ATLANTIC GRUPA d.d.

AUDITOR’S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2022

Responsibility for the annual financial statements

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

STATEMENT

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

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

In Zagreb, 29 March 2023

Zoran Stanković
Group Vice President for Finance, Procurement and Investment

Tatjana Ilinčić
Director of Corporate Reporting and Consolidation

Responsibility for the consolidated financial statements

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

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

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

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

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

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

Emil Tedeschi
President and Chief Executive Officer

Zoran Stanković
Group Vice President for Finance, Procurement and Investment

Srećko Nakić
Group Vice President for Distribution

Mate Štetić
Group Vice President for Coffee and Snacks

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

Lada Tedeschi Fiorio
Group Vice President for Corporate Strategy and Growth

Neven Vranković
Group Vice President for Corporate Activities

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Atlantic Grupa d.d.

Report on the audit of the consolidated financial statements

Opinion

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

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

Basis for opinion

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

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

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

Key audit matters

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

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

Key audit matters (continued)

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

Other information

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

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

Other information (continued)

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

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

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

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

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

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

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

Responsibilities of management and Audit Committee for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

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

Appointment of Auditor and Period of Engagement (continued)

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

Consistence with Additional Report to Audit Committee

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

Provision of Non-audit Services

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

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

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

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

Responsibilities of the management and Audit Committee

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

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

Management is also responsible for:

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

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

Auditor's responsibilities

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

Work performed

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

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

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

The aim of our procedures was to assess whether:

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

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

Conclusion

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

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

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

Berislav Horvat,
President of the Management Board and Certified auditor

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

29 March 2023

Janja Kulić,
Director and Certified auditor

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

29 March 2023

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

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

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

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

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

NOTE 1 – GENERAL INFORMATION

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Changes in accounting policies and disclosures

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Standards and Interpretations effective in the current period

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

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

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

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

(b) Transactions with non-controlling interests

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

(c) Disposal of subsidiary

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

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

2.4 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances in foreign currency

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

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

(c) Group companies

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

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

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

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

2.8 Financial assets

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

(a) Financial assets at amortised costs
The Group measures financial assets at amortised cost if both of the following conditions are met:
- 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 4%, representing unsecured risk of the Company was used for new and modified leases whose maturity is above 5 years (2021: 2%), and incremental borrowing rate of 2.2%, representing the secured risk of the Company was used for new and modified leases with maturity of 5 years and less (2021: 1%).

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Leases (continued)

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

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

(ii) Variable lease payments

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

(iii) Extension and termination options

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

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

2.10 Inventories

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred tax

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

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

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

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

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

(d) Share-based compensation

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

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

(e) Short-term employee benefits

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

2.17 Provisions

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

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

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

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

2.20 Value added tax

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

2.21 Non-current assets held for sale

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

2.22 Derivative financial instruments and hedging activities

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Trade payables

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

2.24 Investment property

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

2.25 Operating profit

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

2.26 Government grants

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

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

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

2.27 Events after the reporting period

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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

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

(ii) Equity securities risk

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

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

(iii) Cash flow and fair value interest rate risk

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

(c) Liquidity risk

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

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

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

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

3.2 Changes in liabilities arising from financial activities

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

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

3.3 Capital risk management

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Capital risk management (continued)

The gearing ratios were as follows:

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

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

3.4 Fair value estimation

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation (continued)

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

(a) Expected useful lives of brands and licences

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

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

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

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

(i) Licences

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

(ii) Brands

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

(iii) Goodwill

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

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

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

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

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

The sensitivity analysis of the key assumptions used in the impairment testing of goodwill and licences shows that increasing the discount rate by 100 basis points, with other variables unchanged would result in additional impairment of goodwill and licences in amount of HRK 101,280 thousand. At the same time, if the terminal growth rate was reduced by 100 basis points, with other variables unchanged, the decrease in the value of goodwill and licences would be HRK 51,184 thousand higher, with a decrease in expected free cash flow by 500 basis points, with other variables unchanged, the decrease in the values of goodwill and licences would be HRK 26,638 thousand higher.

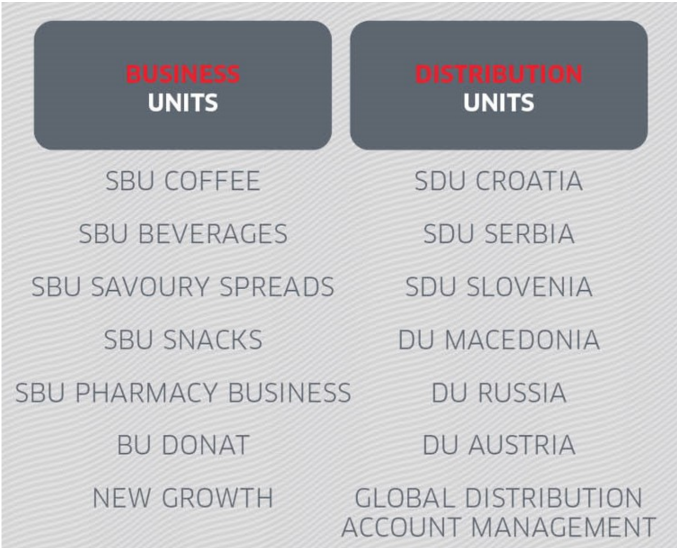
(c) Deferred tax asset recognition

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

NOTE 5 – SEGMENT INFORMATION

The business model of the Group is organized through five strategic business units and one business unit. In addition to business units, separate department – New Growth is established, which is focused on the development of new brands of Atlantic Grupa.

The distribution business is organized to cover six largest markets – Croatia, Serbia, Slovenia, North Macedonia, Russia and Austria and department of Global Distribution Account Management covering the markets dominantly managed by distribution partners.



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

For more efficient management of individual business and distribution units, the organization unites similar business activities or products, shared markets, or channels, together.

Since DU Macedonia, DU Russia, DU Austria, Global distribution network management and New Growth do not meet quantitative thresholds, required by IFRS 8 for reportable segments, they are reported within “Other segments” where, also, baby food business, which was completely divested in June 2021, is reported. “Other segments” category comprises also of non-allocable business activities (headquarters and support functions in all markets of Atlantic Grupa) which are excluded from the reportable operating segments.

Segment performance is evaluated based on operating profit or loss. Group financing and income taxes are managed on Group basis and are not allocated to operating segments.

Sales of individual business units represent in market sales made to third parties (either directly through business units or through distribution units). Distribution units’ sales includes sales of own products also reported as business units’ sales. This double counting of own product sales is eliminated in the “Reconciliation” line. For segmental profit calculation, sales between operating segments are carried out at arm's length.

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues* *(in thousands of HRK)*	**2022**	**2021**
SBU Coffee	1,389,933	1,196,229
SBU Savoury Spreads	973,603	885,248
SBU Snacks	731,652	684,420
SBU Beverages	644,645	536,380
SBU Pharmacy business	587,464	531,474
BU Donat	239,912	218,785
SDU Croatia	1,553,400	1,403,161
SDU Serbia	1,542,156	1,335,388
SDU Slovenia	1,094,792	1,012,789
Other segments	929,721	855,149
Reconciliation	(3,314,294)	(2,956,544)
Total	**6,372,984**	**5,702,479**

Operating results	**For the year ended 31 December 2022**		
(in thousands of HRK)	**Operating Profit/(Loss) before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating Profit/(Loss)**
SBU Coffee	189,436	51,620	137,816
SBU Savoury Spreads	144,685	25,816	118,869
SBU Snacks	44,046	46,075	(2,029)
SBU Beverages	100,931	26,984	73,947
SBU Pharmacy business	69,198	23,284	45,914
BU Donat	108,202	5,438	102,764
SDU Croatia	84,919	26,175	58,744
SDU Serbia	71,570	20,587	50,983
SDU Slovenia	62,065	7,747	54,318
Other segments	(299,611)	66,614	(366,225)
Total	**575,441**	**300,340**	**275,101**

* Comparative period has been adjusted to reflect 2022 reporting

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results*	**For the year ended 31 December 2021**		
(in thousands of HRK)	**Operating Profit/(Loss) before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating Profit/(Loss)**
SBU Coffee	278,779	46,016	232,763
SBU Savoury Spreads	182,706	18,634	164,072
SBU Snacks	114,599	38,921	75,678
SBU Beverages	111,606	34,493	77,113
SBU Pharmacy business	59,223	21,252	37,971
BU Donat	101,457	4,444	97,013
SDU Croatia	88,048	26,173	61,875
SDU Serbia	62,613	20,031	42,582
SDU Slovenia	62,801	7,728	55,073
Other segments	(337,443)	68,752	(406,195)
Total	**724,389**	**286,444**	**437,945**

Geographical information

The total of non-current assets other than financial instruments, deferred income tax assets and trade and other receivables is located as follows:

	31 December 2022	**31 December 2021**
	(in thousands of HRK)	
Serbia	1,075,658	1,012,841
Croatia	1,014,792	1,018,277
Slovenia	895,092	896,100
Other markets	162,312	152,556
Total geographically allocated non-current assets	**3,147,854**	**3,079,774**

* Comparative period has been adjusted to reflect 2022 reporting

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2022 (in thousands of HRK)	2022 %	2021 (in thousands of HRK)	2021 %
Croatia	2,151,005	33.8	1,945,624	34.1
Serbia	1,562,207	24.5	1,352,929	23.7
Slovenia	1,101,490	17.3	1,013,699	17.8
Bosnia and Herzegovina	477,872	7.5	422,579	7.4
Other regional markets*	534,530	8.4	466,631	8.2
Key European markets**	325,872	5.1	275,807	4.8
Russia and CIS countries	108,207	1.7	116,311	2.1
Other markets	111,801	1.7	108,899	1.9
Total sales by markets	**6,372,984**	**100.0**	**5,702,479**	**100.0**

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

Sales by geographical segments is determined by geographical location of the customer.

Analysis of revenue by category	2022 (in thousands of HRK)	2022 %	2021 (in thousands of HRK)	2021 %
Sales by type of products				
Own brands	4,014,110	62.1	3,571,094	61.7
Principal brands	1,771,410	27.4	1,599,911	27.7
Farmacia	587,464	9.1	531,474	9.2
Total sales by type of products	**6,372,984**	**98.6**	**5,702,479**	**98.6**
Other income /i/	90,991	1.4	83,292	1.4
Total revenues	**6,463,975**	**100.0**	**5,785,771**	**100.0**

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

NOTE 6 – STAFF COSTS

	2022	2021
	(in thousands of HRK)	
Gross salaries /i/	845,122	779,766
Christmas and Easter bonuses and holiday allowances	45,289	51,592
Public transport	19,019	18,147
Termination benefits	2,421	5,240
Other staff costs /ii/	72,146	82,631
	983,997	**937,376**

In 2022, the average number of employees was 5,436 (2021: 5,460).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds in 2022 amounted to HRK 157,774 thousand (2021: HRK 147,249 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2022	2021
	(in thousands of HRK)	
Marketing and promotion costs - external	264,870	302,615
Marketing and promotion costs - related parties (Note 29)	7,882	4,168
Sponsorships and donations - external	21,987	22,993
	294,739	**329,776**

NOTE 8 – OTHER OPERATING COSTS

	2022	2021
	(in thousands of HRK)	
Transportation costs	179,505	142,480
Maintenance	128,812	127,075
Non-production material	38,735	34,464
Rentals (Note 13a)	32,112	29,315
Fuel	26,282	18,985
Provision for impairment of inventories (Note 19)	25,243	16,094
Taxes and contributions not related to operating results	23,891	22,829
Entertainment	20,508	9,946
Intellectual services	17,945	27,125
Production services	16,615	11,135
Non-production services	14,534	11,510
Travel expense and daily allowances	10,997	5,568
Telecommunication services	10,493	10,949
Bank charges	8,574	8,234
Provision for impairment of trade receivables (Note 18)	7,130	8,894
Supervisory Board fees	1,913	1,572
Provision for impairment of other receivables (Note 18)	-	230
Collection of previously impaired trade receivables (Note 18)	(3,785)	(8,094)
Other – related parties (Note 29)	2,364	2,202
Other	38,239	53,901
	600,107	**534,414**

NOTE 9 – OTHER GAINS – NET

	2022	2021
	(in thousands of HRK)	
Foreign exchange gains/(losses) – net	31,501	(3,570)
Gain on sale of property, plant and equipment	1,621	1,475
Gain on sale of intangible asset	755	-
(Loss)/gain on sale of subsidiaries – net of transaction expenses	(365)	648
Fair value (losses)/gains on financial assets	(1,172)	4,219
Other gains - net	247	1,247
	32,587	**4,019**

NOTE 10 – FINANCE COSTS – NET

	2022	2021
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings and lease liabilities	2,947	2,826
	2,947	2,826
Finance costs		
Interest expense on lease liabilities	(8,369)	(8,408)
Interest expense on bank borrowings	(3,783)	(2,930)
Interest expense on bonds	(2,870)	(2,870)
Interest expense on provisions for employee benefits	(2,449)	(827)
Other interest expense /i/	(1,223)	(2,789)
Total interest expense	(18,694)	(17,824)
Foreign exchange losses on borrowings and lease liabilities	(4,049)	(2,751)
	(22,743)	(20,575)
Finance costs - net	**(19,796)**	**(17,749)**

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

NOTE 11 – INCOME TAX

	2022	2021
	(in thousands of HRK)	
Current income tax	54,221	84,396
Deferred tax (Note 25)	4,621	(10,092)
	58,842	**74,304**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2022	2021
	(in thousands of HRK)	
Profit before taxation	**255,305**	**420,196**
Income tax calculated at Croatian statutory income tax rate of 18%	45,955	75,635
Tax effects of:		
Higher/(lower) income tax rates overseas	1,119	(1,562)
Adjustments of current income tax related to prior years	(3,995)	9,855
Income not subject to tax	(12,389)	(13,992)
Expenses not deductible for tax purposes	24,915	16,586
Effect of utilized tax incentives	(2,311)	(4,068)
Utilisation of previously unrecognized tax losses	(3,360)	(8,144)
Tax losses for which no deferred tax assets were recognised	8,898	771
Effect of utilized tax losses	(708)	(777)
Additional profit tax in the Republic of Croatia	718	-
Income tax	**58,842**	**74,304**

The effective tax rate was 23.0% (2021: 17.7%).

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

At the General Assembly held on 15 June 2022, the shareholders approved share split in a way that each of the Company's ordinary shares with an individual nominal value of HRK 40.00 was split into four shares with an individual nominal amount of HRK 10.00. Following the share split, the number of ordinary shares increased from 3,334,300 to 13,337,200 shares. Basic earnings per share for prior period have been adjusted with the new number of shares.

	2022	**2021**
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	195,729	344,857
Weighted average number of ordinary shares in issue	13,292,694	13,300,488
Basic earnings per share *(in HRK)*	14.72	25.93

Diluted earnings per share

Diluted earnings per share are the same as basic earnings per share since there were no diluted potential ordinary shares.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land**	**Buildings**	**Plant and equipment**	**Assets not yet in use**	**Total**
At 31 December 2020					
Cost	136,797	970,038	1,850,685	163,084	3,120,604
Accumulated depreciation and impairment charge	-	(597,758)	(1,452,508)	-	(2,050,266)
Net book amount	**136,797**	**372,280**	**398,177**	**163,084**	**1,070,338**
At 1 January 2021					
Opening net book amount	136,797	372,280	398,177	163,084	1,070,338
Additions	-	502	11,093	194,536	206,131
Transfer	-	12,540	204,945	(217,485)	-
Disposals	(1,423)	(2,506)	(1,290)	(2,173)	(7,392)
Depreciation	-	(20,331)	(105,320)	-	(125,651)
Impairment charge	(245)	(6,413)	(5,345)	(190)	(12,193)
Transfer to assets held for sale	(21)	(2,045)	(1,561)	-	(3,627)
Acquisition of subsidiary	-	-	1,438	-	1,438
Divestment of subsidiary	(4,634)	(9,743)	(3,981)	-	(18,358)
Foreign exchange differences	(188)	(856)	(620)	(297)	(1,961)
Closing net book amount	**130,286**	**343,428**	**497,536**	**137,475**	**1,108,725**
At 31 December 2021					
Cost	130,286	908,468	1,890,872	137,475	3,067,101
Accumulated depreciation and impairment charge	-	(565,040)	(1,393,336)	-	(1,958,376)
Net book amount	**130,286**	**343,428**	**497,536**	**137,475**	**1,108,725**
At 1 January 2022					
Opening net book amount	130,286	343,428	497,536	137,475	1,108,725
Additions	251	363	8,416	208,219	217,249
Transfer	-	16,432	166,095	(182,527)	-
Disposals	-	(186)	(1,043)	(5)	(1,234)
Depreciation	-	(18,034)	(109,745)	-	(127,779)
Impairment charge	-	(4,093)	(1,706)	-	(5,799)
Transfer from assets held for sale	-	316	-	-	316
Transfer from intangible assets	-	470	-	1,397	1,867
Acquisition of subsidiary	-	-	241	-	241
Foreign exchange differences	221	920	1,105	373	2,619
Closing net book amount	**130,758**	**339,616**	**560,899**	**164,932**	**1,196,205**
At 31 December 2022					
Cost	130,758	913,673	1,969,328	164,932	3,178,691
Accumulated depreciation and impairment charge	-	(574,057)	(1,408,429)	-	(1,982,486)
Net book amount	**130,758**	**339,616**	**560,899**	**164,932**	**1,196,205**

As at 31 December 2022 and 31 December 2021, there were no pledged property, plant and equipment as collateral for loan repayment.

NOTE 13a – LEASES

This note provides information for leases where the Group is lessee.

(i) Amounts recognized in the balance sheet

(in thousands of HRK)	Buildings	Vehicles	Other	Total
Right-of-use assets				
At 1 January 2021	251,339	85,827	1,672	338,838
Additions	20,618	52,628	3,768	77,014
Lease modification	13,554	792	373	14,719
Lease expiration	(3,654)	(1,713)	(969)	(6,336)
Depreciation	(51,169)	(43,064)	(389)	(94,622)
Foreign exchange differences	(657)	943	(5)	281
At 31 December 2021	**230,031**	**95,413**	**4,450**	**329,894**
Additions	14,755	44,215	635	59,605
Lease modification	39,393	7,911	(460)	46,844
Lease expiration	(1,247)	(6,347)	(223)	(7,817)
Depreciation	(55,754)	(45,139)	(575)	(101,468)
Foreign exchange differences	112	215	13	340
At 31 December 2022	**227,290**	**96,268**	**3,840**	**327,398**

	31 December 2022	31 December 2021
Lease liabilities		
Current	91,680	86,844
Non-current	256,345	263,065
	348,025	349,909

(ii) Amounts recognized in the income statement

(in thousands of HRK)	2022	2021
Depreciation charge of right-of-use assets	101,468	94,622
Interest expense (included in “Finance cost”)	8,369	8,408
Expense related to short-term leases, leases of software licences, low value assets and variable lease component which is not capitalized (included in “Other operating expenses”)	32,112	29,315

The total cash outflow for leases in 2022 was HRK 101,407 thousand (2021: HRK 93,502 thousand).

NOTE 14 – NON-CURRENT ASSETS HELD FOR SALE

	31 December 2022	**31 December 2021**
	(in thousands of HRK)	
Opening net book amount	3,759	5,382
Transfer from tangible and intangible assets	-	3,762
Impairment charge	-	(1,140)
Disposals	-	(3,750)
Divestment of subsidiary	(3,726)	-
Transfer to investment property	-	(492)
Foreign exchange differences	(33)	(3)
Closing net book amount	**-**	**3,759**

NOTE 15 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brands	Rights and Customer contracts	Software	Assets not yet in use	Total
At 31 December 2020							
Cost	830,916	222,231	770,333	13,391	220,810	8,326	2,066,007
Accumulated amortisation and impairment charge	(33,816)	(48,968)	(155,741)	(955)	(167,769)	-	(407,249)
Net book amount	**797,100**	**173,263**	**614,592**	**12,436**	**53,041**	**8,326**	**1,658,758**
At 1 January 2021							
Opening net book amount	797,100	173,263	614,592	12,436	53,041	8,326	1,658,758
Foreign exchange differences	(1,608)	-	(1,584)	-	145	19	(3,028)
Additions	-	-	-	-	948	32,871	33,819
Transfer	-	-	312	3,053	30,551	(33,916)	-
Transfer to assets held for sale	-	-	-	-	(135)	-	(135)
Divestment of business	-	-	-	-	(438)	-	(438)
Acquisition of subsidiary	-	6,287	-	5,447	-	-	11,734
Disposals	-	-	(7,524)	-	-	-	(7,524)
Amortisation	-	(518)	(10,385)	(1,587)	(23,000)	-	(35,490)
Impairment charge	(12,198)	-	(4,847)	-	(303)	-	(17,348)
Closing net book amount	**783,294**	**179,032**	**590,564**	**19,349**	**60,809**	**7,300**	**1,640,348**
At 31 December 2021							
Cost	807,495	228,518	740,188	21,891	246,725	7,300	2,052,117
Accumulated amortisation and impairment charge	(24,201)	(49,486)	(149,624)	(2,542)	(185,916)	-	(411,769)
Net book amount	**783,294**	**179,032**	**590,564**	**19,349**	**60,809**	**7,300**	**1,640,348**
At 1 January 2022							
Opening net book amount	783,294	179,032	590,564	19,349	60,809	7,300	1,640,348
Foreign exchange differences	2,477	-	1,669	-	32	169	4,347
Additions	-	-	-	-	-	40,373	40,373
Transfer	-	-	21	-	21,574	(21,595)	-
Transfer to property, plant and equipment	-	-	-	-	-	(1,867)	(1,867)
Acquisition of subsidiary	-	5,853	-	-	-	-	5,853
Amortisation	-	(518)	(9,609)	(3,197)	(25,818)	-	(39,142)
Impairment charge	(26,133)	-	-	-	-	-	(26,133)
Closing net book amount	**759,638**	**184,367**	**582,645**	**16,152**	**56,597**	**24,380**	**1,623,779**
At 31 December 2022							
Cost	809,972	234,371	742,501	21,891	266,996	24,380	2,100,111
Accumulated amortisation and impairment charge	(50,334)	(50,004)	(159,856)	(5,739)	(210,399)	-	(476,332)
Net book amount	**759,638**	**184,367**	**582,645**	**16,152**	**56,597**	**24,380**	**1,623,779**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test and the basis for impairment charge are provided in Note 4 b).

As at 31 December 2022 and as 31 December 2021, there were no pledged intangible assets as collateral for loan repayment.

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY

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

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Financial assets at amortised cost		
Trade receivables	1,183,374	1,078,069
Loans and deposits given	43,595	48,217
Other financial assets at amortized cost	22,940	44,995
Cash and cash equivalents	444,439	346,635
	1,694,348	1,517,916
Financial assets at fair value through other comprehensive income	1,275	1,384
Derivative financial instruments		
Cash flow hedges	4,407	2,972
Total financial assets	**1,700,030**	**1,522,272**
Total current	1,664,039	1,478,138
Total non-current	35,991	44,134

	31 December 2022	31 December 2021
Financial liabilities at amortised cost		
Borrowings	740,005	459,589
Trade and other payables	1,213,081	1,107,233
	1,953,086	1,566,822
Lease liabilities	348,025	349,909
Derivative financial instruments		
Cash flow hedges	18,670	-
Financial liabilities at fair value through profit or loss		
Contingent consideration for acquisition of subsidiaries	6,799	9,846
Total financial liabilities	**2,326,580**	**1,926,577**
Total current	1,658,437	1,357,748
Total non-current	668,143	568,829

NOTE 17 – FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME

Investments in financial assets through other comprehensive income (OCI) relate to unlisted equity instruments and are carried at cost since they do not have a quoted market price and fair value cannot be reliably measured.

During 2022 and 2021, there were no impairment provisions on financial assets through OCI.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Non-current receivables		
Loans and deposits given /i/	28,490	36,330
Other non-current receivables	6,226	6,420
	34,716	42,750
Current receivables		
Trade receivables /ii/	1,183,374	1,078,069
Loans and deposits given /i/	15,105	11,887
Other receivables /iii/	212,753	198,026
	1,411,232	1,287,982
	1,445,948	**1,330,732**

	31 December 2022	31 December 2021
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Trade receivables	1,183,374	1,078,069
Loans and deposits given	43,595	48,217
Other receivables	22,940	44,995
	1,249,909	**1,171,281**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/i/ Loans and deposits given are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Non-current receivables		
Loans	38,427	37,193
Deposits	2,138	2,053
Current portion	(12,075)	(2,916)
	28,490	36,330
Current receivables		
Loans	1,979	8,095
Loans – related parties (Note 29)	870	791
Deposits	181	85
Current portion of non-current receivables	12,075	2,916
	15,105	11,887
	43,595	**48,217**

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

/ii/ Trade receivables are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Gross trade receivables	1,135,263	1,055,894
Trade receivables – related parties (Note 29)	92,136	83,176
Provision for trade receivables	(44,025)	(61,001)
	1,183,374	**1,078,069**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/iii/ Other receivables are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Prepaid expenses	108,681	83,748
Prepaid expenses – related parties (Note 29)	2,305	-
Receivables from government institutions	54,081	45,467
Outstanding advances	30,972	30,236
Interest receivable	702	551
Interest receivable – related parties (Note 29)	238	207
Receivables from the sale of business and subsidiaries (Note 28)	-	18,793
Other	15,774	19,024
	212,753	**198,026**

During 2022 there were no impairment of other receivables (2021: HRK 230 thousand), (Note 8).

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

As of 31 December 2022, trade receivables in the amount of HRK 44,025 thousand (2021: HRK 61,001 thousand) were provided for. The individually impaired receivables relate to customers that are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Undue	522	1,517
Up to 3 months	2,267	2,457
3 to 6 months	2,149	1,537
Over 6 months	39,087	55,490
	44,025	**61,001**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2022, trade receivables in the amount of HRK 111,147 thousand (2021: HRK 97,520 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing of these receivables is as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Up to 3 months	107,117	91,627
3 to 6 months	2,266	3,541
Over 6 months	1,764	2,352
	111,147	**97,520**

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

	31 December 2022	31 December 2021
	(in thousands of HRK)	
RSD	410,345	352,248
HRK	391,175	396,898
EUR	338,525	316,079
Other	109,864	106,056
	1,249,909	**1,171,281**

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

	2022	2021
	(in thousands of HRK)	
As at 1 January	61,001	62,554
Provision for receivables impairment (Note 8)	7,130	8,894
Collected amounts reversed (Note 8)	(3,785)	(8,094)
Receivables written off	(20,121)	(1,086)
Liquidation of subsidiary	-	(1,192)
Exchange differences	(200)	(75)
As at 31 December	**44,025**	**61,001**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

NOTE 19 – INVENTORIES

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Trade goods	303,226	275,066
Finished goods	284,894	234,086
Raw materials and supplies	172,045	119,172
Work in progress	8,988	10,877
	769,153	**639,201**

During 2022, inventories of HRK 25,243 thousand (2021: HRK 16,094 thousand) were impaired due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Current account and cash on hand	234,001	147,807
Foreign currency account	188,528	198,828
Deposits up to three months /i/	21,910	-
	444,439	**346,635**

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

Cash and cash equivalents are denominated in the following currencies:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
HRK	234,001	147,807
EUR	141,185	111,712
RSD	23,964	27,488
Other	45,289	59,628
	444,439	**346,635**

NOTE 21 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of shares	Share capital	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2021	**3,327,571**	**133,372**	**881,851**	**(7,647)**	**1,007,576**
Purchase of treasury shares	(19,801)	-	-	(30,558)	(30,558)
Share based payments	11,709	-	2,001	16,074	18,075
31 December 2021	**3,319,479**	**133,372**	**883,852**	**(22,131)**	**995,093**
Purchase of treasury shares	(10,038)	-	-	(16,130)	(16,130)
Share based payments	16,995	-	2,720	25,846	28,566
21 July 2022	3,326,436	133,372	886,572	(12,415)	1,007,529
Share split /i/	13,305,744	-	-	-	-
Purchase of treasury shares	(18,000)	-	-	(6,259)	(6,259)
Share based payments	1,324	-	(42)	519	477
31 December 2022	**13,289,068**	**133,372**	**886,530**	**(18,155)**	**1,001,747**

/i/ At the General Assembly held on 15 June 2022, the Company made a decision on the share split of ordinary registered shares, code ATGR-R-A, with an individual nominal value of HRK 40.00, in a way that 1 share, code ATGR-R-A, ISIN HRATGRRA0003, with an individual nominal value of HRK 40.00 is split into 4 new ordinary registered shares of the Company, code ATGR-R-A, with an individual nominal value of HRK 10.00. Following the share split on 21 July 2022, the share capital in the amount of HRK 133,372,000.00 was divided into 13,337,200 ordinary shares with an individual nominal value of HRK 10.00.

All shares issued are ordinary shares, including all relevant rights with an exception of treasury shares. These rights include the right to vote at the Company's General Assembly, as well as the right to dividend payment.

The ownership structure of the Company is as follows:

	31 December 2022		31 December 2021	
	Number of shares	%	Number of shares	%
MYBERG d.o.o.	6,695,276	50.20	-	-
Emil Tedeschi	-	-	1,673,819	50.20
Raiffeisen Obligatory pension fund	1,447,396	10.85	361,839	10.85
AZ Obligatory pension fund	1,147,784	8.61	286,946	8.61
Erste Plavi Obligatory pension fund	988,464	7.41	247,821	7.43
Lada Tedeschi Fiorio	772,624	5.79	193,156	5.79
Other Management board members	149,376	1.12	33,464	1.00
Other shareholders	2,088,148	15.66	522,434	15.67
Treasury shares	48,132	0.36	14,821	0.45
Total	**13,337,200**	**100.00**	**3,334,300**	**100.00**

Based on the Share Transfer Agreement concluded on 29 July 2022, Mr. Emil Tedeschi transferred all the shares of the Company he has held as an individual shareholder to the company MYBERG d.o.o., Zagreb and it resulted in a change of the ownership structure of the Company. Mr. Emil Tedeschi is the founder and majority owner of the company MYBERG d.o.o., Zagreb.

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

The annual consolidated financial statements of the largest group of companies, in which the Company is a controlled member, are prepared by MYBERG d.o.o., Zagreb. These statements will be available within the legal deadline in the Register of Annual Financial Reports at the Financial Agency - FINA.

Dividend distribution

According to the decision of the Company's General Assembly from 15 June 2022, the distribution of dividend in the amount of HRK 50.00 per share, or HRK 166,322 thousand in total was approved. Dividend was paid in July 2022.

In 2021 the distribution of dividend in the amount of HRK 40.00 per share, or HRK 133,094 thousand in total was approved. Dividend was paid in July 2021.

Share based payments

According to the Company's ESOP program, employees can opt to receive bonus in Company's shares and this right is granted to the Management as well as to other employees defined by ESOP resolution (equity- settled transactions).

In addition to the right to pay bonuses in shares, employees, if decide to keep the shares for a period of at least two or three subsequent years of employment (vesting period), acquire the right to additional shares, while the other part is available without restrictions.

Members of senior management are eligible to participate in the Executive Longevity Premium program, which was created as a result of Atlantic Grupa's desire to recognize the critical contribution of senior management positions in creating and implementing a long-term strategy. Through this program, the Company grants a package of shares to members of senior management for their long-term contribution to the Company in a senior executive position, whereby the right to a third of the shares from the package is acquired upon completion of six years in an executive position, while the right to the remaining two thirds is acquired upon retirement.

Additionally, employees who, according to the internal performance management evaluation process have made an extraordinary contribution in the previous business year are awarded with an additional package of shares, 20% of which are vested in the current year, while the remaining 80% are vested after the expiration of an additional three and five years of employment.

In addition to the previous mentioned programs, there is also a Special award of the Chief Executive Officer who awards the best employees for their contribution in the previous financial year in shares. The right to acquire these shares is fully exercised in the current year.

In 2022, prior to the corporate action of the share split, the members of the Management Board and employees received a total of 12,033 non-conditional shares granted in 2021, as well as 3,552 conditional shares granted in 2018 and 1,410 conditional shares granted in 2019. The fair value of the shares granted is determined as of the grant date, at the estimated market price of the share of HRK 1,680.91 (2021: HRK 1,540.00).

Following the corporate action of the share split, Management and employees received an additional 964 non-conditional shares granted in 2021 and 360 conditional shares granted in 2019 at the estimated market price of HRK 359.36 per share.

In 2021, Management and employees have received 5,344 non-conditional shares granted in 2020, 4,881 conditional shares granted in 2017 and 1,484 conditional shares granted in 2018.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves /i/**	**Translation reserves /ii/**	**Cash flow hedge reserves /ii/**	**Total**
At 1 January 2021	**20,513**	**(62,665)**	**(9,299)**	**(51,451)**
Foreign exchange differences	-	(4,062)	-	(4,062)
Transfer from retained earnings	1,761	-	-	1,761
Cash flow hedge	-	-	8,473	8,473
At 31 December 2021	**22,274**	**(66,727)**	**(826)**	**(45,279)**
Foreign exchange differences	-	(7,386)	-	(7,386)
Transfer from retained earnings	4,363	-	-	4,363
Shares granted /iii/	31,538	-	-	31,538
Cash flow hedge	-	-	(16,829)	(16,829)
At 31 December 2022	**58,175**	**(74,113)**	**(17,655)**	**(33,593)**

/i/ Reserves mainly comprise legal and statutory reserves, as well as bonuses to employee that will be paid in shares. These reserves are distributable.

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

Components of Other comprehensive income:

	2022	**2021**
	(in thousands of HRK)	
Cash flow hedges:		
Currency forward contracts		
Reclassification during the year to profit or loss	1,030	7,497
Net (loss)/income during the year of not-yet matured contracts	(17,859)	976
	(16,829)	**8,473**

/iii/ As at 31 December 2022, in accordance with share-based payments program, a total of 64,374 shares (2021: 63,625 shares) were granted. Shares are granted at a price that corresponds to the average market price of the Company's share in March of the year of grant.

NOTE 23 – TRADE AND OTHER PAYABLES

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Trade payables	863,889	786,841
Trade payables – related parties (Note 29)	964	2,238
Other payables	420,728	385,746
	1,285,581	**1,174,825**

Other payables recorded as at 31 December are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Accrued expenses (suppliers)	192,610	186,152
Accrued expenses (suppliers) – related parties (Note 29)	72	-
Contractual obligation to customers	115,654	85,357
Contractual obligation to customers – related parties (Note 29)	1,873	-
Gross salaries payable	69,054	64,648
Vacation accrual	22,598	20,107
Deferred income	2,884	2,828
Dividend payable	439	291
Termination benefits payable	181	331
Other	15,363	26,032
	420,728	**385,746**

Financial liabilities i.e. trade and other payables excluding gross salaries payable, termination benefits payable and liabilities to state institutions are denominated in the following currencies:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
EUR	510,344	437,833
HRK	421,241	401,660
RSD	167,726	199,537
Other	119,752	71,942
	1,219,063	**1,110,972**

NOTE 24 – BORROWINGS

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /ii/	111,716	637
Bonds /i/	299,265	299,020
	410,981	**299,657**
Short-term borrowings:		
Financial institutions /ii/	328,880	159,788
Bonds /i/	144	144
	329,024	**159,932**
	740,005	**459,589**

/i/ In December 2020, Atlantic Grupa issued corporate bonds in the amount of HRK 300 million at the price of 99.985% with a coupon of 0.875% per annum with semi-annual payment of interest and final redemption on 11 December 2025. The purpose of these Bonds is financing working capital and refinance of bonds whose maturity was on 17 June 2022.

/ii/ Long-term loans from financial institutions include three loans (2021: -). Short-term loans from financial institutions include eight loans (2021: three loans). As at 31 December 2022 and as at 31 December 2021, the Group had no committed lines.

As at 31 December 2022 and as at 31 December 2021, the Group has no borrowings secured by pledges over property.

Part of borrowings from financial institutions are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators such as total net debt cover, interest cover, cash flow cover and maximum capital expenditures. At the balance sheet date, all covenant clauses were met.

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates at the balance sheet date are as follows:

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Fixed interest rate	535,433	331,727
Up to 3 months	204,572	127,862
	740,005	**459,589**

NOTE 24 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows :

	31 December 2022	31 December 2021
	(in thousands of HRK)	
Between 1 and 2 years	77,157	-
Between 2 and 5 years	333,824	299,657
	410,981	**299,657**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 2.21% (2021: 0.78%). The effective annual interest rate related to bonds at the balance sheet date was 0.96% (2021: 0.96%).

The carrying amounts and fair value of long-term borrowings as at 31 December were as follows:

	Carrying amounts		**Fair value**	
(in thousands of HRK)	**2022**	**2021**	**2022**	**2021**
Financial institutions	111,716	637	111,404	637
Bonds	299,265	299,020	300,000	300,000
	410,981	**299,657**	**411,404**	**300,637**

The carrying amount of short-term borrowings approximates their fair value.

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

	31 December 2022	31 December 2021
	(in thousands of HRK)	
HRK	464,748	329,028
RSD	168,237	127,862
EUR	106,621	1,136
USD	399	1,563
	740,005	**459,589**

NOTE 25 – DEFERRED TAX

Deferred tax assets are recognized for tax loss carry forwards and tax credits to the extent that realization of the related tax benefit through future taxable profits of the related Group entities is probable. The Group did not recognize deferred tax assets of HRK 12,985 thousand (2021: HRK 7,460 thousand) in respect of losses that arose in the Company and its ten subsidiaries (2021: six subsidiaries) that can be carried forward against future taxable income. Deferred tax assets have not been recognized in respect of these losses as it is not probable that future taxable profit will be available for utilization of the temporary differences. Tax losses amounting to HRK 78,362 thousand (2021: HRK 38,767 thousand) expire over the next five years, while the tax losses in the amount of HRK 2,862 thousand (2021: HRK 11,557 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	**Tax losses**	**Provisions**	**Other**	**Total**
At 1 January 2021	**2,753**	**14,268**	**19,264**	**36,285**
(Charged)/credited to the income statement (Note 11)	(725)	2,236	4,840	6,351
(Charged)/credited to other comprehensive income	-	38	(1,463)	(1,425)
Exchange differences	344	(11)	(75)	258
At 31 December 2021	**2,372**	**16,531**	**22,566**	**41,469**
Charged to the income statement (Note 11)	(2,881)	(890)	(2,261)	(6,032)
(Charged)/credited to other comprehensive income	-	(216)	3,212	2,996
Exchange differences	509	610	(805)	314
At 31 December 2022	**-**	**16,035**	**22,712**	**38,747**

Deferred tax liabilities

(in thousands of HRK)	**Fair value uplifts of assets acquired in business combinations**	**Other**	**Total**
At 1 January 2021	**151,822**	**-**	**151,822**
Credited to the income statement (Note 11)	(3,741)	-	(3,741)
Charged to other comprehensive income	-	523	523
Exchange differences	(260)	-	(260)
At 31 December 2021	**147,821**	**523**	**148,344**
Charged/(credited) to the income statement (Note 11)	(1,533)	122	(1,411)
Credited to other comprehensive income	-	(525)	(525)
Exchange differences	299	(7)	292
At 31 December 2022	**146,587**	**113**	**146,700**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal proceedings**	**Other provisions**	**Total**
At 31 December 2021	119,865	33,667	1,640	155,172
Analysis of total provisions:				
Non-current	56,995	11,457	1,355	69,807
Current	62,870	22,210	285	85,365
At 1 January 2022	**119,865**	**33,667**	**1,640**	**155,172**
Additions	58,920	3,647	-	62,567
Utilised during the year	(57,605)	(224)	-	(57,829)
Reversed during the year	(8,347)	(1,457)	-	(9,804)
Interest expense	2,449	-	-	2,449
Reductions charged to other comprehensive income	(6,730)	-	-	(6,730)
Transfer to reserves	(31,538)	-	-	(31,538)
Exchange differences	247	111	41	399
At 31 December 2022	**77,261**	**35,744**	**1,681**	**114,686**
Analysis of total provisions:				
Non-current	41,055	11,479	1,362	53,896
Current	36,206	24,265	319	60,790

Employee benefits

This provision comprises estimated long-term employee benefits relating to one-off retirement benefits and jubilee awards, as defined by the collective bargaining agreement and bonuses to employees. The non-current portion of the provision relates to estimated acquired rights to termination benefits and jubilee awards that will be paid after 31 December 2023. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 4,339 thousand (2021: HRK 3,611 thousand) that will be paid out within the period of 12 months from the balance sheet date.

Legal proceedings

In addition to the above, in the ordinary course of business, the Group is defendant and plaintiff in pending legal proceedings. In Management's opinion, the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2022.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2022 but not yet incurred amounted to HRK 51,082 thousand (2021: HRK 74,915 thousand) for property, plant and equipment and HRK 10,389 thousand for intangible assets (2021: HRK 13,456 thousand).

NOTE 28 – BUSINESS COMBINATIONS, ACQUISITION AND DIVESTMENT OF SUBSIDIARIES

/i/ In 2022, Atlantic Group acquired 100% ownership in the company ZU Ljekarne sv. Kuzma i Damjan, Zagreb. As a result of this transaction, the license in the amount of HRK 357 thousand.

(in thousands of HRK)	
Cash paid	5,378
Carrying value of net assets acquired	(5,021)
License	**357**

Carrying value of net assets acquired	
(in thousands of HRK)	
Property, plant and equipment	241
Licence	5,496
Inventories	887
Trade and other receivables	1,534
Cash and cash equivalents	215
Trade and other payables	(3,352)
	5,021

Cash flow from acquisition of subsidiary	
(in thousands of HRK)	
Cash paid	5,378
Cash in subsidiary acquired	(215)
Payments for acquisition of subsidiary	**5,163**

Acquired subsidiary in 2022 contributed HRK 9,223 thousand of revenues and HRK 529 thousand of loss to the Group.

/ii/ In 2022, the Group paid a total of HRK 3,375 thousand for the acquisition of the subsidiary Procaffe d.o.o. Dugopolje from 2020, and HRK 159 thousand for the remaining 1% ownership in this subsidiary. The Group also paid the remaining HRK 633 thousand for the acquisition of the subsidiary The Best Coffee d.o.o., Podstrana from 2021.

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

/iii/ In 2022 Atlantic Grupa signed with Vik Pro Univerzal d.o.o., Belgrade an agreement for the sale of the Palanački kiseljak production site in Smederevska Palanka, Serbia. The subject of the sale was the entire production site with all its employees and assets, including the traditional mineral water brand on the Serbian market - *Karađorđe*, which was previously separated from the company Atlantic Štark d.o.o. into a separate company Palanački Kiseljak d.o.o. The sale of this production site is a continuation of disinvesting in smaller and non-core activities in accordance with Atlantic Grupa's corporate strategy. The transaction was closed on 28 June 2022 and the Group realized a loss on sale in the amount of HRK 446 thousand.

(in thousands of HRK)	
Cash received from sale of subsidiary	1,460
Carrying value of net asset disposed	(1,906)
Loss on sale of subsidiary	**(446)**

Carrying value of net asset disposed as at 28 June 2022 *(in thousands of HRK)*	
Non-current assets held for sale	3,726
Inventories	605
Trade and other receivables	629
Trade and other payables	(2,817)
Borrowings	(237)
	1,906

Disposed subsidiary in 2022 contributed HRK 18,348 thousand of revenues and HRK 2,641 thousand of loss to the Group.

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

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

As a result of these transactions, the license in the amount of HRK 6,287 thousand and customer contracts in the amount of HRK 5,447 thousand have been recognized.

Cash paid and liability for acquisition of subsidiaries	
(in thousands of HRK)	
Cash paid	12,407
Liability for acquisition of subsidiaries	633
Total purchase consideration	**13,040**
Carrying value of net assets acquired	(1,306)
	11,734
License	6,287
Customer contracts	5,447

Carrying value of net assets acquired	
(in thousands of HRK)	
Property, plant and equipment	1,438
Inventories	379
Trade and other receivables	2,246
Cash and cash equivalents	158
Trade and other payables	(2,915)
	1,306

Cash flow from acquisition of subsidiaries	
(in thousands of HRK)	
Cash paid	12,407
Cash in subsidiary acquired	(158)
Payments for acquisition of subsidiary	**12,249**

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

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

/v/ In 2021 Atlantic Grupa has signed an agreement with the Austrian company Gittis Naturprodukte GmbH to sell the production site Mirna in Slovenia. This was the conclusion of the process started with the sale of the baby food brand Bebi to the Serbian Nelt Group in 2020, i.e. the continuation of disinvesting in smaller and non-core activities in accordance with Atlantic Grupa's corporate strategy. With this transaction, Gittis took over the entire production site with employees. The transaction was closed on 31 December 2021 and the Group realized a gain from the sale in the amount of HRK 648 thousand.

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

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

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

/vi/ In 2022, the Group collected HRK 18,899 thousand and realized additional gain of HRK 81 thousand from the sale of the production site Mirna, which was completed in 2021. Furthermore, in 2021, the Group collected HRK 6,312 thousand of receivables from the sale of sports and active nutrition factories in 2017.

NOTE 29 – RELATED PARTY TRANSACTIONS

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

Related party transactions that relate to balances as at 31 December 2022 and as at 31 December 2021 and transactions recognized for the years then ended, are as follows:

(all amounts expressed in thousands of HRK)	**Note**	**2022**	**2021**
RECEIVABLES			
Current receivables	18		
Other entities		95,549	84,174
LIABILITIES			
Trade and other payables	23		
Other entities		2,909	2,238
REVENUES			
Sales revenues			
Other entities		562,857	496,471
Other revenues			
Other entities		211	671
EXPENSES			
Marketing and promotion costs	7		
Other entities		7,882	4,168
Other operating costs	8		
Other entities		2,364	2,202
Purchase of property, plant and equipment			
Other entities		-	289

Management board compensation

In 2022 members of the Management Board received total gross amount of HRK 24,101 thousand relating to salaries, bonuses and other receipts in kind (2021: HRK 20,119 thousand).

NOTE 30 – AUDITORS’ FEES

Statutory audit services fees to the auditors of the Group’s financial statements amounted to HRK 3,469 thousand (2021: HRK 3,311 thousand), while fees related to other services amounted to HRK 146 thousand (2021: 160 thousand). Other services relate to subscription to online learning portal, Report on remuneration of the Management Board and the Supervisory Board, related party reports and agreed upon procedures in relation to received government grants in Republic of Serbia.

NOTE 31 – SUBSIDIARIES

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

	31 December 2022	31 December 2021
Atlantic Cedevita d.o.o., Croatia	100%	100%
Atlantic Trade d.o.o., Croatia	100%	100%
- Atlantic Droga Kolinska d.o.o., Slovenia	100%	100%
- Atlantic Štark d.o.o., Serbia	100%	100%
- Atlantic Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- o.o.o. Atlantic Brands, Russia	100%	100%
- Atlantic Grand d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Atlantic Grand d.o.o., Bosnia and Herzegovina	100%	100%
- Atlantic Grand d.o.o.e.l., North Macedonia	100%	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., North Macedonia	75%	75%
- Procaffe d.o.o., Croatia	100%	99%
Farmacia Holding d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	100%
- ZU Ljekarne sv. Kuzma i Damjan, Croatia (acquired in 2022)	100%	-
Montana Plus d.o.o., Croatia	100%	100%
Atlantic Point d.o.o., Croatia	100%	100%
Hopen Investments, BV, Netherlands	100%	100%
- Atlantic Management GmbH, Germany	100%	100%
- Hopen Cyprus Ltd., Cyprus	100%	100%
Atlantic Brands GmbH, Austria	100%	100%

NOTE 32 - EVENTS AFTER THE REPORTING PERIOD

In accordance with the Law on the Introduction of the Euro as the official currency in the Republic of Croatia, effective 1 January 2023, the EUR became the official currency and legal tender in the Republic of Croatia. The fixed rate of conversion is HRK 7.5345 for 1 EUR.

The introduction of the EUR as the official currency in the Republic of Croatia represents a change in the functional currency, which will be calculated prospectively and does not represent an event after the reporting period that requires adjustment.

Apart from the change in the functional currency, there were no other events after the reporting period that would have a significant impact on the Group's financial statements as of 31 December 2022 or for the year then ended.