributor was Argeta. Romania is our new market for Argeta and Grand Kafa.

DISTRIBUTION UNIT RUSSIA

2021 was another year of COVID-19 environment with all the challenges that go along with it. The Distribution Unit (DU) Russia recorded sales revenues in the amount of HRK 113 million, which represents a decline in sales compared to the previous year and comes as a result of divesting baby food Bebi.

For DU Russia, people's health was the ultimate priority. Regardless of the pandemic circumstances, we continue to build a culture of accountability, engagement, empowerment and teamwork, which allow us to maintain a high pace of business operations while keeping people in a good physical and emotional shape.

During the last year, it was even more important to stay focused and pursue adopted strategy. DU Russia continued to develop distribution capabilities via centre around essential business pillars: people, brands, markets. We established agile brands/channels-oriented team, improving execution of listing, trade marketing activities and in-store visibility. Thanks to undertaken efforts, Donat is present in 32 000 POS (Point of sale) across the Russia and Argeta reached almost 20 000 POS (Point of sale) presence in all major Russian retailer's chain.

Portfolio consolidation and Operational excellence, our strategic priorities, contributed to significant increase in profitability, generating sufficient margins to fuel the bottom line and reinvest funds to build brands strength and awareness among Russian consumers.

Financial operations of Atlantic Grupa

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

After an extremely challenging and unstable 2020, the year 2021 was marked by economic recovery and, to a greater extent, return to the usual business environment. Despite strong economic activity in the first part of the year, we noticed volatility in the markets in the second part of the year due to rising prices of raw materials and disruptions in global supply chains.

The year 2021 was a highly successful year for Atlantic Grupa in which we recorded record-high sales of HRK 5,702.5 million and thus significantly exceeded the record pre-pandemic 2019. The improved epidemiological situation in almost all markets, recovery of HoReCa channel, and better tourist season in Croatia had a significant impact on sales growth, and all business and distribution units posted record sales revenues. Earnings before interest, taxes, depreciation and amortisation (EBITDA*) are 2.7% lower compared to the previous year and amounted to HRK 735.0 million due to higher costs of raw materials and packaging materials, transport and logistics costs, marketing investments and a significant increase in personnel costs. It is important to highlight that, even in the pandemic circumstances, we continued to strive for excellence and invested in digital infrastructure and technology, quality system and marketing.

Together with historically the highest amount of cash generated through operations of HRK 736 million, continued deleveraging led to a further decrease in interest expenses and a significant decrease in debt, whereby the net debt to EBITDA* ratio of 0.6 is the lowest debt level since the acquisition of Droga Kolinska in 2010.

Stable operations and top results did not go unnoticed, so Atlantic Grupa in this year recorded the highest share price in its history, as well as the record-high amount of dividend per share. The investment community recognised the high transparency and quality of business communication with investors, so we, for the fifth time, received the first prize for investor relations, which is awarded under the auspices of Poslovni Dnevnik and the Zagreb Stock Exchange. We also received another significant recognition: an award for the highest compliance with the corporate governance code on the Prime Market of the Zagreb Stock Exchange.

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

The end of February 2022 was marked by the outbreak of war in Ukraine. At the date of approval of this report, Atlantic Grupa's business operations are running smoothly. By selling the Business Unit Baby Food in 2021, Atlantic Grupa has significantly reduced its exposure in Russia and CIS markets. Consequently, the war events do not have a direct material impact on Atlantic Grupa's operations, while indirect consequences, primarily in the form of additional supply chains issues and inflationary pressures, cannot be assessed at this time. Atlantic Grupa's management is closely monitoring the development of the situation and taking all available measures to reduce risks in the new circumstances.

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

Sales trends
in 2021

SALES PROFILE BY STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2021	2020	2021/2020
SBU Coffee	**1,196.2**	1,106.9	8.1%
SBU Savoury Spreads	**885.2**	836.1	5.9%
SBU Snacks	**684.4**	644.2	6.2%
SBU Beverages	**536.4**	481.7	11.4%
SBU Pharma	**563.3**	539.8	4.4%
BU Donat	**218.8**	196.3	11.5%
SDU Croatia	**1,403.2**	1,250.8	12.2%
SDU Serbia	**1,335.4**	1,231.5	8.4%
SDU Slovenia	**1,012.8**	981.3	3.2%
Other segments*	**820.8**	778.0	5.5%
Reconciliation**	**(2,954.0)**	(2,794.4)	n/a
Sales	**5,702.5**	5,252.0	8.6%

The comparative period has been adjusted to the reporting for 2021

In 2021, Atlantic Grupa recorded sales of HRK 5.7 billion, which is an 8.6% growth compared to the previous year. The revenue growth is recorded in all business and distribution units following excellent sales results of the majority of own and principal brands. The highest percentage growth was recorded by the Strategic business unit Beverages, the Business unit Donat and the pharmacy chain Farmacia. After the poorer first quarter (due to significant restrictions in the operations of the HoReCa channel at the beginning of the year), the sales growth was realised in the rest of the year due to a better epidemiological situation on all markets, and the easing of measures to prevent the spread of the pandemic, and a significantly better tourist season in Croatia, compared to the previous year. If we exclude the effect of sales of the divested business, the baby food brand Bebi, which was fully divested at the end of June, organic sales growth would be 9.4%***. It is important to note that comparable sales were 9.3% above the level achieved in 2019***.

Atlantic Grupa records sales by business segments in a way that sales of individual Strategic Business Units and Business Units represent the total sales to third parties in the markets (either directly from a Strategic Business Unit (SBU) or Business Unit (BU), or through a Strategic Distribution Unit (SDU), Distribution Unit (DU) or Global Distribution Account Management (GDAM)), while sales of Strategic Distribution Units, Distribution Units and Global Distribution Account Management include both sales of external principals' products and sales of own products. Comparative period has been adjusted to reflect the reporting for 2021.

* Other segments include BU New Growth, DU Austria, DU Russia, GDAM and DU Macedonia.

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

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

The **STRATEGIC BUSINESS UNIT COFFEE** records a significant sales growth primarily as a result of the increase in sales in all regional markets, with the highest growth recorded in the markets of Croatia, Serbia and Bosnia and Herzegovina. Analysed by categories, growth was recorded by all categories, with the most significant growth recorded by roast and ground coffee under the Grand kafa and Bonito brands, and Barcaffé, coffee for on-the-go consumption, instant coffee and Barcaffé Perfetto capsules. Espresso coffee records a significant growth primarily as a consequence of the acquisition of Procaffe and the increase in sales of espresso coffee under the Barcaffé brand following the easing of measures to prevent the spread of COVID-19 in the HoReCa channel. It should be noted that we record additional 1,207 locations in the HoReCa channel, which is a significant growth compared to 2020, primarily due to acquisitions in the markets of Croatia and Serbia. Compared to 2019, the SBU Coffee records an increase in sales of 5.3%.

The **STRATEGIC BUSINESS UNIT SAVOURY SPREADS** recorded an increase in sales due to the excellent business results primarily in Western markets (Germany, Austria, the United States of America and Switzerland) and the market of Kosovo (due to the return of diaspora after two years), and the market of Russia, which fully cancelled out the decrease in sales in the market of Slovenia, caused by high sales of this segment in the previous year. Growth was recorded both in meat and fish savoury spreads segments. Also, jams and ajvar under the Granny's Secret brand and sandwiches under the Montana brand record double-digit sales growth. Savoury Spreads recorded as much as 22.0% higher sales compared to 2019.

The **STRATEGIC BUSINESS UNIT SNACKS** recorded an increase in sales in almost all regional markets, with the most significant growth recorded by the markets of Serbia, Bosnia and Herzegovina and Montenegro. Analysed by categories, the double-digit growth is recorded by flips under the Smoki brand, Bananica (also the fastest-growing brand in 2021) and Prima sticks. Sales of this Strategic unit are 1.4% higher than the sales recorded in 2019.

The **STRATEGIC BUSINESS UNIT BEVERAGES** recorded a double-digit sales growth in almost all markets, with the most significant growth recorded by the markets of Croatia, Serbia, and Bosnia and Herzegovina. Significant sales growth is recorded by Cockta and visually refreshed Cedevita, where the sales growth in the HoReCa channel and Cedevita GO stand out. Revenue growth in this segment was also impacted by the significant easing of measures in the HoReCa channel, primarily in the second part of the year, and a successful tourist season in Croatia, the dominant market of this business segment. Compared to 2019, the comparable* sales are only 0.2% lower, primarily due to restrictions in the operations of the HoReCa channel.

The **STRATEGIC BUSINESS UNIT PHARMA** records a double-digit sales growth of the pharmacy chain Farmacia due to a significant sales growth primarily in the second quarter (easing of measures to prevent the spread of the pandemic which were in force in the same period of the previous year) and in the last quarter, due to the worsening of the epidemiological situation (the fourth wave) and the consequent increased demand for the COVID-19 range (drugs, disinfectants, tests, protective equipment). The above mentioned growth fully cancelled out the decrease in sales of the divested brand Bebi in the Russian market. If we exclude the effect of Bebi brand sales, the sales of this unit record a significant growth of 12.7%*.
In addition, in 2021, this segment records 17.2% higher comparable* sales compared to 2019. As at 31 December 2021, Farmacia consists of 96 pharmacies and specialised stores (including webshop), which is 6 retail units more compared to 2019.

Double-digit growth rates are recorded by the **BUSINESS UNIT DONAT** due to the increase in sales primarily in the market of Slovenia, and in the markets of Croatia and Bosnia and Herzegovina. Compared to 2019, the significant 14.5% growth was recorded.

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Double-digit growth rates are recorded by the **STRATEGIC DISTRIBUTION UNIT CROATIA** as a consequence of excellent results of own and principal brands. Own brands recorded growth in almost all categories, and the brands that especially stand out are two new brands – Jimmy Fantastic and Boom Box, Cedevita and Cockta brands in the retail channel, Cedevita GO, sandwiches under the Montana brand, roast and ground coffee under the Barcaffé brand, flips under the Smoki brand and functional water Donat. A significant growth was recorded also by the HoReCa channel, primarily due to excellent results of Cedevita and Barcaffé espresso. Among principal brands, the most significant growth was recorded by Ferrero, Phillips and Mars. The growth in sales in this segment was impacted by the easing of restrictive measures to combat the pandemic in the second part of the year, and a better tourist season in Croatia compared to the previous year. This unit recorded 4.4% higher comparable sales* compared to 2019.

The **STRATEGIC DISTRIBUTION UNIT SERBIA** recorded a significant sales growth as a result of the increase in sales of roast and ground coffee under the Grand kafa and Bonito brands, flips under the Smoki brand and Bananica in the snacks segment, Cedevita GO in the beverages segment, and Cockta in the retail channel. Among principal brands, Red Bull, Rauch and Saponia stand out. Strong sales are also recorded by the HoReCa channel following the significantly milder restrictions and the easing of measures to combat the pandemic. This unit also records 5.7% higher sales compared to 2019.

The **STRATEGIC DISTRIBUTION UNIT SLOVENIA** records sales growth due to the growth of own and principal brands. Among own brands, the brands that especially stand out are two new brands – Jimmy Fantastic and Boom Box, functional water Donat, flips under the Smoki brand, and Cockta in the retail channel and Cedevita GO in the beverages segment. Among principal brands, Ferrero and Rauch stand out. As in other markets, the recovery of the HoReCa channel is noticeable also in the Slovenian market due to milder measures to prevent the spread of the pandemic for most of the year, compared to the previous year. The sales are 7.6% higher compared to 2019.

OTHER SEGMENTS record sales growth in the distribution units Austria, North Macedonia and the Global Distribution Account Management, and in the new business unit New Growth, which fully cancelled out the decrease in sales recorded in the distribution unit Russia following the decrease in sales of the divested baby food brand Bebi. If we exclude the effect of sales of the Bebi brand, Other segments record an 11.1%* growth. Also, the sales are 28.9%* higher compared to 2019.

The **DISTRIBUTION UNIT MACEDONIA** recorded an increase in sales due to the increase in sales of own and principal brands. Own brands are led by the sales growth of Argeta in the savoury spreads segment, roast and ground coffee under the Grand kafa brand, the Cedevita brand in the beverages segment, and flips under the Smoki brand in the snacks segment. Among principals, Ferrero and Hipp stand out.

The **DISTRIBUTION UNIT AUSTRIA** records double-digit growth rates, mainly due to the growth of own brands, primarily Argeta in the savoury spreads segment, and Smoki, Bananica and Prima sticks in the snacks segment.

The **GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT** records a significant sales growth, with the biggest growth recorded by the markets of Germany, the Unites States of America, Switzerland, and France in the savoury spreads segment under the Argeta brand and flips under the Smoki brand in the snacks segment.

The **DISTRIBUTION UNIT RUSSIA** records a decrease in sales as a consequence of the decrease in sales of baby food under the Bebi brand which was partially cancelled out by the double-digit growth in sales of Argeta in the savoury spreads segment, and functional water Donat. If we exclude the effect of sales of the divested brand Bebi, the sales of this unit grew by 11.9%.

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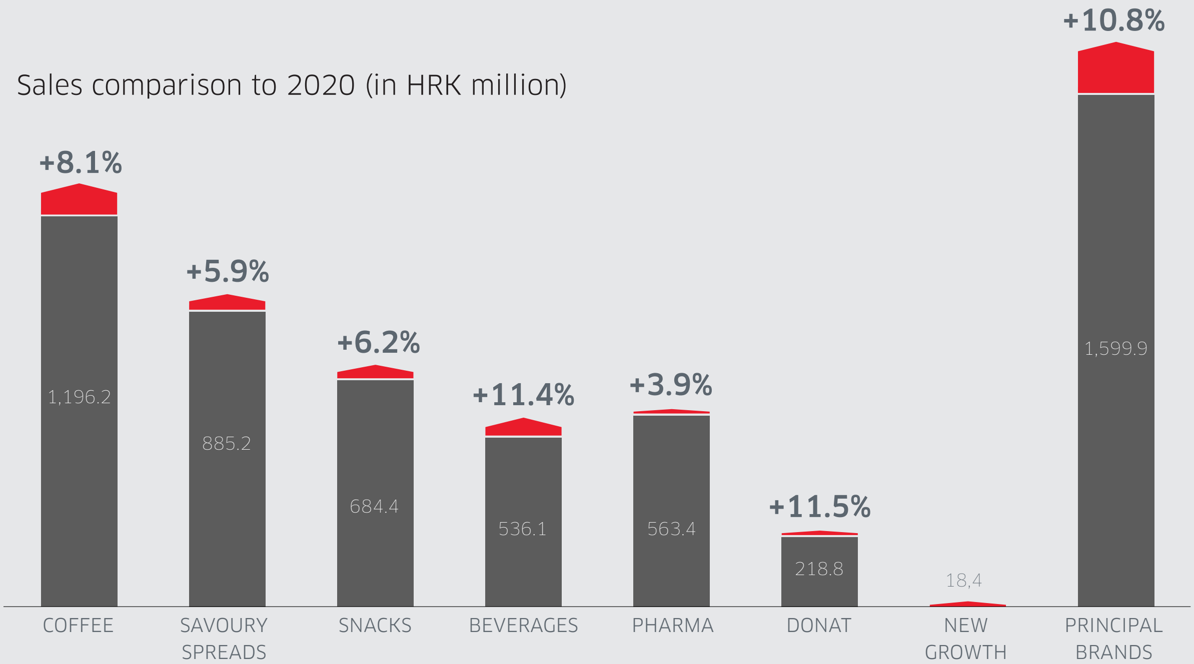
SALES PROFILE BY SEGMENTS

Sales comparison to 2020 (in HRK million)



2021

COFFEE	21.0 %
SAVOURY SPREADS	15.5 %
SNACKS	12.0 %
PHARMA	9.9 %
BEVERAGES	9.4 %
DONAT	3.8 %
NEW GROWTH	0.3 %
PRINCIPAL BRANDS	28.1 %

2020

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

SALES PROFILE BY MARKETS

(in HRK millions)	2021	% of sales	2020	% of sales	2021/2020
Croatia	1,945.6	34.1%	1,724.2	32.8%	12.8%
Serbia	1,352.9	23.7%	1,248.8	23.8%	8.3%
Slovenia	1,013.7	17.8%	982.1	18.7%	3.2%
Bosnia and Herzegovina	422.6	7.4%	388.2	7.4%	8.8%
Other regional markets*	466.6	8.2%	418.9	8.0%	11.4%
Key European markets**	275.8	4.8%	251.8	4.8%	9.6%
Russia and CIS	116.3	2.0%	139.2	2.7%	(16.5%)
Other markets	108.9	2.0%	98.8	1.8%	10.2%
Total sales	5,702.5	100.0%	5,252.0	100.0%	8.6%

*Other regional markets: North Macedonia, Montenegro, Kosovo
**Key European markets: Germany, Switzerland, Austria, Sweden
The comparative period has been adjusted to the reporting for 2021

- The **MARKET OF CROATIA** recorded a double-digit sales growth as a result of the easing of measures to prevent the pandemic, primarily in the HoReCa channel, and a significantly better tourist season compared to the previous year. Sales growth was recorded by: (i) most own brands, with the biggest growth recorded by new brands Jimmy Fantastic and Boom Box, Cedevita and Cockta in the retail channel, Cedevita GO, Cedevita and Barcaffé espresso in the HoReCa channel, sandwiches under the Montana brand, and functional water Donat, (ii) the pharmacy chain Farmacia, and (iii) external principals, among which the biggest growth was recorded by Ferrero, Phillips and Mars.

- A significant sales growth is recorded in the **MARKET OF SERBIA,** primarily from the sales of own brands, of which the following stand out: (i) Grand kafa and Bonito in the coffee segment, (ii) Bananica and Smoki in the snacks segment, and (iii) Cockta in the retail channel and Cedevita GO in the beverages segment. Among principal brands, growth comes from Red Bull, Rauch and Saponia.

- The increase in sales of 3.2% in the **MARKET OF SLOVENIA** is based on the increase in sales of: (i) functional water Donat, (ii) new own brands Jimmy Fantastic and Boom Box, (iii) flips under the Smoki brand, (iv) Cockta in the retail channel and Cedevita GO in the beverages segment, and (v) principal brands Ferrero and Rauch.

- The **MARKET OF BOSNIA AND HERZEGOVINA** recorded an 8.8% sales growth as a result of the easing of measures to prevent the pandemic, primarily in the HoReCa channel. The growth came from: (i) roast and ground coffee under the Grand kafa brand, (ii) Cedevita and Cockta in the beverages segment, (iii) functional water Donat, and (iv) flips under the Smoki brand and Bananica in the snacks range.

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

- The significant sales growth, of 9.6%, on the **KEY EUROPEAN MARKETS** was recorded in all markets, where the markets of Austria and Germany recorded double-digit growth due to the increase in sales of Argeta in the savoury spreads segment and flips under the Smoki brand.

- The decrease in sales was recorded by the **MARKET OF RUSSIA AND THE COMMONWEALTH OF INDEPENDENT STATES** following the decrease in sales of the baby food range under the Bebi brand. This decrease was partly cancelled out by the increase in sales of savoury spreads under the Argeta brand. If we exclude the effect of the divested business, i.e. the sales of the Bebi brand, this market records a significant growth of 18.2%*.

- A double-digit sales growth is recorded in **OTHER MARKETS**, primarily due to the increase in sales of savoury spreads under the Argeta brand in most Other markets, with the most significant growth recorded by the markets of the United States of America and France.

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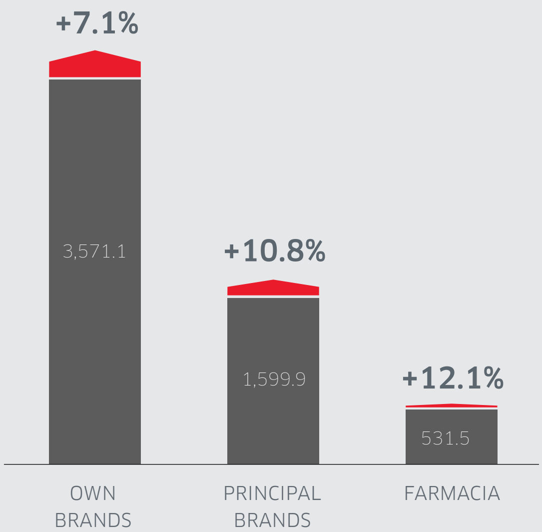
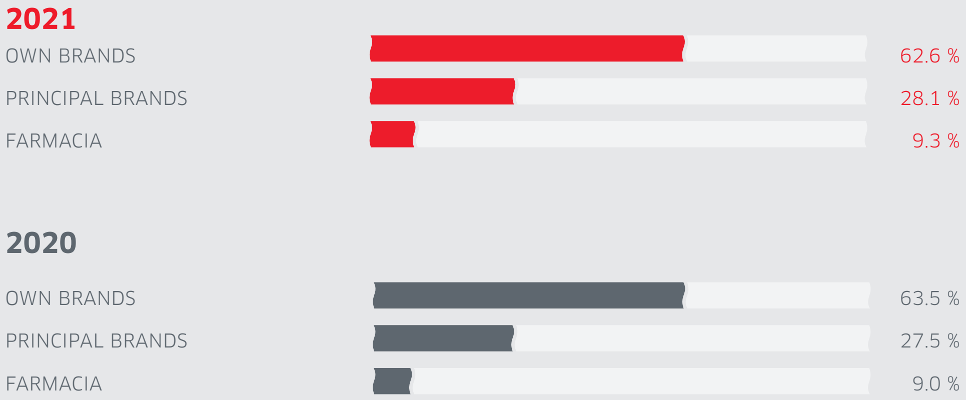
SALES PROFILE BY PRODUCT CATEGORY

Sales in comparison to 2020 (in HRK million)





Sales in comparison adjusted to reporting for 2021

In 2021, **OWN BRANDS** recorded sales of HRK 3,571.1 million, which is a 7.1% growth, following the growth of almost all categories. The greatest contribution to the growth was made by: (i) Argeta in the savoury spreads segment, (ii) Grand kafa in the coffee segment, (iii) Smoki and Bananica in the snacks segment, (iv) Cedevita and Cockta in the beverages segment, and (v) functional water Donat. If we exclude the effect of the Bebi brand sales, own brands record an increase in sales of 8.4%*.

With sales of HRK 1,599.9 million, **PRINCIPAL BRANDS** record a significant growth of 10.8%. The growth is mainly based on the increase in sales of principals Ferrero, Phillips, Rauch and Red Bull.

A significant 12.1% growth was recorded by the pharmacy chain **FARMACIA,** with sales of HRK 531.5 million, due to the increase in sales of the existing Farmacia locations, the easing of measures to prevent the spread of the pandemic and higher sales following the increased demand for drugs, disinfectants, tests and protective equipment as a consequence of the COVID-19 pandemic. In 2021, 4 new retail units were opened. As at 31 December 2021, Farmacia consists of 96 pharmacies and specialised stores (including the webshop).

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

Profitability trends
in 2021

PROFITABILITY TRENDS

(in HRK millions)	2021	2020	2021/2020
Sales	5,702.5	5,252.0	8.6%
EBITDA*	724.4	716.5	1.1%
Normalised EBITDA*	735.0	755.1	(2.7%)
EBIT*	437.9	442.2	(1.0%)
Normalised EBIT*	448.6	480.8	(6.7%)
Net profit*	345.9	342.3	1.1%
Normalised Net profit*	370.3	377.7	(2.0%)
Profitability margins			
EBITDA margin*	12.7%	13.6%	-94 BP
Normalised EBITDA margin*	12.9%	14.4%	-149 BP
EBIT margin*	7.7%	8.4%	-74 BP
Normalised EBIT margin*	7.9%	9.2%	-129 BP
Net profit margin*	6.1%	6.5%	-45 BP
Normalised Net profit margin*	6.5%	7.2%	-70 BP

In 2021, EBITDA amounts to HRK 724.4 million, which is a 1.1% increase compared to the previous year, or a 2.7% decrease if we exclude the effect of one-off items.

One-off items amounted to HRK 10.6 million, which is significantly less than the last-year's HRK 38.6 million, most of which related to the costs connected with the pandemic, mainly donations we made for the purpose of preventing the spread of the pandemic and treatment of patients.

The decrease in normalised EBITDA was most significantly affected by higher average prices of a large number of production materials, higher transportation and logistics costs, due diligence costs related to an acquisition that has not been realised, and a significantly higher investments in marketing activities and human resources. These negative effects are partly mitigated by the increase in sales of all business and distribution units, with the most prominent sales growth of the Strategic Business Units Beverages, the Business Unit Donat, and the pharmacy chain Farmacia, and by the divestment of the baby food brand Bebi.
In addition to the described above, normalized net profit records a 2.0% decrease despite lower interest expense and positive effect of foreign exchange differences, primarily due to the mild appreciation 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 chapter "Definition and reconciliation of Alternative Performance Measures (APM)".

OPERATING EXPENSES STRUCTURE

(in HRK millions)	2021	% of sales	2020	% of sales	2021/2020
Cost of goods sold	1,729.8	30.3%	1,564.5	29.8%	10.6%
Change in inventory	(22.8)	(0.4%)	(26.7)	(0.5%)	n/a
Production materials	1,496.0	26.2%	1,374.9	26.2%	8.8%
Energy	60.9	1.1%	58.5	1.1%	4.0%
Services	358.2	6.3%	317.4	6.0%	12.9%
Staff costs	937.4	16.4%	855.6	16.3%	9.6%
Marketing and selling expenses	329.8	5.8%	267.1	5.1%	23.5%
Other operating expenses	176.2	3.1%	197.8	3.8%	(10.9%)
Other (gains)/losses, net	(4.0)	(0.1%)	2.9	0.1%	n/a
Amortisation	286.4	5.0%	274.3	5.2%	4.4%
Total operating expenses*	5,347.8	93.8%	4,886.5	93.0%	9.4%

The cost of goods sold records a significant increase due to higher sales of principal brands.

Costs of production materials record an increase due to higher sales of own products and higher average prices of a large number production materials, primarily edible oil, raw coffee and packaging materials.

Energy costs increased due to higher production of own products and higher energy prices.

Costs of services record a significant increase due to higher transport and logistics costs, as a consequence of higher sales, and higher IT system maintenance costs (following the launch of many new projects) and production equipment and other external services, including advisory services.

The highest share of the increase in staff costs relates to the increase in investments in reward models for our employees, from the increase in basic salaries and material benefits to investments in variable forms of rewards through increased monthly incentives, inclusion of more employees in annual bonuses and the introduction of new models to recognise outstanding achievements and encourage the retention of the best people. In addition, in 2021 we significantly increased the investments in training and education of our staff, using all the learning and development advantages offered by the digital technologies, such as for example e-learning, so, as per the number of training per employee, we had a record year. In 2021, Atlantic Grupa had on average 5,460 employees, or 52 employees more compared to the previous year.

Marketing expenses are significantly higher due to higher investments in marketing in almost all business units (last year investments were lower due to extraordinary circumstances caused by the pandemic) and significant investments in two new brands.

Other operating expenses include HRK 22.0 million of one-off expenses, which is significantly less than the last-year's HRK 41.6 million. This year's amount primarily relates to provisions for contingent legal claims, while the majority of the last year's amount relates to costs connected with the pandemic (mainly donations). When these one-off expenses are excluded, other operating expenses record a decrease due to lower impairment of trade receivables and inventories.

Other (gains)/losses – net: Profit realised primarily on the basis of fair value of financial (forward) instruments in the coffee segment.

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

OPERATING RESULT OF STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2021	2020	2021/2020
SBU Coffee	280.1	279.5	0.2%
SBU Savoury Spreads	183.0	196.8	(7.0%)
SBU Snacks	116.2	113.9	2.0%
SBU Beverages	110.3	104.4	5.6%
SBU Pharma	49.4	34.7	42.5%
BU Donat	97.0	92.8	4.6%
SDU Croatia	87.8	66.0	33.0%
SDU Serbia	58.5	56.6	3.3%
SDU Slovenia	70.6	64.3	9.9%
Other segments*	(328.7)	(292.5)	(12.4%)
Group EBITDA**	724.4	716.5	1.1%

STRATEGIC BUSINESS UNITS AND BUSINESS UNIT: The SBU Coffee recorded somewhat better profitability as a result of higher sales and a more favourable gross margin, despite higher price of coffee and packaging material and higher marketing investments and staff costs. The SBU Savoury Spreads recorded a decrease in profitability due to higher prices of raw materials, marketing investments and staff costs, despite the sales growth. The SBU Snacks recorded a profitability growth due to higher sales and lower marketing investments, despite higher prices of raw materials and staff costs. The SBU Beverages recorded a significant profitability growth due to higher sales, despite higher prices of raw materials, higher marketing investments, higher transportation, logistics and staff costs. The SBU Pharma recorded a significantly higher profitability due to higher sales of the pharmacy chain Farmacia and divestment of the baby food Bebi. The BU Donat recorded an increase in profit due to higher sales, despite higher price of packaging material and higher marketing investments.

STRATEGIC DISTRIBUTION UNITS: The significant profitability increase in all three Strategic Distribution Units is a result of higher sales, despite higher transportation and logistics costs, and staff costs.

OTHER SEGMENTS: If we exclude the above mentioned one-off items of HRK 10.7 million (last year HRK 38.6 million), Other segments record a decrease in profitability as a consequence of initial investments in new brands, higher costs of central functions and the effect of divesting the Bebi brand in the DU Russia, despite the increase in profitability of the DU Austria, GDAM, DU Macedonia.

The comparative period has been adjusted to the reporting for 2021

* Other segments include BU New Growth, DU Austria, DU Russia, GDAM, DU Macedonia and business activities not allocated to business and distribution units (headquarters and support functions in Croatia, Serbia, Slovenia, Bosnia and Herzegovina and North Macedonia) which are excluded from the reportable operating segments.

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

Financial indicators
in 2021

FINANCIAL INDICATORS

(in HRK millions)	31 DEC 2021	31 DEC 2020
Net debt*	459.9	740.1
Total assets	5,452.9	5,413.4
Total Equity	3,152.5	2,948.0
Current ratio*	1.5	1.3
Gearing ratio*	12.7%	20.1%
Net debt/EBITDA*	0.6	1.0
Interest coverage ratio*	41.2	29.4
Capital expenditure*	233.3	242.7
Free cash flow*	502.5	334.4
Cash flow from operating activities	735.8	577.1

Among key determinants of the Atlantic Grupa's financial position in 2021, the following should be pointed out:

- The gearing ratio decreased by as much as 734 basis points due to the HRK 280 million decrease in net debt compared to the end of 2020.
- The indebtedness measured as the net debt to normalised EBITDA ratio dropped from 1.0 at the end of 2020 to 0.6 at the end of 2021.
- Free cash flow records an increase due to a significantly higher cash flow from operating activities and somewhat lower capital expenditure.

THE ATLANTIC GRUPA'S EQUITY AND LIABILITIES STRUCTURE AS AT 31 DECEMBER 2021

2021

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

OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENT

Cash flow from operating activities records an increase, primarily as a result of improved profitability, positive movements in the working capital and lower cash outflows related to financing, despite higher cash outflows related to taxes.

Capital expenditure in 2021 was realised in line with the Atlantic Grupa's Strategic guidelines. The pandemic situation affected the timely construction of factory plants and installations. Global disruptions in the supply chain are evident, especially in the supply of electronic components, which caused delays in the delivery of equipment by our suppliers. These pandemic effects directly affected our financial realisation of the capital expenditure plan. Delays in the realisation of the capital expenditure projects do not negatively impact our business.

Among significant investments, we should mention:

SBU BEVERAGES: Finalised installation of the new line for rigid and flexible packaging of Cedevita and its commissioning and beginning of production in the new innovative packaging. Initialised investment project for the optimisation of PET packaging aimed at decreasing the weight of individual PET packaging.

SBU COFFEE: Finalised installation of the Coffee2Go and HoReCa equipment for coffee preparation at points of sale. Investment projects related to raising technological level of production and filling of coffee in production locations in Serbia, Bosnia and Herzegovina and Slovenia.

SBU SAVOURY SPREADS: Finalised investment in the reconstruction and improvement of the line for the production and packaging of savoury spreads in Izola. Reconstruction of the automatic high shelf warehouse made. Initialised preparation of project technical documentation for the construction of the new factory in Varaždin.

SBU SNACKS: A trial run of a new chocolate moulding line and a new chocolate packaging line completed. Additional investments in advanced technical solutions for the production of Jimmy Fantastic chocolate. Initiated realisation of the strategic investment project in the production of biscuits and wafers at the production sites in Belgrade and Ljubovija.

BU DONAT: Finalised investment in the system for labelling/serialisation of products in line with the requirements of the market of the Russian Federation.

SBU PHARMA: Multiple investments in equipment of stores in the pharmacy chain Farmacia.

IT: Investments in digital infrastructure and technologies. Initiated implementation of S4 ERP system in all companies of Atlantic grupa – the first implementation in the SBU Coffee/Atlantic Grand Beograd. Among other things, we launched the investments in the digitalisation of the procure to pay (P2P) system and the global master data management (MDM) system.

Management's expectations for 2022

MANAGEMENT'S VIEW ON MACROECONOMIC EXPECTATIONS

In 2021, the Croatian economy recorded a strong recovery due to a successful tourist season thanks to a more favourable epidemiological situation. This year, in addition to the continued development of the epidemiological situation, will be marked by the impact of rising inflation and disruptions in supply chains. Also, the year will be marked by Croatia's preparations for joining the eurozone at the beginning of 2023. Despite all these challenges and assuming a good tourist season, the management of Atlantic Grupa expects the continuation of solid growth rates of the Croatian economy in 2022.

After the strong recovery of the region in 2021, the management expects further economic growth in the region in 2022, but this growth will be significantly weaker than last year. The main generator of Slovenian growth will be public investments, boosted by EU funds, and strong domestic demand due to improvements in the labour market, rising salaries in the private sector and increased pensions. Also, solid growth of the Serbian economy is expected, which will be supported by public investments in infrastructure, health and green projects, as well as increased domestic demand.

Eurozone economies also continued their recovery after a significant slowdown in economic activity in 2020 as a result of the COVID-19 pandemic. In 2022, we expect somewhat more modest growth in the eurozone due to the continuation of the pandemic, strong inflationary pressures and the crisis of the global supply chain. We expect a full recovery of the eurozone GDP to pre-crisis levels only at the end of 2023.

After a significant contraction in 2020, the Russian economy has recovered strongly and reached pre-pandemic levels. Despite a successful 2021, we expect weak economic growth in 2022 as a result of modest growth in domestic demand, coupled with pandemic, inflationary and especially geopolitical risks.

At the time of drafting this Annual Report, the war in Ukraine escalated; this will undoubtedly have a significant negative impact on these expectations, particularly in Russia, as well as on all other markets and the global economy.

ATLANTIC GRUPA'S MANAGEMENT STRATEGIC GUIDANCE FOR 2022

Following the relatively optimistic forecasts of economic growth, more favourable epidemiological situation, significant marketing and capital investments in our brands, but also increases in our sales prices, we expect that in 2022 we will exceed HRK 6 billion in sales revenue for the first time.

Already in 2021, there was a significant increase in the price of a large portion of our raw materials and packaging materials, logistics and other services and energy, but due to Atlantic Grupa's successful purchasing strategy and partly due to the dynamics of price increases, most of the negative effects will be realized only during 2022.

In the mentioned price increases, raw coffee particularly stands out. The raw coffee market in 2021 experienced a sharp increase in the price of raw coffee, due to the drought that hit Brazil during the coffee ripening period, and then the severe frost that hit coffee areas in Brazil in late July 2021. All these problems with the lack of raw coffee were followed by the situation with difficult logistics and transportation of raw coffee from all origins, which further raised the price of raw coffee. It is expected that thesituation with logistics will not improve by the end of 2022. Accordingly, and combined with the unfavourable US dollar exchange rate, we expect that our cost of raw coffee, together with purchase incidentals, will increase by more than 50%.

There was also a double-digit increase in prices for aluminium, plastic and paper packaging, flour, sugar, citric acid, raw materials based on milk, vegetable oil and fats, and there is almost no raw material whose price has not risen by at least 5%.

Moreover, due to the outbreak of war in Ukraine, we expect indirect negative consequences in the form of additional price increases of certain raw materials, energy and services, the financial impact of which cannot be assessed at this time.

We will annul part of these price increases by increasing our sales prices, but we consider it appropriate that in the conditions of high inflation and a significant impact on the living standards of our consumers we absorb much of it and, accordingly, we expect normalized EBITDA margin in 2022 to be approximately 170-230 basis points lower than it was in 2021.

We believe that the problems in supply chains and prices of energy, raw materials and packaging materials will stabilize in the foreseeable future and that profit margins will from 2023 return to the previous levels or at least get closer to them.

Regardless of the pressure on profitability, we plan to intensify capital investments, especially due to the start of construction of the new Argeta factory near Varaždin, and we expect total capital investments of HRK 320 to 370 million.

In 2022, in addition to the focus on addressing the challenges of high inflation and supply chain problems, management will continue to focus on (i) strengthening the position of prominent regional brands, (ii) internationalisation of certain brands, primarily Argeta and Donat, (iii) creating new brands that will drive new growth, (iv) development of distribution operations by strengthening the existing and acquiring new principals, and (v) possible mergers and acquisitions.

Definition and reconciliation of **Alternative performance measures (APM)**

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

ORGANIC SALES GROWTH COMPARED TO 2020

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	2021	2020	2021/2020
Sales	5,702.5	5,252.0	8.6%
Sale of divested business - brand Bebi	31.9	68.1	
Comparable sales	5,670.5	5,183.9	9.4%

in HRK million	SBU Pharma	Other segments
Reported 2020	539.8	778.0
Sale of divested business - brand Bebi*	68.1	67.8
Comparable sales 2020	471.7	710.2
Reported 2021	563.3	820.8
Sale of divested business - brand Bebi*	31.9	31.6
Comparable sales 2021	531.4	789.1
2021/2020	12.7%	11.1%

in HRK million	Russia and CIS	Other markets
Reported 2020	139.2	98.8
Sale of divested business - brand Bebi	67.6	0.5
Comparable sales 2020	71.7	98.3
Reported 2021	116.3	108.9
Sale of divested business - brand Bebi	31.6	0.3
Comparable sales 2021	84.7	108.6
2021/2020	18.2%	10.5%

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

in HRK million	2021	2020	2021/2020
Sales of own brands	3,571.1	3,332.9	7.1%
Sale of divested business - brand Bebi	31.9	68.1	
Comparable sales of own brands	3,539.2	3,264.8	8.4%

ORGANIC SALES GROWTH COMPARED TO 2019

in HRK million	2021	2019	2021/2019
Sales	5,702.5	5,431.3	5.0%
Sales of divested business - SBU SFF		27.8	
Sale of divested business - brand Dietpharm		58.0	
Sale of divested business - brand Multivita		16.1	
Exit from pharma wholesale business		33.0	
Sale of divested business - BNBV		25.7	
Sale of divested business - brand Bebi	31.9	83.0	
Comparable sales	5,670.5	5,187.6	9.3%

in HRK million	SBU Beverages	SBU Pharma	SDU Croatia	Other segments
Reported 2019	556.9	643.6	1,369.3	722.6
Sale of divested business – SBU SFF				27.8
Sale of divested business – brand Dietpharm		58,0		
Sale of divested business – brand Multivita		16,1		
Exit from pharma wholesale business		33.0		
Sale of divested business - BNBV	19.4		25.7	
Sale of divested business - brand Bebi		83.0		82.4
Comparable sales 2019	537.5	453.5	1,343.6	612.4
Reported 2021	536.4	563.3	1,403.2	820.8
Sale of divested business - brand Bebi		31.9		31.6
Comparable sales 2021	536.4	531.4	1,403.2	789.1
2021/2019	(0.2%)	17.2%	4.4%	28.9%

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 policiess 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 combinations and sale of subsidiaries in the latest published 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 related to income as a result of the release of provisions. The Group's Management Board monitors normalized EBITDA to evaluate business performance of the Group and to allocate resources accordingly. Additionally, Group's management believes that normalized EBITDA provides information that enables investors to better compare Group's performance across periods.

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

in HRK millions	2021	2020	2021/2020
Operating profit	437.9	442.2	(1.0%)
Depreciation, amortisation and impairment	286.4	274.3	4.4%
EBITDA	724.4	716.5	1.1%
Divestment costs/(gains), net	(0.7)	6.4	
COVID-19 costs	3.8	36.7	
Other one off (income)/costs, net	7.5	(4.5)	
Normalized EBITDA	735.0	755.1	(2.7%)
Sales	5,702.5	5,252.0	
EBITDA margin	12.7%	13.6%	
Normalized EBITDA margin	12.9%	14.4%	

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 millions	2021	2020	2021/2020
Operating profit	437.9	442.2	(1.0%)
EBIT	437.9	442.2	(1.0%)
Divestment costs/(gains), net	(0.7)	6.4	
COVID-19 costs	3.8	36.7	
Other one off (income)/costs, net	7.5	(4.5)	
Normalized EBIT	448.6	480.8	(6.7%)
Sales	5,702.5	5,252.0	
EBIT margin	7.7%	8.4%	
Normalized EBIT margin	7.9%	9.2%	

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 millions	2021	2020	2021/2020
Net profit	345.9	342.3	1.1%
Divestment costs/(gains), net	0.2	6.4	
COVID-19 costs	3.3	33.5	
Other one off costs/(income), net	21.0	(4.5)	
Normalized Net profit	370.3	377.7	(2.0%)
Sales	5,702.5	5,252.0	
Net profit margin	6.1%	6.5%	
Normalized Net profit margin	6.5%	7.2%	

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 in following table:

in HRK millions	31 DECEMBER 2021	31 DECEMBER 2020
Non current borrowing	299.7	299.5
Non current lease liabilities	263.1	263.5
Current borrowings	159.9	511.7
Current lease liabilities	86.8	84.8
Derivative financial instruments, net	(3.0)	7.1
Cash and cash equivalents	(346.6)	(426.5)
Net debt	459.9	740.1
Normalized EBITDA	735.0	755.1
Net debt/Normalized EBITDA	0.6	1.0

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

in HRK million	2021	2020
Current assets	2,287.5	2,259.5
Current liabilities	1,513.4	1,674.5
Current ratio	1.5	1.3

GEARING RATIO

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

in HRK million	2021	2020
Net debt	459.9	740.1
Total equity	3,152.5	2,948.0
Gearing ratio	12.7%	20.1%

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	2021	2020
Normalized EBITDA	735.0	755.1
Total interest expense	17.8	25.7
Adjusted interest coverage ratio	41.2	29.4

FREE CASH FLOW

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

in HRK million	2021	2020
Net cash flow from operating activities	735.8	577.1
Capex	233.3	242.7
Free cash flow	502.5	334.4

Risks of
Atlantic Grupa

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

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

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

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

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

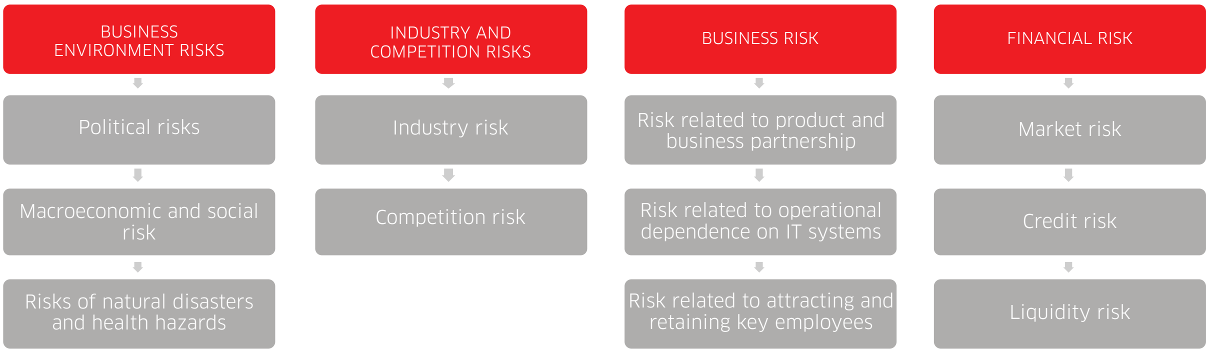


Figure 2 – Key identified risks of Atlantic Grupa

BUSINESS ENVIRONMENT RISK

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

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

Business transactions of any company are influenced by macroeconomic risks that occur on the national, regional or global level. In general, Atlantic Grupa operates in a stable non-cyclical food industry, but even that industry is not fully immune to movements and impacts of macroeconomic variables. In production, this is manifested through risks of rising prices or restrictions in the supply of raw materials, energy required for production, or workforce shortage. The sales of the company's production and distribution portfolio are influenced by macroeconomic variables like personal consumption, the level of disposable personal income, i.e. effects of inflation, and trends in retail trade, which the company continuously monitors and adjusts its activities accordingly. In the event of GDP decline on the markets relevant for Atlantic Grupa's operations, customers may potentially reduce their spending on individual products from the company's production and/or distribution portfolio or may redirect their spending from branded products to private labels. By continually 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 a business partner, this could have a negative effect on business operations, especially in view of the increasing occurrence of natural disasters and the increasing scale of adverse consequences. Atlantic Grupa minimises its exposure to this risk by using quality instruments of mitigating and transferring the risk of natural disasters by constantly investing in new, higher quality equipment and infrastructure, and by using instruments related to property insurance against potential damages.

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

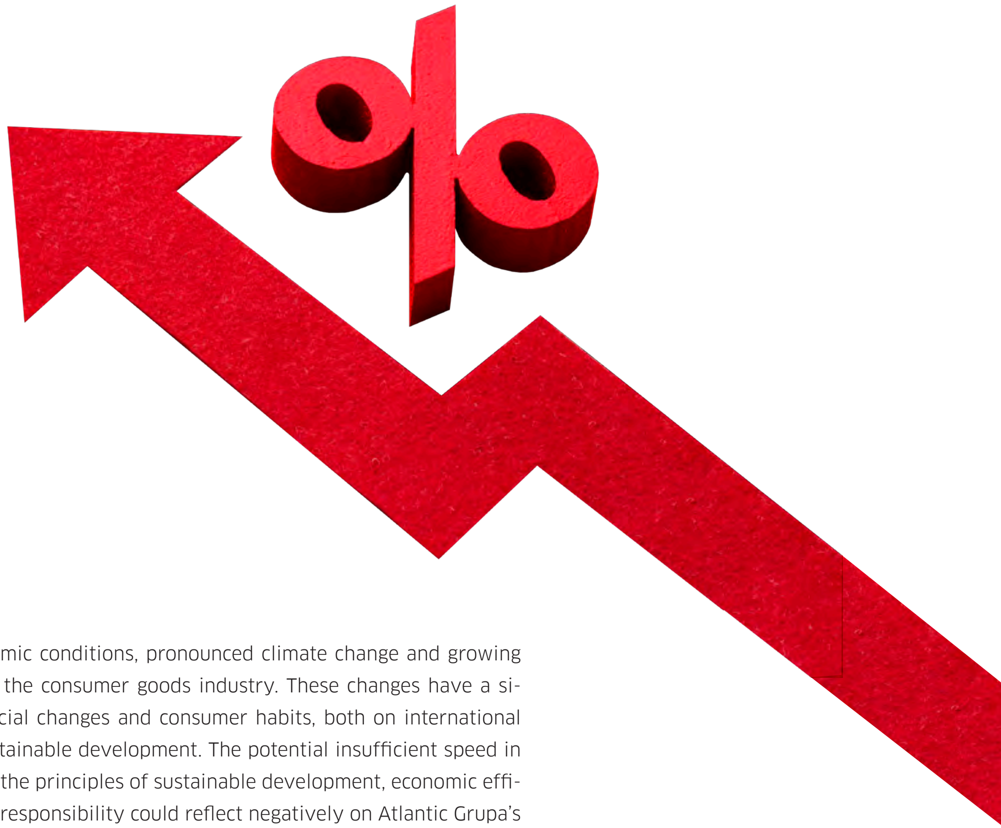
INDUSTRY AND COMPETITION RISKS

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

INDUSTRY RISK

Atlantic Grupa operates mostly in the consumer goods industry in which the relatively low cyclicity, market liberalisation and globalisation resulted in the development of new local producers and retail chains, as well as the entry of global ones, which in the end leads to stronger market competition, more diverse product offer, increase of product quality, establishment of global manufacturing standards, as well as the opening and development of new distribution channels. In such conditions, all producers can compete only through continuous investment in research and development of new products and services, technological development, marketing in order to improve the brand recognition, and human resources.

Macroeconomic conditions, GDP fluctuation dynamics, in particular personal consumption as a component of the GDP, fluctuation of the disposable personal income and the development of the living standard of consumers largely dictate the trends in the consumption goods industry. In addition to that, the development of the consumer goods industry is also largely influenced by the ability of companies to constantly adapt to consumer needs and market trends.



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

The consumer goods industry is strictly regulated and at the same time supervised by regulatory authorities, primarily because it has direct influence on the health of consumers and production safety. 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 and assets, environmental protection and safety, product composition, packaging, labelling, advertising, competitive market behaviour and the like. The safety of foodstuffs and the perception of that safety are of critical importance for Atlantic Grupa's business operations and any event or perception to the contrary would result in significant negative consequences for the Group's operations. Health, safety and environmental regulations in Europe and other developed regions is becoming increasingly stricter and their implementation more pronounced and complex. Accordingly, Atlantic Grupa continuously monitors and adjusts to such changes, but any failure to do so could result in different sanctions. Moreover, Atlantic Grupa may face significant costs related to remedying potential violations or adapting to changes in the existing regulations, as well as costs and losses arising as a result of potential cancellation of individual permits and authorisations.

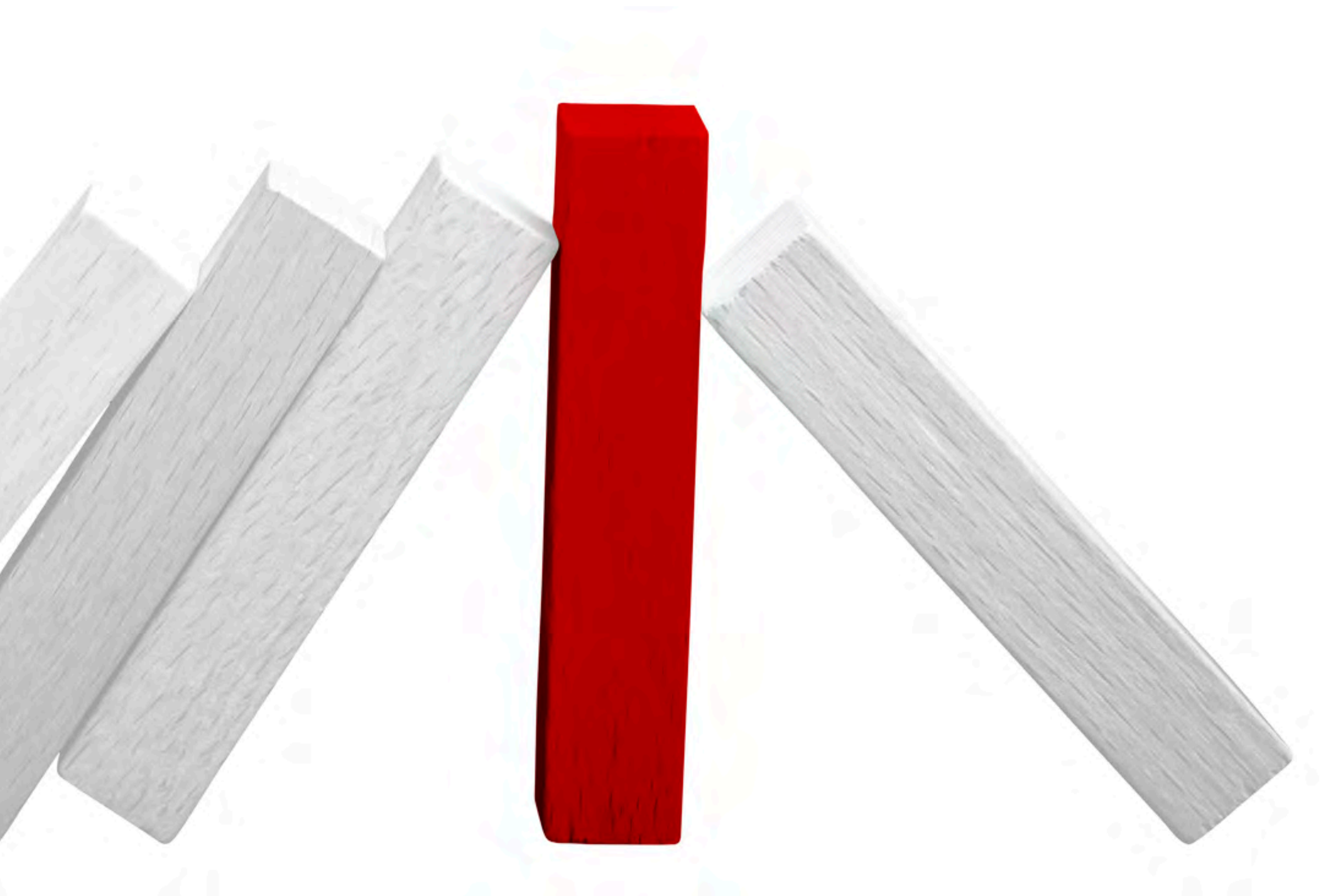
Certain segments of the consumer goods industry, particularly the segment of food products, are influenced by the factors which companies cannot fully control, like volatile prices of commodities (coffee, sugar, cacao, etc.) as well as supply chain disruptions, which we witnessed in the second half of 2021 on global markets. increasing extreme weather conditions and the tourist season efficacy in the markets where the company operates. Atlantic Grupa relies on the procurement of raw materials and consumables required for its products by external suppliers coming from different parts of the world. Consequently, it is exposed to the risk that suppliers of raw materials and consumables will not be able to meet the agreed time limits or quality and/or the required quantities of raw materials or consumables. Furthermore, the company 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 company 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 company. 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,

business operations depend on the protection of intellectual property rights over trademarks and the like, as well as on certain business secrets and know-how. Atlantic Grupa 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 2021 continued to actively manage its own brands and strengthen its position by launching two new brands, high-quality milk chocolate Jimmy Fantastic, and and assortment of oat-based products under the brand Boom Box.

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



COMPETITION RISK

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

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

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

BUSINESS RISK

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

IMPACT OF INDIVIDUAL PRODUCTS AND BUSINESS PARTNERS ON BUSINESS PERFORMANCE

In previous years Atlantic Grupa has given significant attention to the diversification and expansion of both its production and 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 by providing excellent sales-distribution services and significantly expanding the distribution portfolio. Atlantic Grupa is continually monitoring developments in the brand market with the purpose of concluding new business partnerships. The continuous expansion of the distribution portfolio enables the company to quickly adjust to new conditions in the case of termination of cooperation with any of its present partners.

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

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

OPERATIONAL DEPENDENCE ON IT SYSTEMS

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

ATTRACTING AND RETAINING KEY EMPLOYEES

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

FINANCIAL RISKS

The Group's business activities expose it to a variety of financial risks which include: market risk (including currency risk, fair Price risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Atlantic Grupa'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. Atlantic Grupa 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).

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**REFERS TO CONSOLIDATED FINANCIAL STATEMENTS.

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Sustainability reports 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 are available at:

http://www.atlantic.hr/en/media/publications/gri-report

Sustainability performance data in this report is prepared in accordance with the GRI Standards, at a "core" application level. Atlantic Grupa reports against 17 management approach and performance indicators for which we believe can help us significantly improve the ability to participate in competitive markets. Unless otherwise stated, all information mentioned in the report is for the year 2021.
Atlantic Grupa management is responsible for all aspects of the reported sustainability data.

If you have any feedback or questions on this Sustainability report, please contact:

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ABBREVIATIONS

AG	Atlantic Grupa
ALLP	Association of Leukaemia and Lymphoma Patients
APM	Alternative Performance Measures
ASN	Advanced Shipping Note
AUT	Austria
BC	Basketball Club
B&H	Bosnia and Herzegovina
BPR	Business Process Redesign
BRC	British Retail Consortium (food industry standard)
BU	Business unit
CDI	European Union programme
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States (ex-Soviet Union countries)
CO^2	Carbon dioxide
CRO	Croatia
CSR	Corporate Social Responsibility
DEG	German Investment and Development Corporation
DMF	Voluntary Pension Fund
DU	Distribution Unit
EBIT	Earnings before interest and taxes
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
ECIP	The European Communities Investment Partners
EDI	Electronic Data Interchange
EMS	Environmental Management System
EEnMS	Environmental Energy Management System
EnMS	Energy Management System
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
EU	European Union
FSC	Forest Stewardship Council
FSSC	Food Safety System Certification
GDAM	Global Distribution Account Management
GDP	Gross Domestic Product
GDP	Good distribution practice
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

HR	Human Resources
HRIS	Human Resources Information System
HR NET	Information system for Human resources department
HR PSOR	Croatian Business Council for Sustainable Development
H&S	(eng: Health and safety)
HZZO	Croatian Health Insurance Fund
IFRS	International Financial Reporting Standards
IBP	Integrated Business Planning
IEDC	Bled School of Management
IFS	International Food Standard
IMB	Master Programme in Business and Organization
IR	Injury Rate
ISO	International Organization for Standardization
IT	Information Technology
IUCN	The International Union for Conservation of Nature
JOPP	European Union programme
KPI	Key Performance Indicators
LCA	Life Cycle Assessment
LDPE	Low-density polyethylene
LDR	Lost Day Rate
M&A	Mergers and Acquisitions
MAC	North Macedonia
MBA	Master of Business Administration
MDM	Master Data Management
MES	Manufacturing Execution Solution
MSC	Marine Stewardship Council – organisation for sustainable fishery
m^3	Cubic meter
NFRD	EU Non-Financial Reporting Directive
NPD	New Product Development
NPS	Net Promoter Score – user satisfaction indicator
OECD	Organization for Economic Cooperation and Development
OOH	Out of Home – Consumption out of home
OP	Organisational Procedures
OPF	Obligatory Pension Fund
OTG	On the Go – consumption "on the move"
P&C	People & culture
PCT	Certificate of recovery, vaccination, negative test
PET	Polyethylene Terephthalate
PICOS	Picture of Success
POS	Point of Sale
POSM	Point of Sale Materials – promotion materials

P2P	Procure To Pay
PVC	Polyvinyl chloride
PWC	PricewaterhouseCoopers
RPA	Robotic Process Automation
RTM	Route to Market
SAP	System Analysis and Software Development – business process software
SBU	Strategic Business Unit
SCM	Supply Chain Management
SDG	Sustainable Development Goals
SDU	Strategic Distribution Unit
SFF	Sarajevo Film Festival
SLO	Slovenia
SOF	Slovenian advertising festival
SOV	Share of Voice
S&Q	Safety and Quality
SMK	Social Media Knowledge
SRB	Serbia
SVIT	Preventive health programme intended for prevention and early detection of colorectal cancer
UAE	United Arab Emirates
UEPS	Serbian Association of Market Communication Professionals
UN	United Nations
USA	United States of America
UTZ	Universal Trade Zone – quality certificate
t	Tonne
WLAN	Wireless Local Area Network
WMS	Warehouse Management Solution
WWF	World Wide Fund for Nature
ZSE	Zagreb Stock Exchange
ZTD	Croatian Companies Act

Auditor's Report and Consolidated Financial Statements

ATLANTIC GRUPA D.D.
31 DECEMBER 2021

Responsibility for the annual financial statements

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

STATEMENT

According to our best knowledge the annual consolidated financial statements for 2021 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 2021 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, 28 March 2022

Zoran Stanković
Group Vice President for Finance, Procurement and Investment

Tatjana Ilinčić
Director of Corporate Reporting and Consolidation

Responsibility for the consolidated financial statements

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

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

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

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

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 28 March 2022.

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 2021, consolidated income statement and the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow 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 2021 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 1,472,779 thousand as at 31 December 2021. The carrying amount of the goodwill and indefinite life intangible assets represents 27% 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 (2021) actual results with the figures included in the prior year (2020) forecast to evaluate assumptions used. We also evaluated management’s key assumptions for long-term growth rate by comparing it to historical growth results. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and tested the appropriateness of discount rates and royalty rates used in the calculation with the assistance of the valuation specialists. We reviewed reports related to market share of the individual brands. We also assessed adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of IFRS as adopted by the EU.

Other information included in the Group’s Annual Report for year 2021

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 2021 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;

2.the enclosed Management report for 2021 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 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.

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 2021, representing a total period of uninterrupted engagement appointment of five years.

Kulić i Sperk REVIZIJA d.o.o. was initially appointed as auditors of the Company on 18 June 2020, and this appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 18 June 2021, representing a total period of uninterrupted engagement appointment of two years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 17 March 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

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

We have conducted a reasonable assurance engagement on whether the financial statements, as contained in the attached electronic file 8c31b8ca1a669356a7b8e3807d20d2f52a9d158423fd08611dfef3ecb6d20402, are prepared, for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, in all material respects in accordance with the requirements of the ESEF Regulation.

Responsibilities of the Management and those charged with governance

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

The Management is also responsible for:

- the public disclosure of financial statements in ESEF format
- selecting and using XBLR codes in accordance with ESEF regulation

Those charged with governance are responsible for overseeing the preparation of the financial statements in ESEF format as part of the financial reporting process.

Auditor's responsibilities

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

Work performed

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

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

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

The aim of our procedures was to assess whether:

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

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

Conclusion

Based on the procedures performed and evidence gathered, the financial statements presented in ESEF format for the year ended on 31 December 2021, contained in the aforementioned attached electronic file and prepared pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, are prepared in all material respects in line with the requirements of Articles 3, 4 and 6 of the ESEF Regulation.

Further to this conclusion as well as opinion contained in part of this report related to accompanying financial statements and annual report for the year ended 31 December 2021, we do not express any opinion on the information contained in these presentations or on any other information contained in the aforementioned file.

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

Berislav Horvat,
President of the Board and Certified auditor
28 March 2022
Ernst & Young d.o.o.
Radnička cesta 50, Zagreb
Republic of Croatia

Janja Kulić,
Director and Certified auditor
28 March 2022
Kulić i Sperk REVIZIJA d.o.o.
Radnička cesta 52, Zagreb
Republic of Croatia

(all amounts expressed in thousands of HRK)	**Note**	**2021**	**2020**
Revenues	5	5,785,771	5,328,674
Cost of trade goods sold		(1,729,758)	(1,564,512)
Change in inventories of finished goods and work in progress		22,831	26,659
Material and energy costs		(1,556,908)	(1,433,412)
Staff costs	6	(937,376)	(855,631)
Marketing and promotion costs	7	(329,776)	(267,113)
Depreciation, amortisation and impairment	13, 13a 14,15	(286,444)	(274,315)
Other operating costs	8	(534,414)	(515,184)
Other gains/(losses) - net	9	4,019	(2,982)
Operating profit		**437,945**	**442,184**
Finance income	10	2,826	7,608
Finance costs	10	(20,575)	(38,144)
Finance costs - net	10	(17,749)	(30,536)
Profit before tax		**420,196**	**411,648**
Income tax expense	11	(74,304)	(69,378)
Net profit for the year		**345,892**	**342,270**
Attributable to:			
Owners of the Company		344,857	341,730
Non-controlling interests		1,035	540
		345,892	342,270
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		103.71	102.72
- diluted		103.71	102.72

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

(all amounts expressed in thousands of HRK)	**Note**	**2021**	**2020**
Net profit for the year		**345,892**	**342,270**
Other comprehensive loss:			
Items that will not be reclassified to profit or loss			
Actuarial losses from defined benefit plan, net of tax		(176)	(1,000)
		(176)	**(1,000)**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences, net of tax	22	(4,067)	25,641
Cash flow hedges, net of tax	22	8,473	(4,306)
		4,406	**21,335**
Total other comprehensive gain for the year, net of tax		**4,230**	**20,335**
Total comprehensive income for the year		**350,122**	**362,605**
Attributable to:			
Owners of the Company		349,092	362,016
Non-controlling interests		1,030	589
Total comprehensive income for the year		350,122	362,605

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

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2021**	**31 December 2020 (restated)**
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,108,725	1,070,338
Right-of-use assets	13a	329,894	338,838
Investment property		807	316
Intangible assets	15	1,640,348	1,658,758
Deferred tax assets	25	41,469	36,285
Financial assets through other comprehensive income	17	1,384	1,404
Trade and other receivables	18	42,750	47,999
		3,165,377	3,153,938
Current assets			
Inventories	19	639,201	572,274
Trade and other receivables	18	1,287,982	1,248,658
Prepaid income tax		6,995	6,661
Derivative financial instruments	16	2,972	-
Cash and cash equivalents	20	346,635	426,513
		2,283,785	2,254,106
Non-current assets held for sale	14	3,759	5,382
Total current assets		2,287,544	2,259,488
TOTAL ASSETS		**5,452,921**	**5,413,426**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	883,852	881,851
Treasury shares	21	(22,131)	(7,647)
Reserves	22	(45,279)	(51,451)
Retained earnings		2,195,734	1,985,908
		3,145,548	2,942,033
Non-controlling interests		6,982	5,952
Total equity		3,152,530	2,947,985
Non-current liabilities			
Borrowings	24	299,657	299,528
Lease liabilities	13a	263,065	263,479
Deferred tax liabilities	25	148,344	151,822
Other non-current liabilities		6,135	9,356
Provisions	26	69,807	66,782
		787,008	790,967
Current liabilities			
Trade and other payables	23	1,174,825	954,458
Borrowings	24	159,932	511,696
Lease liabilities	13a	86,844	84,824
Derivative financial instruments	16	-	7,132
Current income tax liabilities		6,417	8,677
Provisions	26	85,365	107,687
		1,513,383	1,674,474
Total liabilities		2,300,391	2,465,441
TOTAL EQUITY AND LIABILITIES		**5,452,921**	**5,413,426**

	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 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**
Balance at 1 January 2021	1,007,576	(51,451)	1,985,908	2,942,033	5,952	2,947,985
Comprehensive income:						
Net profit for the year	-	-	344,857	344,857	1,035	345,892
Other comprehensive income	-	4,411	(176)	4,235	(5)	4,230
Total comprehensive income	-	4,411	344,681	349,092	1,030	350,122
Transaction with owners:						
Share based payment (Note 21)	18,075	-	-	18,075	-	18,075
Purchase of treasury shares (Note 21)	(30,558)	-	-	(30,558)	-	(30,558)
Transfer	-	1,761	(1,761)	-	-	-
Dividends (Note 21)	-	-	(133,094)	(133,094)	-	(133,094)
Balance at 31 December 2021	**995,093**	**(45,279)**	**2,195,734**	**3,145,548**	**6,982**	**3,152,530**

(all amounts expressed in thousands of HRK)	Note	2021	2020
Net profit for the year		**345,892**	**342,270**
Income tax	11	74,304	69,378
Depreciation, amortisation and impairment	13, 13a, 14, 15	286,444	274,315
Gain on sale of property, plant and equipment	9	(1,475)	(130)
Gain on sale of subsidiaries - net of transaction expenses	9	(648)	(5,178)
Provision for current assets	8	25,218	45,229
Foreign exchange differences - net		(75)	4,827
Decrease in provision for risks and charges	26	(18,586)	(1,830)
Fair value (gains)/losses on financial assets	9	(4,219)	4,913
Share based payment	21	18,075	9,787
Interest income		(1,323)	(5,060)
Interest expense	10	17,824	25,709
Other non-cash items - net		3,800	12,105
		745,231	776,335
Changes in working capital:			
Increase in inventories		(82,643)	(94,942)
Increase in current receivables		(30,004)	(37,331)
Increase in current payables		207,652	30,309
Cash generated from operations		**840,236**	**674,371**
Interest paid		(17,074)	(22,896)
Income tax paid		(87,361)	(74,355)
Cash flows from operating activities		**735,801**	**577,120**
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13,14,15	(233,284)	(242,727)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		17,504	1,031
Acquisition of subsidiary and proceeds from sale of subsidiary – net of cash disposed	28	(5,937)	26,876
Loans granted and deposits placed	18	(5,543)	(10,353)
Repayments of loan and deposits granted	18	18,117	3,305
Interest received		1,571	5,060
		(207,572)	(216,808)
Cash flows used in financing activities			
Purchase of treasury shares	21	(30,558)	(11,022)
Proceeds from borrowings, net of fees paid	24	-	748,642
Repayments of borrowings	24	(350,799)	(983,571)
Issuance of bonds, net of fees paid	24	-	140,025
Purchase of bonds	24	-	(43,796)
Principal elements of lease payments	13a	(93,502)	(86,999)
Dividends paid to Company shareholders	21	(133,094)	(83,186)
		(607,953)	(319,907)
Net (decrease)/increase in cash and cash equivalents		**(79,724)**	**40,405**
Exchange (losses)/ gains on cash and cash equivalents		(154)	1,582
Cash and cash equivalents at beginning of year		426,513	384,526
Cash and cash equivalents at end of year	20	**346,635**	**426,513**

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

NOTE 1 – GENERAL INFORMATION

Operating as a vertically integrated multinational company, Atlantic Grupa d.d. (the Company) and its subsidiaries (as disclosed in Note 31 “the Group”) have business activities that incorporate R&D, production and distribution of fast moving consumer goods in Southeast Europe, the European markets and Russia and CIS (Commonwealth of Independent States). With its modern production network, the Group stands out as one of the leading 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, North Macedonia and Russia, the Group also distributes a range of products from external partners. The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and North Macedonia with 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 2021 and which did not have material impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued by the International Financial Standards Board („Board“) but are not yet effective.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Standards and interpretations effective in the current period

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

- ***Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2***, issued on 27 August 2020 (effective date for annual periods beginning on or after 1 January 2021).
- ***Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9***, issued on 25 June 2020 (effective date for annual periods beginning on or after 1 January 2021).
- ***Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions***, issued on 31 March 2020 (effective date for annual periods beginning on or after 1 April 2021).

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

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

- ***Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020***, all issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).
- ***IFRS 17 Insurance contracts***, issued on 18 May 2017; including Amendments to IFRS 17 issued on 25 June 2020, (effective date for annual periods beginning on or after 1 January 2023).

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

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU. The endorsement might be expected in 2022. The Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on its consolidated financial statements.

- ***Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date***, issued on 23 January 2020 and 15 July 2020 respectively (effective date for annual periods beginning on or after 1 January 2023).
- ***Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies***, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).
- ***Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*** issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).
- ***Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transactions***, issued on 7 May 2021 (effective date for annual periods beginning on or after 1 January 2023).

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 (from 5 to 15 years).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

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

2.8 Financial assets

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

(a) Financial assets at amortised costs
The Group measures financial assets at amortised cost if both of the following conditions are met:
- 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 (2020: 2%), 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 (2020: 1%).

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Leases (continued)

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

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

(ii) Variable lease payments

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

(iii) Extension and termination options

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

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

2.10 Inventories

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred tax

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

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

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

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

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

(d) Share-based compensation

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

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

(e) Short-term employee benefits

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

2.17 Provisions

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

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

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

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

(b) Sales of goods - retail
The Group operates a pharmacy and specialised stores. 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

Following the completion of purchase price allocation related to acquisition of Procaffe d.o.o., Dugopolje, balance sheet as at 31 December 2020 have been restated - intangible assets (goodwill) and deferred tax liability were increased by HRK 1,732 thousand. Since the restatement had no impact on balance sheet as at 1 January 2020, additional balance sheet and related notes as of the beginning of the earliest comparative period were not presented.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR, Serbian dinar (RSD), Russian ruble (RUB) and to a lesser extent the US dollar (USD). Movement in exchange rate of the Serbian dinar against EUR in 2021 and 2020 did not have a significant impact on Group's results. The depreciation of Russian ruble against EUR in 2021 did not have significant impact on Group's results (in 2020 resulted in HRK 1,327 thousand foreign currency loss 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 2021 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	316,079	352,248	952	11,832
Cash and cash equivalents	111,712	27,488	225	3,155
Trade and other payables	(437,833)	(199,537)	(24,537)	(12,751)
Borrowings	(1,136)	(127,862)	(1,563)	-
Lease liabilities	(325,444)	(1,507)	-	-
Net balance sheet exposure	**(336,622)**	**50,830**	**(24,923)**	**2,236**

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**

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 478 thousand higher (2020: HRK 3,772 thousand higher), and other comprehensive income would be HRK 12,136 thousand higher (2020: HRK 11,988 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 828 thousand higher (2020: HRK 1,406 thousand higher) and other comprehensive income would be HRK 10,976 thousand higher (2020: HRK 10,491 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 132 thousand higher (2020: HRK 721 thousand higher) and other comprehensive income would be HRK 95 thousand higher (2020: HRK 82 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 2021, 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 2021, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2020: 100 basis points), the profit after tax would have been lower/higher by HRK 2,648 thousand (2020: HRK 4,182 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 2021, the Group held cash and cash equivalents in the amount of HRK 346,635 thousand (2020: HRK 426,513 thousand) and short-term deposits in the amount of HRK 85 thousand (2020: HRK 22 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 2021				
Trade and other payables	1,110,972	-	-	1,110,972
Borrowings	163,193	308,513	-	471,706
Lease liabilities	95,132	186,443	100,215	381,790

(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

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 2021	**511,696**	**299,528**	**84,824**	**263,479**	**1,159,527**
Cash flow	(350,799)	-	(93,502)	-	(444,301)
Acquisitions, modifications, and leases expirations	-	-	13,882	81,963	95,845
Current portion	144	(144)	81,836	(81,836)	-
FX movement	(1,144)	28	(196)	(541)	(1,853)
Other	35	245	-	-	280
31 December 2021	**159,932**	**299,657**	**86,844**	**263,065**	**809,498**

Line ‘Other’ includes the effect of purchasing and merging 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:

	2021	2020
	(in thousands of HRK)	
Total borrowings (Note 24)	459,589	811,224
Lease liabilities (Note 13a)	349,909	348,303
Derivative financial instruments (Note 16)	(2,972)	7,132
Less: Cash and cash equivalents (Note 20)	(346,635)	(426,513)
Net debt	459,891	740,146
Total equity	3,152,530	2,947,985
Total capital and net debt	**3,612,421**	**3,688,131**
Gearing ratio	**13%**	**20%**

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

3.4 Fair value estimation

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation (continued)

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

(a) Expected useful lives of brands and licences

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

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

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

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

(i) Licences

Operating segment *(in thousands of HRK)*	**31 December 2021**	**31 December 2020**
SBU Pharma	177,347	171,059
	177,347	**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 2021**	**31 December 2020**
SBU Savoury Spreads	241,497	242,131
SBU Snacks	115,873	120,237
SBU Coffee	102,301	102,570
BU Donat	47,020	47,143
Baby food	-	7,537
	506,691	**519,618**

(iii) Goodwill

Operating segment *(in thousands of HRK)*	**31 December 2021**	**31 December 2020**
SBU Snacks	208,096	220,887
SBU Pharma	168,183	168,183
SBU Savoury Spreads	126,239	126,564
BU Donat	80,273	80,483
SBU Coffee	63,819	63,988
SDU Croatia	55,141	49,788
SDU Serbia	51,827	51,960
SDU Slovenia	26,516	26,584
DU Macedonia	6,026	6,042
SBU Beverages	2,621	2,621
	788,741	**797,100**

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	2021	2020
BU Donat	7.8%	7.5%
SBU Coffee	8.4%	8.2%
SBU Snacks	9.3%	9.2%
SBU Savoury Spreads	7.6%	7.3%
SBU Pharma	7.8%	6.0%
SDU Croatia	8.0%	6.4%
SDU Serbia	10.9%	9.1%
SDU Slovenia	6.6%	5.2%
DU Macedonia	11.3%	9.1%

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 (2020: 2.0%, SBU Coffee: 1.0%). Discount rates after taxes in 2021 are generally higher than in 2020 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 are as follows:

	2021	2020
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%

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 17,045 thousand was recognised (2020: HRK 20,961 thousand) in respect of impairment of goodwill and brands with indefinite useful lives.

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

The sensitivity analysis of the key assumptions used in the impairment testing of brands showed that a discount rate increase by 100 basis points with other variables unchanged would result in additional impairment of brands in the amount of HRK 12,322 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 7,854 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 39,040 thousand.

The sensitivity analysis of the key assumptions used in the impairment testing of goodwill and licences shows that increasing the discount rate by 100 basis points, with other variables unchanged would result in additional impairment of goodwill and licences in amount of HRK 88,478 thousand. At the same time, if the terminal growth rate was reduced by 100 basis points, with other variables unchanged, the decrease in the value of goodwill and licences would be HRK 60,528 thousand higher, with a decrease in expected free cash flow by 500 basis points, with other variables unchanged, the decrease in the values of goodwill and licences would be HRK 36,738 thousand higher.

(c) Deferred tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (Note 25).

NOTE 5 – SEGMENT INFORMATION

The business model of the Group is organized through five strategic business units and two business unit. As of 1 January 2021, the New Growth business area has been established, which includes new Atlantic Grupa’s brands.

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.

SBU – Strategic business unit
SDU – Strategic distribution unit
BU – Business unit
DU – Distribution unit

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 BU New growth do not meet quantitative thresholds, required by IFRS 8 for reportable segments, they are reported within “Other segments”. “Other segments” category comprises also of non-allocable business activities (headquarters and support functions in all markets of Atlantic Grupa) which are excluded from the reportable operating segments.

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)*	**2021**	**2020**
SBU Coffee	1,196,229	1,106,940
SBU Savoury Spreads	885,248	836,088
SBU Snacks	684,420	644,228
SBU Pharma	563,349	539,786
SBU Beverages	536,380	481,671
BU Donat	218,785	196,302
SDU Croatia	1,403,161	1,250,759
SDU Serbia	1,335,388	1,231,482
SDU Slovenia	1,012,789	981,260
Other segments	820,753	777,956
Reconciliation	(2,954,023)	(2,794,443)
Total	**5,702,479**	**5,252,029**

Operating results	**For the year ended 31 December 2021**		
(in thousands of HRK)	**Operating profit before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	280,122	46,016	234,106
SBU Savoury Spreads	183,021	18,634	164,387
SBU Snacks	116,227	38,921	77,306
SBU Beverages	110,273	34,493	75,780
BU Donat	97,035	4,444	92,591
SBU Pharma	49,421	24,880	24,541
SDU Croatia	87,806	26,173	61,633
SDU Slovenia	70,630	7,728	62,902
SDU Serbia	58,513	20,031	38,482
Other segments	(328,659)	65,124	(393,783)
Total	**724,389**	**286,444**	**437,945**

* Comparative period has been adjusted to reflect 2021 reporting

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results* (in thousands of HRK)	For the year ended 31 December 2020		
	Operating profit before Depreciation, Amortisation and Impairment	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	279,464	40,497	238,967
SBU Savoury Spreads	196,787	18,161	178,626
SBU Snacks	113,917	40,664	73,253
SBU Beverages	104,384	29,159	75,225
BU Donat	92,800	4,777	88,023
SBU Pharma	34,691	24,876	9,815
SDU Croatia	66,021	23,511	42,510
SDU Slovenia	64,293	7,615	56,678
SDU Serbia	56,622	19,889	36,733
Other segments	(292,480)	65,166	(357,646)
Total	**716,499**	**274,315**	**442,184**

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:

	2021	**2020**
	(in thousands of HRK)	
Croatia	1,018,277	972,216
Serbia	1,012,841	1,015,005
Slovenia	896,100	928,050
Other	152,556	152,979
Total geographically allocated non-current assets	**3,079,774**	**3,068,250**

* Comparative period has been adjusted to reflect 2021 reporting

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2021 (in thousands of HRK)	2021 %	2020 (in thousands of HRK)	2020 %
Croatia	1,945,624	34.1	1,724,168	32.8
Serbia	1,352,929	23.7	1,248,766	23.8
Slovenia	1,013,699	17.8	982,100	18.7
Bosnia and Herzegovina	422,579	7.4	388,246	7.4
Other regional markets*	466,631	8.2	418,889	8.0
Key European markets**	275,807	4.8	251,759	4.8
Russia and CIS countries	116,311	2.1	139,248	2.7
Other markets	108,899	1.9	98,853	1.8
Total sales by markets	**5,702,479**	**100.0**	**5,252,029**	**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	2021 (in thousands of HRK)	2021 %	2020 (in thousands of HRK)	2020 %
Sales by type of products				
Own brands	3,571,094	61.7	3,332,885	62.6
Principal brands	1,599,911	27.7	1,445,153	27.1
Farmacia	531,474	9.2	473,991	8.9
Total sales by type of products	**5,702,479**	**98.6**	**5,252,029**	**98.6**
Other income /i/	83,292	1.4	76,645	1.4
Total revenues	**5,785,771**	**100.0**	**5,328,674**	**100.0**

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

NOTE 6 – STAFF COSTS

	2021	2020
	(in thousands of HRK)	
Gross salaries /i/	779,766	739,686
Christmas and Easter bonuses and holiday allowances	51,592	39,512
Public transport	18,147	17,238
Termination benefits	5,240	1,534
Other staff costs /ii/	82,631	57,661
	937,376	**855,631**

In 2021, the average number of employees was 5,460 (2020: 5,409).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2021 amounted to HRK 147,249 thousand (2020: HRK 139,084 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2021	2020
	(in thousands of HRK)	
Marketing and promotion costs - external	302,615	247,863
Marketing and promotion costs - related parties (Note 29)	4,168	3,065
Sponsorships and donations - external	22,993	16,185
	329,776	**267,113**

NOTE 8 – OTHER OPERATING COSTS

	2021	2020
	(in thousands of HRK)	
Transportation costs	142,480	131,702
Maintenance	127,075	115,626
Non-production material	34,464	35,934
Rentals (Note 13a)	29,315	28,454
Intellectual services	27,125	17,577
Taxes and contributions not related to operating results	22,829	21,868
Fuel	18,985	14,031
Provision for impairment of inventories (Note 19)	16,094	23,955
Non-production services	11,510	9,572
Production services	11,135	7,989
Telecommunication services	10,949	10,283
Entertainment	9,946	8,335
Provision for impairment of trade receivables (Note 18)	8,894	20,862
Bank charges	8,234	7,835
Travel expense and daily allowances	5,568	5,029
Other – related parties (Note 29)	2,202	2,332
Supervisory Board fees	1,572	1,496
Provision for impairment of other receivables (Note 18)	230	412
Collection of previously impaired receivables (Note 18)	(8,094)	(10,470)
Donations – Covid 19	117	25,429
Other	53,784	36,933
	534,414	**515,184**

NOTE 9 – OTHER GAINS/(LOSSES) – NET

	2021	2020
	(in thousands of HRK)	
Fair value gains/(losses) on financial assets	4,219	(4,913)
Foreign exchange losses – net	(3,570)	(3,927)
Gain on sale of property, plant and equipment	1,475	130
Gain on sale of subsidiaries – net of transaction expenses	648	5,178
Other	1,247	550
	4,019	**(2,982)**

NOTE 10 – FINANCE COSTS – NET

	2021	2020
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings and lease liabilities	2,826	7,608
	2,826	7,608
Finance costs		
Interest expense on lease liabilities	(8,408)	(9,315)
Interest expense on bank borrowings	(2,930)	(8,796)
Interest expense on bonds	(2,870)	(6,393)
Interest expense on provisions for employee benefits	(827)	(785)
Other interest expense /i/	(2,789)	(420)
Total interest expense	(17,824)	(25,709)
Foreign exchange losses on borrowings and lease liabilities	(2,751)	(12,435)
	(20,575)	(38,144)
Finance costs - net	**(17,749)**	**(30,536)**

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

NOTE 11 – INCOME TAX

	2021	2020
	(in thousands of HRK)	
Current income tax	84,396	79,066
Deferred tax (Note 25)	(10,092)	(9,688)
	74,304	**69,378**

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:

	2021	2020
	(in thousands of HRK)	
Profit before taxation	**420,196**	**411,648**
Income tax calculated at Croatian statutory income tax rate of 18%	75,635	74,097
Tax effects of:		
Lower income tax rates overseas	(1,562)	(4,619)
Adjustments of current income tax related to prior years	9,855	-
Income not subject to tax	(16,489)	(19,746)
Expenses not deductible for tax purposes	19,083	19,931
Effect of utilized tax incentives	(4,068)	-
Utilisation of previously unrecognized tax losses	(8,144)	(2,769)
Tax losses for which no deferred tax assets were recognised	771	3,002
Effect of utilized tax losses	(777)	(518)
Tax expense	**74,304**	**69,378**

The effective tax rate was 17.7% (2020: 16.9%).

In 2021, the following members of the Group were subject to an audit by Tax Authority: Atlantic Trade d.o.o. Ljubljana for corporate income tax return from 2020, Atlantic Grand d.o.o. Beograd for value added tax return and custom duties from 2020, Atlantic Argeta d.o.o. Sarajevo for value added tax returns for the period from 1 December 2018 until 31 March 2021 and Atlantic Trade d.o.o. Skopje for corporate income tax returns, value added tax returns and personal income tax returns for the period 2018 until 2020.

All inspections were completed in 2021, except Atlantic Trade d.o.o. Skopje which is still in progress.

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.

	2021	**2020**
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	344,857	341,730
Weighted average number of ordinary shares in issue	3,325,122	3,326,936
Basic earnings per share *(in HRK)*	103.71	102.72

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 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**
At 1 January 2021					
Opening net book amount	136,797	372,280	398,177	163,084	1,070,338
Additions	-	502	11,093	194,536	206,131
Transfer	-	12,540	204,945	(217,485)	-
Disposals	(1,423)	(2,506)	(1,290)	(2,173)	(7,392)
Depreciation	-	(20,331)	(105,320)	-	(125,651)
Impairment charge	(245)	(6,413)	(5,345)	(190)	(12,193)
Transfer to assets held for sale	(21)	(2,045)	(1,561)	-	(3,627)
Acquisition of subsidiary	-	-	1,438	-	1,438
Divestment of subsidiary	(4,634)	(9,743)	(3,981)	-	(18,358)
Foreign exchange differences	(188)	(856)	(620)	(297)	(1,961)
Closing net book amount	**130,286**	**343,428**	**497,536**	**137,475**	**1,108,725**
At 31 December 2021					
Cost	130,286	908,468	1,890,872	137,475	3,067,101
Accumulated depreciation	-	(565,040)	(1,393,336)	-	(1,958,376)
Net book amount	**130,286**	**343,428**	**497,536**	**137,475**	**1,108,725**

As at 31 December 2021, there were no pledged property, plant and equipment as collateral for loan repayment, while the net book value of pledged property, plant and equipment at 31 December 2020 was HRK 177,509 thousand (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 2020	**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**
Additions	20,618	52,628	3,768	77,014
Lease modification	13,554	792	373	14,719
Lease expiration	(3,654)	(1,713)	(969)	(6,336)
Depreciation	(51,169)	(43,064)	(389)	(94,622)
Foreign exchange differences	(657)	943	(5)	281
At 31 December 2021	**230,031**	**95,413**	**4,450**	**329,894**

	31 December 2021	**31 December 2020**
Lease liabilities		
Current	86,844	84,824
Non-current	263,065	263,479
	349,909	348,303

(ii) Amounts recognized in the income statement

(in thousands of HRK)	**2021**	**2020**
Depreciation charge of right-of-use assets	94,622	89,849
Interest expense (included in finance cost)	8,408	9,315
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)	29,315	28,454

The total cash outflow for leases in 2021 was HRK 93,502 thousand (2020: HRK 86,999 thousand).

NOTE 14 – NON-CURRENT ASSETS HELD FOR SALE

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Opening net book amount	5,382	5,583
Transfer from tangible and intangible assets	3,762	-
Impairment charge	(1,140)	-
Disposals	(3,750)	(205)
Transfer to investment property	(492)	-
Foreign exchange differences	(3)	4
Closing net book amount	**3,759**	**5,382**

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 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	7,682	-	8,043	38	111	13	15,887
Additions	-	-	-	-	-	17,994	17,994
Transfer	-	2,592	114	-	29,388	(32,094)	-
Acquisition of subsidiary	12,312	-	1,438	8,181	10	-	21,941
Amortisation	-	(388)	(10,525)	(1,097)	(21,929)	-	(33,939)
Impairment charge	-	-	(20,961)	(839)	-	-	(21,800)
Closing net book amount	**797,100**	**173,263**	**614,592**	**12,436**	**52,913**	**8,454**	**1,658,758**
At 31 December 2020							
Cost	830,916	222,231	770,333	13,391	220,682	8,454	2,066,007
Accumulated amortisation and impairment	(33,816)	(48,968)	(155,741)	(955)	(167,769)	-	(407,249)
Net book amount	**797,100**	**173,263**	**614,592**	**12,436**	**52,913**	**8,454**	**1,658,758**
At 1 January 2021							
Opening net book amount	797,100	173,263	614,592	12,436	52,913	8,454	1,658,758
Foreign exchange differences	(1,608)	-	(1,584)	-	145	19	(3,028)
Additions	-	-	-	-	948	32,871	33,819
Transfer	-	-	312	3,053	30,551	(33,916)	-
Transfer to assets held for sale	-	-	-	-	(135)	-	(135)
Divestment of subsidiary	-	-	-	-	(438)	-	(438)
Disposals	-	-	(7,524)	-	-	-	(7,524)
Acquisition of subsidiary	5,447	6,287	-	-	-	-	11,734
Amortisation	-	(518)	(10,385)	(1,587)	(23,000)	-	(35,490)
Impairment charge	(12,198)	-	(4,847)	-	(303)	-	(17,348)
Closing net book amount	**788,741**	**179,032**	**590,564**	**13,902**	**60,681**	**7,428**	**1,640,348**
At 31 December 2021							
Cost	834,755	228,518	761,537	16,444	251,753	7,428	2,100,435
Accumulated amortisation and impairment	(46,014)	(49,486)	(170,973)	(2,542)	(191,072)	-	(460,087)
Net book amount	**788,741**	**179,032**	**590,564**	**13,902**	**60,681**	**7,428**	**1,640,348**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test and the basis for impairment charge are provided in Note 4 b).
As at 31 December 2021, there were no pledged intangible assets as collateral for loan repayment, while the net book values of pledged intangible assets as at 31 December 2020 was HRK 565,252 thousand (Note 24).

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY

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

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Financial assets at amortised cost		
Trade receivables	1,078,069	1,079,003
Loans and deposits given	48,217	51,956
Other financial assets at amortized cost	44,995	20,649
Cash and cash equivalents	346,635	426,513
	1,517,916	1,578,121
Financial assets at fair value through OCI		
Financial assets at fair value through OCI	1,384	1,404
Derivatives used for hedging		
Derivative financial instruments	2,972	-
Total financial assets	**1,522,272**	**1,579,525**
Total current	1,478,138	1,530,122
Total non-current	44,134	49,403
Financial liabilities at amortised cost		
Borrowings	459,589	811,224
Trade and other payables	1,107,233	914,313
	1,566,822	1,725,537
Derivatives used for hedging		
Derivative financial instruments	-	7,132
Lease liabilities	349,909	348,303
Financial liabilities at fair value through profit or loss		
Contingent consideration for acquisition of subsidiaries	9,846	9,597
Total financial liabilities	**1,926,577**	**2,090,569**
Total current	1,357,748	1,518,234
Total non-current	568,829	572,335

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 2021 and 2020, there were no impairment provisions on financial assets through OCI.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	36,330	41,442
Other non-current receivables	6,420	6,557
	42,750	47,999
Current receivables		
Trade receivables /ii/	1,078,069	1,079,003
Loans receivable and deposits /i/	11,887	10,514
Other receivables /iii/	198,026	159,141
	1,287,982	1,248,658
	1,330,732	**1,296,657**

	31 December 2021	31 December 2020
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans receivable and deposits	48,217	51,956
Trade receivables	1,078,069	1,079,003
Other receivables	44,995	20,649
	1,171,281	**1,151,608**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/i/ Loans receivable and deposits are as follows:

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Non-current receivables		
Deposits	2,053	6,307
Loans	37,193	37,841
Current portion	(2,916)	(2,706)
	36,330	41,442
Current receivables		
Loans – related parties (Note 29)	791	738
Loans	8,095	7,048
Deposits	85	22
Current portion of non-current receivables	2,916	2,706
	11,887	10,514
	48,217	**51,956**

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

/ii/ Trade receivables are as follows:

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Gross trade receivables	1,055,894	1,066,670
Trade receivables – related parties (Note 29)	83,176	74,887
Provision for trade receivables	(61,001)	(62,554)
	1,078,069	**1,079,003**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/iii/ Other receivables are as follows:

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Receivables from government institutions	45,467	53,846
Advances given	30,236	23,126
Prepaid expenses and accrued income	83,748	68,077
Receivables from the sale of business and subsidiaries (Note 28)	18,793	6,331
Interest receivable	551	753
Interest receivable – related parties (Note 29)	207	201
Other	19,024	6,807
	198,026	**159,141**

Due to uncertainty in collection, other receivables of HRK 230 thousand were impaired (2020: HRK 412 thousand), (Note 8).

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

As of 31 December 2021, trade receivables in the amount of HRK 61,001 thousand (2020: HRK 62,554 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 2021	31 December 2020
	(in thousands of HRK)	
Undue	1,517	-
Up to 3 months	2,457	4,227
3 to 6 months	1,537	1,227
Over 6 months	55,490	57,100
	61,001	**62,554**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2021, trade receivables in the amount of HRK 97,520 thousand (2020: HRK 129,630 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 2021	31 December 2020
	(in thousands of HRK)	
Up to 3 months	91,627	110,683
3 to 6 months	3,541	9,622
Over 6 months	2,352	9,325
	97,520	**129,630**

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

	31 December 2021	31 December 2020
	(in thousands of HRK)	
EUR	316,079	337,360
HRK	396,898	369,520
RSD	352,248	331,227
Other	106,056	113,501
	1,171,281	**1,151,608**

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

	2021	2020
	(in thousands of HRK)	
As at 1 January	62,554	72,783
Provision for receivables impairment (Note 8)	8,894	20,862
Collected amounts reversed (Note 8)	(8,094)	(10,470)
Receivables written off	(1,086)	(7,179)
Liquidation of subsidiary	(1,192)	-
Transfer to long-term loans given	-	(13,080)
Exchange differences	(75)	(362)
As at 31 December	**61,001**	**62,554**

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 2021	31 December 2020
	(in thousands of HRK)	
Trade goods	275,066	253,000
Finished goods	234,086	193,148
Raw materials and supplies	119,172	111,220
Work in progress	10,877	14,906
	639,201	**572,274**

As of 31 December 2021, inventories of HRK 16,094 thousand (2020: HRK 23,955 thousand) were impaired due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Foreign currency account	198,828	129,025
Current account and cash on hand	147,807	297,083
Deposits up to three months /i/	-	405
	346,635	**426,513**

/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 2021	31 December 2020
	(in thousands of HRK)	
HRK	147,807	297,074
EUR	111,712	87,482
RSD	27,488	11,297
Other	59,628	30,660
	346,635	**426,513**

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 2020	**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**
Purchase of treasury shares	(19,801)	-	-	(30,558)	(30,558)
Share based payments	11,709	-	2,001	16,074	18,075
31 December 2021	**3,319,479**	**133,372**	**883,852**	**(22,131)**	**995,093**

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.

The ownership structure of the Company is as follows:

	31 December 2021		**31 December 2020**	
	Number of shares	**%**	**Number of shares**	**%**
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	361,839	10.85	322,729	9.68
AZ Obligatory pension fund	286,946	8.61	286,946	8.61
Erste Plavi Obligatory pension fund	247,821	7.43	256,019	7.68
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	33,464	1.00	31,189	0.93
Other shareholders	522,434	15.67	563,713	16.91
Treasury shares	14,821	0.45	6,729	0.20
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Dividend distribution

According to the decision of the Company's General Assembly from 16 June 2021, the distribution of dividend in the amount of HRK 40.00 per share, or HRK 133,094 thousand in total was approved. Dividend was paid in July 2021.

In 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.

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 Board members as well as to other employees (equity-settled transactions).

In addition to the right to pay bonuses in shares, employees, if they decide to keep the shares for a period of a least two or three years (vesting period), acquire the right to additional shares, while the other part is available without restrictions. Members of senior management are eligible to participate in the Executive Longevity Premium program, which was created as a result of Atlantic Grupa's desire to recognize the critical contribution of management positions to the creation and implementation of long-term strategy. Through this program, the Company grants a package of shares to members of senior management for their long-term contribution to the Company in a high executive position.

The fair value of the shares granted in 2021 is determined as of the grant date, at the estimated market price of share of HRK 1,540.00 (2020: HRK 1,168.65).

In 2021, Management and employees have received 5,344 non-conditional shares granted in 2021, 4,881 conditional shares granted in 2017 and 1,484 conditional shares granted in 2018.

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.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves /i/**	**Translation reserves /ii/**	**Cash flow hedge reserves /ii/**	**Total**
At 1 January 2020	**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)**
Foreign exchange differences	-	(4,062)	-	(4,062)
Transfer from retained earnings	1,761	-	-	1,761
Cash flow hedge	-	-	8,473	8,473
At 31 December 2021	**22,274**	**(66,727)**	**(826)**	**(45,279)**

/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:

	2021	**2020**
	(in thousands of HRK)	
Cash flow hedges:		
Currency forward contracts		
Reclassification during the year to profit or loss	7,497	4,977
Net loss during the year (except not-yet matured contracts)	-	(1,569)
Net loss during the year of not-yet matured contracts	976	(7,714)
	8,473	**(4,306)**

NOTE 23 – TRADE AND OTHER PAYABLES

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Trade payables	786,841	655,957
Trade payables – related parties (Note 29)	2,238	1,918
Other payables	385,746	296,583
	1,174,825	**954,458**

Other payables recorded as at 31 December are as follows:

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Gross salaries payable	64,648	43,314
Accrued expenses (suppliers)	186,152	145,199
Vacation accrual	20,107	17,269
Contractual obligation to customers	85,357	63,602
Termination benefits payable	331	281
Deferred income	2,828	1,477
Dividend payable	291	171
Other	26,032	25,270
	385,746	**296,583**

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 2021	31 December 2020
	(in thousands of HRK)	
EUR	437,833	388,793
HRK	401,660	320,579
RSD	199,537	151,887
Other	71,942	53,323
	1,110,972	**914,582**

NOTE 24 – BORROWINGS

	31 December 2021	31 December 2020
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions	637	609
Bonds /i/	299,020	298,919
	299,657	**299,528**
Short-term borrowings:		
Financial institutions /ii/	159,788	511,696
Bonds /i/	144	-
	159,932	**511,696**
	459,589	**811,224**

/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 three loans (2020: eleven loans).
As at 31 December 2021, the Group had no committed line, while as at 31 December 2020 EUR 22 million of the committed line was unused.

As at 31 December 2021, the Group has no borrowings from financial institutions secured by pledges over property, while as at 31 December 2020 borrowings were 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.

Furthermore, 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 2021	31 December 2020
	(in thousands of HRK)	
Fixed interest rate	331,727	654,803
Up to 3 months	127,862	153,838
3 to 6 months	-	2,583
	459,589	**811,224**

NOTE 24 – BORROWINGS (continued)

The maturity of long-term borrowings is in the period from two to five years.

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 0.78% (2020: 0.72%). The effective annual interest rate related to bonds at the balance sheet date was 0.96% (2020: 3.10%).

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)	**2021**	**2020**	**2021**	**2020**
Long-term borrowings				
Financial institutions	637	609	637	609
Bonds	299,020	298,919	300,000	300,750
	299,657	**299,528**	**300,637**	**301,359**

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

	31 December 2021	**31 December 2020**
	(in thousands of HRK)	
HRK	329,028	503,550
RSD	127,862	153,840
USD	1,563	1,442
EUR	1,136	152,392
	459,589	**811,224**

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 7,460 thousand (2020: HRK 17,412 thousand) in respect of losses that arose in the Company and its six subsidiaries (2020: five 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 38,767 thousand (2020: HRK 76,664 thousand) expire over the next five years, while the tax losses in the amount of HRK 11,557 thousand (2020: HRK 13,939 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	**Tax losses**	**Provisions**	**Other**	**Total**
At 1 January 2020	**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**
(Charged)/credited to the income statement (Note 11)	(725)	2,236	4,840	6,351
(Charged)/credited to other comprehensive income	-	38	(1,463)	(1,425)
Exchange differences	344	(11)	(75)	258
At 31 December 2021	**2,372**	**16,531**	**22,566**	**41,469**

Deferred tax liabilities

(in thousands of HRK)	**Fair value uplifts of assets acquired in business combinations**	**Other**	**Total**
At 1 January 2020	**153,228**	**-**	**153,228**
Charged/(credited) to the income statement (Note 11)	(4,714)	-	(4,714)
Acquisition of subsidiary	1,732	-	1,732
Exchange differences	1,576	-	1,576
At 31 December 2020	**151,822**	**-**	**151,822**
Charged/(credited) to the income statement (Note 11)	(3,741)	-	(3,741)
(Charged)/credited to other comprehensive income	-	523	523
Exchange differences	(260)	-	(260)
At 31 December 2021	**147,821**	**523**	**148,344**

NOTE 26 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal proceedings	Other provisions	Total
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
At 1 January 2021	**104,245**	**60,116**	**10,108**	**174,469**
Additions	67,165	20,636	-	87,801
Utilised during the year	(45,647)	(36,490)	(8,549)	(90,686)
Reversed during the year	(6,871)	(10,563)	-	(17,434)
Interest expense	827	-	-	827
Exchange differences	146	(32)	81	195
At 31 December 2021	**119,865**	**33,667**	**1,640**	**155,172**
Analysis of total provisions:				
Non-current	56,995	11,457	1,355	69,807
Current	62,870	22,210	285	85,365

Legal proceedings

In 2021, based on the agreement for the sale of shares in company Neva d.o.o. which were sold in 2018, the Group paid additionally determined tax liability in amount of HRK 36,276 thousand according to the court case Neva d.o.o. with the Tax Authorities which was pending at the time of the sale.

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 2021.

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 2022. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 3,611 thousand (2020: HRK 3,563 thousand) that will be paid out within the period of 12 months from the balance sheet date.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2021 but not yet incurred amounted to HRK 74,915 thousand (2020: HRK 47,034 thousand) for property, plant and equipment and HRK 13,456 thousand for intangible assets (2020: HRK 2,212 thousand).

NOTE 28 – BUSINESS COMBINATIONS, ACQUISITION AND DIVESTMENT OF SUBSIDIARIES

/i/ During the 2021, Atlantic Group acquired 100% ownership in the companies ZU Ljekarna Galler, Kraljevica and The Best Cofee d.o.o., Podstrana. After the acquisition, they were merged with the ZU Ljekarne Farmacia and Atlantic Zagreb d.o.o., Zagreb.

As a result of these transactions, the license in the amount of HRK 6,287 thousand and provisional goodwill in the amount of HRK 5,447 thousand have been recognized as the difference between the cost of acquisition and the carrying value of net assets acquired. Provisional goodwill is subject to final valuation which will be completed within a period of 12 months from the date of acquisition.

Cash paid and liability for acquisition of subsidiary
(in thousands of HRK)

Cash paid	12,407
Liability for acquisition of subsidiary	633
Total purchase consideration	**13,040**
Carrying value of net assets acquired	(1,306)
	11,734
Licence	6,287
Provisional goodwill	5,447

Carrying value of net assets acquired
(in thousands of HRK)

Property, plant and equipment	1,438
Inventories	379
Trade and other receivables	2,246
Cash and cash equivalents	158
Trade and other payables	(2,915)
	1,306

Cash flow from acquisition of subsidiary
(in thousands of HRK)

Cash paid	12,407
Cash in subsidiary acquired	(158)
Payments for acquisition of subsidiary	**12,249**

Acquired subsidiaries in 2021 contributed HRK 138 thousand of revenues and HRK 170 thousand of loss to the Group.

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

Atlantic Grupa has signed an agreement with the Austrian company Gittis Naturprodukte GmbH to sell the production site Mirna in Slovenia. This is the conclusion of the process started with the sale of the baby food brand Bebi to the Serbian Nelt Group last year, ie the continuation of disinvesting in smaller and non-core activities in accordance with Atlantic Grupa's corporate strategy. With this transaction, Gittis took over the entire production site with employees. The transaction was closed on 31 December 2021 and the Group realized a gain from the sale in the amount of HRK 648 thousand.

(in thousands of HRK)	
Receivables for sale of the business	18,793
Carrying value of net asset disposed	(18,145)
Gain from sale of the business	**648**

Carrying value of net asset disposed as at 31 December 2021 *(in thousands of HRK)*	
Property, plant and equipment	18,358
Intangible assets	438
Other assets	56
Other liabilities	(707)
	18,145

Disposed business in 2021 contributed HRK 29,734 thousand of revenues and HRK 8,502 thousand of profit to the Group.

Furthermore, in 2021, the Group collected HRK 6,312 thousand of receivables from the sale of sports and active nutrition factories in 2017.

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

/ii/ 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.

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**
Fair value of net assets acquired	(7,907)
Provisional goodwill (restated)	**12,312**

Value of net asset acquired

(in thousands of HRK)	**Fair value**	**Carrying value**
Customer contracts	8,181	-
Brand	1,438	-
Property, plant, and equipment	2,801	2,801
Intangible assets	10	10
Trade receivables and other receivables	703	703
Cash and cash equivalents	20	20
Deferred tax liabilities	(1,732)	-
Trade payables and other payables	(3,514)	(3,514)
Net assets	**7,907**	**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 and as at 31 December 2021 it is higher by HRK 631 thousand. The liability is classified as Other non-current liabilities and Trade and other payables since the agreed terms of payment of tranches are in January 2022 and April 2023.

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.

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

During the 2020, the Group has paid HRK 4,228 thousand of the remaining liabilities for the purchase of Vivascaffe Professional d.o.o.

During 2020 the Group has 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.

NOTE 29 – RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties – significant shareholders and entities owned or controlled by the ultimate controlling party ('other entities'), among which the most significant transactions are made with Ataco d.o.o., which is co-owned by the ultimate controlling party and which is distributor for a number of quality brands, including the Group's brands on Bosnia and Herzegovina and Montenegro markets.

Related party transactions that relate to balances as at 31 December 2021 and as at 31 December 2020 and transactions recognized for the years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2021	2020
RECEIVABLES			
Current receivables			
Other entities	18	84,174	75,826
LIABILITIES			
Trade and other payables			
Other entities	23	2,238	1,918
REVENUES			
Sales revenues			
Other entities		496,471	448,514
Other revenues			
Other entities		671	807
EXPENSES			
Marketing and promotion costs	7		
Other entities		4,168	3,065
Other operating costs	8		
Other entities		2,202	2,332
Purchase of property, plant and equipment			
Other entities		289	623

Management board compensation

In 2021 members of the Management Board received total gross amount of HRK 20,119 thousand relating to salaries and bonuses (2020: HRK 17,794 thousand).

NOTE 30 – AUDITORS' FEES

Statutory audit services fees to the auditors of the Group's financial statements amounted to HRK 3,311 thousand (2020: HRK 3,009 thousand), while fees related to other services amounted to HRK 160 thousand (2020: 153 thousand). Other services relate to subscription to online learning portal, Report on remuneration of the Management Board and the Supervisory Board, related party reports and agreed upon procedures in relation to received government grants in Republic of Serbia.

NOTE 31 – SUBSIDIARIES

The Group is comprised of the Company and the following subsidiaries in which the Company has an ownership interest above 50% and exercises control:

	2021	**2020**
Atlantic Cedevita d.o.o., Croatia	100%	100%
Atlantic Trade d.o.o., Croatia	100%	100%
- Atlantic Droga Kolinska d.o.o., Slovenia	100%	100%
- Atlantic Štark d.o.o., Serbia	100%	100%
- Atlantic Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- o.o.o. Atlantic Brands, Russia	100%	100%
- Atlantic Grand d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Atlantic Grand d.o.o., Bosnia and Herzegovina	100%	100%
- Atlantic Grand d.o.o.e.l., North Macedonia	100%	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., North Macedonia	75%	75%
- Procaffe d.o.o., Croatia	99%	99%
Farmacia Holding d.o.o., Croatia	100%	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%
- Hopen Cyprus Ltd., Cyprus (founded in 2021)	100%	-
Atlantic Multipower Srl, Italy (liquidated in 2021)	-	100%
Atlantic Brands GmbH, Austria	100%	100%

ATLANTIC
GRUPA

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 28 March 2022, 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 2021" enclosed with this Decision.

II The audited non-consolidated and consolidated annual financial statements for 2021 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 2021, 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 2021 to 31 December 2021 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 (4 May 2022);

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 (4 May 2022);

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 (4 May 2022), 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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