KONZUM

Annual Report

for the business year 2022

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Management Report

1 INTRODUCTION

FOREWORD BY THE PRESIDENT OF THE MANAGEMENT BOARD

The year was filled with numerous challenges, but also impressive achievements. Our primary ambition and goal, during the year 2022, was to preserve our position as the unquestionable **market leader**, directing our efforts to **customer satisfaction** and improving the quality of life of our customers.

It was also the year when Konzum celebrated its 65th birthday, and throughout its 65 years of existence, we have continuously strengthened our position on the market, transforming into the **leading retail chain in the country, the largest wholesaler and one of the significant employers** with more than ten thousand employees. Our corporate philosophy continues to be based on four key values: determination, professionalism, integrity and teamwork.

We have faced a series of **global challenges** that resulted in escalation of costs of energy and raw materials, as well as an increase in the prices of suppliers and food products. Despite the mentioned obstacles, the professionalism and excellence of our team allowed us to successfully navigate through these challenges and achieve exceptional business results, with an increase in total revenue by 13.7 percent compared to the previous year. With an increased EBITDA margin, we successfully paid off part of the financial liabilities, reduced the ratio of net debt to EBITDA, and continued the trend of successful debt management. **The transition to the euro as the official currency** was also challenging, but we proved ourselves as market leaders here as well. We were the first to implement dual currency pricing, which demonstrated our adaptability and readiness to face changes in the business environment.

In order to keep the focus on our customers, and before the reduction of the VAT rate on certain product categories, which came into force on 1 April 2022, we lowered the price of more than a thousand items back in February, while at the end of the year, in line with the Government's price restrictions, we froze the prices of an additional hundred products from the basic basket of goods. Our vision is to ensure that our customers always **have affordable, high-quality products**, even in challenging times. The centre of our efforts was also focused on our employees. In early 2022, we invested an additional HRK 150 million in salaries and once again confirmed that our employees form the basis of our success and are a key element in providing excellent service to our customers.

During the **record summer season**, we achieved more than 28 percent revenue growth in seasonal stores. Over 100 of our colleagues from the continent joined us in our work during the summer season, which showed strong synergy and cohesion within our organization. In 2022, we focused our activities on opening new stores and on the refurbishment and optimization of existing ones. An important step in achieving our goals was also the merger of Mercator - H and Konzum in 2022, which will strategically strengthen our position on the market.

We have implemented many educational loyalty programs, donations, sponsorships and socially responsible initiative. Our initiatives encourage our customers to make positive changes in their eating habits, be more physically active and exercise, preventing food waste and raising awareness of environmental protection. We invest in optimizing logistics and reducing resource consumption in our stores and operations. All these initiatives together contribute to strengthening ties with our customers, developing their awareness of the importance of healthy lifestyles, reducing waste and protecting the environment. Our goal is to ensure the sustainable growth and development of our company, while at the same time contributing to positive changes in society and the environment.

We are proud of everything we have achieved together with our customers, employees and partners.

Together, we continue to build a successful future for Konzum and all our stakeholders.

Zoran Mitreski

Executive director of Fortenova Group for Retail and President of Management Board in Konzum

BASIS OF PREPARATION

Pursuant to Article 21 of the Accounting Act (official gazette "Narodne novine" nos. 78/15, 134/15, 120/16, 116/18, 42/20, 47/20, 114/22) and in accordance with Article 250.a of the Companies Act (official gazette "Narodne novine" nos. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, 40/19, 34/22, 114/22, 18/23), the Management Board of KONZUM plus d.o.o. (hereinafter: the Company or Konzum) prepared the management report. The report will analyse the achievements and results of the Company in 2022 using a number of financial and non-financial indicators.

This report provides a comprehensive overview of the Company's strategic goals, financial operations and business operations, and its contribution to corporate social responsibility and sustainable business.

SCOPE OF THE REPORT

The report covers the period from 1 January to 31 December 2022 and includes topics describing Konzum as a company, as well as its long-term strategy, macroeconomic environment, a summary of key financial and operational results and an overview of particularly important events in 2022. The financial overview includes an abbreviated analysis of the underlying financial statements. The non-financial statement provides an overview of Konzum's achievements and efforts in the area of achieving environmental, social and governance goals of sustainable development.

ALTERNATIVE PERFORMANCE MEASURES

Additional measures not prescribed by the requirements of International Financial Reporting Standards were also used to prepare this report. These measures provide additional insight into the company's operations and enable a clearer and more complete interpretation of the information presented. An overview of the used alternative measures together with the method of their calculation and the explanation of the need for their presentation can be found on pages 44 and 45 within the section Business Report.

AUTHORISATION OF THE MANAGEMENT BOARD

The Management Board and the Supervisory Board of Konzum constantly monitor and analyse the financial, operational and sustainable business operations of the Company.

The Management Board authorised the issuance of the Annual Report as stated on Responsibility for Annual Financial Statements.

About Konzum

2 ABOUT KONZUM

RETAIL

Retail is Konzum's core business segment, accounting for 90 percent of total sales revenue. Konzum is the retail leader in Croatia, **where more than half a million people shop every day.**

Konzum operates within the Fortenova Group, as a significant member of the Fortenova Group's regional retail.
We approach the development of our retail network in Croatia, which consists of more than 600 stores, strategically with a focus on a strong **local presence** and **availability of points of sale**, as well as a large **selection of products** primarily from domestic, but also foreign manufacturers.

We are proud of a wide network of more than 600 stores of various formats, covering a total gross surface area of 482,000 square meters.

Throughout the year, we have over 70,000 products on offer in our stores and we cooperate with more than 1,500 suppliers, ensuring the availability of those products through a central logistics system that includes two main logistics and distribution centres in Zagreb and Split and more than 200 distribution trucks.

628
Konzum stores

KONZUM

515
Small
<800 m²

KONZUM maxi

45
Maxi
800 - 1300 m²

KONZUM super

68
Super
>1300 m²

>10.000
Average number of employees

MultiPlusCard

1 million
Active MultiPlusCard users
>60% share in total turnover

2
Logistics and distribution centres
87% share of the central distribution
(Zagreb & Split)

>200
Distribution trucks

Our product range also includes a wide selection of own brand products, within which we ensure a high level of quality at affordable prices. Our own brand products are represented in all product categories, with their number more than 5,000, and some of the most important brands are the following:

Our Brands

K Plus
Bio Zone
Hrusty
Terra Vinea
Finesse
Garden Good
Moj dan
Adria Mare
Minute
Dulcetti
Active zone
olea
Natur
DAX
Lumpi
Fresh&Pack
Sweet chef

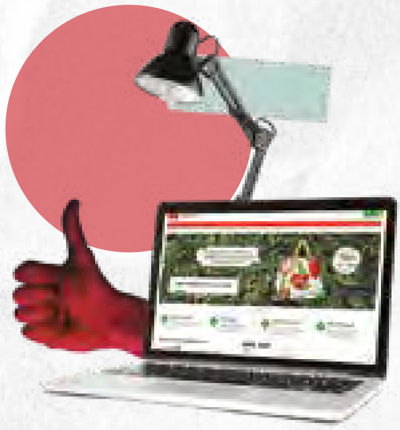
WHOLESALE

Konzum's wholesale segment, VELPRO, with its 16 wholesale centres is the largest wholesaler on the Croatian market, and with an annual revenue of over HRK 1.3 billion, it accounts for 10 percent of Konzum's total sale of goods.

It is strategically focused primarily on supplying professional customers, such as hoteliers and caterers, retail companies and the public sector, and VELPRO centres are spread across all regions of Croatia.
In addition to offering a quality service, a wide range of more than 9,000 items is offered to wholesale customers, including fresh food, fruits and vegetables, fresh meat, packaged food, beverages, cosmetics and chemical products, seasonal product range, office supplies, technical goods and professional product range for caterers and hoteliers who make up a significant segment of the wholesale business. As part of its sales product range, VELPRO also offers more than 800 items under its own brands. Quality service in the largest Croatian wholesale company implies having a modern system of ordering goods via the Internet.

ONLINE SALES

Konzum offers several e-commerce services: online shopping with delivery or Drive-in option, Click & Collect service and Uber delivery. The online sales channel accounts for about 1 percent of total sales revenue, but it makes Konzum a leader in trends and innovations in the retail market.



Dobrodošli u Konzum internet trgovinu!

NARUČI ONLINE, KUPUJ OPUŠTENO I UŠTEDI VRIJEME.

DELIVERY | **DRIVEin** | **PICK UP** | **DELIVERY PARTNER**

The E-commerce Report[1] shows that, although the supermarket category is still small, with a share of five percent by the number of purchases and three percent by value, the frequency and value of online shopping in Croatia is growing. The strength of Konzum's online segment is reflected in the fact that **Konzum Klik is among the ten most popular Croatian web stores.** According to STATISTA[2] data also, Konzum has a **market share of more than 75 percent** in the food and beverage segment.

In 2022

72

Stores offered the Click & Collect service

In 2022

220,000

Orders were created through the platform

[1] https://ecommerce-europe.eu

[2] https://www.statista.com

COMPANY STRATEGY 2020 – 2025

MISSION

Our mission is to help our customers improve the quality of their lives by offering a selection of food products.

VISION

To be the undisputed leader in the market and the first choice for workers and customers while promoting our corporate values.

Our mission and vision will be achieved by providing a high-quality product range that customers need for the value they are expecting, helping them maintain healthy living habits, saving them time so they can enjoy life and providing them with local products whenever possible.

We do all this with care and dedication, in a sustainable way and with great responsibility towards the community and the environment. We want Konzum to become a synonym with a modern way of shopping for the entire family.

This strategy will be achieved through four foundations of our future development.

ADVANTAGES BASED ON DIFFERENTIATION

- Work on further **brand differentiation**
- Differentiate ourselves through our **product range**
- Maintain **the functionality of our stores and improve customer satisfaction** by improving store services, refurbishing and optimisation

GROWTH AND FLEXIBILITY OF MICRO-LOCATIONS

- Fully **understand our customers** and offer them **value for money**
- **Provide a localised offer** and greater availability in **micro-locations**
- **Strengthen our network** by diversifying into new formats and strengthening the regional sales network

OMNI-CHANNEL PRESENCE

- **To expand Konzum's online channel**, improve the Click & Collect service and improve user satisfaction
- **To connect and integrate all channels** to achieve a unique experience and increase the potential of all channels
- Further growth of **VELPRO** in the retail and HoReCa channel

OPERATIONAL EXCELLENCE

- Improve **efficiency in business operations and store processes**
- Improve control over **indirect costs**
- Take advantage of the **synergistic effects** of the Group
- Create an environment that values **teamwork and offers opportunities for development**

DIGITAL TRANSFORMATION

innovation, digitalisation and automation of business processes

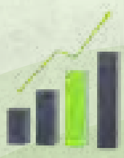
Business Report

3 BUSINESS REPORT

SUMMARY OF KEY ACHIEVEMENTS

KEY ACHIEVEMENTS

Our experience, good practices and commitment to excellence in all business processes have enabled us to successfully adapt and overcome all obstacles, as evidenced by excellent business operations results. We ended the year exceeding our expectations, with as much as **13.7 percent higher total revenue**. An increased EBITDA margin enabled us to significantly repay financial liabilities, which further reduced the net debt to EBITDA ratio, enabling us to continue the trend of successful debt management.



HRK 11,853 MIL
Sales revenue
↑ 13.7% year-on-year

628 Retail stores — 482,106m² Gross sales area

5 Online stores

16 VELPRO centres — 69,984m² Gross sales area

15 New stores opened

HRK 141 MIL
Digital business sales
↓ -1.9% year-on-year

900,000
Active Loyalty Card users

HRK 204 MIL
Capital expenditure
↑ 55.1% year-on-year

HRK 1,622 MIL
New value created
↑ 20.4% year-on-year

HRK 4,338 MIL
Financial liabilities
↑ 3.4% year-on-year

HRK 133 MIL
Net profit for the year
↑ 230% year-on-year

HRK 1,040 MIL
Normalised EBITDA
↑ 16.7% year-on-year

8.78 %
EBITDA margin

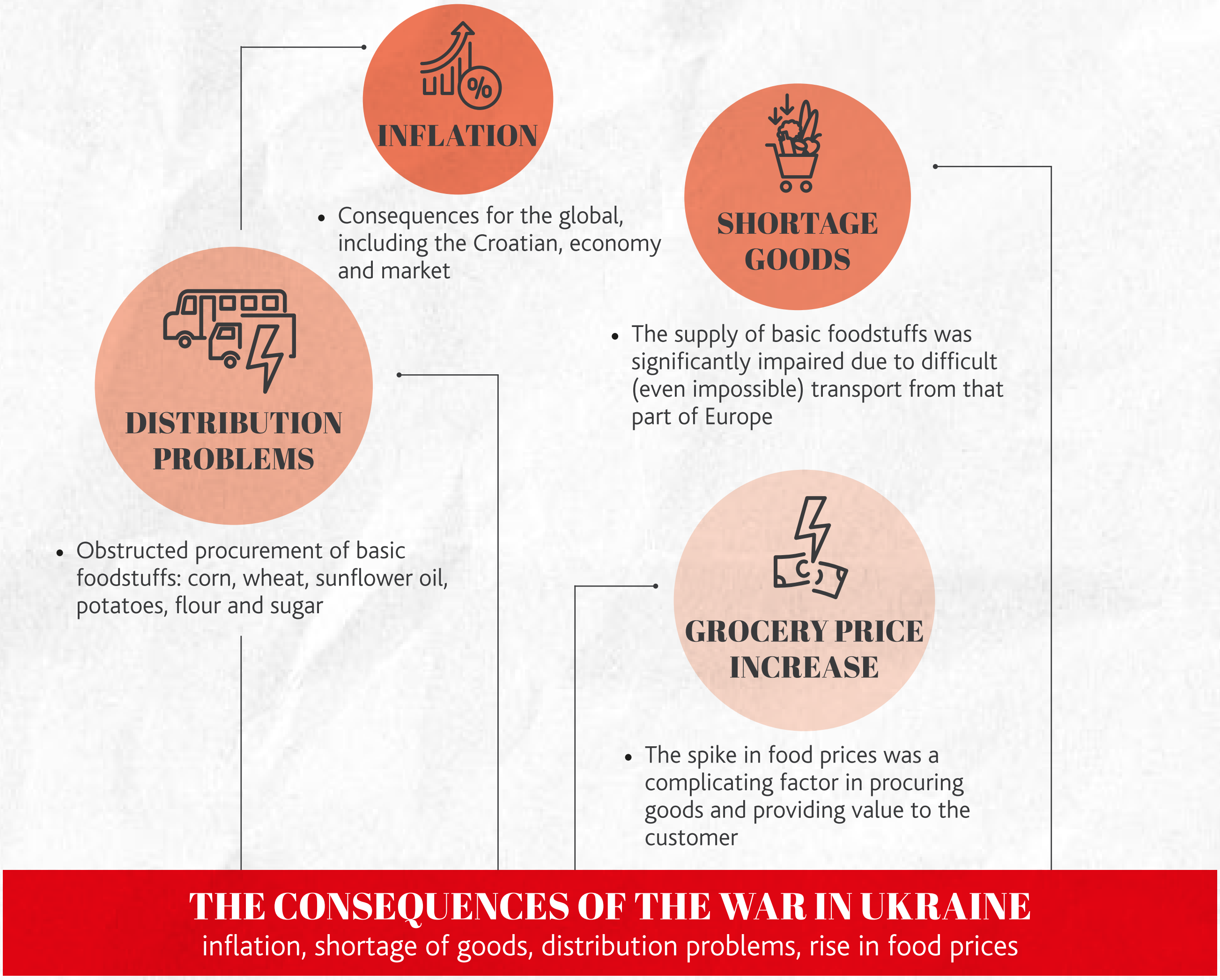
3.8 x
Net debt /EBITDA
↓ -15.6% year-on-year

We succeeded in the aforementioned despite numerous challenges in the macroeconomic environment.

MACROECONOMIC ENVIRONMENT

WAR IN UKRAINE

The war in Ukraine, which began on 24 February 2022 with the Russian invasion of Ukraine's territory, led to serious consequences for the global and Croatian economy and the market. The impacts were related to the goods supply chain, energy market, food prices, inflation and other indicators. The supply of basic foodstuffs was significantly impaired due to difficult (even impossible) transport from that part of Europe, which in some areas posed a threat of shortage of goods.

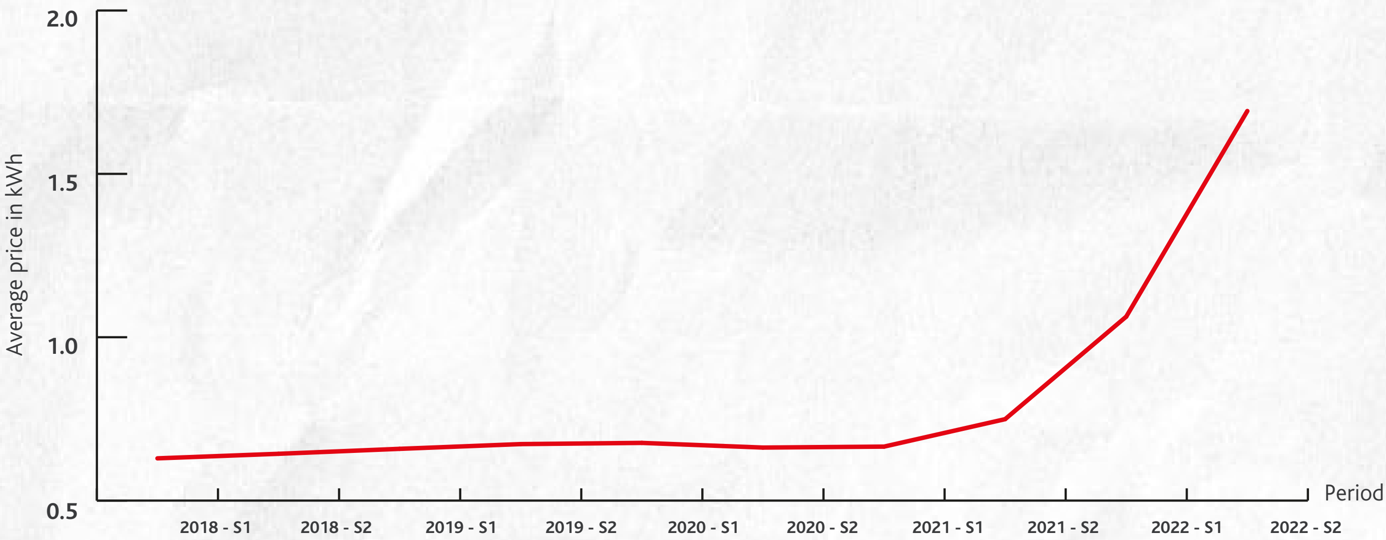


Basic foodstuffs that mostly originate from the area affected by the war, namely **corn, wheat, sunflower oil, potatoes, flour and sugar** posed the greatest distribution problem as their procurement was extremely difficult in the conditions of the war. Despite the solidarity corridors that somewhat facilitated the export of food from the war-affected area, the supply disruption was also contributed to by buyers who stockpiled goods in fear of the beginning of an invasion. All of the above led to an inevitable jump in food prices, which was an additional complicating factor for us in procuring goods and providing value for our customers.

ENERGY MARKET

In certain part of Europe the war caused interruptions in the supply of energy, especially gas, which led to a significant increase in energy prices.

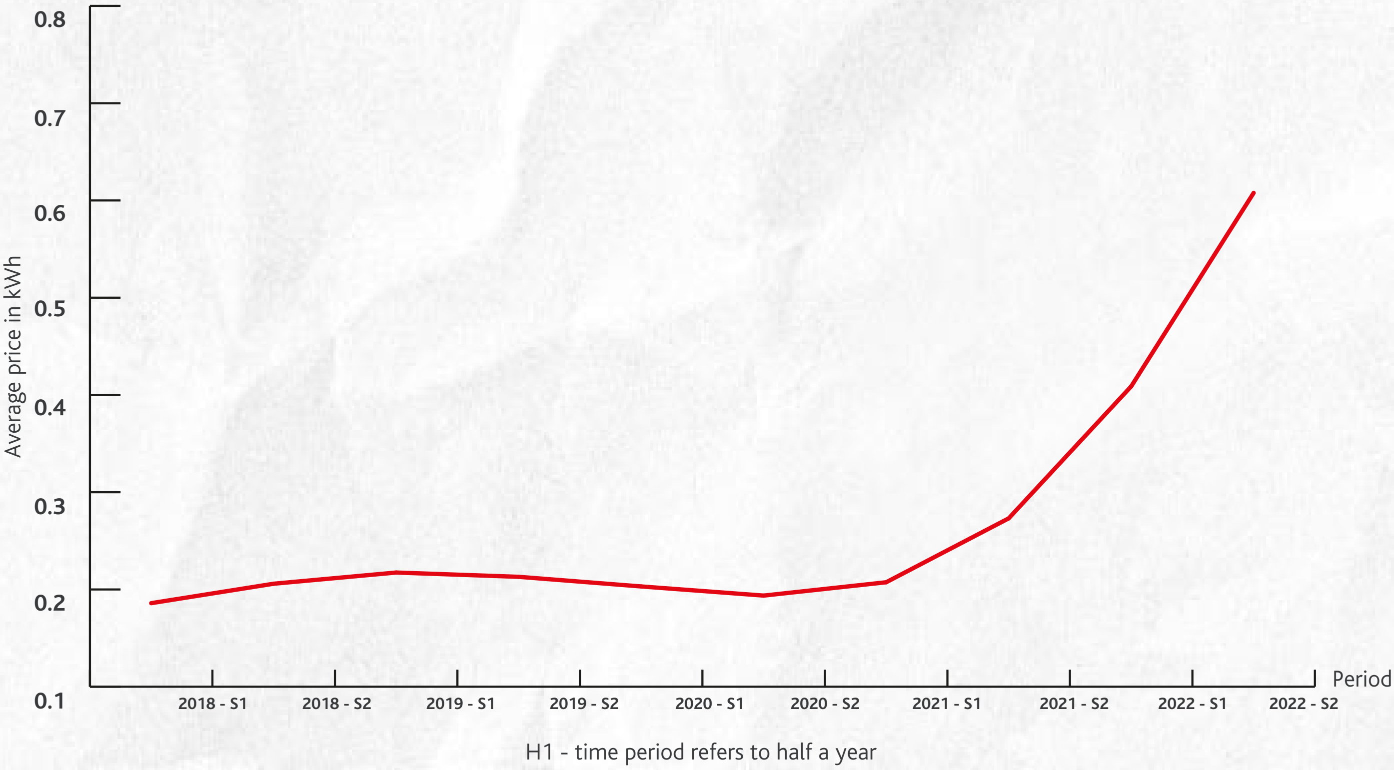
According to the data provided by Eurostat, it can be clearly concluded that the largest increase in the price of electricity in the last 15 years occurred in 2022, mostly as a result of the war in Ukraine. The average price in kuna (HRK) per kilowatt hour (kWh) in the first half of 2018 was HRK 0.63, in the first half of 2019 it was HRK 0.66, and this trend continued until the end of 2021, when the first jump was recorded at a price of HRK 0.75 per kWh. At the beginning of 2022 and the beginning of the war in Ukraine, the price escalated so that the average price in Croatia amounted to HRK 1.1 per kWh, while at the end of 2022, the average price was HRK 1.7 per kilowatt hour. We are, therefore, talking about an increase of more than 160 percent in the average price of electricity.



H1 - time period refers to half a year

Graphical chart of electricity prices for enterprises from 2018 to 2022

Likewise, the average price of gas for enterprises in Croatia grew by 46.9 percent from 2018 until the end of 2021, while from then until the end of 2022 the price of gas grew by more than 120 percent, with its average amounting to HRK 0.61 per kilowatt hour in the last half of 2022.*



Graphical chart of gas prices for enterprises from 2018 to 2022

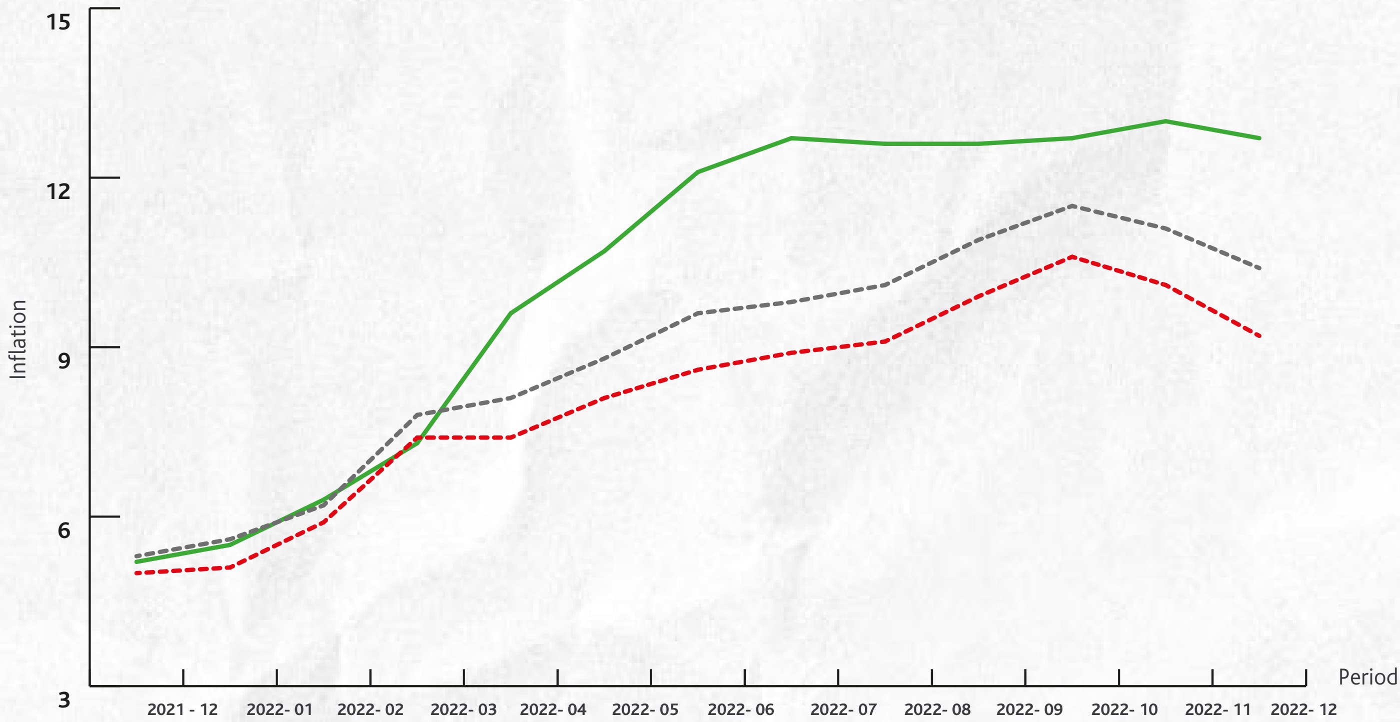
INFLATION

In Croatia, inflation in 2020 was the lowest it has been in the last decade, and amounted to -0.7 percent, i.e. deflation occurred. After that shock to the market, an even bigger shock occurred by changing trend in the next two years, so in 2022, the annual inflation rate amounted to 10.8 percent. Global research lists several reasons for high inflation, among which the monetary policy in the era of the COVID-19 pandemic, the war in Ukraine and the rise in energy prices stand out the most.

For comparison purposes, inflation in the Eurozone in 2022 amounted to 9.2 percent. All of the above is shown in the chart below.

Inflation leads to increased costs of raw materials, labour, energy and impairs the purchasing power of citizens. According to the data for the retail market, in 2022, compared to previous years, the share of basic foods in the basket of goods increased, and the purchase of luxury goods and brands decreased, while customers are more likely to purchase own brand products.

* SOURCE for gas prices: : https://ec.europa.eu/eurostat/databrowser/bookmark/9a991cd1-38c2-4102-9ae4-3e01e184b89a?lang=en



Annual inflation rate from 2021 until the end of 2022 by months, for the EU, Eurozone and Croatia

EUROZONE

CROATIA

EU

CROATIAN GOVERNMENT MEASURES

In 2022, as a response to inflationary pressures, the Government of the Republic of Croatia created a series of aid packages for households and the economy, with the aim of reducing the negative effects of inflation.

One of the most significant packages of measures was adopted on **1 April 2022** and amounted to HRK 4.8 billion in total. **The key measure was the reduction of the VAT rate on food**. The VAT rate for fresh meat, fish, eggs, fruit, vegetables, edible oils and fats, baby food and agricultural expenses was reduced from **13 percent to the lowest rate of 5 percent**.

In September 2022, the Government of the Republic of Croatia adopted the **autumn package of measures** to protect households and the economy against rising prices, which brought further measures to curb inflation. Among other things, the Government intervened in fuel prices and limited the price of electricity and gas.
In addition, the price and retailer's mark-up of nine food products from **the basic basket of goods was limited**.

Autumn package of measures to protect households and the economy against rising prices.

- **Edible sunflower oil**, the price of which was limited to HRK 15.99 per litre, while the retailer's mark-up was five percent,
- **UHT milk with 2.8% milk fat**, the price of which was limited to HRK 7.39 per litre, while the retailer's mark-up was five percent,
- **Sugar** (white, crystal), the price of which was limited to HRK 7.99 per kilogram, while the retailer's mark-up was one percent,
- **All-purpose flour T-550**, the price of which was limited to HRK 5.99 per kilogram, while the retailer's mark-up was five percent,
- **Wheat flour T-400**, the price of which was limited to HRK 6.29 per kilogram, while the retailer's mark-up was five percent,
- **Boneless pork shoulder and bone-in pork neck**, the price of which was limited to HRK 24.99 per kilogram, with a maximum retailer's mark-up of one percent,
- **Minced pork** in a 1-kilogram package, the price of which was limited to HRK 32.99, with a maximum retailer's mark-up of one percent,
- **Fresh whole chicken**, the price of which was limited to HRK 24.99, while the retailer's mark-up was five percent.

TOURIST SEASON

In 2022, the tourist season in Croatia was **extremely successful**, with a large increase in the number of tourists compared to the previous year. According to the data of the Croatian Tourist Board, almost **19 million tourists** arrived in Croatia in 2022, resulting in a total of **105 million overnight stays**. This season was almost as successful as the record 2019, with 91 percent of arrivals and 96 percent of overnight stays compared to that record result.

Private accomodation was the most popular form of accommodation for tourists with more than 39 million overnight stays, followed by hotels and campsites.

Istria and Dalmatia are still the most popular regions for tourists in Croatia, and they attracted the largest number of visitors in 2022. An increase in the number of tourists was also recorded in other regions of Croatia, such as Zagreb and Slavonia.

In addition to popular locations throughout Croatia that tourists regularly visit, **Advent** in Croatia is also becoming increasingly popular, which has led to an increase in tourist turnover in the winter period.

LABOUR MARKET

In Croatia, the **trend of labour shortages** in many sectors continued in 2022 as well, which represents a major challenge for employers and the economy as a whole. The reasons for labour shortage are numerous, and among the key ones are the demographic ageing of the population and the decreasing number of the working-age population.

Throughout the year, in Croatia the number of employees was 1.4 percent higher than the previous year.

In order to reduce negative effect of the labour shortage, employers increasingly started reaching out for foreign labour, so in 2022, **more than 115,000 residence and work permits were issued** in Croatia. Most foreign workers are from Bosnia and Herzegovina, Serbia and Nepal (more than 11 thousand people). Most of the foreign workforce comes to work in the fields of construction, tourism and hospitality.

BUSINESS OPERATIONS

The double-digit growth in total sales revenue is a result of several external factors (rising market prices due to inflation, an excellent tourist season), but also the internal efforts we make every day to provide our customers with the **best value for money**.

Throughout the year, there were several disruptions in the supply chain, but **partner relations with suppliers**, combined with **central logistics**, resulted in the fact that there were no shortages of products in our stores and sales centres, nor did we have restrictions on the amount of products that could be purchased, thanks to which we represented **a stability factor for customers in uncertain times**.

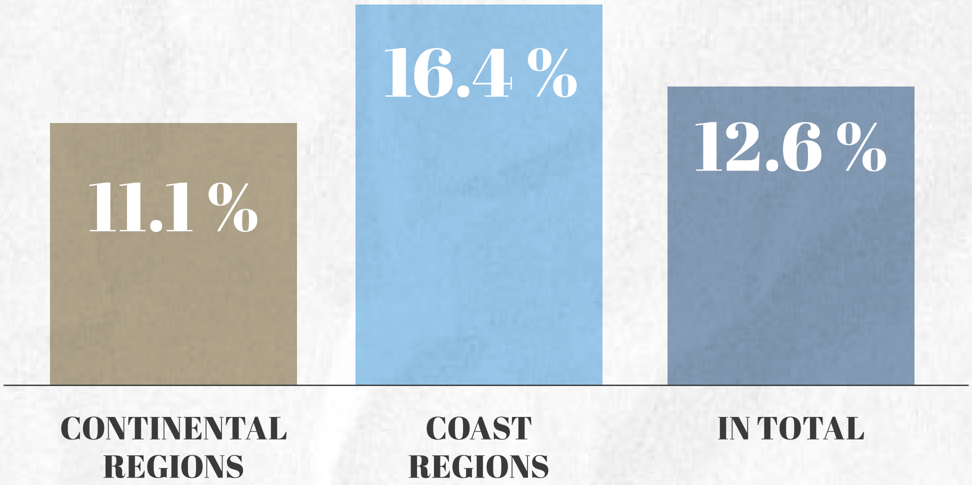
Supplying points of sale with unplanned quantities and types of goods presented a significant challenge to the warehouse and transport operations of logistics, including planning and inventory management functions. We did the job very well and **Konzum's results were above average, as was the availability of goods on its shelves.** Price volatility throughout the year required special engagement in cost management, especially when it came to costs of fuel and consumables, and special attention in terms of purchasing products from suppliers at the right time and in the right quantities. The situation on the shipping market was still challenging, the availability of capacities was insufficient, and the prices were still quite high, but all the necessary goods were procured on time.

Also, as a socially responsible company, Konzum continued to be a place where our customers get **additional value for their money** even in these uncertain times.

Aware of the challenging situation, **we were the first retail chain in Croatia that in February 2022 reduced the prices of more than 1,000 products** from the categories of fruits and vegetables, meat and fish, eggs, edible oils and fats, butter and margarine, baby food, sanitary pads and tampons, in accordance with the Government's decision on the reduction of VAT even before it entered into force on 1 April 2022. With this investment worth more than EUR 1.3 million (HRK 10 million), we wanted to help customers reduce costs in the household budget and meet them halfway due to numerous price increases.

With the same intention, we locked the **maximum prices for 100 products from a basic basket of goods starting from September until the end of 2022**, because the prices of almost all food products were on the rise. This included an additional 100 products from various categories (fruits and vegetables, fresh meat and fish, dairy and bakery products, frozen products, delicacies, canned food, beverages, hygiene products for children and adults, cleaning agents and others) which are not covered by the decision of the Government of the Republic of Croatia on direct price control measures for certain food products. Additionally, to reward our loyal customers, we have provided **more favourable prices for 1,500 products for MultiPlusCard users**, and we continue to adapt to the needs and habits of our customers, in accordance with trends, in order to remain their first choice by offering the best price-quality ratio.

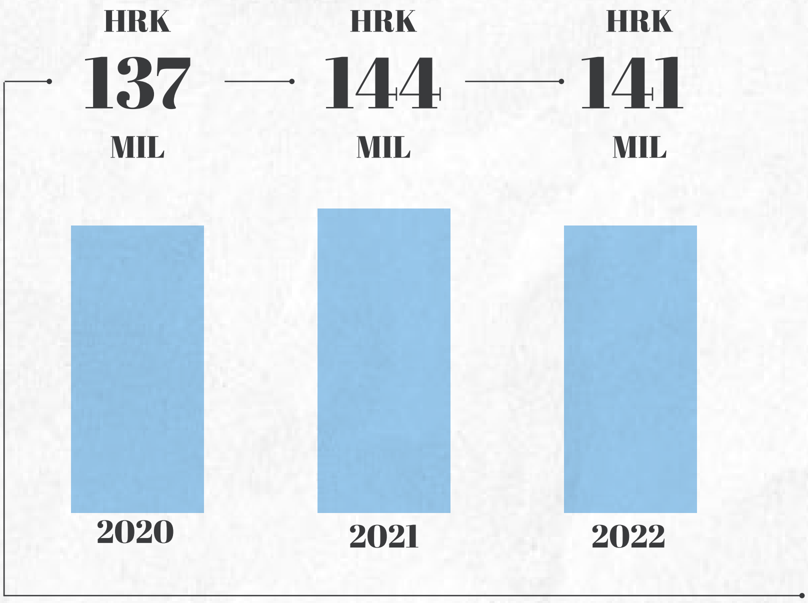
We are proud that, despite numerous challenges we were faced with in 2022, we achieved a record amount of **income from retail sales, in the amount of almost HRK 11 billion**, which is an increase of over 13 percent compared to the previous year. 'Like-for-like' retail revenue grew by 12.1 percent compared to 2021, and we also recorded an increase in the value of average basket which amounted to HRK 93 on average, while in 2021 it was HRK 89.



Growth of the 'like-for-like' revenue by region in 2022, %

ONLINE REVENUE

After 2020 and 2021, when the pandemic significantly changed consumer habits and caused an exceptional increase in online sales channels, 2022 was marked by an increasing stabilization and return of customers to brick-and-mortar stores. Compared to 2021, due to the combination of customers returning to brick-and-mortar stores and labour shortage challenges, the online segment recorded a 10 percent lower number of purchases and a 1.4 percent lower revenue.

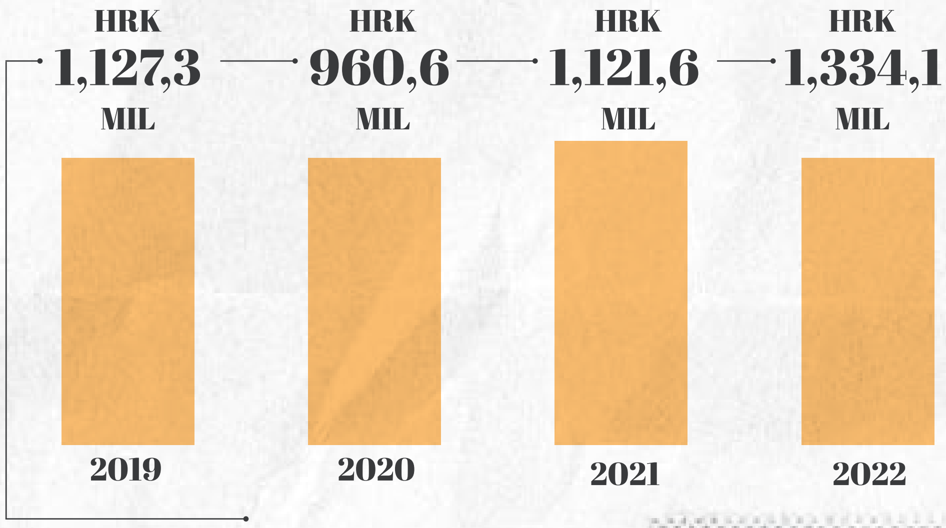


The wholesale segment recorded record revenue in 2022, amounting to HRK 1.3 billion, which is an increase of 19 percent compared to 2021.

VELPRO bases its business on quality logistics, which includes more than 150 vehicles that follow the latest global standards of distribution, delivering more than 1,000 parcels per day and over 250,000 parcels per year to all parts of Croatia. More than 700 employees care for the needs of over 10,000 customers nationwide and over 900,000 of their orders per year.

An excellent pre-season, which was very dynamic due to the already mentioned external circumstances, was an opportunity for VELPRO to be a partner to key customers in the hotel and catering industry. **Sales revenue in the HoReCa channel grew by 31 percent** compared to the previous year, which further strengthened VELPRO's presence in that channel.

WHOLESALE REVENUE



RETAIL NETWORK DEVELOPMENT AND NEW INVESTMENTS

The retail network experienced the following important changes in 2022: **15 new stores were opened**, ten of which were in Istria County, two each in Osijek-Baranja County and Split-Dalmatia County, and one in Međimurje County. By opening 10 stores in Istria County, we further expanded our network of stores in the camps and thereby strengthened our market position in the season. At the same time throughout the year, we carried out major renovations in four of our stores.

We want to provide customers with the best of technology - we continued to modernise our retail network and services in the bakery department and reduce waiting time at cash registers for our customers. Therefore, in 2022, seven stores received new self-service cash registers, and 34 stores received self-service bakeries.

In 2022, we continued to introduce **automatic ordering by categories** through continuous improvement and optimisation of processes in stores. The results of automation include an increase in turnover as a result of better availability of products on shelves and a reduction in costs as a result of reduction in write-off of goods. In addition to the above, the workers in charge of placing orders in stores got a part of their working time freed up, which is now directed towards other tasks and customer service.

When it comes to logistics, 2022 was marked by continued **investment in the renewal of the vehicle fleet and means of operation**. We acquired new vehicles and replaced the depreciated ones for the purpose of distributing goods to sales facilities, with a total of 16 new trucks, and eight vehicles for the online sales sector. We refurbished 24 rack forklifts and eight front loaders in logistics and wholesale centres. A significant investment was made in the renovation and **raising of work safety standards** in the forklift filling plant at the location Zagreb LDC I, and we completed the preparatory phase of the forklift fleet modernization project at the location LDC II with the goal of switching to Li-Ion technology.

Special progress was made in increasing the quality of ordering fruit and vegetables, where a team of experts from Konzum played a leading role cooperating with experts from the academic community, external consultants and colleagues from Fortenova, all within the newly formed Data Lab platform at the Group level. We used new knowledge and technologies based on machine learning and artificial intelligence. We have achieved breakthroughs in master data management and especially in electronic exchange of documents. We are also introducing innovations in payment methods, so we continue to enable payment with **cryptocurrencies**, and in 2022, the possibility of payment via the **Keks Pay** service was also introduced.

Konzum continues to be a **leader in innovation and in the market of online sales** of consumer goods, and the goal in the coming period is to **expand the presence** and improve the service by **shortening the delivery time**.

THE INFLUENCE OF THE TOURIST SEASON ON BUSINESS

The tourist season brings special challenges to Konzum. Year after year, we strive to set the latest trends in retail, following our mission and vision, even in the summer period, when the number of customers and daily turnover grow strongly. The summer tourist season of 2022 was prolonged compared to previous years and turned out better than expected.

In some stores monthly revenue **during summer months** was **increased by as much as 6 times**.

Average monthly revenue during summer months are even **three times higher than in the off-season**.

This fact put great pressure on the resources, especially on the engagement of workers and on the availability of certain types of goods at certain times, primarily imported goods specific for seasonal consumption. We have successfully found solutions in cooperation with domestic manufacturers and distributors and by adjusting the product range according to the availability of goods. **Inventory management and coordination between the Sales, Procurement and Logistics departments was excellent**. This resulted in the realization of the planned indicators of turnover, inventory turnover and minimum remains of unsold seasonal goods.

When it comes to **wholesale**, despite the initial challenges with procurement and prices as a result of the pandemic and the state of war in part of Europe, we managed to secure sufficient quantities of all food products for our partners. An excellent pre-season and season enabled VELPRO to provide support to its key customers in the hotel and catering industry. We completed the season successfully and confirmed, once again, that VELPRO is a partner you can rely on, that is, a partner that provides full support to its partners through the product range, prices and distribution services throughout Croatia.

CHALLENGES RELATED TO LABOUR SHORTAGE

When it comes to the workforce, we at Konzum have known for a long time that our employees are the greatest asset and strength of this company, and that is why we constantly strive to improve working conditions in order to retain quality workers and attract new employees., despite large labour shortage recorded on the Croatian market in 2022. Some of the steps we have taken to ensure that all our processes proceed as planned despite the labour market challenges are the following:

1. Improving the working conditions
Continuous investment in **improving the working conditions** for our employees through optimization of processes and investments in equipment and **wages**, which we talk more about in the Non-Financial Statement section that refers to the Company and Employees.

2. Increasing the share of casual workers
The structure of employees in retail was marked by an increase in the share of casual workers (university and high school students, retirees). In 2022, over 2,600 university students and 1,200 high school students were employed (almost half of them as part of the school praxis). For the needs of working in seasonal stores, we have additionally employed more than 190 seasonal workers.

3. Recruitment and integration of foreign workforce
In 2022, Konzum employed around 250 workers from various foreign countries. We held several introductory workshops for new colleagues, translated all work materials, created dictionaries of basic terms and prepared the teams they will join. We are proud for having successfully integrated all new colleagues into work teams despite language barriers and that our employees have accepted them as valuable members of their teams.

4. Redistribution of employees during the tourist season
For the past twenty years, in stores on the coast, we have successfully coped with the increased need for workers during the season, so we have gathered enough experience in overcoming this challenge. For years, we have been continuously improving processes in order to enable employees to free up their time and devote themselves as much as possible to those for whom we are here - our customers. We are proud of the internal activities in which our colleagues from continental regions are involved and of the fact that they go to work in coastal stores during the tourist season. There are also intervention teams of colleagues who help colleagues in seasonal stores with dedicated work, as well as colleagues who perform central functions and replace their work in the office with weekly or biweekly work in the store. Thus, over 100 of our colleagues from the continent went to work at the coast during the season.

PREPARATION FOR THE INTRODUCTION OF THE EURO AS A NEW CURRENCY AS OF 1 JANUARY 2023

Although the **euro was officially introduced on 1 January 2023**, in order to successfully make the conversion, preparations for the new currency began at the end of 2021. For Konzum, the preparation of the transition to the euro meant close cooperation of all departments within Konzum, cooperation with colleagues from the Fortenova Group, as well as other institutions. In the first phase of the euro introduction project, we actively participated in working groups that assisted the Croatian Government in the drafting phase of the Act on the Introduction of the Euro, which was adopted by the Croatian Parliament on 13 May 2022. Already by the end of May, we have successfully done a great job performing the impact analysis, planning the necessary changes and activities, and refining the information systems.

In order to continue our open business and relations with customers, we have joined the **Code of Ethics for the transparent introduction of the euro**. Joining the Code of Ethics is voluntary, and the goal is to enable a reliable and transparent exchange of the Croatian kuna with the euro. We provided our customers with a safe transition to the euro, and each of their purchases was made according to the principles of the Code of Ethics, which, among other things, implies the display of a fixed conversion rate, a price recalculated exclusively according to the mathematical principle of rounding, and dual currency pricing.

Thorough preparation allowed us to be **the first retail chain to start dual currency pricing** at all points of sale already in July, two months before the legal deadline, which was 5 September 2022. The dual currency pricing obligation was not an easy undertaking, especially since it happened at the peak of the tourist season, but the **execution was great**: we implemented changes not only to products and prices on the shelves, but also to entire communication with customers, including digital leaflets, posters, invoices on cash registers, SCO cash register screens, online sales, but also on internal documents, for example, the payroll of our employees.

During September, October and November, we conducted **tests and preparations of the system for the introduction of the euro**, while at the same time **educating several thousand colleagues** in order to better prepare for the upcoming changes. The education process involved different groups of employees, such as cashiers, employees in finance and trading, and colleagues from other departments. In order to further facilitate the transition to the euro, webinars on the topic of the transition to the euro have been made available for colleagues in the stores.

As far as operations are concerned, **the most complex period was the period of pre-supply** of stores with new coins and banknotes and the **dual circulation of kuna and the euro**, which was in effect from 1 to 14 January 2023. Therefore, the activities in the last quarter of 2022 were focused on that segment. To prepare for the dual circulation of kuna and the euro, we **acquired as many as 35 tons of euro coins in advance**.

The project team consisted of about 50 key experts from the Company, and more than 8,000 of our colleagues were involved during the education and implementation of the project. Although the project of transitioning to the euro was extremely demanding, it was successful and in line with our plans and expectations, **representing a historic event for Konzum**.

AWARDS AND ACKNOWLEDGEMENTS

EMPLOYER PARTNER CERTIFICATE – CEP

We have confirmed our excellence in human resource management by obtaining the Employer Partner Certificate once again. The certificate is awarded by the Selectio Group, the leading group in Croatia specialised in human resource management, to organisations meeting high quality standards in managing this important area.

VOTED PRODUCT OF THE YEAR

The Active Zone Protein+ product line and Lumpi premium baby diapers have been named the Voted Product of the Year, which confirms our continuous investments in the development of our brands, especially when it comes to specific lifestyles or premium segments. The title is based on a strict methodology and its application in more than 40 countries under the "Voted Product of the Year" international license, and the fact that we received it based on customer evaluations further motivates us to continue listening to their needs and develop the product range accordingly.

MOMS' CHOICE

Many of Konzum's products are favourites among mothers, which is why they acquired the right to use the "Moms' Choice" label awarded by the company Selektiva to products and services that moms actually used, believing that they are the most qualified to make recommendations, given all the daily tasks they perform in caring for their families. Thus, in 2022, Konzum received a certificate for K Plus items in the fresh cheese category, for Adriamare in the frozen fish category, and for Active Zone in the yogurt category.

Marketing awards in 2022

• **MIXX Award** for the best digital campaign in Croatia **"Santa Clause's Call"**

• **EFFIE**
BRONZE for **"Santa Clause's Call"**, Engaged community

• **IDEJAX**
GOLD for **"Christmas is the most beautiful when we are together"**, Best of Ad-Making group,
SILVER for **"Christmas is the most beautiful when we are together"**, Best on Market group,
SILVER for **"One less"**, Best of Ad-Making group

• **SoMo Borac** main prize in the category SoMo Growth for **"Santa Clause's Call"**

• **Oriđiđi Video Awards** - main prize for the video series **"Stories & Tales"** in the e-commerce / retail category

In the Best Buy Award General 2022/2023 survey, the majority of consumers, based on their own experience and opinion, chose Konzum as the retail chain with the best price-quality ratio in Croatia. In addition, Konzum was selected in the category of the best online food and beverage store on the local market. The Best Buy Award certification medal is awarded by ICERTIAS (International Certification Association), a renowned international organization based in Zurich that conducts market research on consumer preferences.

MARKET RESEARCH OVERVIEW

We at Konzum continuously monitor customer needs through market research. In the regular annual customer satisfaction survey conducted using the F2F exit interview method, in 2022, we achieved excellent results with 95 percent of satisfied customers and an average satisfaction rating of M=8.7 on a scale from 1 to 10. Thus, we achieved a slightly higher result in 2022 compared to 2021 (94 percent of satisfied customers, average satisfaction rating M=8.5). According to the survey findings, the probability that customers would recommend Konzum to people from their environment is high - a total of 62 percent of customers are Konzum promoters (NPS=53). The best rated elements of satisfaction are friendly staff, practicality, availability of locations and easy navigation in the store.[1]

When it comes to the perception of retail chains in 2022, the survey showed that customers see Konzum as a chain that offers the largest selection of Croatian products and local fruits and vegetables. They recognize the efforts that the company invests in the promotion of fruit and vegetable consumption and see that it offers good promotions in this area. In Konzum's offer, customers perceive the best selection of ready-to-eat meals, fresh meat and meat products, and fresh fish. Konzum is also recognised as the chain that, to the greatest extent, offers customers additional benefits through the loyalty program.[2]

In a qualitative survey of the image of retail chains, Konzum is dominantly perceived as close, friendly and reliable.[3]

[1] Ipsos, quantitative, N=800, 2022
[2] Ipsos, quantitative, N=1200, 2022
[3] Hendal, qualitative, group discussions with customers, N=48, 2022

FINANCIAL OVERVIEW

FINANCIAL PERFORMANCE

The results of operations achieved in the period that ended on 31 December 2022 compared to the period that ended on 31 December 2021 are shown below. Individual items of the presented statement of comprehensive income will be analysed in more detail below.

In 2022, Konzum achieved **normalised EBITDA in the amount of HRK 1.0 billion,** which is an increase of HRK 149 million, or 16.7 percent compared to 2021. EBITDA growth is the result of **sales revenue growth** in both the retail and wholesale segments that is **accompanied by a stable relative gross margin and successful cost control.**

HRK '000	2022	2021	% Δ
Operating income	11,996,779	10,554,448	13.7%
Sales revenue	11,853,394	10,423,281	13.7%
Other income	143,385	131,167	9.3%
Operating expenses	(10,956,363)	(9,663,275)	13.4%
Normalised EBITDA	**1,040,416**	**891,173**	**16.7%**
EBITDA margin, %	**8.8%**	**8.5%**	**0.3 p.p.**
EBIT	417,738	284,801	46.7%
EBIT margin, %	3.5%	2.7%	0.8 p.p.
Profit before tax	158,648	27,174	483.8%
Net profit margin, %	1.3%	0.3%	1.0 p.p.

Thanks to successful business operations, Konzum achieved **HRK 158.6 million in net profit before tax** in 2022, which represents an increase of HRK 131.5 million compared to the previous year 2021.

In order to provide readers with a more detailed understanding of the Company's financial and operational results, we use certain alternative performance measures in our reports. A list of definitions of the measures used, explanations of their relevance for use, comparative data and adjustments to the annual financial statements are available in the section Alternative performance measures.

*** Margin percentages were calculated in relation to sales revenue**
**** Operating revenue and expenditures were reduced by one-off items detailed in the Alternative performance measures section.**

SALES REVENUE

In 2022, Konzum achieved **sales revenue growth of 13.7 percent compared to 2021**, and strong growth was achieved in both the retail and wholesale segments.

The daily efforts we make to provide our customers with the best selection of products, the successful tourist season, as well as the global growth in consumer prices favoured the **growth of retail revenue in the amount of HRK 1.2 billion, i.e. 13.4 percent compared to 2021**. Positive results were also contributed by 15 new stores that were opened during 2022, as well as successful operation of existing stores throughout the year.

In the wholesale segment, a record increase in revenue of 19.2 percent was recorded, mostly resulting from the recovery of HoReCa channel.
Digital business revenue was lower compared to the previous year, which is the result of market stabilization after the peak of the pandemic and the return of customers to brick-and-mortar stores.

HRK '000	2022	2021	% Δ
Retail revenue	10,503,025	9,264,479	13.4%
Digital revenue	141,506	144,233	(1.9)%
Wholesale revenue	1,208,863	1,014,569	19.2%
Sales revenue	**11,853,394**	**10,423,281**	**13.7%**

OTHER OPERATING INCOME

Konzum also generates a smaller part of its revenue by providing services, the most prominent of which are rental and subletting of business premises and storage services. In 2022, an increase in revenue from sublease in the amount of HRK 6 million was recorded, as well as an increase in revenue from recharged costs in the amount of HRK 7 million, which resulted from the increase in utilities costs for the properties we rent.

HRK '000	2022	2021	% Δ
Advertising services	3,579	3,298	8.5%
Sublease income	64,515	58,805	9.7%
Rental income	18,685	21,696	(13.9)%
Recharged utilities	23,729	16,598	43.0%
Warehousing services	16,795	14,429	16.4%
Other operating income	16,082	16,341	(1.6)%
Other income	**143,385**	**131,167**	**9.3%**

OPERATING EXPENSES REDUCED BY ONE-OFF ITEMS

In 2022, operating expenses increased by HRK 1.3 billion or 13.4 percent compared to 2021, in line with higher revenue and consequently higher costs of goods sold. The increase in the cost of raw materials, materials and energy due to the market changes described in the section on the macroeconomic environment contributed significantly to the increase in operating expenses.

Despite the absolute growth of expenses, the increase in operating income exceeds the increase in operating expenses, so their share in total sales proceeds decreased by 0.3 percentage points, confirming that **Konzum succeeded in effective cost management even in such a challenging year.** Staff costs increased by 14.2 percent compared to 2021. As in previous years, Konzum continued to increase employees' salaries and pay out remunerations and incentives for work performance. **In 2022, more than HRK 150 million was invested in employee benefits**, which is described in more detail in the Non-Financial Statement on page 46.

We recorded an increase of HRK 37 million or 5.4 percent in the costs of services compared to the previous year, and the increased advertising costs and the costs of current and investment maintenance stand out. Considering the war situation in Ukraine and disruptions in supply chains, there was also an increase in transport costs. As in previous years, students were employed due to the increased need for labour resulting from increased revenue.

The increase in other expenses is primarily the result of an increase in the cost of banking services and fees, due to an increase in payment transactions caused by business growth and an increase in the costs of donations and sponsorships.
The costs of impairment were significantly reduced compared to 2021 as a result of the collection of previously impaired receivables, but also the introduction of a new credit policy by which we significantly increased the efficiency of the collection of accounts receivable.

HRK '000	2022	2021	% Δ
Cost of goods sold	(8,553,080)	(7,518,739)	13.8%
Staff costs	(1,210,964)	(1,060,841)	14.2%
Service costs	(714,380)	(677,492)	5.4%
Material and energy costs	(367,707)	(295,079)	24.6%
Other costs	(110,266)	(103,571)	6.5%
Impairment	34	(7,553)	(100.4)%
Operating expenses	**(10,956,363)**	**(9,663,275)**	**13.4%**
% of sales revenue	**92.4%**	**92.7%**	**(0.3) p.p.**

NORMALISED EBITDA

In 2022, Konzum achieved a **16.7 percent higher earnings before interest, tax, depreciation and amortization (EBITDA)** compared to the previous year. EBITDA growth was driven by higher revenue growth compared to operating expenses growth, as a result of which the EBITDA margin increased by 0.3 percentage points. Effective cost management provided additional savings that reduced the share of operating expenses in revenue.

HRK '000	2022	2021	% Δ
Operating income	11,996,779	10,554,448	13.7%
Operating expenses	(10,956,363)	(9,663,275)	13.4%
Normalised EBITDA	**1,040,416**	**891,173**	**16.7%**
EBITDA margin, %	**8.8%**	**8.5%**	**0.3 p.p.**
Depreciation and amortisation	(605,134)	(585,747)	3.3%
Sale of properties, net	3,225	(1,718)	(287.8)%
One-off items	(20,769)	(18,907)	9.8%
EBIT	**417,738**	**284,801**	**46.7%**
EBIT margin, %	**3.5%**	**2.7%**	**0.8 p.p.**
Finance income	3,583	15,429	(76.8)%
Finance costs	(262,673)	(273,056)	(3.8)%
Profit before tax	**158,648**	**27,174**	**483.8%**
Net profit margin, %	**1.3%**	**0.3%**	**1.0 p.p.**

ONE-OFF ITEMS

One-off items mostly relate to transactions resulting from business operations of the former company Konzum d.d., prior to the transfer of the business unit to the company Konzum plus d.o.o., and they include restructuring costs, one-off impairment costs, out-of-court settlements, the effects of merger and business compliance projects.

EBIT

In 2022, EBIT amounted to **HRK 418 million, which is an increase of 46.7 percent compared to 2021**, caused mostly by the growth of normalised EBITDA, which was accompanied by a slight increase in depreciation costs due to new capital investments, but also new lease agreements for new stores classified as IFRS 16, and the growth of one-off costs due to business compliance projects.

FINANCIAL REVENUE AND EXPENSES

The net financial result is approximately the same as the previous year, which results from lower financial revenue due to a smaller positive effect of exchange rate differences on the one hand, and reduced interest costs due to increased repayment of financial liabilities on the other hand.

FINANCIAL POSITION

In 2022, assets and liabilities increased by 30.3 percent compared to 2021. In terms of company assets, the most significant increase referred to real property, plants and equipment, due to the **merger of Mercator - H d.o.o. on 29 December 2022.** This acquisition provides Konzum with access to new real-estate property that will be used to expand the existing points of sale and open new ones, as well as other synergistic effects.

In equity and liabilities, the most significant change occurred in the position of Capital and reserves, which went from negative to positive.

Negative capital on 31 December 2021 arose due to extraordinary effects during 2019 and 2020, mainly due to the merging of entities under common control (Velpro and others) which led to negative consolidated reserves in the amount of HRK 193 million and the effects arising from fair valuation of assets and liabilities acquired through the transfer of the business unit of Konzum d.d. by implementing the Settlement. The most significant events that influenced positive changes in capital and reserves during 2022 are the following:

1. Successfully implemented **debt capitalization** in April 2022 in the amount of HRK 529.2 million
2. The reserve created by the merger of Mercator - H d.o.o. in the amount of HRK 571.5 million
3. Reserves created by the merger of other companies in the amount of HRK 1 million
4. Realised **net profit after tax in the amount of HRK 133.1 million**

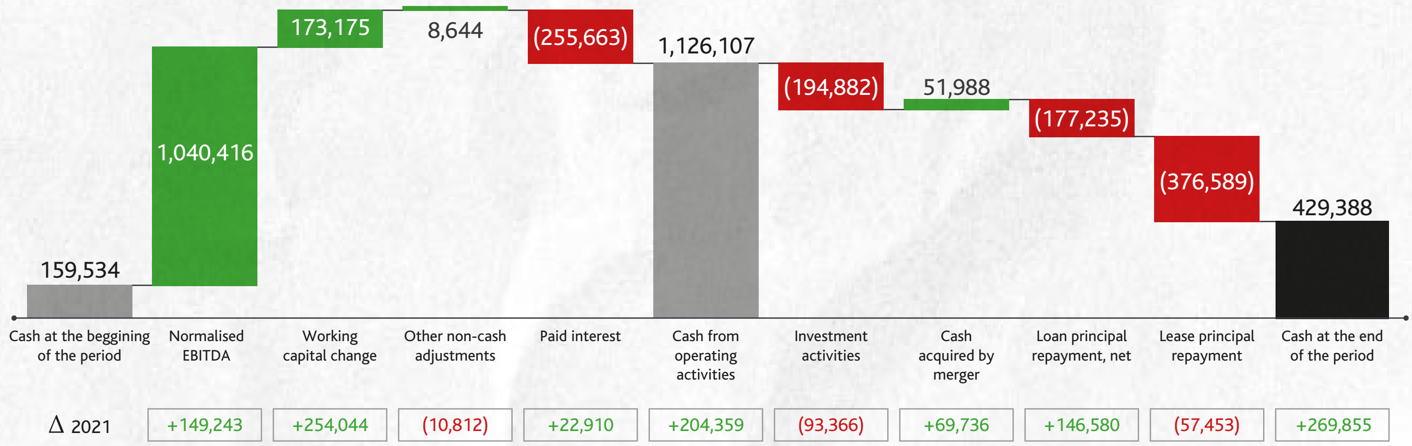
Financial debt includes long-term and short-term loans received from the Fortenova Group, liabilities on reinstalled debt and related interest based on these loans. Of the total amount, 89 percent is short-term and 11 percent long-term debt.

During 2022, the surplus of available funds was used for higher repayment of the internal loan, and regular quarterly repayments of reinstalled debt continued according to the established repayment plan, which resulted in the **reduction of liabilities in the total amount of HRK 177 million**. The increase in financial lease liabilities amounted to HRK 346 million, which is the result of the acquired financial lease liabilities from the company Mercator - H d.o.o. in the amount of HRK 113.4 million, and the effects of rising rental prices and new leases of newly opened stores.

The aforementioned capitalization of debt, repayment of financial liabilities and growth of EBITDA enabled a **significant reduction in the ratio of net debt to EBITDA from 4.5x to 3.2x**. After the merger of Mercator - H d.o.o., taking into account its liabilities, the final ratio of net debt to EBITDA for 2022 is 3.8x.

HRK '000	31.12.2022 Konzum without Mercator -H	Effects of the merger of Mercator - H	31.12.2022	31.12.2021	% Δ
Non-current assets	4,712,676	1,188,942	5,901,618	4,602,817	28.2%
Current assets	1,648,616	81,602	1,730,218	1,254,905	37.9%
TOTAL ASSETS	**6,361,292**	**1,270,544**	**7,631,836**	**5,857,722**	**30.3%**
Capital and reserves	244,572	571,526	816,098	(415,446)	(296.4)%
Non-current liabilities	2,737,504	104,021	2,841,525	2,807,268	1.2%
Current liabilities	3,379,216	594,997	3,974,213	3,465,900	14.7%
TOTAL EQUITY AND LIABILITIES	**6,361,292**	**1,270,544**	**7,631,836**	**5,857,722**	**30.3%**
Total financial debt	979,761	467,280	1,447,041	1,649,999	(12.3)%
Short-term borrowings	827,252	467,280	1,294,532	1,183,745	9.4%
Long-term borrowings	152,509	-	152,509	466,254	(67.3)%
Lease liabilities	2,730,354	160,660	2,891,014	2,544,784	13.6%
Cash and cash equivalents	(377,695)	(51,694)	(429,389)	(159,534)	169.2%
Net financial debt	**3,332,420**	**576,246**	**3,908,666**	**4,035,249**	**(3.1)%**
Normalised EBITDA	1,040,416	-	1,040,416	891,173	**16.7%**
Net debt /EBITDA	3.2x	0.6x	**3.8x**	**4.5x**	**-**

CASH FLOWS



The balance of cash and cash equivalents increased by HRK 270 million compared to the previous year, or as much as 169 percent. **The most significant cash inflows were generated from business operations**, while the outflows mostly related to debt repayment.

Thanks to higher total revenue and higher EBITDA margin, net cash inflows from operating activities before changes in working capital amounted to HRK 1.0 billion in 2022, which is an increase of HRK 149.2 million compared to 2021.

Other non-cash adjustments relate to non-cash transactions that did not generate cash inflows or outflows such as value adjustments of assets and changes in provisions.

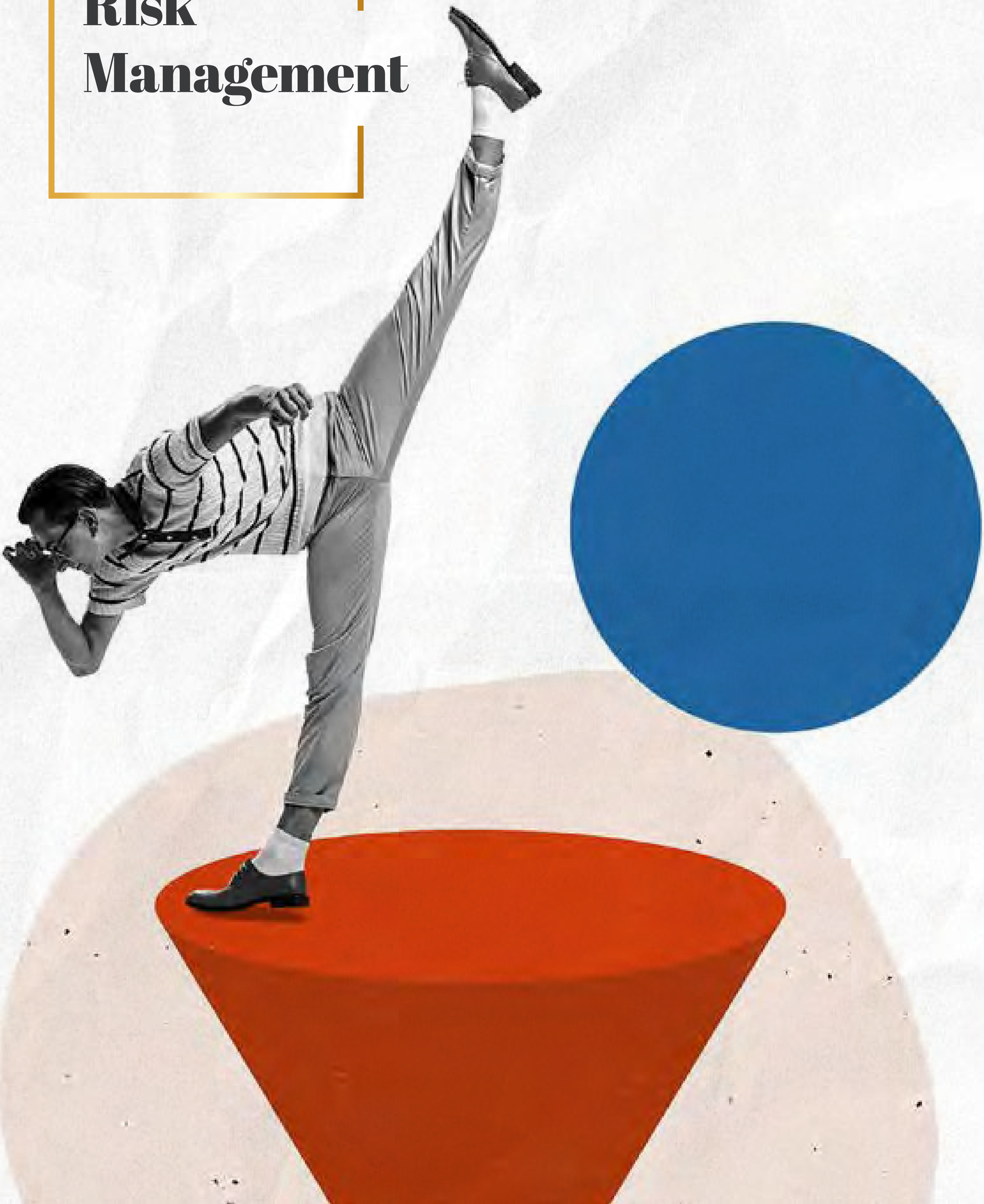
The positive cash effects of changes in working capital in the amount of HRK 173 million were primarily due to the increase in liabilities towards suppliers in the amount of HRK 401 million, of which the biggest effect was due to increase in turnover caused by increased orders, but also by the increase in input prices by suppliers. The negative effects of inventory changes in the amount of HRK -124 million compared to 2021 are related to the increase in input prices by suppliers and the increase in quantities in line with the increase in turnover, but also the increase in investment purchases that positively affect the percentage margin of the company. The negative cash effects on changes in accounts receivable in the amount of HRK -104 million are mostly the result of growth in retail and wholesale turnover, while accounts receivables days outstanding were reduced from 11.9 days in 2021 to 10.5 days in 2022, and as a result of the introduction of a new credit policy by which we significantly increased the efficiency of collection of receivables from wholesale customers.

With a significant repayment of the principal of the internal loan compared to the previous year, cash outflows for interest were reduced by HRK 29 million. Outflows on the basis of interest on financial leases were higher by HRK 7 million.

The surplus of funds was spent on increased capital investments in new stores, refurbishments and optimisations, which is why investment outflows are higher by HRK 93 million compared to 2021. Cash inflows from mergers are HRK 70 million higher than in 2021.

The remaining available funds were spent on repaying financial debt. A total of HRK 370.8 million of the principal of the internal loan received from Fortenova Group was repaid, as well as HRK 91.4 million of external debt, while receipts from new debt amounted to HRK 285 million.
Repayment of the principal of financial lease liabilities was HRK 57.5 million higher than in the previous year.

Risk Management



RISK MANAGEMENT

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. As it is not possible to reach the reference market prices of a significant part of the Company's assets and liabilities, fair values are based on Management estimates with respect to the type of assets and liabilities. Management believes that the fair values of financial assets and liabilities (except if otherwise stated in this note) are not significantly different from their carrying values and are categorised at the Level 2 and Level 3 fair value hierarchy.

The Company used the following methods and assumptions in estimating the fair value of financial instruments:

Trade receivables, trade payables, deposits and other financial assets and liabilities

For assets that mature and trade payables with due date within 3 months, the carrying value approximates their fair value due to the short maturities of these instruments. For longer-term assets, the interest rate does not deviate significantly from the current market rates and, consequently, the fair value approximates the carrying value.

Loans and lease deposits given

Since almost all loans are due within the next two years, the Management Board is of the opinion that their fair value is not materially different from their carrying value. As for lease deposits, discounted value of deposits is calculated, and Management Board has concluded that fair value is not materially different from their carrying value.

Loans and Borrowings

Since most of the borrowings are current and are provided by the owner with a fixed interest rate which changes every year according to the statutory interest rate approved by the Ministry of finance, the Management Board is of the opinion that their fair value is not materially different from their carrying value.

NON-FINANCIAL ASSETS

The valuation techniques used for fair value valuation of investment property and assets held for sale are mostly the market method and income method. The accounting policies on this subject are further described in Note 4 Significant accounting policies.

RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Company's financial instruments are **credit risk, foreign currency risk and interest rate risk**. Management reviews and agrees policies for managing each of these risks which are listed below. The Company is exposed to international markets. As a result, the Company may be affected by changes in foreign exchange rates. The Company also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Company does not use derivative instruments either to manage risk or for speculative purposes.

The Company's objectives when managing capital are to safeguard the Company'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 capital structure of the Company is applicable to share capital comprising subscribed capital, reserves and retained earnings. At the present there are no externally imposed capital requirements.

CREDIT RISK

Credit risk implies that one party may not perform its obligations and will therefore cause a financial loss to the other party. The Company adopted a policy of conducting business only with creditworthy companies and companies secured by guarantees, which minimises the possibility of financial loss due to non-performance. The Company uses data and opinions collected from specialised credit rating agencies, the Chamber of Commerce and publicly-available information on financial positions of companies. The Company also uses its own database to appropriately rank major customers. The impact of credit risk on the Company, and the changes in credit rank of partners are constantly monitored and measured, and the total value of the agreements concluded is appropriately allocated between creditworthy partners. Credit risk assessment for the purpose of risk management is a complex process including the use of models, since risk varies depending on market conditions, expected cash »ows and time. Asset portfolio credit risk assessment includes an assessment of probability of default, related share of losses and default correlation between various parties.

A significant part of credit risk arises from the Company operational activities (primarily the accounts receivable) and financial activities, including deposits and credits. All expected credit losses are 12-month expected credit losses based on probability (level 1).

The Company has the following types of financial assets, subject to the application of the expected credit loss model (ECL):

• **Accounts receivable for the sale of goods and services**
The Company applies a simplified approach to measuring expected credit losses, which is based on expected credit losses during the lifetime of all accounts receivable.
In order to measure expected credit loss, accounts receivable are grouped together according to types of receivables and due date.
Expected credit loss rates are based on previous payment profiles, and relevant historical credit losses incurred in this period. For some customers, a higher rate was used due to outstanding amounts in pre-bankruptcy settlements, which would probably never be collected in full.
The Company has considered the effect of future macroeconomic factors affecting the capability of customers to settle debt and concluded that there was no significant effect on expected credit loss rates. Accounts receivable are written off directly if there are no reasonable expectations that they would be paid. Indicators of absence of reasonable expectations that accounts receivable will be paid include, but are not limited to, the inability to execute agreed payments within one year.

• **Debt instruments at amortised cost**
Other financial assets at amortised cost include deposits and guarantees, loans to associated and non-associated parties, and other receivables. The most significant part of financial assets comprises of deposits related to the lease of premises which may be netted against lease liabilities, and consequently there is no significant credit loss risk.

The expected credit loss is calculated according to the European Banking Authority (EBA) rating for the entire Croatia and according to the probability of default for financial and non-financial institutions.
Even though cash and cash equivalents are also subject to impairment according to the IFRS 9, impairment losses determined in this context is not significant and, therefore, have not been booked.

The Company has no derivative financial instruments or any financial instruments that would potentially expose the Company to credit concentration risk. Therefore, the Company does not expect to be exposed to material credit losses related to the financial instruments.

In order for the company to manage credit risk more efficiently, the Regulations on Credit Risk Management entered into force on 9 November 2022.

The Regulations prescribe the basic principles and rules of credit risk management in order to provide a flexible framework that will enable the achievement of sales goals while minimizing the risk of receivables collection. They define the activities, responsibilities, powers and deadlines related to credit risk management and the collection of receivables arising from the sale of goods and services to customers with conditions of deferred payment. They prescribe the measures for managing the customer's credit risk, monitoring the customer's business, the collection measures that must be taken to collect overdue receivables, and the criteria and conditions for the valuation allowance and/or write-off of overdue and unpaid receivables arising from the sale of goods, provision of services and/or on some other legal basis. The goal of credit risk management is to continuously monitor and minimize the risk of receivables collection and provide expert financial support to the processes of selling goods and services and their collection.

The purpose of these Regulations is to prescribe a framework for credit risk management and define the process of collecting receivables from customers, which includes:

- defining the key steps of business processes before entering into a business relationship with the customer

- determination of credit limits
- defining the financial indicators of the customer's success and the success of collection from the customer,
- defining acceptable payment security instruments,

- defining the continuous monitoring of the customer's business

- through the analysis of the customer's financial operations
- through the customer's previous behaviour in the collection of receivables,,

- defining the key steps of the receivables collection business process

- through the dunning process,
- through the suspension of delivery,
- through the possibility of contracting instalment payments of overdue receivables,
- and through enforced collection by activating a payment security instrument and by initiating legal proceedings for the enforcement of the debtor's property

- defining the key steps in cases of pre-bankruptcy or bankruptcy proceedings against the debtor,

- determination of inter-organizational activity, cooperation, competencies and responsibilities of individual organizational units that participate in all mentioned business processes,

all with the aim of increasing the company's liquidity so as to ensure the collection of receivables as much as possible in accordance with the maturity of the receivables.

KONZUM

INTEREST RATE RISK

Most of the interest-bearing assets and liabilities of the Company represent loans and borrowings. Interest rate risk is the risk that the value of a financial instrument will »uctuate due to changes in market interest rates relative to the interest rates which apply to the financial instrument. Interest rate risk related to cash »ow is the risk that the financial instrument interest expense will »uctuate over time. The Company has borrowings acquired mostly from related companies, specifically from Fortenova grupa d.d. These loan facilities have a fixed interest rate which changes every year according to the statutory interest rate approved by the Ministry of Finance.
There is a smaller portion of non-current debt related to borrowings from unrelated companies which was transferred to the Company through the Settlement and also has a fixed interest rate. Due to these factors the Company is not significantly exposed to interest rate risk.

The following table shows the sensitivity of the Company's profit before tax on a reasonably possible change in interest rates, with other variables held constant, and due to a change in the fair value of monetary assets and liabilities:

	Interest rate increase/ decrease in p.p.	Impact on earnings/ loss before tax HRK'000
2022	+/-0,5	6,263
2021	+/-0,5	6,876

EXCHANGE RATE RISK

Most of the Company's assets are denominated in HRK. A portion of the Company's borrowings, lease liabilities and trade payables are denominated in foreign currencies (primarily EUR). Consequently, the Company is exposed to the risk of exchange rate »uctuations. During July 2022, the EU Council approved the entry of the Republic of Croatia into the euro area from 1 January 2023. As of that day the EUR becomes the official currency in the country. Considering the mentioned fact the Company does not consider that it is significantly exposed to further negative impact of this risk.

The following table shows the sensitivity of the Company's profit before tax on a reasonably possible change in exchange rates, with other variables held constant, and due to a change in the fair value of monetary assets and liabilities:

HRK '000		Exchange rate increase/decrease	Impact on earnings/ loss before tax HRK'000
2022	EUR	+/- 1%	n/a
	USD	+/- 1%	9
	GBP	+/- 1%	2
	CHF	+/- 1%	2
2021	EUR	+/- 1%	37,346
	USD	+/- 1%	7
	GBP	+/- 1%	2
	CHF	+/- 1%	2

LIQUIDITY RISK

The Company is exposed to liquidity risk since most of the liabilities are current. Liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close market positions. Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash »ows and balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Alternative Performance Measures

ALTERNATIVE PERFORMANCE MEASURES

For the analysis of financial data, the report uses certain alternative performance measures **offering a more detailed and precise insight into business** and enabling a clearer and more complete understanding of the presented information. The alternative performance measures are not prescribed by the International Financial Reporting Standards, but they are a useful **indicator for measuring and assessing actual business**, using specific criteria and methodology relevant for the industry in which the company operates. A review of alternative measures used, together with an explanation of how they are calculated using baseline data published in the revised financial statements, is provided below.

Normalised EBITDA

Earnings before interest, taxes and amortisation, excluding the effect of exceptional business events. One off items are excluded from the calculations in order to provide as accurate representation of regular business as possible. EBITDA is a **measure of operational performance** and the closest **approximation of cash flows** from business activities.

HRK '000	2022	2021
Operating profit	417,738	284,801
Depreciation and amortisation	605,134	585,747
Sale of properties, net	(3,225)	1,718
One-off items	20,769	18,907
Normalised EBITDA	**1,040,416**	**891,173**

EBITDA margin

Calculated as a ratio of normalised EBITDA and sales revenue. Enables a more realistic representation of profit and an easier comparison with competitors and other industries. An improvement of this indicator signifies a higher profitability of the company.

HRK '000	2022	2021
Normalised EBITDA	1,040,416	891,173
Sales revenue	11,853,394	10,423,281
EBITDA margin, %	**8.8%**	**8.5%**

EBIT

Earnings before interest and taxes, presented in financial statements as operating profit before financial income and expenses and corporate tax expenses.

"Like-for-like"

Includes stores that have been opened for the same number of days in the current and previous year. This indicator excludes the effects of closed stores, newly-opened stores and stores that have not been opened the same number of days in both years, which serves to present the organic growth of the company.

%	2022/2021	2022/2020
Like-for-like revenue growth in retail	12.08%	19.06%

One-off items

Transactions resulting from business operations of the former company Konzum d.d., prior to the transfer of the business unit to the company Konzum plus d.o.o. and other outstanding restructuring costs, one-time impairment costs, out-of-court settlements, merger effects and business compliance projects.

By excluding these items, a more accurate comparison of regular business over the years is enabled, not taking into account one-time items which will not repeat in the coming periods.

HRK '000	2022	2021
Prior period expenses	5,409	(8,044)
Guarantee provisions	(275)	(4,295)
Severance pay and other restructuring costs	-	(3,478)
Impairment and collection of receivables	(10,570)	(3,090)
Out of court settlements	(8,832)	-
Effects of mergers	(1,521)	-
Costs of implementation the EUR	(4,980)	-
One-off items	**(20,769)**	**(18,907)**

Net (financial) debt

Long-term and short-term loans and liabilities arising from the financial lease minus cash and cash equivalents.

This indicator measures Konzum's debt leverage and its capability to settle all its financial liabilities if they were due right away.

Net (financial) debt / normalised EBITDA

The ratio of net financial debt and the yearly normalised EBITDA. This indicator measures the capability to settle financial debts from existing liquidity sources and money generated from business activities. It shows the number of years necessary to pay the total financial debt. The calculation of net (financial) debt and the ratio of debt and EBITDA is shown in the analysis of financial position.

Newly created value

The methodology used to calculate the indicators is presented below.

HRK '000	2022
Profit for the year	133,112
Income tax credit	25,536
Staff costs	1,212,331
Interest expense	251,279
New value created	**1,622,258**

Non-Financial Statement

4 NON-FINANCIAL STATEMENT

CORPORATE GOVERNANCE

KONZUM plus d.o.o. is a limited liability company for trade incorporated under relevant laws and regulations of the Republic of Croatia and the European Union.
The sole incorporator of KONZUM plus d.o.o. is Fortenova grupa d.d. The Company's registered office is in Zagreb, Marijana Čavića 1a.

On 31 December 2022, the owner of the Company was Fortenova grupa d.d., Zagreb, Marijana Čavića 1, with a 100-percent share. The owner of Fortenova grupa d.d. was Fortenova Group HoldCo B.V., the Netherlands, with a 100-percent share.
According to the Register of Beneficial Owners (Financial Agency, FINA) on 31 December 2022, in Fortenova grupa d.d., Zagreb, Marijana Čavića 1, the controlling position in the management of the property of a legal entity through other means is held by:

- Chief executive officer - Fabris Peruško,
- Executive officers - Siegfried Alfons Ganshorn, James Pearson and Sotirios Yannopoulos.

The holder of controlling accounts is the company Fortenova Group HoldCo B.V., the Netherlands, with ownership of 2,000 shares of Fortenova grupa d.d.

CORPORATE ORGANS

The corporate organs are the Management Board, the Supervisory Board and the Assembly. The Management Board and the Supervisory Board act independently, and they answer to the Company Assembly with regards to their work.

COMPANY ASSEMBLY

The Company Assembly consists of a single Company member, Fortenova grupa d.d. Since the Company has only one member, all Assembly decisions are replaced by written decisions of the sole Company member, adopted under the Trade Relations Act. The Assembly makes decisions on matters determined by the Incorporation Statement. The Company Assembly is convened by the Management Board at least once a year.

SUPERVISORY BOARD

In accordance with the Incorporation Statement, the Supervisory Board consists of five members, whose terms last four years. The members are elected and revoked by the Company Assembly.

The Supervisory Board monitors Company business management, under which authority it has the right to review yearly financial statements, suggest the Company business auditor to the Company Assembly, submit a conducted review report to the Company Assembly and convene the Company Assembly if needed. Each member of the Supervisory Board or the Management Board may, after stating their reasons and purpose, request the convening of the Supervisory Board by its president. The Supervisory Board generally makes decisions at its meetings. The Supervisory Board makes decisions by a simple majority vote of the Supervisory Board Members present at the meeting.

Members of the Supervisory Board in 2022

Fabris Peruško
Member since 16 July 2019,
President since 25 March 2021

Paul Michael Foley
Member and Deputy President
from 16 July 2019
to 9 November 2022

James Pearson
Member since
1 July 2021

Siegfried Alfons Ganshorn
Member since 1 July 2021,
Deputy President since
28 November 2022

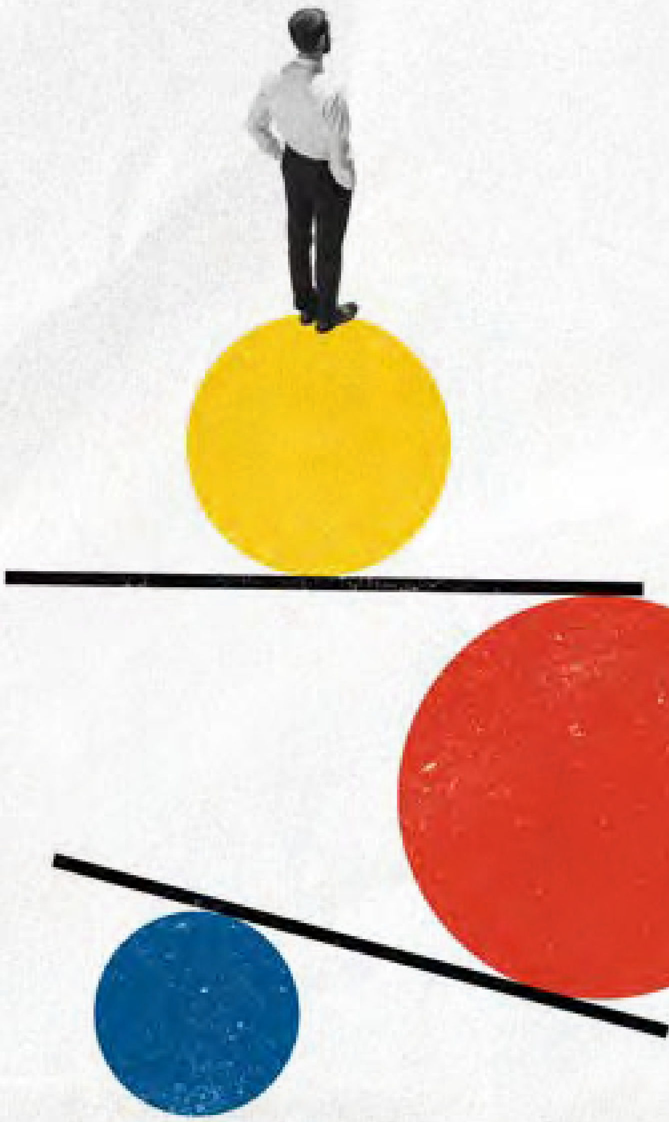
MANAGEMENT BOARD

In accordance with the Incorporation Statement, the Management Board consists of one to five members, of which one is appointed as president. The members are elected and revoked by the Assembly. The term of the members of the Management Board lasts for a maximum of four years.

The Management Board manages the Company's business operations independently and on its own responsibility, according to the privileges and restrictions defined by the applicable regulations of the Republic of Croatia, the Company Incorporation Statement, the decisions of the Supervisory Board and the Company Assembly and in accordance with the Management Board Rules of Procedure. Any act of the members of the Management Board in this capacity or in cases in which the members should act in that capacity is considered as management of the Company's business operations.

Through managing the Company business activities, the Management Board represents the Company and undertakes other actions resulting from business activities and within the scope of regular Company management. If the Statement prescribes that the Management Board may make certain decisions only with a prior consent of the Company Assembly, the Management Board is authorised to make such a decision after having obtained the consent.

The Management Board as an organ of the Company generally works and makes decisions at sessions, in the manner defined by the Rules of Procedure of the Company Management Board.



The Company is represented by the Management Board in accordance with the Incorporation Statement. When the Company is represented by the Management Board as a legal representative, the Company is represented by two members of the Management Board together.
Due to facilitating business and increasing economy, the Management Board has also transferred a part of the authority for representation to lower organisational level within the Company by an Company internal act. The members of the Management Board - the Company Directors - manage Company business with the diligence of a good and conscientious businessman and undertake all efforts necessary to eliminate the risk related to Company business.

Board members in 2022

Zoran Mitreski
Board member since 11 January 2019, Chairman of the Board since 8 May 2020

Uroš Kalinić
Board member since 11 January 2019

Tomislav Kramarić
Board member from 1 June 2020 to 16 December 2022

BUSINESS COMPLIANCE

The Function of Business Compliance has been established in the Company, which includes all work related to:

- Monitoring and implementation of applicable statutory requirements and secondary legislation into Company business,
- Harmonisation of the functioning and business activities of the Company with legal regulations and internal acts,
- Monitoring the implementation of other standards relevant to Company business,
- Risk assessment regarding system functioning and operation, and suggesting the best business practices,
- Management counselling and counselling of all workers regarding their obligations to act in accordance with applicable regulations.

A Compliance officer (CO) is a person working for the Company whose primary task is to ensure the compliance of Company business. In order to avoid any potential conflict of interest, the CO must be appropriately independent in operational activities so as to perform their duties objectively and appropriately, reporting directly to the Company management.

The Company can proudly say that its business activities are based on responsibility and strict compliance with the legal framework in which it operates, as evidenced by the fact that the Company has its own Compliance Team, while the number of violations procedures is negligible in comparison with the business volume.

SUMMARY OF RELEVANT POLICIES

Code of Ethics

Prescribes objectives, conduct and missions of an ethically responsible company. The Code is publicly available to all stakeholders and to everyone who is part of the Company in any way or has business relations with the Company. New Company employees receive the Code as an integral part of the documentation which the employer gives to new workers, and it is published on the Company notice board and on the internal website. Every business function is entitled and required to monitor the enforcement of the Code. For conduct according to non-ethical conduct reports, an Ethical Committee on the level of Fortenova Group has been established.

Anti-Bribery and Corruption Policy - Gifts and Remunerations

The objective of the Policy is to ensure an ethical and transparent management of Company business, in accordance with all applicable statutory requirements and secondary legislation and standards. Fortenova Group holds zero tolerance towards corruption activities of any form or type. The bribery and corruption prevention policy represents an upgrade of the provisions of the Fortenova Group Code of Ethics.

The Golden Anti-Corruption Rule: *„Do not offer or receive any financial benefit (either as a gift or any other benefit) which would cause you discomfort if it became public knowledge".*

Conflict of Interest Prevention Policy

Conflict of interest related to business generally entails situations in which personal interests of an individual are in conflict with their professional duties towards their employer or associated Company. Conflict of interest arises when the situation that benefits the employee also affects the Company.

In order to eliminate conflicts of interest as potential business risks, and therefore make business activities more transparent and safer, all key employees of the Company are required to make a Statement of Conflict of Interest each year.

Internal audit performs regular controls and checks situations that may potentially be characterised as conflict of interest. In order to prevent conflicts of interest, collection of data on the ultimate beneficial owner is performed regularly based on documents, data and information collected from reliable and independent sources, i.e. from publicly available registries.

Anti-Money Laundering Policy

Fortenova Group has established the Money Laundering Prevention Policy, which has been adopted and implemented by a Company decision. The Policy's goal is to ensure the Company and its employees act according to the law and with due diligence in relation to the application principles of the "Know Your Customer" standard.

Every employee is required to report if they alone, or in consultation with others, concludes that they know or suspect, or has any reason to suspect, that a person or a party engages in money-laundering activities. Employees working in areas subject to situations regulated by this Policy undergo continuous professional training.

Corporate Contributions Policy

The Corporate Contributions Policy has been established at the level of Fortenova Group, and adopted by the Company Management Board decision. The objective of the Policy is to create high ethical standards related to business and ensure socially responsible business activities, including corporate contributions, i.e. to define the main principles, process steps and decision-making rules regarding corporate contributions (donations, sponsorships, various forms of corporate volunteering etc.) which regulate processes according to the highest ethical standards related to business.

Internal Whistleblowing Regulations

The Regulations define one's course of action if they notice any irregularities or wish to report any suspected irregularities or irregular conduct by employees. A process has been regulated in which a confidential person in the Company receives and addresses non-anonymous reports, which exclusively concern irregularities in business activities, or irregularities in the performance of work or business processes. The reports are submitted to a confidential person orally or in writing via mail, direct submission or e-mail.

Tax policy

In 2022, the Tax Policy of Fortenova Group was adopted, the purpose of which is to present the basic principles regarding the management of tax matters. The adopted document also establishes the general principles of the tax management system, providing clear guidelines on strategy, organization and roles and responsibilities in the management of tax matters. The adopted policy includes adherence to the following principles:

- compliance with relevant laws in fulfilling tax compliance obligations and reporting obligations in all countries in which the company operates
- maintaining relations with tax authorities and other government bodies with a proactive and transparent approach that minimizes disputes
- ensuring the compliance of the tax strategy with the business strategy
- ensuring that opportunities for optimization and tax planning are evaluated in accordance with the law and within clear risk parameters
- maintaining a tax control framework that enables proactive tax risk management
- reporting taxes in accordance with relevant national regulations, as well as relevant requirements and reporting standards such as IFRS
- supporting business in creating, building and protecting value for shareholders.

Competition policy

In 2022, the market competition policy of Fortenova Group. was also adopted, with the goal of achieving compliance with competition law as a prerequisite for free and fair competition. The policy defines the code of conduct aimed at ensuring compliance with competition law.

Since Fortenova Group manages operating companies in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Montenegro, it engages in many activities that increase the possibility of violation of competition law, especially because a number of its operating companies have high market shares with a possible dominant position, which is why they are subject to stricter rules.

The purpose of competition law is to protect competition as the foundation of a free market economy, and therefore consumers. According to a theory, market competition that works leads to lower prices, higher product quality, and a wider range of choices for consumers. Competition law prevents the restriction of competition. Market protection protects consumers.

SOCIAL

EMPLOYEES

Our Values

Konzum encourages the highest expertise standards in its work environment and promotes a work culture that strives towards independence, excellence and responsibility, with an equal opportunity policy and an aspiration towards an optimal balance between the professional and personal life.

Therefore, it is important that our employees:

- Are open, fair, consistent and act with respect to all employees and set a good example for others,
- Contribute to the business objectives of Konzum as a whole by sharing constructive suggestions and ideas with their superiors,
- Openly, honestly and fully communicate any problem with one another, regardless of their rank in the organisational structure,
- Seek and have the chance for education and/or professional training, with a continuous development of their abilities for a more efficient operation of business,
- Act in accordance with the highest possible standards applied with regards to their profession, in the most efficient way possible, by simultaneously minimising the expenses to Konzum and/or other stakeholders,
- Take full responsibility for the tasks entrusted to them; the same applies to their own actions and behaviour,
- Are focused on their current work task, its purpose and goals and perform it enthusiastically and with a professional interest in the most efficient way possible.

Our Values

DETERMINATION

We are proactive and take initiative. We are focused on finding solutions and make decisions. We deliver more than what we have promised. We learn from our mistakes and understand our responsibilities at every level.

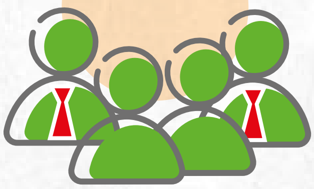
PROFESSIONALISM

We always seek new ways to improve what we do, create value and achieve better results. We emphasise finding the most simple solution using innovative methods. We are dynamic, safe and free to do the best we can in our environment. We always ask for help when we need it, and we always provide help when others ask it. We strive for professional development and eagerly seek new knowledge and experiences.

INTEGRITY

We work reliably, and we are honest and loyal. We act with a great deal of respect and consideration towards our customers, business partners and towards each other. We are transparent in regards to our actions and communication. We are consistent with regards to people and process management. We believe that "quality work" in business and in the society is always the right course of action.

TEAMWORK



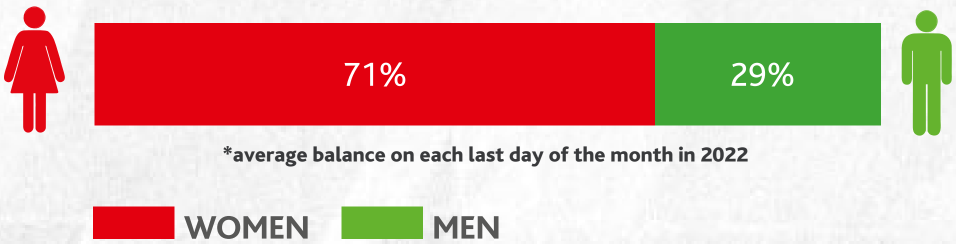
We care for the work we do and we have fun doing it. We trust and help each other. We are real ambassadors of our society and act towards one another as we do with family. We measure our success based on our customers' satisfaction and we celebrate it with our colleagues.

Positive Working Environment

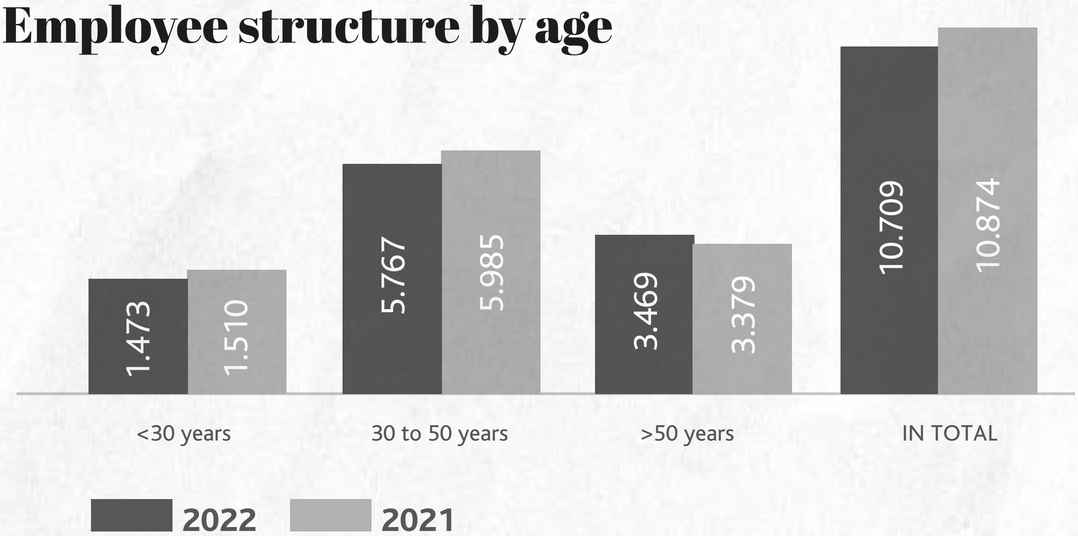
Konzum recognises its employees as its most important resource and it is fully committed to maintaining a healthy, pleasant and motivating working environment, based on mutual understanding, trust and respect among all stakeholders. It is important that our employees:

- Set an example for other stakeholders by showing a high level of professional and personal morals and work ethics, and by simultaneously being motivated, committed and proactive,
- Exchange knowledge, experience, opinions and information openly with their co-workers at their workplace and encourage teamwork and cooperation,
- Base their decisions solely on merits, success, qualifications and other criteria related to work, avoiding conflicts of interest and/or personal differences that may influence their decision-making process.

10.709 employees

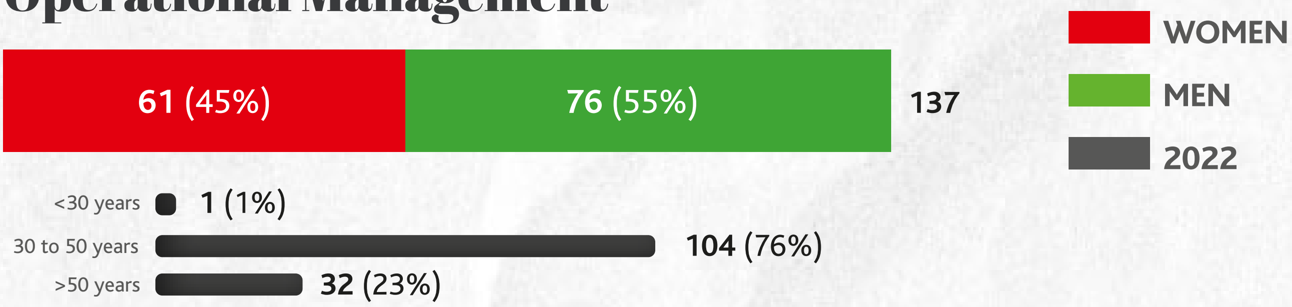


Employee structure by age

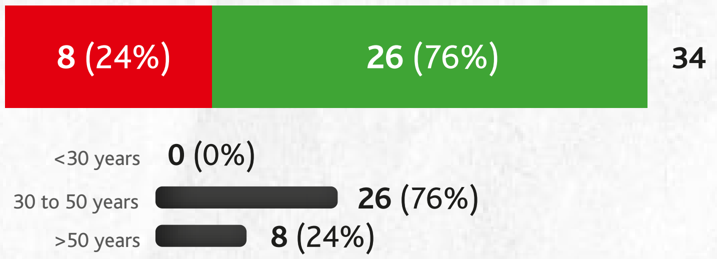


Graphic representations of data on employee number, employee structure by age and sex, management structure and position type structure

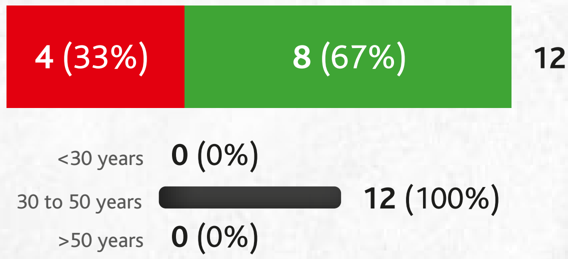
Operational Management



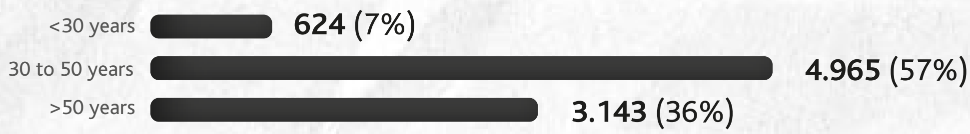
Middle Management



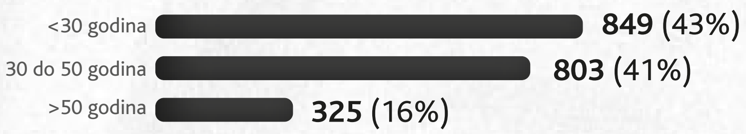
Top Management

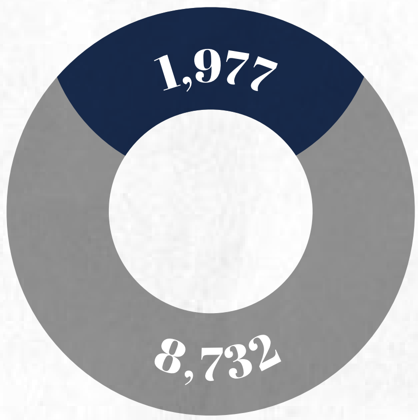


Age Structure of Employees with Indefinite Contracts



Age Structure of Employees with Fixed-Term Contracts





*average balance on each last day of the month in 2022

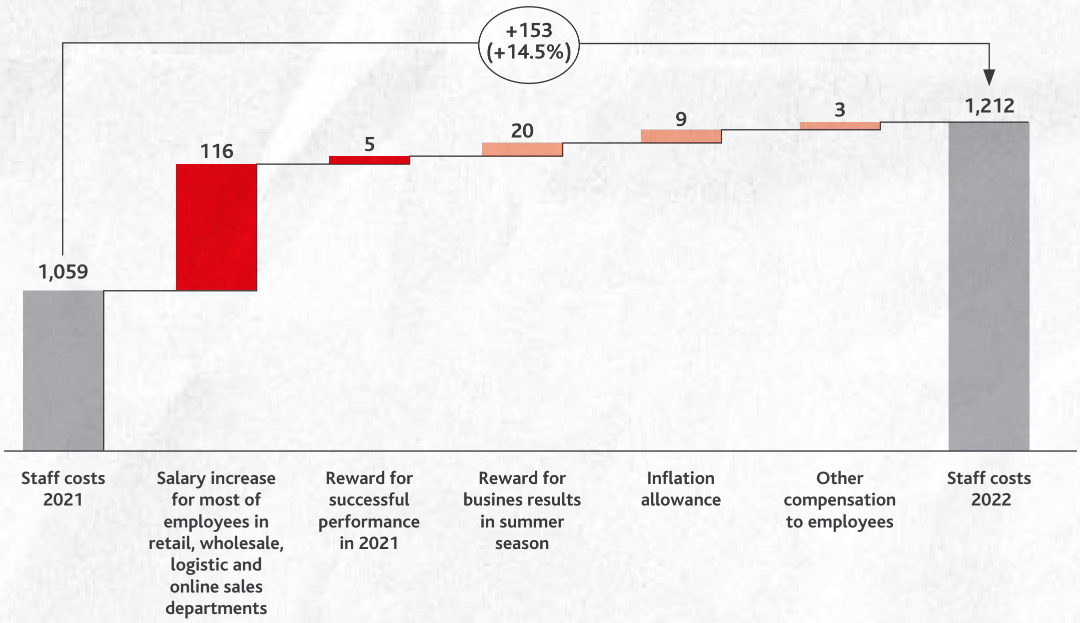
* as at Dec 31, 2022

Salary policy

The new payroll system was implemented on 1 January 2022. The previous system of coefficients was replaced with gross salaries in order to make the system more transparent and clearer to all our employees. Apart from the payroll change, higher basic gross salaries were defined for more than 90 per cent of our employees, namely for more than 9000 colleagues in retail, wholesale, logistics and the online shop.

The new salary policy created for 2022 is also one of the biggest Konzum investments. Thus, in 2022, we invested a total of more than HRK 150 million in employee benefits: we started the year by investing more than HRK 100 million to increase the salaries of most employees in retail, wholesale, logistics and online stores. In June of last year, we paid employees a remuneration of HRK 500 net as a thank you for successful business in 2021, which together with the payment of the cash grants represented an additional investment of HRK 17 million. In October, a new investment in employees worth HRK 20 million followed, within which we paid employees a remuneration of HRK 1,100 for good business results achieved in the summer season of 2022. In addition, since the last quarter of last year, we have also paid a special allowance of HRK 300 per month to help employees cope with inflation and increased living costs. In December we also paid a Christmas bonus, which was an investment of HRK 15 million, as well as a child care fees.

Staff costs 2021 - 2022



Reward for work results
In 2022, we improved the existing employee reward system, created new rules for rewarding and paid additional incentives for outstanding results in a certain period.
Employees have the possibility to earn a reward for their job performance. A number of employees are subject to a performance assessment system related to individual development goals.

Job performance rewards included 93 per cent of employees, and in 2022, a total of 91 per cent of employees received a job performance reward.

We provide additional remunerations and benefits to all our employees:

Yearly remunerations
- Christmas bonus
- Easter bonus
- Cash grant (vacation remuneration)
- Child care fee (for children under 15 years of age)

Special remunerations
- Newborn remuneration
- Aids and solidarity compensations
- Awards for continued years of service

Additional benefits
- **Discount** on total purchase in Konzum with a **MultiPlusCard**
- **One day off for parents whose children start first grade** and an appropriate gift
- **Christmas presents for employees' children**
- **Christmas coupons**

Konzum applies several different forms of recognition programs for employees, taking into account successful results and outstanding contribution in successful business, contribution in promoting and living its corporate values and promoting corporate culture.

Employee training and education

At Konzum, the education and training of employees are mostly carried out within the Konzum Academy as a separate office formed for this purpose, and partly through external institutions. Monitoring the needs by the areas of work, deficient occupations in the organization and the need for the development of key jobs, we implement programs in which employees acquire new knowledge and skills that influence their further development and advancement. Aware of the fact that, in these challenging times, employee management is extremely important, in 2022, we focused on education for team leaders, programs for new managers, leadership skills program for managers and sales skills program for sales representatives, on internal training for future managers and meat sellers, as well as introductory training for newly employed colleagues with the aim of getting to know the company, the basic work processes and company culture.

We are a company that manages knowledge, retains and transfers knowledge in the organization and encourages personal responsibility for development.

More than
90
various training topics

More than
90,000
trainees

More than
153,000
hours of training

With full-time internal trainers,
43%
of employees are involved in the training and development process of other employees

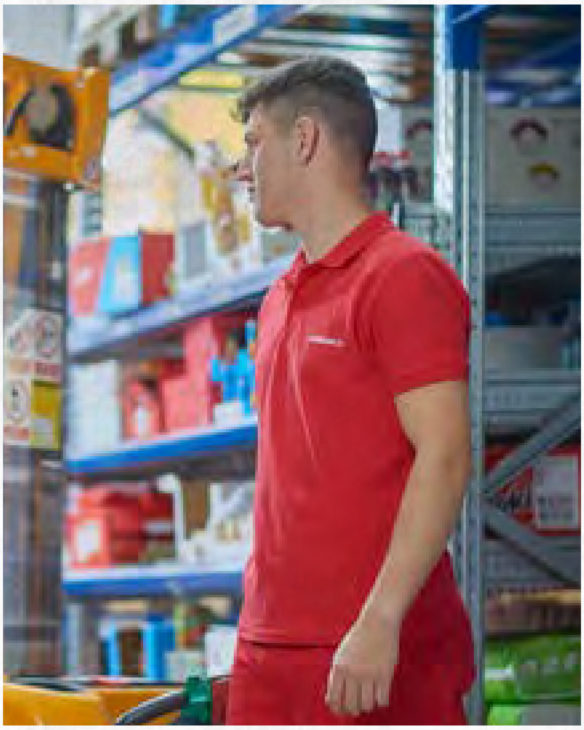
83%
of internal trainings
17%
of external education

72%
of employees have undergone additional training beyond the legally required training

95%
of managers included in the internal transfer of knowledge

In 2022, 471 high school students in total underwent vocational classes at Konzum.
In addition to internally organised education and cooperation with high schools and colleges, employees participate in externally organised conferences, seminars and business competitions. We are extremely proud of the successes that our colleagues have achieved in the past year at business competitions in the preparation of business cases. Konzum's team won third place at the e-Leadership Intrapreneurship Challenge 2022 organised by Algebra e-Leadership MBA and first place at the IEDC-Bled School of Management case study competition in Zagreb.

Occupational health and safety



All employees participate in an occupational health and safety and fire protection training program before they start their work in a position or when changing positions.

Forklift operator and first aid trainings are conducted by authorised companies.

In 2022, a total of 9,107 employees participated in an occupational health and safety and fire protection training program.

After every occupational injury or accident, a corrective action is performed, i.e. an education for the injured worker related to their injury.

Internal supervisions are performed, where the Occupational Health and Safety and Fire Protection Service checks the condition of objects and work equipment and conducts interviews with workers. Authorised external companies regularly perform examinations of the working environment, electrical installations and work equipment.

More emphasis on education of employees and conducting more frequent internal checks helped reduce the number of occupational injuries by 12 percent in 2022 compared to 2021, while the number of accidents increased by 8 percent, which is a direct result of raising awareness among employees about the need to report accidents at work.
The Company has concluded agreements with 38 offices of occupational medicine across Croatia, where our workers are referred to in order to perform regular medical examinations related to jobs with special working conditions.

Pursuant to the Ordinance on safety and health protection when working with personal computers, employees perform eye examination before they start working or before they are hired in a position that includes working with a computer. Workers using corrective aids are required to perform the examination every two years, and the examination may be done at the request of a worker whose problems may be a consequence of working with a personal computer. For its employees, Konzum also obtains an additional health insurance policy which allows our employees to perform regular physical checkups and use other healthcare services with their policy in authorised partner institutions. As one of additional benefits, employees may obtain policies of supplementary and additional insurance for their family members.

In 2022, as part of the continuation of efforts to reduce the number of injuries:

- a total of 400 vertical ergonomic mice were distributed with the aim of reducing the risk of overexertion syndrome caused by overly long repetition of the same movements
- the obligation to use anti-cut gloves when using a knife was introduced

HEALTH AND SAFETY OF CUSTOMERS

Food Safety Management Systems

Customer satisfaction is the primary objective, according to which Konzum's overall success is measured. A supply of fresh and safe food, and applying high hygienic standards related to the production of own products at the fish packing facilities and fresh bulk sections in stores, are the basic principles necessary to achieve this objective.

Since we want to offer the best price-quality ratio to our customers, we require that our partners and product suppliers observe food safety standards adopted at international level. Furthermore, in our factories, we demand high hygienic standards of employees, working areas and equipment, and we appropriately train and educate our employees on the quality and importance of the food safety management system in a timely manner.

For the purpose of consumer protection, methods of rapid notification and warning have been defined and control systems based on risk assessment have been established. Communication both with external interested parties and also within the organisation regarding information related to food safety has been ensured.

In all company facilities, a food safety management system has been implemented and certified in Super Konzum stores, warehouses and Velpro centres. This proves that at Konzum, health and safety of customers always comes first.

The implemented and certified food safety management systems are based on requirements of the following standards: ISO 22000 in logistics and retail, and HACCP guidelines described in the Codex Alimentarius in wholesale as well as IFS Logistics.

The management systems are established based on risk assessment in all business processes. The processes are described, and critical control checkpoints and corrective measures performed when the critical checkpoint is out of control have been defined. In retail and wholesale, the HACCP plans include all critical control checkpoints. The system is verified by performing regular internal controls - audits, external audits (inspections and certification authorities), and plans for microbiological cleanliness checks in all logistic, retail and wholesale units. Furthermore, together with products of suppliers of fresh meat, our products have been certified with the label Meat From Croatian Farms ("Meso hrvatskih farmi") in retail.

Procurement processes have also been described in which risk assessment is performed for suppliers/ producers of private brand products and other products. Risk assessment in this segment results in three plans:

- Internal control plans, performed in organoleptic laboratories,
- Private brand monitoring plan (submission for analysis in authorised laboratories), and
- Producer audit plan (depending on the management system certificate owned by the producer).

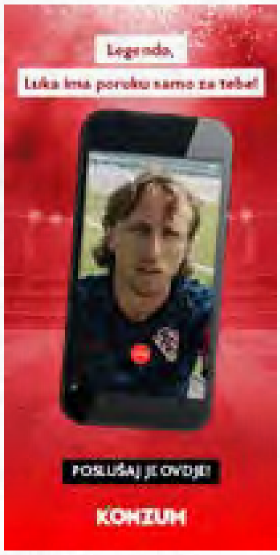
“THE RETURN OF ZDRAVOLJUPCI” LOYALTY EDUCATIONAL PROGRAM

We continued to encourage customers to adopt positive eating habits.

In 2022, we happily welcomed Zdravoljupci again, the protagonists of the most successful loyalty program in the history of Konzum. This time they returned to our stores in the form of a sticker album with the same mission as before - to encourage children and adults to adopt quality eating habits through the message “Say NO to the food that is bad for you, eat fruits and vegetables”.

The videos in which the cheerful team of Zdravoljupci sing about the importance of regular consumption of fruits and vegetables have recorded over 17 million views on YouTube to date, and in Croatian homes, there are more than 1.2 million stuffed Zdravoljupci toys that remind household members of the importance of a balanced diet. In the continuation of the loyalty program in 2022, the emphasis was on collecting stickers with Zdravoljupci characters, which were intended for sticking into an attractive album with instructive illustrations and interesting facts about fruits and vegetables. Cute cups with Zdravoljupci characters, which were also part of our special product range also reminded us of the importance of regular consumption of fruits and vegetables.

Luka’s challenge



The year of the World Cup was a great opportunity to reach out to parents and children in a unique and memorable way to encourage them to be more physically active as the data on physical activity and excessive body weight in children becomes increasingly alarming every year. We wanted to send a strong personalised message from Luka Modrić, the most popular soccer player in Croatia who is also a role model for many children Đ that’s how Luka’s challenge came about.

Luka’s challenge is a unique personalised experience in which Luka Modrić personally addresses the viewer with a message about the importance of physical activity, encouraging them to exercise. Luka also signed a personalised photo that the viewer can download as additional motivation.
Hearing a personalised message about the importance of exercise from Luka Modrić himself was an experience for the little ones that has the potential to change their life habits. For their parents, who are struggling to direct them towards a healthy lifestyle, Luka’s challenge represented immeasurable value and help in their daily upbringing. Exceptional figures, but also the delight and enthusiasm of children and parents showed us that Luka’s challenge was completely successful and that we successfully communicated Konzum’s mission: to take care of the quality of life of our customers.

CELEBRATION OF THE 65TH ANNIVERSARY OF KONZUM'S OPERATIONS

We made all stakeholders happy with the year-long celebratory campaign.
In 2022, we celebrated 65 years of Konzum and recognised this important anniversary, under the slogan "For 65 years you can buy everything from us, but a smile is always free", as an additional opportunity to make customers, employees and business partners happy and thank them for their long-standing trust. The story of Konzum began back in 1957, when the first Konzum store was opened at Ilica 22 in Zagreb, which was also the first municipal supermarket in the country at the time. Customers and citizens could find out about this and other major events in the company's history, as well as interesting facts about the development of trade in Croatia, in which we played a significant role, via a special website that we launched as part of the anniversary.

By presenting the unique retro design pro ucts of our suppliers in the retro catalogue and by organizing a flash mob in Zagreb's Cvjetni trg with music and dance styles of the past decades, we took customers to a time when shopping and living were different. We have prepared special surprises and discounts for MultiPlusCard users as well.

We also celebrated with our employees - we marked the administrative building and stores with appropriate visuals, and in a special edition of the internal magazine, the main focus was on the employees as the protagonists of various interesting reports. At the internal conference, we gathered more than 1,000 colleagues and socialised with interesting lectures and the awarding of prizes to the most outstanding ones.

The highlight of the celebration was the awarding of Tesla car keys to our luckiest customer in a raf»e in which we received more than 430,000 entries. And in order for our celebration to leave a mark on the community, we supported the Association of RED NOSE Clown Doctors with a donation, in which we also included citizens from all over Croatia by "collecting" their smiles through digital totems and then "turning" them into kuna for the donation. In this way, we donated a total of HRK 65,000 (EUR 8,627) to the RED NOSE Clown Doctors and thus supported their efforts to bring smiles back to people in difficult situations.

KONZUM'S TRADITIONAL HOLIDAY CHARITY EVENT

Nicer holidays for as many as ten organizations and associations across Croatia

The end of 2022 was again brightened by Konzum with a humanitarian campaign, this time in cooperation with MultiPlusCard under the slogan "Christmas is the most beautiful when we gift together", whereby the funds were distributed to as many as ten organizations that help children, families in need, the elderly and the infirm, as well as animals. The campaign raised as much as EUR 72,958.07, of which more than EUR 26,500 were donated by Konzum, and the remaining amount by MultiPlusCard users who donated their bonus kunas.

Among the recipients of the donation were the Aurora Association, which helps patients with cerebral paralysis and polio as well as persons with physical disabilities in Šibenik-Knin County, and the Brački pupoljci Association, which provides support to families of children with developmental disabilities. The Breza Association, which provides support to children and youth without adequate parental care, and the Centre for Early Childhood Intervention MURID, which deals with the identification of developmental risks and difficulties in child development, also received donations. Funds were also allocated to the Slava Raškaj Centre in Zagreb, which provides services to children and youth with communication difficulties, and to the Tić Rijeka children's home, which specializes in working with children and young people who have experienced violence, abuse or neglect and who live in risky families. The recipients of the donation were also the Vladimir Nazor Centre for Community Services, which takes care of children without adequate parental care aged 7 to 21 and provides support to children in crisis situations, as well as the association for information, expansion and development of social services for the elderly, StarKA. Donations were also given to the Noina arka Association, the oldest association for the care and protection of abandoned dogs and cats in Croatia, and Prava šapa, an association that undertakes specific actions to rescue street and abandoned cats, provide temporary housing and veterinary care, and adopt them.

KONZUM

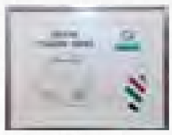
TIMELINE-
events that marked 2022

January

- Well done to Konzum's bakeries who won tag 'Moms' choice'!
- We continue the successful 'One Less' campaign, which encourages the reduction of plastic use

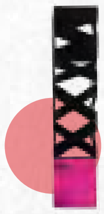
February

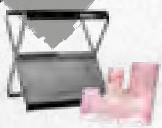
- Zdravoljupci returned in an album that encourages healthy eating habits
- We lowered the prices of 1,000 items even before the Government's decision on VAT reduction came into force



March

- We are proud of the recognition of the Employer Partner Certificate, which shows that we are constantly working to increase employee satisfaction
- Active zone PROTEIN+ is 'Selected product of the year'
- We made the employees happy by not working on Easter Monday, and we also paid Easter bonus in the total amount of
HRK 7,2 million





April

- Our popular campaigns have brought
5 awards at the Communication Days

May

- We invested more than
HRK 17 million
in rewards for Employees for business performance in 2021

June

- We helped each other through interventions teams - thanks to our hard-working colleagues at dedication in the tourist season
- At the internal conference for employees, we awarded NAJ Konzum awards for the best results
- We launched the educational platform Reciklopedija in order to educate citizens about reducing food waste
- We are especially happy that customers declared Konzum number 1 in terms of price and quality (Best Buy Award research General)

- After **65 beautiful years** we have more than **10.000 employees**, more than **600 stores** and **500.000 customers**, which we celebrated with a big raffle and a donation of **HRK 65.000** to the association **CRVENI NOSOVI clowndoctors**

KONZUM

July

- We were the first to show dual prices of our products, in kunas and euros, in accordance with our transparent relationship with customers

September

- 'We locked the prices' of **100 basic products** to help citizens in the current challenging times

- We decorated customers and employees with fun Fixeez stickers that express attitude, mood and style

- As an official sponsor of HNS, we have prepared a collection of football cards, filmed a fan a song with the Zaprešić Boys and presents the most ardent fans among the employees

October

- We paid all employees a reward of **HRK 1,100** for good business results in the summer season of 2021 and a special inflation allowance of HRK 300 monthly until the end of the year

- We are the first retail chain of consumer goods that enabled payment through KEKS Pay

November

- We donated **1,300 tons** of food and it's already the fifth year that we proudly took the title of 'Best Donor'

December

- 'The most beautiful 'Christmas is when we give together' and that's why we, together with MultiPlusCard, donated **HRK 200,000** to humanitarian organizations that help the needy, and customers could also donate their MPC bonus kuna during December

- We were very happy to be a sponsor of Charity holiday race 'Zagreb Advent Run'

- We set aside **HRK 15 million** for Christmas bonuses and secured a day off on St. Stephen's Day

- **We merged the Mercator - H company d.o.o.,** which made us owners of additional assets worth more than HRK 1 billion

ENVIRONMENTAL PROTECTION

IMPACT OF BUSINESS ON THE ENVIRONMENT

Aware of its impact on the environment, Konzum takes systematic care of the environment and continues with activities aimed at reducing the impact.

As Fortenova Group continued the process of establishing a strategic framework for sustainability management, working groups were formed in mid-2022 for each of the seven key sustainability topics. Working groups develop an approach, propose goals and initiatives and a plan for the implementation of topics. Each working group has its own leader, who presents the progress and challenges for each strategic topic to the Coordination Committee at the monthly meeting. Konzum is the leader of the resource and waste management group whose goal is to improve the way we use resources and manage waste, from food to packaging, and to reduce original, non-recycled plastic in favour of other materials and increase reuse and recycling.

As one of the largest companies in Croatia, we are aware of our influence and we believe that we should use it to create a better and more prosperous society. At Konzum, responsibility is reflected in everything we do and in all the relationships we build.

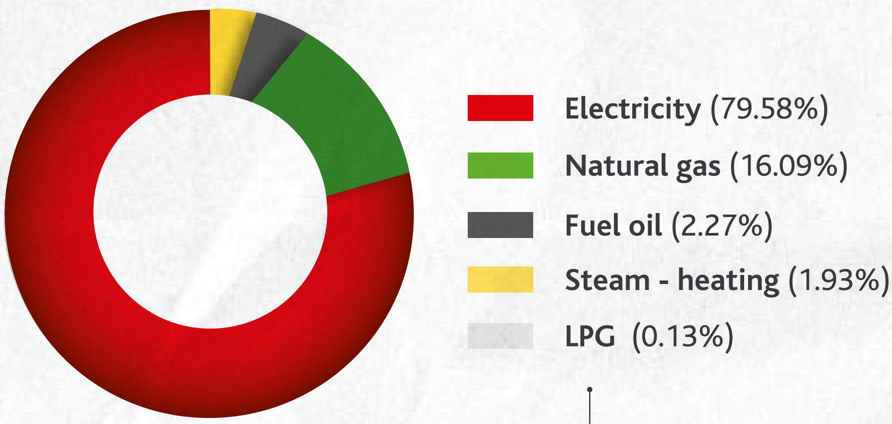
ENERGY EFFICIENCY

With the rise in energy prices, Konzum's costs have also increased significantly. In a year of great energy challenges, we took new steps towards frequent energy savings, invested in new technologies with which we monitor the energy system, and continued to educate employees about the importance of energy savings. Our goal is to continue with this practice, which, among other things, has a positive impact on the environment.

We monitor the amount of energy used and support activities aimed at reducing energy consumption. As in 2021, the most represented energy source was electricity, which was mostly used for the operation of refrigeration equipment.

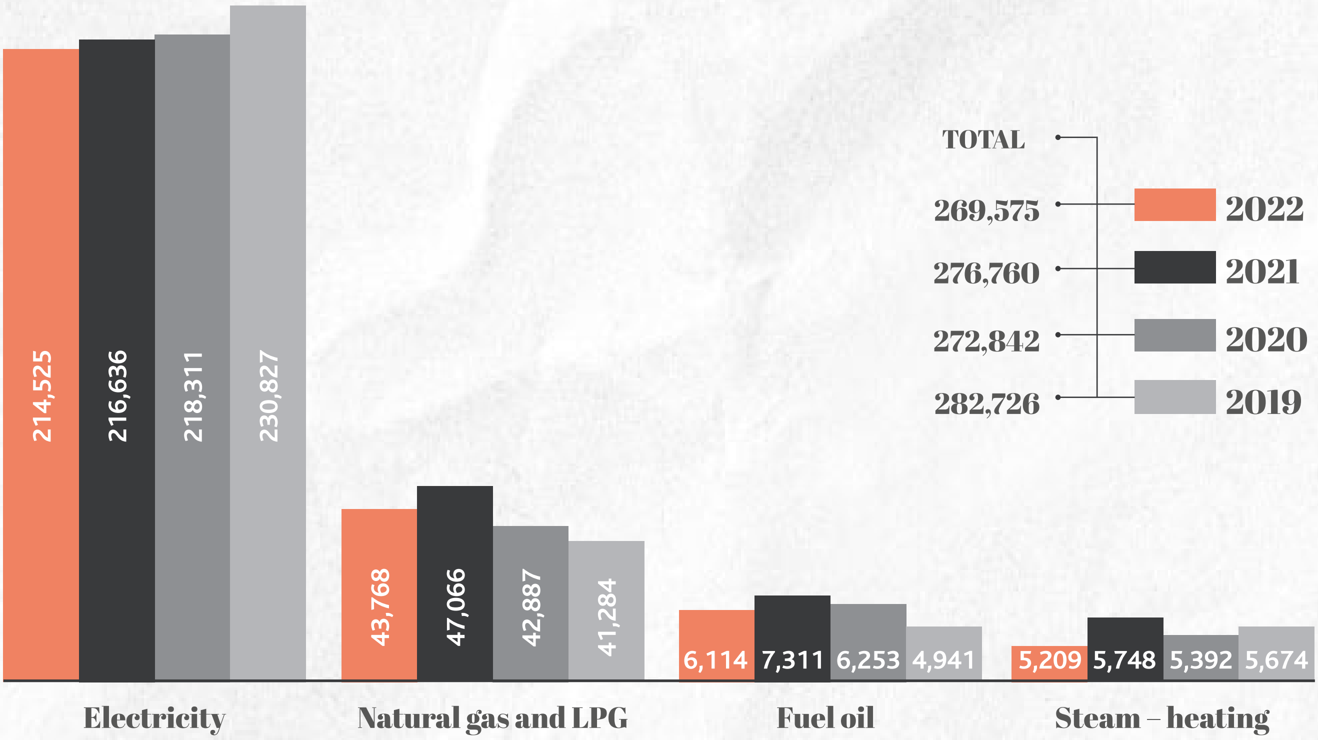
At Konzum, increasing energy efficiency is one of the most important projects, because it combines better cost management caused by pressures on the energy market together with care for the environment and care for the planet for future generations.

SHARE OF ENERGY CONSUMPTION IN 2022 BY TYPE



The goal is to continue the trend of reducing energy performance through LED lighting projects, closing refrigerated display cases, installing night curtains and educating employees.

ENERGY CONSUMPTION BY TYPE (2019-2022), IN KWH THOUSAND



Considering the energy crisis caused by the war in Ukraine, we made additional efforts to better control the consumption of energy sources, specifically electricity.

We introduced a **central real-time room temperature monitoring system** in most stores in the Zagreb region and a temperature monitoring system in cooling devices in 15 stores. Permissible temperature ranges are determined, and any deviation from the permitted temperature is recorded and the necessary notifications are sent so that the cause of the irregularity can be immediately removed and the problem solved.

ELECTRIC CHARGING STATIONS

Charging stations for electric cars available to our customers are located in three locations: **Karlovac, Delnice and Zagreb.** It is an interesting fact that **275.98 percent more energy** was used at the same number of charging stations as in the previous year, which is proof that citizens are increasingly using electric cars. In 2021, 11,938 kWh were used, while in 2022, 44,885 kWh were used.

EMISSIONS

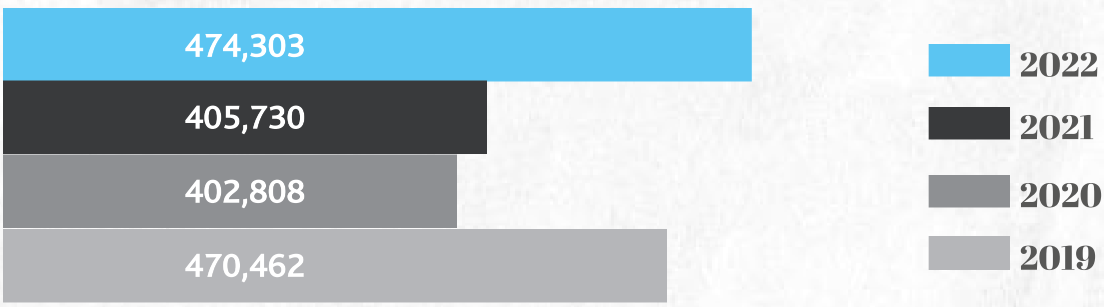
In accordance with the policy of the Fortenova Group, the fleet strives for the goal of using passenger vehicles with CO_2 emissions below 50 g/km, and three such vehicles are currently in use. In the coming period, it is planned to increase the number of vehicles with the mentioned CO_2 emission.
When it comes to the truck fleet, we carry out activities for engine decarbonization. Unburned fuel and various other combustion products create pollution in the engine itself, which are mostly based on carbon. Engine decarbonization achieves multiple positive effects for the environment - reduction of CO_2 emissions and reduction of fuel consumption.

WATER

For the needs of the company's daily processes, water from public water supply systems is used. Water is used in the processes of food preparation, cleaning spaces and for sanitary purposes. The water used for the preparation processes is subject to regular quality control analyses. Sanitary and waste water are discharged into sewage systems, while waste water from the preparation (gastronomic departments) is discharged through grease separators.

As this is a retail chain, there are no activities that would harm the environment during the discharge. Floor washing machines are used in part of the stores, and their use, in addition to simplifying the work of employees, also enables a more rational use of water.

WATER CONSUMPTION (in litres)



WASTE MANAGEMENT

Waste management was rated as one of the most important aspects of environmental protection in the past year as well. We started activities to increase the level of waste sorting, especially bio-waste.

The goal of these activities is to increase the share of useful raw materials in waste and to reduce municipal waste that no longer has any value and ends up in landfills. The share of municipal waste in 2022 was reduced by 9 percent compared to 2021. At Konzum, we did not record any uncontrolled release of harmful substances into the environment, and there were no environmental incidents. In 2022, 17,428 tons of waste were produced, of which only 0.12 percent was hazardous waste.

At the state level, the problem of food waste was highlighted, and the Ministry formed a working group for dialogue and conclusion of voluntary agreements on reducing food waste, of which Konzum is a member. An agreement is expected to be signed in 2023, whereby the company will become part of a team that actively participates in the national goal of reducing food waste.

WASTE CATEGORY	2022 (t)	2022 (%)	2021 (t)	2021 (%)
Cardboard packaging	11,570	66.39%	11,157	67.66%
Animal tissue waste	2,494	14.31%	2,668	16.18%
Plastic packaging	924	5.30%	906	5.49%
Biodegradable waste	1,455	8.35%	818	4.96%
Fats and oils from separator	283	1.62%	395	2.40%
Other non-hazardous waste	556	3.19%	385	2.33%
Edible waste oils	124	0.71%	118	0.71%
Batteries and accumulators	6	0.03%	12	0.07%
Electrical and electronic waste	16	0.09%	30	0.18%
TOTAL	**17,428**	**100%**	**16,488**	**100%**

Quantities of produced waste (in tons and percentages)

KONZUM CONTINUES TO BE THE TOP DONOR

Our efforts in the field of food donation have been recognised in Brussels for the fifth year in a row.

Last year, Konzum was once again declared the Top Donor, and thus for the fifth year in a row, we have been recognised as the leading retail chain in the field of food donation. The title we are proud to hold was awarded to us as part of an initiative launched by Biljana Borzan, the European Parliament's Rapporteur for reduction of food waste and increase of food donations, and Zoran Grozdanov, the coordinator of the platform Mreža hrane (Food network).

We donated around 330 tons of food with a total value of more than HRK 7 million without VAT, which was also the largest amount of donated food up to that point. Donated food is collected almost daily by 15 intermediaries in 36 stores, eight Velpro centres and four warehouses, and since we started processes in the company in 2015 with the aim of donating even larger quantities to the needy, we have donated more than 1,300 tons of food to date. Our internal procedures and food donation processes are in full compliance with the Ordinance on the conditions, criteria and methods of food and feed donation, according to which there are three parties involved in the process, namely the donor, the intermediary and the recipient. The results that we achieve in the field of food donation arise from the joint work of numerous employees from various sectors and departments. Thus, the food donation chain includes employees from the Support sector who contact associations, educate stores and look for donation opportunities, as well as finance employees who are in charge of making reports to the Tax Administration. There are also the IT employees who with the help of IT solutions create the necessary documentation and the marketing employees who follow up with the entire team. Lastly, the most deserving of all are the retail employees, i.e. store employees who inspect products with a "use by" deadline on a daily basis, decide how much to donate and then hand over the products to an intermediary, thus ensuring through their good management that food always gets into the right hands.

RECYCLOPEDIA

Recyclopedia is another step forward by Konzum in the area of reducing food waste. In order to raise customers' awareness of the problem of food waste and encourage them to change their habits and reduce the amount of food they throw away, we have prepared very specific and practical advice that anyone can apply and thus have a positive impact on both the community and the environment. The results of the campaign and the positive reactions of customers, especially for the quality of the content, are the reasons why we will continue with this communication platform in 2023 as well.

RECIKLOPEDIJA

ONE LESS

Konzum's 'One Less' campaign, launched in 2021 with the aim of encouraging citizens to use reusable ecological bags as often as possible and to reduce plastic waste in Croatia, continued in 2022 as well. Thus, customers who used the reusable ecological bag 'Nature loves me' each time received a one kuna discount in Konzum on the total amount of the bill until the end of the year.

IMPLEMENTED POLICIES AND STANDARDS

In all our retail and logistics facilities, in transport and all business processes, we want to manage our responsibilities towards the environment and energy consumption in a systematic way that contributes to sustainable development.

We have established, implemented and maintain environmental and energy management systems in accordance with the requirements of international standards ISO 14001 and ISO 50001, and in 2022, we will continue with the processes in accordance with adopted policies and standards based on which procedures and work instructions are prescribed. We confirm our commitment to continuous improvement, which is also evidenced by successfully conducted audits.

In May 2022, an external company conducted a recertification audit according to the requirements of the ISO 14001:2015 standard, and in November of the same year, a recertification audit according to the requirements of the ISO 50001:2018 standard. The audits confirmed that the company is fully compliant with legal and other obligations, and no non-compliance was found during the audits.

Apart from the aforementioned, the Velpro Jankomir store also has a certified IFS Logistics. IFS Logistics is a standard for the audit of all logistic tasks related to food and non-food products, which include transport, storage, distribution, loading and unloading.

FOOD SAFETY POLICY

In its operational processes and business facilities, Konzum ensured compliance with legal requirements, and further decided to establish, implement and continuously improve the efficacy of the food safety management system under the requirements of the ISO 22000 and IFS Logistics standards and the HACCP system principles.

Since we want to offer the best price-quality ratio to our customers, we work every day to build a positive food safety culture - we require that our partners, subcontractors and suppliers of private label products observe food safety standards adopted at international level. Furthermore, in our factories, we demand high hygienic standards of employees, working areas and equipment. We have provided all the resources necessary for the effective implementation of the food safety management system. We have educated employees on food safety requirements so that they have all the necessary competencies within the framework of their business responsibilities.

Financial Statements

Independent Auditor's Report

To the Owner of Konzum plus d.o.o.:

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Konzum plus d.o.o. (the "Company") as at 31 December 2022, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Supervisory Board dated 13 September 2023.

What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2022;
- the statement of financial position as at 31 December 2022;
- the statement of changes in equity for the year ended 31 December 2022;
- the statement of cash flows for the year ended 31 December 2022; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 financial statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company in the period from 1 January 2022 to 31 December 2022.

Material uncertainty related to going concern

We draw attention to Note 2, *Basis of preparation,* to the financial statements, which explains that the Company is a guarantor of loan notes issued by Fortenova grupa d.d. (the "Parent"), that may be unable to obtain long-term refinancing post November 2024 as a result of its inability to resolve the Parent's current shareholder structure. This indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview

Key audit matters	• Impairment of goodwill and intangible assets with indefinite useful lives

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in Material uncertainty related to going concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter

Impairment of goodwill and intangible assets with indefinite useful lives
 	
As of 31 December 2022, the carrying value of goodwill and intangible assets with indefinite useful lives amounted to HRK 558,316 thousand.
 	
Goodwill and intangible assets with indefinite useful lives are subject to annual impairment assessments under the requirements of IFRS.
 	
We focused on this matter due to the materiality of the carrying value of these assets and due to the fact that the impairment assessment performed by management involves applying significant judgments and estimates.
 	
Management's assessment is based on several key assumptions including revenue, gross margin, long-term growth rate and discount rate.
 	
Refer to Note 5, *Critical accounting judgements and estimates*.
	Management performed the impairment assessment of goodwill and intangible assets with indefinite useful lives on the Company level, which represents the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment (the group of cash generating units) and provided us with the results of this assessment. Together with our internal valuation specialists, we tested management's impairment testing model that is based on forecasts of future cash flows. As part of our audit, the following procedures were performed:
	
	• We assessed whether the Company management's assessment of the appropriateness of the level at which the goodwill is monitored is compliant with the requirements of IAS 36, *Impairment of Assets.*
	• We checked the mathematical accuracy of the impairment models.
	• We performed the following procedures over assumptions applied by management in its assessment:
	  - We evaluated the discount rate used by performing an external benchmark analysis.
	  - We compared the key assumptions used within the impairment model to the historic performance of the Company.
	  - We analysed the appropriateness of financial budgets for projected periods through inquiry with Company's management, by corroborating management explanations and by comparison with approved budgets.
	  - We performed a sensitivity analysis of the impairment tests and the adequacy of sensitivity disclosures in respect of assumptions with the greatest potential effect on the test results.
	  - We analysed whether the methodology underlying future cash flow projections complies with IAS 36, *Impairment of Assets*.
	  - We assessed the adequacy of the presentation and disclosures related to the impairment test.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report and Non-financial Report included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

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

With respect to the Management Report and Non-financial Report, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 of the Accounting Act, and whether the Non–financial Report is prepared in accordance with the requirements of Article 21a of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act; and
- the Non–financial Report was prepared in accordance with the requirements of Article 21a of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the 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 independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent 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

Appointment

We were first appointed as auditors of the Company on 25 September 2019. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 27 December 2022, representing a total period of uninterrupted engagement appointment of 4 years.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Ana Marija Cvilinder Škegro.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
13 September 2023

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that the financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS), which give a true and fair view of the position and results of Konzum plus d.o.o., Zagreb ("the Company"), as well as its operating results for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue as a going concern for the foreseeable future. Therefore, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

1. suitable accounting policies are selected and then applied consistently;
2. judgements and estimates are reasonable and prudent;
3. applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
4. the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare an Annual Report comprising the financial statements and the Management Report. The Management Report was prepared in line with the requirements of Article 21 of the Accounting Act.

The Annual Report has been approved for issue by the Management Board on 13 September 2023.

Konzum plus d.o.o.

Marijana Čavića 1a

10000 Zagreb

Republic of Croatia

This version of Annual Financial Statements is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of Annual Financial Statements takes precedence over this translation.

KONZUM PLUS d.o.o.

ANNUAL FINANCIAL STATEMENTS FOR 2022

	Notes	2022 HRK'000	2021 HRK'000
Revenue	6	11,853,394	10,423,281
Other income	7	163,604	131,167
Total operating income		**12,016,998**	**10,554,448**
Cost of goods sold		(8,553,080)	(7,526,105)
Material and energy costs	8	(367,707)	(295,079)
Service costs	9	(719,361)	(679,482)
Staff costs	10	(1,212,331)	(1,063,425)
Impairment of financial assets	11	3,720	(5,036)
Other impairments	11	(3,686)	1,739
Other costs	12	(144,906)	(114,794)
Gain/ (loss) on sale of property, plant and equipment, net		3,225	(1,718)
Depreciation and amortisation		(605,134)	(585,747)
Total operating expenses		**(11,599,260)**	**(10,269,647)**
Operating profit		**417,738**	**284,801**
Finance income	13	3,583	15,429
Finance costs	14	(262,673)	(273,056)
Net finance costs		**(259,090)**	**(257,627)**
Profit before tax		**158,648**	**27,174**
Income tax credit / (expense)	15	(25,536)	13,168
Profit for the year		**133,112**	**40,342**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gain/(loss) of defined benefit liability, net of tax		(3,353)	(6,784)
Other comprehensive income/(loss) for the year, net of tax		**(3,353)**	**(6,784)**
Total comprehensive income for the year		**129,759**	**33,558**

The accompanying notes are an integral part of these financial statements.

	Notes	31 December 2022	31 December 2021
		HRK'000	HRK'000
Non-current assets			
Intangible assets	16	649,149	674,914
Property, plant and equipment	17	1,876,845	1,252,282
Right-of-use assets	18	2,199,731	2,000,443
Investment property	19	825,731	475,445
Loans, deposits and other financial assets	20	133,885	128,098
Deferred tax assets	15	215,699	71,157
Other non-current assets		578	478
Total non-current assets		**5,901,618**	**4,602,817**
Current assets			
Inventories	21	830,353	707,718
Loans, deposits and other financial assets	20	9,015	8,058
Trade receivables	23	378,630	328,429
Other current assets	24	66,518	51,166
Cash and cash equivalents	25	429,389	159,534
		1,713,905	**1,254,905**
Assets held for sale	22	16,313	-
Total current assets		**1,730,218**	**1,254,905**
TOTAL ASSETS		**7,631,836**	**5,857,722**
Capital and reserves	26		
Share capital		20	20
Capital reserves		647,277	118,046
Merger reserve		379,075	(193,479)
Accumulated loss		(210,274)	(340,033)
Total capital and reserves		**816,098**	**(415,446)**
Non-current liabilities			
Provisions	27	157,913	126,918
Loans and borrowings	28	152,509	466,254
Lease liabilities	29	2,530,972	2,213,890
Other non-current liabilities		131	206
Total non-current liabilities		**2,841,525**	**2,807,268**
Current liabilities			
Trade payables	30	1,918,450	1,657,570
Loans and borrowings	28	1,294,532	1,183,745
Lease liabilities	29	360,042	330,894
Current income tax payable	15	28,612	-
Other current liabilities	31	372,577	293,691
Total current liabilities		**3,974,213**	**3,465,900**
TOTAL EQUITY AND LIABILITIES		**7,631,836**	**5,857,722**

The accompanying notes are an integral part of these financial statements.

	Note	Share capital HRK'000	Capital reserves HRK'000	Merger reserve HRK'000	Accumulated gain/(loss) HRK'000	Total HRK'000
Balance as at 1 January 2021		**20**	**118,046**	**(193,479)**	**(373,591)**	**(449,004)**
Profit for the year		-	-	-	40,342	40,342
Other comprehensive loss		-	-	-	(6,784)	(6,784)
Total comprehensive income for the year		-	-	-	33,558	33,558
Balance as at 31 December 2021		**20**	**118,046**	**(193,479)**	**(340,033)**	**(415,446)**
Balance as at 1 January 2022		**20**	**118,046**	**(193,479)**	**(340,033)**	**(415,446)**
Profit for the year		-	-	-	133,112	133,112
Other comprehensive loss		-	-	-	(3,353)	(3,353)
Total comprehensive income for the year		-	-	-	129,759	129,759
Transactions with owners in their capacity as owners:						
Transfer of debt to capital reserves	26	-	529,231	-	-	529,231
Business combinations under common control	2	-	-	572,554	-	572,554
Balance as at 31 December 2022		**20**	**647,277**	**379,075**	**(210,274)**	**816,098**

The accompanying notes are an integral part of these financial statements.

	Notes	2022 HRK'000	2021 HRK'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**158,648**	**27,174**
Depreciation, amortisation and impairment of property, plant, equipment, intangible assets and right of use assets	*11, 16, 17, 18, 19*	606,942	585,747
Finance income	*13*	(2,608)	(15,429)
Finance costs	*14*	262,673	269,611
Impairment (gain)/loss on financial assets	*11*	(3,720)	5,036
(Gain)/loss on sale of property, plant and equipment		(3,225)	1,718
(Gain)/loss on sale of financial assets	*13, 14*	(975)	3,445
Change in provisions for liabilities and charges	*10, 12*	18,672	15,333
Non-current assets shortages, net	*12*	765	1,077
Impairment of inventory	*11*	1,879	(1,739)
Other non-cash transactions		(7,351)	11,618
Cash flow before adjustments for changes in working capital		1,031,700	903,591
Changes in inventories		(124,507)	(37,497)
Changes in receivables and other current assets		(28,138)	84,512
Changes in trade payables and other current liabilities		343,179	(111,846)
CASH FLOWS FROM OPERATING ACTIVITIES		1,222,234	838,760
Income tax paid	*15*	-	(1,476)
Interest paid	*33*	(255,661)	(277,097)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**966,573**	**560,187**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		12,938	26,572
Repayments of deposits		6,262	5,658
Proceeds from sale of financial assets		975	12,572
Proceeds from interest		39	-
Deposits paid		(10,283)	(14,714)
Purchases of property, plant and equipment and intangible assets		(204,813)	(131,603)
Acquisition of subsidiaries	*2*	-	(17,761)
Cash acquired in business combination under common control	*2*	51,988	13
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(142,894)**	**(119,263)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings and loans	*33*	285,000	170,000
Repayment of borrowings and loans	*33*	(462,235)	(493,814)
Repayment of principal element of lease liabilities	*33*	(376,589)	(319,136)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(553,824)**	**(642,950)**
TOTAL NET CASH FLOWS		**269,855**	**(202,026)**
Cash and cash equivalents at beginning of period		159,534	361,560
Cash and cash equivalents at end of period	*25, 33*	429,389	159,534

The accompanying notes are an integral part of these financial statements.

1. GENERAL INFORMATION

Konzum plus d.o.o. (the Company), Zagreb was registered as a limited liability company at the Commercial Court of Zagreb on 14 June 2018 in accordance with resolution no. Tt-18/23666-2 based on the Statement of incorporation from 12 June 2018. The Company is registered at the Commercial Court of Zagreb under the register number 081180016.

The owner of the Company is Fortenova grupa d.d. (the Group), Zagreb, Marijana Čavića 1, with a 100% share. The parent company of Fortenova grupa d.d. is Fortenova Group HoldCo B.V., Netherlands with a share of 100%. The ultimate parent of the Company as at 31 December 2022 is Fortenova Group TopCo B.V., Netherlands, while the ultimate controlling party as at 31 December 2022 is Fortenova Group Stak Stichting, Netherlands.

The Company's registered office is in Zagreb, Marijana Čavića 1/a.

The Company's principal activity is retail and wholesale of food and non-food products, the provision of catering services, preparation and service activities of drinks and beverages and the production and processing of meat and meat products.

In 2022 the Company had 10,726 employees on average, and in 2021 10,900 employees.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

The financial statements have been prepared under the accrual basis according to which liabilities and assets are recognised when they meet the definitions in the framework underlying IFRS. In preparing the financial statements, the basic accounting assumption of going concern was applied.

Basis of preparation

The financial statements are prepared on the historical cost basis except where otherwise stated. The accounting policies have been consistently applied by the Company and are consistent with those of the previous year.

Presentation currency

The Company's financial statements are presented in Croatian kuna (HRK) as the functional and presentation currency of the Company. As at 31 December 2022, the exchange rate for USD 1 and EUR 1 was HRK 7.064035 and HRK 7.53450 (31 December 2021: HRK 6.643548 and HRK 7.517174). The amounts disclosed in the financial statements are expressed in thousands of HRK unless otherwise stated.

Key estimates and assumptions and uncertainties in preparing the financial statements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments in respect of carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The estimates were used for, but not limited to: the calculation and period of depreciation/amortisation and residual values of property, plant and equipment and intangible assets, impairment estimates, impairment allowances for inventories and bad and doubtful debts and provisions for employee benefits and legal claims, leases as well as the estimate of contingent liabilities for guarantees and leases. More details about the accounting policies for these estimates are presented in other sections of this note, Note 5, as well as other notes to the financial statements.

Going concern

In preparing these financial statements Management has applied the going concern assumption. In making this judgement management considered the Company's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the macro-economic developments on the Company's operations. As at 31 December 2022, the Company's current liabilities exceed assets in the amount of HRK 2,243,995 thousand. The current loan obtained from the owner Fortenova grupa d.d. was successfully refinanced on 23 January 2023 with a new revolving loan. According to new loan terms, the loan is no longer current and is due on 29 February 2024. After the refinancing current liabilities exceed current assets by HRK 975,847 thousand.

For further details please refer to Note 36.

The Company relies on the continued support of the parent company, which has expressed its intention to provide financial support to the Company over the next twelve months from the date of issue of these financial statements.

As disclosed in Note 34 *Contingent liabilities and commitments*, the Company assumed the underlying guarantees and pledges for the Secured Floating Rate Notes (hereinafter: "Notes") issued by Fortenova grupa d.d. pursuant to the Subscription Agreement, the principal finance document of the Group, which mature in September 2023. The Notes finance document prescribes certain non-financial and financial covenants for which quarterly and annually Fortenova Group ("the Group") provides compliance certificates to the noteholders. Failure to comply with the covenants represents an event of default under the Subscription Agreement.

As of the balance sheet date, numerous events of defaults under the Subscription Agreement were continuing while no default of the financial covenants had occurred. The vast majority of the defaults are a result of international sanctions / restrictive measures imposed on Russian companies and individuals by the governments of the EU, UK and US (hereinafter: "Sanctions", Noteholders subject to such Sanctions: "Sanctioned Noteholders" and the Noteholders which are not Sanctioned Noteholders hereinafter: "Majority Noteholders").

On 4 September 2023 Fortenova grupa d.d. has entered into a binding agreement to refinance the total amount of short-term Notes through the issuance of the new notes (this agreement hereinafter: "New Subscription Agreement" and the notes issued thereunder hereinafter: "New Notes") in the aggregate principal amount (including the issuer discount on the notes) of EUR 1.2 billion (HRK 9.0 billion) and has agreed the formal conditions precedent to funding, the fulfilment of which is within the control of Fortenova grupa d.d. New Notes will be provided with terms similar to the existing Notes and agreed maturity until the end of November 2024. Accordingly, there is certainty of funding for the issuance of the New Notes and the amounts received pursuant to the issuance of the New Notes will be used to completely discharge the Notes, thus fully discharging all obligations under the Subscription Agreement. As a consequence, all existing events of defaults will become inapplicable as the Notes will be fully redeemed.

The Notes of the Sanctioned Noteholders will be discharged in full amount without any funds being made available to the Sanctioned Noteholder. All necessary sanctions approvals and court judgements for this method of discharge have been obtained.

Fortenova grupa d.d. ("Fortenova") is not aware of any enforcement action being initiated, or ongoing in relation to the Notes.

Management has thus determined that the use of the going concern assumption is appropriate and warranted in respect of the preparation for the financial statements for the year ended 31 December 2022. As disclosed in Note 36 *Subsequent events*, the Group Management has also initiated activities to resolve current shareholder structure to be able, among other, to support long term refinancing post November 2024. The process is expected to be completed after the date of authorization of these financial statements which represents significant uncertainty upon the Company's and the Group's ability to continue as a going concern post November 2024.

Business combinations during the reporting period

During 2022 the Company has merged 4 companies. No purchase consideration was paid based on the fact that the mergers relate to business combinations under common control. The companies merged were as follows:

Merged company	**Date of the merger**
Pet prom ulaganja plus d.o.o.	February 1, 2022
Latere Terram plus d.o.o.	February 1, 2022
Roto ulaganja plus d.o.o.	March 24, 2022
Mercator-H d.o.o.	December 30, 2022

Effects of business combinations under common control are shown in the table below:

	Mercator H d.o.o.	**Other companies**	**Total**
	2022	**2022**	**2022**
	HRK'000	**HRK'000**	**HRK'000**
Intangible assets	82	30	112
Property, plant and equipment	676,411	7,322	683,734
Right-of-use assets	107,819	-	107,819
Investment property	263,150	19,954	283,104
Deferred tax assets	141,278	265	141,542
Loans, deposits and other financial assets	202	24	226
Inventories	6	-	6
Trade and other receivables	27,386	11,309	38,695
Other current assets	2,516	71	2,587
Cash and cash equivalents	51,694	294	51,988
Total assets	**1,270,544**	**39,269**	**1,309,813**
Provisions	11,703	226	11,929
Lease liabilities	160,660	-	160,660
Loans and borrowings	467,280	37,972	505,252
Trade and other payables	8,350	35	8,385
Other current liabilities	51,025	8	51,033
Liabilities	**699,018**	**38,241**	**737,259**
Merger reserve	**571,526**	**1,028**	**572,554**

Business combinations in 2021

On 1 September 2021 the Company acquired 100% share of a chain of retail stores that operated under the company Miracolo trgovina d.o.o. and thereby increased its retail network by 13 stores in Istria. The company was owned by a third party and was not part of the Fortenova grupa prior to the acquisition. The purchase consideration paid with a bank transfer during the acquisition of the entity was HRK 17,761 thousand. The consideration was initially recognised as an investment in a subsidiary. On 1 October 2021 the Company merged with Miracolo trgovina d.o.o. and the investment in the subsidiary was eliminated against the predecessor entity carrying values of assets and liabilities, with the net difference recognised in goodwill.

Effects of business combination under common control are shown in the table below:

	2021 **HRK'000**
Intangible assets	2
Property, plant and equipment	20
Inventories	2,115
Trade and other receivables	1,234
Trade current assets	1
Cash and cash equivalents	13
Net assets	**3,385**
Consideration paid	(17,761)
Goodwill	**(14,376)**

Cash flows from the business combination are as follows:

	2021 **HRK'000**
Consideration paid	(17,761)
Cash acquired in business combination	13
Cash flow from business combination	**(17,748)**

Reclassification in Statement of comprehensive income for comparative period

In 2022, the Company changed the classifications of certain categories in the statement of comprehensive income in order to achieve a simpler and more transparent presentation of the Company's operations. These reclassifications have no effect on the net result of the comparative period.

An overview of the differences is given in the table below:

	Notes	**2021**	**Reclassifications**	**2021 reclassified**
		HRK'000	**HRK'000**	**HRK'000**
Revenue		10,423,281	-	10,423,281
Other income	*a)*	270,292	(139,125)	131,167
Total operating income		**10,693,573**	**(139,125)**	**10,554,448**
Cost of goods sold	*a)*	(7,665,230)	139,125	(7,526,105)
Material and energy costs		(295,079)	-	(295,079)
Service costs	*b)*	(679,482)	-	(679,482)
Staff costs	*d)*	(1,052,191)	(11,234)	(1,063,425)
Impairment of financial assets	*c)*	(5,036)	-	(5,036)
Other impairments		1,739	-	1,739
Other costs	*d)*	(126,028)	11,234	(114,794)
Gain/ (loss) on sale of property, plant and equipment, net		(1,718)	-	(1,718)
Depreciation and amortisation		(585,747)	-	(585,747)
Total operating expenses		**(10,408,772)**	**139,125**	**(10,269,647)**

A more detailed overview of the reclassifications is given below:

a) Marketing services – After a detailed review of suppliers' marketing services, it was concluded that catalogue, billboards and digital marketing income from suppliers should be reported as a reduction in the Cost of goods sold and not as revenue as has been the case so far. In line with this fact the previously disclosed amounts of marketing services within the category of Other income and Cost of goods sold were corrected. After the new calculation, the amount of marketing services which were deducted from COGS is HRK 139,125 thousand. The same amount was deducted from Other income.

b) Detailed breakdown of IT costs – the Company conducted an analysis of its IT costs and prescribed more detailed posting rules accordingly. After a review of the comparative period, for purpose of a more accurate overview of the nature of the costs incurred, a part of Maintenance costs and Other costs were reclassified to IT services and Postage and telephone costs as shown in the following table:

	2021	**Reclassifications**	**2021 reclassified**
	HRK'000	**HRK'000**	**HRK'000**
Service costs			
Maintenance services	152,044	(28,228)	123,816
Marketing and promotion	110,538	-	110,538
Utilities and waste disposal services	88,317	-	88,317
Short-term leases and variable lease costs	65,764	-	65,764
Management fee (Group)	47,697	-	47,697
IT services	45,304	27,349	72,653
Security services	37,575	-	37,575
Transport services	41,506	-	41,506
Student service costs	34,363	-	34,363
Facility cleaning services	12,927	-	12,927
Postage and telephones	6,205	1,466	7,671
Intellectual services	4,599	-	4,599
Costs of temporary service contracts and authors' fees	1,802	-	1,802
Market research	1,117	-	1,117
Other services	29,724	(587)	29,137
	679,482	-	679,482

c) Reclassification of impaired receivables – part of the impaired Trade receivables - unrelated parties was in previous years classified as Other receivables in the balance sheet because they consisted of different types of receivables. After a re-examination of the account contents, it was established that they now mostly contain Trade receivables - unrelated parties so their position in the balance sheet was changed accordingly. Given the fact that the mentioned receivables are entirely impaired and their net effect in the balance sheet is zero, the change has an effect only on the gross amounts of Trade receivables and Other receivables and associated impairment allowances. Also, the mentioned change caused a change in the Impairments of assets in the profit and loss account as shown below:

	2021	**Reclassifications**	**2021 reclassified**
	HRK'000	**HRK'000**	**HRK'000**
Impairment of assets			
Loans deposits and other financial assets	(2,696)	-	(2,696)
Other receivables	19,215	(15,559)	3,656
Trade receivables - unrelated parties	(662)	15,559	14,897
Trade receivables - related parties	(10,821)	-	(10,821)
Inventory	(1,739)	-	(1,739)
	3,297	-	3,297

d) Reclassification of provision for unused vacation and provision for termination benefits - due to compliance with group accounting policies, the Company has changed the position of the provision for unused vacations and provision for unused benefits in the financial statements. The amount of the provisions of HRK 11,234 thousand therefore increased the Staff costs in 2021 and, on the other hand, reduced Other costs.

3. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a) New and amended standards adopted by the Company:

The following amended standards became effective from 1 January 2022, they have been endorsed by the EU, but did not have a material impact on the Company:

- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

b) New standards and interpretations not yet adopted:

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, which have been endorsed by the EU and which the Company has not early adopted.

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).
- Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company’s financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, which have not been endorsed by the EU and which the Company has not early adopted.

- IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is income arising in the course of the Company's ordinary activities. Revenue is recognized in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognized net of value added tax, returns, rebates and discounts.

Sales of goods

The Company operates in the retail and wholesale business.

Retail

Goods are sold through stores operated by the Company. The revenue recognised by the Company meets the definition of revenue from contracts with customers as per IFRS 15. The Company recognises revenue when control of goods and services is transferred to the customer, generally for retail customers it occurs in the stores at the point of sale, while for internet customers it occurs upon delivery of goods. Payment of the transaction price is due immediately when the customer purchases goods.

The Company has a loyalty points program, which allows customers to accumulate points that can be redeemed for discounts on products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. Loyalty points awarded to customers are recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of points by the customer.

Wholesale

The revenue recognised by the Company meets the definition of revenue from contracts with customers as per IFRS 15. The Company recognises revenue when control of goods is transferred to the customer, which occurs in the stores at the point of sale or upon delivery of the goods. Payment of the transaction price is due as per contract with customers.

The Company does not expect to have any contracts where the period between the transfer of the promised goods and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time value of money.

Finance income and costs

Finance income includes interest income.

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the credit loss allowance). Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Finance costs include borrowing costs, accrued interest on provisions and lease interest.

Foreign exchange gains and losses related to financial activities are recognised in the gross amount as finance income or costs. Other foreign exchange gains or losses are recognised in the net amount.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position by classifying them as either current or non-current.

Assets are considered as current when:
- it is expected that they will be realised or in case the intention is to sell them or to consume them within a normal operating cycle;
- they are primarily held for trading;
- it is expected that they will be realised within a period of 12 months after the reporting period, or
- cash equivalent, except in case there is a restriction regarding their use or disposal, or it can only be used for settling liabilities in a period of at least 12 months after the end of the reporting period.

All other assets are considered as non-current.

A liability is considered as current when:
- it is expected that it will be settled within a normal operating cycle,
- it is primarily held for trading,
- it becomes due within a period of 12 months after the reporting period, or
- there is no unconditional right to defer payment for at least 12 months after the end of the reporting period.

All other liabilities are considered as non-current.

Deferred tax assets and deferred tax liabilities are classified as non-current assets and non-current liabilities.

Financial instruments

A financial instrument is any contract that gives rise to financial assets of one entity and a financial liability or equity of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (FVTOCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. Except for trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

For a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement of financial assets

For purposes of subsequent measurement, financial assets are classified in four categories:

1. Financial assets at amortized cost (debt instruments)

A debt instrument that meets the following two conditions is measured at amortized cost:

- Business model test: The financial asset is held to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes), and
- Cash flow characteristics test: 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.

The Company's financial assets measured at amortized cost include trade receivables and given loans and deposits.

2. Financial assets at fair value through other comprehensive income (debt instruments)

A debt instrument that meets the following two conditions shall be measured at FVOCI unless the asset is designated at FVTPL under the fair value option:

- Business model test: The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- Cash flow characteristics test: 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.

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

3. Financial assets designated at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity from the perspective of the issuer under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

4. Financial assets at fair value through profit or loss (debt instruments)

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income.

The Company's financial assets at fair value through profit or loss are related to investments in funds (equity instruments).

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

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 Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period.

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).

In order to determine whether there has been a significant increase in credit risk, the Company compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Company considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Company identifies behavioural indicators of increases in credit risk prior to delinquency and incorporates appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. The Company considers days past due and total amount of debt and receivables that a particular customer has for the assessment. The primary indicator of significant increase in credit risk is when a debtor is 30 days past due on its contractual payments. Additionally past payment patterns, seasonality and customer client relationship and annual turnover is particularly considered in the assessment.

For purposes of measuring PD the Company defines default as a situation when the exposure meets one or more of the following criteria:

- the debtor is 90 days past due on its contractual payments;
- the debtor meets the unlikeliness-to-pay criteria listed below:
    - the debtor is deceased;
    - the debtor is insolvent;
    - the debtor is blocked for payment;
    - it is becoming likely that the debtor will enter bankruptcy;
    - the debtor is in pre bankruptcy procedure;
    - the debtor was deleted from the court registry.

Default is presumed if any of the above mentioned events takes place and in that case receivables are impaired 100%.

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Company has established a provision matrix that is based on its historical credit loss experience in the past four years, adjusted for forward-looking factors specific to the debtors and the economic environment (if available without undue cost or effort).

The Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Intangible assets

Individually purchased intangible assets are initially measured at cost. The cost of intangible assets acquired in a business combination is its fair value at the acquisition date. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Internally developed intangible assets, excluding development costs, are not capitalised and expenditure of the amount is recorded in the statement of comprehensive income when they are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite useful lives are amortised over their useful lives and any impairment of the assets is assessed whenever there is an indication that the value of such assets may be impaired. Intangible assets with a finite useful life are amortised using the straight-line amortisation method.

Estimated useful lives were as follows:

Computer software	1-5 years
Loyalty card programme	6 years
Other rights	10 years

The useful life and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period.

Goodwill and brands have an indefinite useful life and are not subject to amortisation. Brands with an indefinite useful life are not amortized but tested annually for impairment at the level of cash generating unit. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Based on an analysis of all the relevant factors at the reporting date, there is no foreseeable limit to the period of time over which the identified rights are expected to generate net cash inflows, and hence, it was assumed that those brands have an indefinite useful economic life.

In determining the useful economic life of brands, the Company considered the following factors which might impact the useful life of a brand:

- History of brand stability;
- Legal, regulatory and contractual factors such as concession rights and its limitations, trademark registration and similar;
- Economic factors such as demand, product obsolescence and competition; and
- Any other limitations specific to the group of Company’s assets to which the useful lives of relevant brand relate (e.g. production facility or equipment limitations).

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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Property, plant and equipment

Land

Land is measured at historical cost.

Buildings, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

The cost of these assets includes costs directly attributable to bringing the assets to the intended location and working condition, as well as the costs of dismantling and removing and restoring the location in question.

In case when a portion of assets is significant compared to the entire assets, and if it has a different useful life, it is recorded as a separate unit.

When significant elements of buildings, plant and equipment need to be replaced at periodic intervals, the Company depreciates them separately on the basis of their specific useful life. Likewise, when major overhauls are carried out, their costs are recognised in the carrying amount of buildings, plant and equipment as a replacement if the recognition criteria are met. All other repairs and maintenance costs are charged as an expense when incurred.

Depreciation is provided on a straight-line basis for each fixed asset and is recognised as an expense for the period.

The useful life, the depreciation method and the estimated residual value are reviewed at the end of each reporting period and, if necessary, adjusted as changes in accounting estimates.

Estimated useful lives were as follows:

Buildings	20 years
Plant and equipment	2-15 years
Leasehold improvements	2-9 years

In the case of leasehold improvements, estimated useful life is the shorter of lease term or original useful life of the respective asset category.

Items of property, plant and equipment that are disposed of or sold are derecognised. Any gain or loss arising from derecognising tangible assets (calculated as the difference between proceeds and the carrying value of the asset at the time of sale) is recorded in profit or loss for the period.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, or for administrative purposes.

In circumstances when property is held partly for capital appreciation and/or rentals, and partly for the use in the normal course of business or for administrative purposes, it is accounted for as investment property only if an insignificant portion is held for use in the regular course of business or for administrative purposes. The two parts are accounted for separately if they could be sold or leased out under finance lease separately.

Where items of properties are held for more than one purpose, items of property are used for both: rentals and own normal course of business, the properties are not separable and cannot be sold or leased out in parts in accordance with local legislative requirements and nature of the business and property items (commercial properties, shopping centres). In addition, given the nature of the business, the contribution of own business operations to the total operating results generated by the properties is not insignificant and therefore the whole item of property used for both own business and rentals is classified as property, plant and equipment.

As discussed above, the properties are not separable following the legislative requirements and nature of the business, therefore are classified as property, plant and equipment.

These assets are measured at cost less accumulated depreciation and provision for impairment. Depreciation is calculated on a straight-line basis for each investment property and is recognised as an expense for the period.

The estimated useful lives were 20 years in 2022 (2021: 20 years), except for rights of use assets under investment property where the expected useful lives are in line with the duration of the lease contract terms as disclosed below, in the part of the accounting policies which describe Leases.

When the use of property changes so that it has to be reclassified under property, plant and equipment, the reclassification is carried out based on cost less accumulated depreciation and provision for impairment.

Impairment of non-financial assets

The Company assesses at each balance sheet date whether there are any indicators of impairment of assets. If any such indication exists, or when an annual impairment test is required, the Company estimates the recoverable amount of assets.

The recoverable amount is estimated as the higher of fair value less costs to sell and value in use. The recoverable amount is estimated for each individual asset or, if this is not possible, for the cash-generating unit to which the asset belongs. Where the carrying amount exceeds the recoverable amount, the asset is impaired to its recoverable amount.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at the group of CGUs level. Each store is a CGU, however, goodwill and intangible assets are not monitored by management at the level of each store but at the level of a group of CGUs that is not larger than the operating segment which is defined at the Company level.

The following criteria apply when assessing the impairment of specific assets:

Goodwill
Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment loss, if any.

For the purposes of impairment testing, goodwill is allocated to the group of cash-generating units that is expected to benefit from the synergies of the combination.

Group of units to which goodwill is allocated represents the lowest level within the Company where goodwill is monitored for internal management purposes. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the net book value may be impaired.

Goodwill impairment is determined by estimating the recoverable amount for the group of cash-generating units to which goodwill relates. When the carrying amount of the group of units exceeds the recoverable amount of the group of units to which the goodwill is allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in the subsequent periods.

The recoverable amount of a group of cash-generating units is determined as its value in use, using projected cash flows based on financial plans for a five-year period and the terminal growth rate for cash flows after the projected five-year period. The basis for determining the value of the gross margin is the average gross margin achieved in the year preceding the year for which a business plan is being drawn up.

Intangible assets
Intangible assets with indefinite useful lives are tested annually for impairment at the level of the group of cash-generating units, and when circumstances indicate that the present value may be impaired.

Leases

At contract inception, the Company assesses whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities representing its obligation to make lease payments and right-of-use assets representing the right to use the underlying assets. There are two key aspects:

1. *Right-of-use assets*

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on straight-line basis over the shorter of the lease term and the estimated useful lives and are presented below:

- right of use for the buildings 1-22 years
- right of use for the vehicles and equipment 3-7 years

If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life. Right of use assets are presented as separate line in the statement of financial position.

The right-of-use assets are also subject to impairment. Impairment shall be calculated as stated above.

2. Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Refer to the accounting policies Note 5 Critical accounting estimates.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. Lease liabilities are presented as separated lines in the statement of financial position.

Short-term leases and leases of low-value assets

The Company applies the recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less) and leases of assets that are considered to be of low value. A lease that contains a purchase option cannot be classified as a short-term lease. The Company has no leased assets considered to be low value.

Lease payments on short-term leases and leases of low value assets are recognised as expenses on a straight-line basis over the lease term.

Below are examples of leases which, based on the Company's assessment, do not qualify for low value exemption:

- Real estate leases, regardless of the amount;
- Vehicle leases.

Some property leases contain variable payment terms that are linked to sales generated from a store. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Company as a lessor

Leases where the Company does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as income in the period in which they are earned.

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the statement of comprehensive income of the reporting period, and of the comparative period, income and expenses from discontinued operations are reported separately from income and expenses from continuing activities, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Inventories

Inventories are stated at the lower of cost or net realisable value.

Costs incurred in bringing inventories to their present location and condition are included in the cost of inventories. To measure expenditure on inventories sold, the Company uses the average weighted cost method.

Net realisable value is the estimated net selling price in the normal course of business decreased by estimated cost of completion and estimated costs needed to complete the sale.

Obsolete and slow-moving inventories are impaired.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The tax calculation is based on the accounting profit for the year and is adjusted for permanent and temporary differences between the tax base and accounting income. The income tax charge is calculated according to Croatian tax regulations. The tax returns are subject to the control of the tax authorities. Since the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the Tax Authority.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Foreign currencies

Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency using the closing exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange differences arising on foreign currency transactions and the translation of monetary assets and liabilities are recognised in the statement of comprehensive income in the period in which they arise.

Financial liabilities

Financial liabilities are subsequently measured at amortized costs except for financial liabilities at FVTPL.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments that are not designated as hedging instruments in a hedge relationship. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains and losses on liabilities held for trading are recognized in the statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the respective criteria are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Currently no such liabilities exist.

Other financial liabilities

Other financial liabilities (including borrowings, trade and other payables) are measured initially at fair value and subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities of the Company include trade payables, loans and borrowings, lease liabilities, financial guarantee provision.

Derecognition

Financial liabilities are derecognised when the activity associated with the obligation is met, cancelled or has expired. When an existing financial liability is replaced by a new arrangement by the same creditor with substantially different conditions or when the conditions of existing liabilities are substantially modified, such replacement or modification results in derecognition of original liabilities and the recognition of new liabilities based on new conditions. The difference in the related carrying amounts is recognised in the profit and loss account.

Employee benefits

Short-term employee benefits

The Company, in the normal course of business, makes fixed contributions into the State mandatory pension funds on behalf of its employees. The Company does not operate any other pension scheme or postretirement benefit plan, and consequently, has no legal or constructive obligation to make further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Termination, post-employment benefits and other long-term employee benefits.

The Company makes payments to employees that include one-off retirement and jubilee benefits. The obligation and costs of these benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognized immediately in profit or loss. Gains or losses on the curtailment or settlement of other long-term employee benefits are recognized when the curtailment or settlement occurs. The obligation is measured at the present value of estimated future cash flows using a discount rate that is based on the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation. Actuarial gains and losses related to post-employment defined benefit liabilities are accounted for through other comprehensive income and other actuarial gains and losses accounted for through profit or loss.

Provisions

Provisions are recognised when there is a current legal or constructive obligation which is a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the best current estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a finance cost and the carrying amount of the provision increases in each year to reflect the passage of time.

Contingent liabilities

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

A financial liability is any liability that is:

(a) a contractual obligation:
   (i) to deliver cash or another financial asset to another entity; or
   (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:
   (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
   (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

Should all of the above conditions not be met, the Company discloses the potential amounts of contingent liabilities.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

The Company measures financial guarantee contracts initially at their fair values. After initial recognition, the Company subsequently measures it at the higher of:

- the amount of expected loss allowance and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Business combinations under common control

Business combinations under common control are outside of scope of IFRS 3. The Company therefore had to apply the accounting policy that faithfully reflects the economic substance of the transaction and is free from bias. The Company therefore decided to use the predecessor accounting method which is a commonly used method of accounting for business combinations under common control.

Predecessor method accounting means that the assets and liabilities of the acquirees are acquired using their carrying values at the date of acquisition (i.e., assets and liabilities of subsidiaries are not measured to their fair values). The assets and liabilities from the highest consolidated entity are used.

Using the predecessor accounting method means that no new goodwill is recognized as part of the acquisition. Instead, the difference between the consideration paid for acquisition and the acquired net assets is recognized in the statement of changes in equity in a separate column “merger reserve” disclosed in item Business combinations under common control.

Business combinations

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired. If the fair value of the net identifiable assets acquired is in excess of the aggregate consideration transferred, the Company reassesses whether it has correctly identified all of the assets acquired and all of the liabilities incurred and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether the acquiree's other assets or liabilities are assigned to those units.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Events after the balance sheet date (subsequent events)

Events after the balance sheet date, which provide additional information on the Company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are presented in the notes when material.

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause an adjustment to the carrying amount of assets and liabilities within the next financial year are:

Leases

Lease term duration estimates

The Company has applied judgement to determine the lease term for all lease contracts that include renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and leased assets recognised. In case when the contract does not explicitly define the lease term based on the past experience and the Company's current assessment, the Company considers that the term of the contract is 5 years. This was elected as future business plans are made for the period of 5 years. A new assessment of contracts that do not explicitly define the lease term was performed one year before the expiration of the current 5-year period. Within its budgeting process the Company has reviewed the individual locations and decided that they will remain in the premises for another 5 years. A new assessment will be performed again a year before expiration of the renewed period. On 31 December 2022 the Company recognizes such right of use assets in the amount of HRK 70,896 thousand (2021: HRK 39,464 thousand). For more details refer to Note 34.

Estimates of incremental borrowing rate for lease contracts

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as when the Company does not enter into external financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

Specific considerations and assessments by the Company relating to the discount rate are as follows:

a) *Property (real estate and land) leases* – the discount rate is the incremental borrowing rate which, based on the Company's assessment, equals to interest rate of the currently possessed most relevant borrowing. Since the Company cannot obtain a loan on the active market, Group borrowing rates have been used.
b) *Vehicles and equipment leases* – the incremental borrowing rate is determined by obtaining a quote from current lessors (where possible) about rates which would be granted to the Company.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2022 would be a decrease of depreciation cost by HRK 15,638 thousand or increase by HRK 19,114 thousand (2021: decrease by HRK 15,141 thousand or increase by HRK 18,506 thousand).

Investment property

Investment property mostly relates to owned buildings and subleases of properties within stores. The Company leases its spaces for retail shops, cafes, restaurants and to other service providers. These buildings are partially owned by the Company and partially leased assets parts of which are then subleased and accounted for as per IFRS 16.

In circumstances when property is held partly for capital appreciation and/or rentals, and partly for the use in the normal course of business or for administrative purposes, it is accounted for as investment property only if an insignificant portion is held for use in the ordinary course of business or for administrative purposes. The two parts are accounted for separately if they could be sold or leased out under finance lease separately.

Where items of properties are held for more than one purpose, items of real estate are used for both: rentals and own normal course of business, the properties are not separable and cannot be sold or leased out in parts in accordance with local legislative requirements and nature of the business and real estate items (commercial properties, shopping centres). Given the nature of the business, the contribution of own business operations to the total operating results generated by the properties is not insignificant and therefore the whole item of real estate used for both own business and rentals is classified as property, plant and equipment. The amount of property, plant and equipment that has not been reclassified to investment property is calculated in accordance with the square footage of the sublet space, i.e. the value of the property, plant and equipment per square meter is multiplied by the number of sublease squares is HRK 135,763 thousand (2021: HRK 126,847 thousand).

When the use of property changes so that it has to be reclassified under property, plant and equipment, the reclassification is carried out based on cost less accumulated depreciation and provision for impairment.

Besides properties owned by the Company, the Company also discloses part of the right-of-use assets as investment property. The reason for this is the fact that on a large number of leased properties the entire area of the leased space is not used for its own normal course of business, so the surplus is subleased. The amount of right-of-use assets that has been reclassified to investment property is calculated in accordance with the square footage of the sublet space, i.e. the value of the right-of-use asset per square meter is multiplied by the number of sublease squares. The value of reclassification using the proportionate share is HRK 365,119 thousand (2021: HRK 319,321 thousand).

The Company's assessment of fair value of investment property as at 31 December 2022 approximates its net carrying value. The Company has updated appraisals for a part of its real estate. There were no significant variations of fair value from the recorded net book values on the analysed sample. Also, the Company has sold several of its real estate at fair values which approximated the recorded net book values, and thus there is no indication for a significant change in values. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Deferred income tax asset

The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. Deferred tax assets of the Company are comprised mostly from tax losses carried forward which can be utilised in future periods in the amount of HRK 148,843thousand and partly from temporary differences in the amount HRK 66,857 thousand. The future taxable profits and the amount of tax benefits from tax losses carried forward that are probable in the future are based on the medium-term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are disclosed on the next page in the goodwill impairment testing assumptions. Expiration on losses carried forward is disclosed in Note 15.

Impairment of intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment.

a) Brands

Intangible assets with indefinite useful lives are tested for impairment on value in use basis and allocated to the group of cash-generating units (CGUs) as defined for goodwill impairment test purposes disclosed below. The same assumptions were used for impairment testing of brand and goodwill. Detailed assumptions are disclosed in the paragraph below. Based on the analysis performed, the Company concluded that the total carrying amount of brands with indefinite useful lives is recoverable at 31 December 2022.

b) Goodwill impairment

The goodwill is attributable to the synergies, workforce and the possible future profitability of the acquired business. It will not be deductible for tax purposes.

At 1 April 2019, the acquisition date the Company recognised goodwill of HRK 124,488 thousand. Based on the analysis performed, the Company concluded that the total carrying amount of goodwill is recoverable at 31 December 2022.

The Company tests whether goodwill has suffered any impairment on an annual basis. For the year ended 31 December 2022 the recoverable amount of the group of cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

The Company has a functional organization structure with a Management Board, consisting of two members, which oversees and is responsible for all departments within the Company. The Management Board is responsible and held accountable for all business decisions in accordance with the Statement of incorporation. As a result of this, business decisions are made taking into consideration the Company as a whole. This is also reflected through the fact that only company level planning/budgeting and KPI target setting and monitoring is considered in performance assessment from the owner's perspective. As a result of all of the above, we have identified only one company level group of CGUs.

The following table sets out the key assumptions:

	2022	2021
Net Sales Revenue (% annual growth rate)	2.5%	2.1%
Budgeted gross margin (%)	27.8%	27.9%
Long-term growth rate (%)	2%	1.9%
WACC Discount rate (%)	10.95%	8.29%

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	**Approach used to determine values**
Net Sales Revenue	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Budgeted gross margin	Based on past performance and management's expectations for the future
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The terminal growth rates used in the valuation represent the forecast country's annual GDP growth rate until 2050 (Croatia: 2%) unless an analysis of past growth and market trends would indicate that lower rates should be applied.
WACC Discount rate	Reflects specific risks relating to relevant segments and the country in which the Company operates.

The Company has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for the group of CGUs to which goodwill is allocated.

ECL measurement

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of the ECL measurement methodology are disclosed in Note 35 *Financial instruments and risk management*. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

6. Revenue

	2022	**2021**
	HRK'000	**HRK'000**
Retail revenue	10,644,531	9,408,712
Wholesale revenue	1,208,863	1,014,569
	11,853,394	10,423,281

Revenue structure by country is as follows:

	2022	**2021**
	HRK'000	**HRK'000**
Croatia	11,825,205	10,405,163
Germany	12,683	10,097
Slovenia	7,686	3,397
Bosnia and Herzegovina	4,017	1,715
Sweden	1,274	1,210
Ireland	547	498
Austria	518	78
Other countries	1,464	1,123
	11,853,394	10,423,281

All of the revenue is recognised at a point of time, which is when the goods are sold and control over the goods is transferred to the buyer. For wholesale terms of sale are defined by contracts.

7. Other income

	2022	**2021**
	HRK'000	**HRK'000**
Sublease income	64,516	58,804
Recharged utilities	23,729	16,598
Income from cancellation of IFRS 16 contracts	19,758	2,853
Rental income	18,685	21,696
Warehousing services	16,795	14,429
Income from fees for packaging waste	6,679	5,292
Marketing services	3,579	3,298
Income from liabilities written off	2,480	-
Other income	7,383	8,197
	163,604	131,167

Rental income relates to regular operating leases of owned assets, and sublease income is the income from lease of right-of-use assets. All subleases are classified as operating leases as substantially all risks and rewards from the leases are not transferred from the sublessor to the sublessee.

Of the total rental and sublease income HRK 6,893 thousand relates to the lease and sublease to owner's subsidiaries (2021: HRK 17,510 thousand).

Total rental income from investment property in the Company's ownership amounts to HRK 3,129 thousand (2021: HRK 4,947 thousand).

8. Material and energy costs

	2022	2021
	HRK'000	HRK'000
Energy consumed	282,977	220,411
Raw materials and supplies consumed	75,386	64,695
Spare parts, tires and small inventory used	9,344	9,973
	367,707	295,079

9. Service costs

	2022	2021
	HRK'000	HRK'000
Marketing and promotion	142,460	110,538
Maintenance services	141,248	123,816
Utilities and waste disposal services	89,683	88,317
IT services	69,772	72,653
Transport services	53,265	41,506
Short-term leases and variable lease costs	52,672	65,764
Student service costs	45,294	34,363
Management fee (Group)	40,521	47,697
Security services	38,644	37,575
Facility cleaning services	12,396	12,927
Postage and telephones	7,333	7,671
Intellectual services	4,039	4,599
Costs of temporary service contracts and authors' fees	3,580	1,802
Market research	1,118	1,117
Other services	17,336	29,137
	719,361	679,482

Lease expenses relate to expenses from short-term leases and variable lease payments expenses. For a detailed breakdown please see Note 29. Other service costs include sample testing services, product analysis, quality control, logistic services, printing and other services. Of the total lease expenses HRK 494 thousand (2021: HRK 845 thousand) relates to lease expenses from owner's subsidiaries.

10. Staff costs

	2022 HRK'000	2021 HRK'000
Wages and salaries	658,393	590,192
Employee compensations, benefits, awards	198,787	165,983
Personal income tax	45,540	27,988
Healthcare and social security contributions	133,709	118,001
Pension insurance contributions	171,312	148,599
Contributions from salaries for accelerated retirement	1,641	1,428
Provisions for unused vacation	2,533	7,078
Provisions for termination benefits	416	4,156
	1,212,331	1,063,425

Healthcare and social security contributions as well as pension insurance contributions and contributions from salaries for accelerated retirement are defined contribution plans required by law; these are not voluntary plans. The total amount of pension insurance contributions and healthcare and social security contributions paid during the year was HRK 303,656 thousand (2021: HRK 267,887 thousand).

11. Impairment of assets

	2022 HRK'000	2021 HRK'000
Loans deposits and other financial assets	(1,282)	(2,696)
Other receivables	(542)	3,656
Trade receivables - unrelated parties	(1,866)	14,897
Trade receivables - related parties	(30)	(10,821)
Inventory	1,879	(1,739)
Tangible assets	1,807	-
	(34)	3,297

Impairment of trade receivables and other financial assets is related to expected credit losses calculated under IFRS 9 requirements. Details on the impairment are given in Note 35.

The trade receivables impairment comprises of impairment charge of trade receivables (HRK 15,698 thousand) collected impaired trade receivables (HRK 2,991 thousand) and collected receivables impaired before the business combination in 2019 in the amount above the estimated fair value (HRK 14,603 thousand).

12. Other costs

	2022	2021
	HRK'000	HRK'000
Bank charges and payment transaction services	43,391	41,314
Insurance costs	20,625	21,654
Provisions for legal disputes, net	16,001	(196)
Write-off of non-current assets	14,058	9,919
Donation and sponsorship	8,151	6,632
Contributions, membership fees, charges and taxes irrespective of result	8,050	7,351
Road fees and technical inspection of vehicles	6,358	6,409
Employee accommodation expenses	6,023	-
Entertainment	5,524	1,231
Expenses for primary healthcare	2,936	2,890
Daily allowances	2,353	1,573
Other business travel expenses	1,409	1,134
Non-current assets shortages /(surpluses)	765	1,077
Provisions for guarantees	(278)	4,295
Other costs	9,540	9,511
	144,906	114,794

The Company has written off HRK 14,058 thousand of non-current assets during the year. As stated in Note 2 the Company merged Mercator H d.o.o. in 2022. The assets were merged in book values from the highest consolidation entity. Mercator H was a major lessor for the Company and thus there was significant amount of leasehold improvements made during the year. As Mercator H measured its property in fair value method, assets were appraised during the previous periods. Leasehold improvements recorded by the Company before the appraisal are considered to be a part of the appraised value and thus had to be impaired and written off in the amount of HRK 12,660 thousand. The rest of write-off in the amount of HRK 1,398 thousand is related to regular asset write-offs due to obsolescence.

Other costs include sanitary and veterinarian costs, health and safety costs, seminars, consulting, and other costs.

13. Finance income

	2022	2021
	HRK'000	HRK'000
Interest	1,751	1,759
Foreign exchange gains	857	13,670
Income from sale of financial assets	975	-
	3,583	15,429

The structure of foreign exchange difference is given below:

	2022	2021
	HRK'000	HRK'000
Foreign exchange differences from leases	-	6,287
Other foreign exchange differences	857	7,383
	857	13,670

The total amount of interest income of HRK 12 thousand from related parties is related to income from owner's subsidiaries (2021: HRK 103 thousand from owner's subsidiaries).

Foreign exchange differences from leases are related to owner's subsidiaries. Other foreign exchange differences from related parties are mostly related to exchange differences on a loan from the owner.

14. Finance costs

	2022	2021
	HRK'000	**HRK'000**
Interest expense	251,279	267,203
Foreign exchange losses	11,394	2,408
Loss from sale of financial assets	-	3,445
	262,673	273,056

The structure of interest is given below:

	2022	2021
	HRK'000	**HRK'000**
Interest expense on loans	27,999	48,206
Interest expense on lease liabilities	216,173	208,900
Interest expense from reinstated debt	7,105	8,907
Penalty interest	2	1,190
	251,279	267,203

The structure of foreign exchange differences is given below:

	2022	2021
	HRK'000	**HRK'000**
Foreign exchange differences from leases	5,523	0
Other foreign exchange differences	5,871	2,408
	11,394	2,408

The total interest expense on loans of HRK 27,999 thousand (2021: HRK 48,206 thousand) is from loans obtained from the Company's owner. Interest expense from lease liabilities is from the owner's subsidiaries.

Foreign exchange differences from leases are related to the owner's subsidiaries. Other foreign exchange differences from related parties are mostly related to exchange differences on a loan from the owner.

15. Income tax

a) Components of income tax expense / (benefit)

Income tax benefit recorded in statement of comprehensive income comprises the following:

	2022 HRK'000	2021 HRK'000
Current tax	28,612	-
Deferred tax	(3,076)	(13,168)
Income tax (benefit)/expense for the year	25,536	(13,168)

b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

Income tax is calculated at the rate of 18% (2021: 18%) on the Company's taxable income. The reconciliation between tax expense and accounting profit is presented as follows:

	2022 HRK'000	2021 HRK'000
Profit before tax	158,648	27,174
Theoretical tax credit at statutory rate of 18%:	28,557	4,891
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible inventory shortages	4,554	5,145
- Other non-deductible expenses	1,317	744
- Impairment losses not deductible for tax purposes	4,270	5,838
- Amortisation and depreciation	(2,720)	7,663
- Provisions for costs not deductible for tax purposes	8,102	5,290
- Unrealized losses	603	384
- Other non-taxable income	(12,354)	(14,218)
Recognised tax loss carry forwards for the year	(75)	(9,187)
Utilisation of previously unrecognised tax loss carry forwards	(35,330)	(19,718)
Income tax on extra profit	28,612	-
Income tax (benefit)/expense for the year	25,536	(13,168)

Tax losses carried forward are as follows:

	2022 HRK'000	2021 HRK'000
Available for utilisation in 2022	-	51,456
Available for utilisation in 2023	711,892	51,456
Available for utilisation in 2024	711,892	51,456
Available for utilisation in 2025	711,892	51,456
Available for utilisation in 2026	656,977	-

The Croatian Income Tax Act is subject to varying interpretations and changes in respect of expenses which decrease the tax base. The Management Board's interpretation of such legislation as applied to the transactions and activities of the Company may be challenged by the relevant authorities. The Tax Administration may take a different position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Tax Administration may start performing an inspection within three years following the year in which the tax liability is reported for a specific financial period.

Deferred tax assets have been recognised for temporary differences only to the extent that it is expected that the Company will have sufficient profits in the periods of release of the temporary differences in order to utilise the consequential tax effects of the resulting deductible temporary differences. The Company has made 5-year plans which indicate sufficient taxable profits for future utilisation. Utilisation of tax loss carry forwards in 2022 for which deferred tax asset wasn't previously recognised relates to tax losses carried forward from the merged company Mercator H d.o.o.

The movement of deferred tax assets is given below:

	1 January 2022	Recognition of deferred tax assets	Use of deferred tax assets	Acquired in business combinations under common control	31 December 2022
Impairments	(9,192)	(307)	1,801	(95)	(7,793)
Depreciation	(40,759)	(12,246)	925	-	(52,080)
Provisions	(11,416)	(1,732)	8,031	(1,866)	(6,983)
Unrealized losses	(603)	-	603	-	-
Tax losses carried forward	(9,187)	(75)	-	(139,581)	(148,843)
Total	**(71,157)**	**(14,360)**	**11,360**	**(141,542)**	**(215,699)**

	1 January 2021	Recognition of deferred tax assets	Use of deferred tax assets	Acquired in business combinations under common control	31 December 2021
Impairments	(10,889)	(3,894)	5,591	-	(9,192)
Depreciation	(39,571)	(9,981)	8,793	-	(40,759)
Provisions	(7,132)	(9,574)	5,290	-	(11,416)
Unrealized losses	(396)	(591)	384	-	(603)
Tax losses carried forward	-	(9,187)	-	-	(9,187)
Total	**(57,988)**	**(33,227)**	**20,058**	**-**	**(71,157)**

Mercator H d.o.o. was merged into Konzum plus d.o.o. on 30 December 2022. Mercator H d.o.o. filed corporate income tax return for the period 1 January to 29 December 2022 within the legal deadline. As the legal successor of Mercator H d.o.o., Konzum plus d.o.o. has also filed to the Tax Administration the Merger Application in order to utilize the rights pursuant to the article 20.r of the Corporate Income Tax Act and articles 41.g and 41.j. of the Corporate Income Tax Regulations, in line with EU Directive 2009/133/EC. On 29 May 2023 Konzum plus d.o.o. received the Resolution from the Tax Administration's Large Taxpayers' Office according to which the Merger Application was dismissed. Konzum plus d.o.o. has filed the appeal to the Resolution and expects that the Second Degree Body at the Ministry of Finance will accept the appeal, which is also supported by the opinion of an independent legal expert.

Given that the appeal does not postpone the execution of the Resolution, Mercator H d.o.o. and Konzum plus d.o.o. have amended their 2022 corporate income tax returns which was reflected in 2022 financial statements. Notwithstanding the aforementioned, Konzum plus d.o.o. expects that the Second Degree Body at the Ministry of Finance will accept the appeal and that Mercator H d.o.o. and Konzum plus d.o.o. will utilize the rights pursuant to article 20.r of the Corporate Income Tax Act and articles 41.g and 41.j. of the Corporate Income Tax Regulations.

16. Intangible assets

Balances and movements in intangible assets during 2021 and 2022 are shown below:

	Software and other rights	Brand	Loyalty	Goodwill	Assets not yet available for use	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Cost						
As at 1 January 2021	50,990	419,422	170,493	124,488	-	765,393
Acquired in business combinations under common control	6	-	-	14,376	-	14,382
Direct additions	-	-	-	-	4,017	4,017
Transfer	4,017	-	-	-	(4,017)	-
As at 31 December 2021	**55,013**	**419,422**	**170,493**	**138,864**	**-**	**783,792**
Acquired in business combinations under common control	11,917	19,378	-	-	-	31,295
Direct additions	3	-	-	-	9,750	9,753
Transfer	9,750	-	-	-	(9,750)	-
As at 31 December 2022	**76,683**	**438,800**	**170,493**	**138,864**	**-**	**824,840**
Accumulated amortisation and impairment						
As at 1 January 2021	23,209	-	49,717	-	-	72,926
Acquired in business combinations under common control	4	-	-	-	-	4
Amortisation charge for the period	7,522	-	28,426	-	-	35,948
As at 31 December 2021	**30,735**	**-**	**78,143**	**-**	**-**	**108,878**
Acquired in business combinations under common control	11,835	19,348	-	-	-	31,183
Amortisation charge for the period	7,204	-	28,426	-	-	35,630
As at 31 December 2022	**49,774**	**19,348**	**106,569**	**-**	**-**	**175,691**
	-	-	-	-	-	-
Net book amount						
As at 31 December 2021	24,278	419,422	92,350	138,864	-	674,914
As at 31 December 2022	**26,909**	**419,452**	**63,924**	**138,864**	**-**	**649,149**

The carrying amount of pledged brand at 31 December 2022 amounted to HRK 419,452 thousand (2021: HRK 419,422 thousand).

17. Property, plant and equipment

Balances and movements in property, plant and equipment during 2021 and 2022 are shown below:

	Land HRK'000	Buildings HRK'000	Plant and equipment HRK'000	Leasehold improve-ments HRK'000	Assets not yet available for use HRK'000	Total HRK'000
Cost						
As at 1 January 2021	203,397	663,588	480,471	358,294	41,378	1,747,128
Acquired in business combinations under common control	-	-	1,728	8	-	1,736
Direct additions	-	-	-	-	117,153	117,153
Transfer	3,903	7,826	85,134	30,923	(127,786)	0
Disposal	(12)	-	(3,690)	(55)	(57)	(3,814)
Write-off	(2,100)	(7,190)	(8,581)	(312)	(2,537)	(20,720)
Transfer from / (to) investment property	-	14	-	-	(10)	4
As at 31 December 2021	**205,188**	**664,238**	**555,062**	**388,858**	**28,141**	**1,841,487**
Acquired in business combinations under common control	20,013	701,725	45,420	14,057	7,038	788,253
Direct additions	-	-	-	-	184,029	184,029
Transfer	-	14,643	136,616	31,518	(182,777)	-
Disposal	(2,554)	(1,414)	(1,861)	(187)	(229)	(6,245)
Write-off	(48)	-	(5,410)	(36,282)	-	(41,740)
Impairment	(258)	-	-	-	-	(258)
Transfer to assets held for sale	(5)	-	(88)	-	-	(93)
Transfer from / (to) investment property	(14,781)	(42,381)	-	-	(1,274)	(58,436)
Other	-	339	(2,700)	(1,692)	(97)	(4,150)
As at 31 December 2022	**207,555**	**1,337,150**	**727,039**	**396,272**	**34,831**	**2,702,847**

	Land HRK'000	Buildings HRK'000	Plant and equipment HRK'000	Leasehold improve-ments HRK'000	Assets not yet available for use HRK'000	Total HRK'000
Accumulated depreciation and impairment						
As at 1 January 2021	-	117,708	196,411	115,615	-	429,734
Acquired in business combinations under common control	-	-	1,712	4	-	1,716
Depreciation charge for the period	-	33,630	83,203	49,527	-	166,360
Disposals	-	-	(2,364)	(30)	-	(2,394)
Write-off	-	(661)	(5,452)	(99)	-	(6,212)
Transfer from / (to) investment property and other transfers	-	(20)	1	20	-	1
As at 31 December 2021	**-**	**150,657**	**273,511**	**165,037**	**-**	**589,205**
Acquired in business combinations under common control	-	44,298	42,407	11,166	6,648	104,519
Depreciation charge for the period	-	34,451	88,446	49,125	-	172,022
Disposals	-	(227)	(949)	(169)	-	(1,345)
Write-off	-	-	(4,147)	(23,620)	-	(27,767)
Transfer to assets held for sale	-	-	(57)	-	-	(57)
Transfer from / (to) investment property	-	(8,380)	-	-	-	(8,380)
Other	-	310	(2,186)	(319)	-	(2,195)
As at 31 December 2022	**-**	**221,109**	**397,025**	**201,220**	**6,648**	**826,002**
Net book amount						
As at 31 December 2021	205,188	513,581	281,551	223,821	28,141	1,252,282
As at 31 December 2022	**207,555**	**1,116,041**	**330,014**	**195,052**	**28,183**	**1,876,845**

The carrying amount of pledged land and buildings at 31 December 2022 amounted to HRK 811,658 thousand (2021: HRK 350,634 thousand).

At 31 December 2022, the Company's land and buildings include property for which no ownership title has been recorded in the land register. This is due to unresolved issues with Croatian property registers. This is a common issue in Croatia and its resolution is in progress and is expected in future years. The Company is considered the owner as it is in control of the land and the control brings economic benefits to the Company. As a result, the properties should be included in the Company's assets. The carrying amount of these properties totals HRK 78,078 thousand (2021: HRK 62,056 thousand).

18. Right-of-use assets

The Company presents right-of-use assets from leases in a separate line item in the statement of financial position. The recognised right-of-use assets relate to the following types of assets and disclosed in the movements during the period:

	Buildings HRK'000	**Vehicles and equipment HRK'000**	**Land HRK'000**	**Total HRK'000**
As at 1 January 2021	2,098,829	22,535	523	2,121,887
Additions - new contracts	75,021	21,226	36	96,283
Depreciation expense for the period	(322,806)	(13,495)	(209)	(336,510)
Modification of right-of-use assets	154,214	(170)	39	154,083
Contract termination (disposal)	(10,683)	(73)	-	(10,756)
Transfer to investment property	(24,544)	-	-	(24,544)
As at 31 December 2021	**1,970,031**	**30,023**	**389**	**2,000,443**
Acquired in business combinations under common control	107,642	177	-	107,819
Additions - new contracts	462,432	10,705	-	473,137
Depreciation expense for the period	(339,007)	(10,503)	(161)	(349,671)
Modification of right of use assets	240,320	321	137	240,778
Contract termination (disposal)	(185,820)	(263)	(137)	(186,220)
Transfer to investment property	(86,555)	-	-	(86,555)
As at 31 December 2022	**2,169,043**	**30,460**	**228**	**2,199,731**

The Company leases various properties (retail stores, office building), delivery vans, cars and other equipment. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions (incl. termination and renewal rights) described in Note 5, *Critical accounting judgements and estimates*.

Transfer from investment property relates to reclassification of a portion of right-of-use assets that the Company subleases to other companies. The amount of reclassification depends on the ratio of the subleased area to the total leased amount, which may vary depending on the sublease contracts. The net book value of subleased assets is reclassified from right-of-use assets to investment property.

19. Investment property

Balances and movements in investment property during 2021 and 2022 are shown below:

	2022 HRK'000	2021 HRK'000
Cost		
Opening balance at 1 January	593,642	589,011
Acquired in business combinations under common control	293,390	-
Disposals	(5,817)	(27,828)
Transfer from tangible assets under construction	1,274	10
Transfer from/(to) assets held for sale	(17,654)	10,896
Transfer from/(to) tangible assets	58,436	(14)
Transfer from/(to) right-of-use assets	81,755	21,567
Impairment	(1,550)	-
Other	(86)	-
Closing balance at 31 December	1,003,390	593,642
Accumulated depreciation and impairment		
Opening balance at 1 January	118,197	75,150
Acquired in business combinations under common control	10,286	-
Depreciation charge for the period	47,811	46,929
Transfer from/(to) assets held for sale	(1,376)	-
Transfer from/(to) tangible assets	8,380	(1)
Transfer from/(to) right of use assets	(4,801)	(2,977)
Disposals	(838)	(904)
Closing balance at 31 December	177,659	118,197
Net book amount		
Opening balance at 1 January	475,445	513,861
Closing balance at 31 December	**825,731**	**475,445**

Investment property mostly relates to buildings, subleases of properties within stores. The Company leases its spaces for retail shops, cafes, restaurants and to other service providers. These buildings are partly owned by the Company and partly represent leased assets parts of which are then subleased and accounted for as per IFRS 16.

As at 31 December 2022, the total carrying value of investment property owned by the Company amounts to HRK 460,612 thousand (2021: HRK 156,124 thousand) and investment property recognized as right-of-use assets under IFRS 16 amounts to HRK 365,119 thousand (2021: HRK 319,321 thousand). Out of total investment property HRK 159,780 thousand (2021: HRK 96,322 thousand) is not in use. Investment property is depreciated as disclosed in significant accounting policies.

The carrying amount of pledged investment property at 31 December 2022 amounted to HRK 281,695 thousand (2021: HRK 65,331 thousand).

The Company's assessment of fair value of investment property as at 31 December 2022 approximates its net carrying value. The Company has updated appraisals for a part of its real estate. There was no significant variations of fair value from the recorded net book values on the analysed sample. Also the Company has sold a few of its real estate for fair values which were approximately the same as recorded net book values thus there is no indication for a significant change in values.

The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Total rental income from investment property owned by the Company amounts to HRK 3,129 thousand (2021: HRK 4,947 thousand) which gives a return on investments owned by the Company of 3% (2021: 8%) and sublease income is HRK 61,961 thousand (2021: HRK 58,804 thousand) with a return on leased assets of 17% (2021: 18%). Direct operating expenses for investment properties that generate rental income amounted to HRK 30,231 thousand (2021: HRK 32,443 thousand) and comprised of costs of utilities and repairs and maintenance expenses. Direct operating expenses for investment properties that did not generate rental income amounted to HRK 860 thousand (2021: HRK 1,900 thousand).

Due to the fact that sublease agreement terms are often subject to change and difficult to predict, we have not disclosed minimum lease payments. The reliability of this estimate would be questionable and may be misleading.

20. Loans, deposits and other non-current financial assets

	2022	**2021**
	HRK'000	**HRK'000**
Non-current assets		
Financial assets at amortised cost		
Lease deposits	141,122	136,031
Allowance for expected credit losses of deposits	(9,225)	(10,344)
Receivables for reinstated debt	405	922
Investments in securities	1,719	1,489
Impairment of investments in securities	(136)	-
	133,885	128,098
Current assets		
Financial assets at amortised cost		
Loans granted	834	915
Allowance for expected credit losses of loans	(751)	(741)
Deposits	8,955	8,075
Allowance for expected credit losses of deposits	(23)	(191)
	9,015	8,058
Total loans, deposits and other non-current financial assets	142,900	136,156

Lease deposits relate to deposits for lease contracts for buildings and equipment.

Movements in the impairment of loans and deposit (ECL) are as follows:

	2022	**2021**
	HRK'000	**HRK'000**
At 1 January	(11,277)	(17,293)
Newly recognised financial assets	(792)	(1,537)
Changes in estimates and assumptions	1,862	7,516
Derecognition of financial assets	212	-
Charge in profit or loss for the period, net	1,282	5,979
Acquired in business combinations under common control	(140)	-
Write-off	-	37
At 31 December	(10,135)	(11,277)

Due to the short-term nature of loans and deposits, their carrying amount is approximately equal to their fair value. For further details on expected credit loss calculations please see Note 35.

Movement in financial assets measured at fair value through profit and loss is given below:

	2022
	HRK'000
Cost	
At 1 January 2022	3,283
Disposal of shares	(3,283)
At 31 December 2022	-
Impairment	
At 1 January 2022	3,283
Disposal of shares	(3,283)
At 31 December 2022	-
Net book amount	
At 1 January 2022	-
At 31 December 2022	**-**

During 2021 part of the shares invested in a fund were sold and the rest was fully impaired. The rest of the shares were then sold in 2022.

21. Inventories

	2022	2021
	HRK'000	**HRK'000**
Merchandise	796,653	680,203
Raw materials and supplies	33,700	27,515
	830,353	707,718

The Company's inventories are pledged as at 31 December 2022 in the amount of HRK 273,369 thousand (2021: HRK 212,352 thousand).

22. Non-current assets held for sale

	2022	2021
	HRK'000	**HRK'000**
Assets held for sale	16,313	-
	16,313	-

Non-current assets held for sale consisted mostly of non-core land and buildings which the Company had the intention of selling in the shortest possible period.

The Company's assessment of fair value of asset held for sale as at 31 December 2022 approximates its net carrying value. The Company has updated appraisals for a part of its real estate. There was no significant variations of fair value from the recorded net book values on the analysed sample. Also the Company has sold a few of its real estate for fair values which were approximately the same as recorded net book values thus there is no indication for a significant change in values.

Movement of assets held for sale in 2022:

	2022	2021
	HRK'000	**HRK'000**
Opening balance at 1 January	-	10,896
Transfer from tangible assets	36	-
Transfer (to)/from investment property	16,277	(10,896)
Closing balance at 31 December	16,313	-

23. Trade receivables

The overview of receivables is as follows:

	2022	2021
	HRK'000	HRK'000
Financial assets at amortised cost		
Domestic trade receivables	426,770	364,200
Foreign trade receivables	3,467	5,483
Allowance for expected credit losses	(51,607)	(41,254)
	378,630	328,429

Domestic trade receivables are recorded in HRK and foreign trade receivables by currency are given below:

	2022	2021
	HRK'000	HRK'000
EUR	3,467	5,369
USD	-	114
	3,467	5,483

The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the annual period:

	2022	2021
	HRK'000	HRK'000
At 1 January	(41,254)	(31,568)
Newly recognised financial assets	(13,390)	(6,709)
Changes in estimates and assumptions	(2,308)	(21,791)
Derecognised financial assets	2,991	24,425
Charge in profit or loss for the period	(12,707)	(4,075)
Acquired in a business combination under common control	(17,405)	-
Write-off	25,881	3,579
Foreign exchange movements	-	2
Other	(6,122)	(9,192)
At 31 December	(51,607)	(41,254)

Due to the short-term nature of the receivables, their carrying amount is approximately equal to their fair value. For further details on calculation of expected credit losses on trade receivables please see Note 35.

24. Other current assets

The structure of other current assets is given below:

	2022	2021
	HRK'000	HRK'000
Non-financial assets		
Prepaid expenses and accrued income	32,432	21,912
Receivables from the state	17,637	14,236
Other receivables	11,336	7,604
Advances given	5,113	7,414
	66,518	51,166

25. Cash and cash equivalents

	2022	2021
	HRK'000	HRK'000
Bank accounts – HRK	421,848	150,709
Bank accounts – foreign currency	2,366	3,725
Cash on hand	5,175	5,100
	429,389	159,534

In accordance with the contract for front-loading of euro, banks supplied the Company with euro banknotes and coins in the amount of EUR 2,736 thousand (equivalent to HRK 20,615 thousand) in 2022. Banks blocked a part of the specified amount on the Company's bank accounts, as a security deposit for front-loading and charged the other part of it on our bank accounts. The amount of cash blocked is disclosed as part of the amount in line item Bank accounts - HRK at 31 December 2022.

Euro banknotes and coins delivered to the locations was recorded off-balance sheet in 2022 as assets held in fiduciary capacity, and after introducing the euro on 1 January 2023, the off-balance sheet posting was reversed, and the amount was posted as cash, when the Company became entitled to use the cash upon euro becoming the country's official currency.

At 31 December 2022, of the total cash in the amount of HRK 2,366 thousand denominated in foreign currency, HRK 1,996 thousand was denominated in EUR and HRK 370 thousand in USD.

All material bank accounts are pledged under the Fortenova grupa d.d. loan at 31 December 2022 as described in Note 34.

The Company has used S&P's credit rating to value its cash credit rating and quality. Cash by credit rating is as follows:

	2022 HRK'000	2021 HRK'000
A+	202,106	119,051
BBB	221,918	28,807
Other	5,365	11,676
	429,389	159,534

26. Capital and reserves

Share capital in the court registry amounts to HRK 20,000. The share capital has been fully paid and it consists of one share which is in Fortenova Grupa's ownership.

	2022 HRK'000	2021 HRK'000
Share capital	20	20
Capital reserves	647,277	118,046
Merger reserves	379,075	(193,479)
Accumulated loss	(343,386)	(380,375)
Profit/ (loss) for the year	133,112	40,342
	816,098	(415,446)

Capital reserves are reserves created out of additional funding provided by the owner. Pursuant to the decision of Fortenova grupa d.d., a part of the loan provided from the owner in the amount of HRK 529,231 thousand was transferred to capital reserves during 2022.

Changes in merger reserves during 2021 and 2022 are a result of business combinations under common control. For details regarding the mergers please see Note 2.

The ownership structure at 31 December is as follows:

	Share % 31 December 2022	Share % 31 December 2021
Fortenova grupa d.d.	100%	100%

27. Provisions

	2022	2021
	HRK'000	HRK'000
Provision for financial guarantee contracts (i)	6,021	6,299
Provisions for retirement and jubilee benefits (ii)	113,589	109,434
Provisions for legal disputes (iii)	27,941	11,185
Other provisions (iv)	10,362	-
	157,913	126,918

(i) Provision for financial guarantee contracts

The provision for guarantees relates to a financial guarantee given to Fortenova grupa d.d. loan notes. The transaction was recorded through the statement of comprehensive income. The nature of the guarantee is described in Note 34.

Movements in the provision for financial guarantee is as follows:

	2022	2021
	HRK'000	HRK'000
Liability at the beginning of the year	6,299	2,005
Increase of guarantee	-	4,294
Decrease of guarantee	(278)	-
Liability at the end of the year	6,021	6,299

(ii) Provisions for retirement and jubilee benefits

All employees are covered by the state defined contribution pension fund. In addition, provisions for retirement and jubilee benefits are established for benefits paid on retirement and jubilee awards (length of service). The amount of these retirement benefits depends on whether the employee has met the required conditions for retirement, and the amount of the jubilee award depends on the number of years of service at the Company. The amount of compensation is determined on the basis of the employee's monthly remuneration.

Movements in the provisions for retirement and jubilee benefits in 2022 are as follows:

	Jubilee and other provisions HRK'000	Retirement provisions HRK'000	Total HRK'000
Liability at the beginning of the year	66,896	42,538	109,434
Service cost	5,321	3,419	8,740
Interest cost	3,284	1,791	5,075
Payments during the year	(9,128)	(4,073)	(13,201)
Actuarial remeasurements recognised through other comprehensive income	-	3,353	3,353
Actuarial remeasurements recognised through profit or loss	(198)	-	(198)
Acquired in business combinations under common control	58	328	386
Liability at the end of the year	66,233	47,356	113,589

Movements in the provisions for retirement and jubilee benefits in 2021 are as follows:

	Jubilee and other provisions HRK'000	Retirement provisions HRK'000	Total HRK'000
Liability at the beginning of the year	62,685	35,809	98,494
Service cost	5,537	3,343	8,880
Interest cost	591	295	886
Payments during the year	(9,998)	(3,693)	(13,691)
Actuarial remeasurements recognised through other comprehensive income	-	6,784	6,784
Actuarial remeasurements recognised through profit or loss	8,081	-	8,081
Liability at the end of the year	66,896	42,538	109,434

The principal actuarial assumptions used to determine liabilities as at 31 December are as follows:

	2022	2021
Discount rate (annual)	2.3%	0.4%
Wage and salary increases (annual)	2.4%	1.5%
Assumed annual staff turnover	5.7%	6.5%

(iii) Provision for legal disputes

The Company provides for all legal disputes for which an assessment was made that there is reasonable doubt that the dispute would not end favourably, and reimbursement of the charges is a probability. In this case the full amount of expected amount of reimbursement is provided for even though the timing of these outflows is not certain.

Movements in provisions for legal disputes are as follows:

	2022	**2021**
	HRK'000	**HRK'000**
Liability at the beginning of the year	11,185	14,728
Additional provisions for legal disputes	17,308	4,092
Decrease in legal disputes provision	(1,307)	(4,301)
Payment of legal disputes provision	(428)	(3,334)
Acquired in business combinations under common control	1,183	-
Liability at the end of the year	27,941	11,185

(iv) Other provisions

Other provisions are related to provisions for non-current liabilities for maintenance expenses of the Company's stores.

Movement in other provisions are as follows:

	2022	**2021**
	HRK'000	**HRK'000**
Liability at the beginning of the year	-	-
Additional provisions	2	-
Acquired in business combinations under common control	10,360	-
Liability at the end of the year	10,362	-

28. Loans and borrowings

	2022	2021
	HRK'000	HRK'000
Financial liabilities at amortised cost		
Non-current liabilities		
Loans from related parties (i)	-	238,678
Liabilities for reinstated debt (ii)	152,509	227,576
Current liabilities		
Loans from related parties (i)	1,270,041	1,152,829
Liabilities for reinstated debt (ii)	24,491	30,916
	1,447,041	1,649,999

(i) As at 31 December 2022 liabilities to Fortenova grupa d.d. for related party loans totalled HRK 1,270,041 thousand (2021: HRK 1,391,507 thousand). The interest rate in 2022 was 2.68% (2021: 3.00%). The loan is due in 2023. During 2022 part of the related party loan was transferred to capital reserves as explained in Note 26.

(ii) Part of the non-current and current loans are related to reinstated debt and interest according to the Settlement. This is the part of the debt included in the Settlement which was transferred from Konzum d.d. that will be paid to creditors per agreed payment schedule. Principal is due on 2 April 2029, with repayment being made in 32 equal quarterly instalments. The fixed interest rate is 3% per annum, which runs from 1 April 2019, but matures and is paid within the same deadlines as the principal.

For cash and non-cash movements of these loans please see Note 33.

29. Lease liabilities

The Company has recognised lease liabilities (including principal and interest) for buildings, vehicles and equipment as shown below:

	2022 HRK'000	2021 HRK'000
Non-current lease liabilities	2,530,972	2,213,890
Current lease liabilities	360,042	330,894
	2,891,014	2,544,784

The Company had cash outflows for IFRS 16 contracts of HRK 592,710 thousand in 2022 (2021: HRK 528,036 thousand). Cash outflows relating to short-term leases, leases of low-value assets and variable lease payments were HRK 52,672 thousand (2021: HRK: 65,764 thousand). Total cash outflows are HRK 645,382 thousand (2021: HRK 593,800 thousand).

Movement of lease liabilities is given below:

	2022 HRK'000	2021 HRK'000
Opening balance at 1 January	2,544,784	2,635,822
Acquired in business combinations	160,660	-
New contracts in the period	473,137	96,283
Interest expense in period	216,173	208,900
Payment during the period	(592,709)	(528,036)
Modification of lease liabilities	240,778	154,083
Termination of contracts	(158,206)	(12,472)
Foreign exchange (gains)/losses	5,535	(6,286)
Other	862	(3,510)
Closing balance at 31 December	2,891,014	2,544,784

Movement in the corresponding amount of right-of-use assets is provided in Note 18.

Amounts recognised in statement of comprehensive income during the year are the following:

	2022	**2021**
	HRK‘000	**HRK‘000**
Depreciation of right-of-use assets	349,671	336,510
Interest expense on lease liabilities	216,173	208,900
Expense relating to short-term leases	26,996	25,628
Expense relating to leases of low-value assets	33	44
Variable lease payments	25,643	40,092
Income from cancellation of IFRS 16 contracts	(19,758)	(2,897)
Income from landlord credit notes received	(48)	-
Foreign exchange (gains)/losses	5,535	(6,286)
Total amount recognised in profit or loss	604,245	601,991

For future potential lease payments over lease extension period please see Note 34.

30. Trade payables

The structure of trade payables is:

	2022	**2021**
	HRK‘000	**HRK‘000**
Financial liabilities at amortised cost		
Domestic trade payables	1,820,430	1,582,460
Foreign trade payables	98,020	75,110
	1,918,450	1,657,570

Foreign trade payables by currency are given below:

	2022	**2021**
	HRK‘000	**HRK‘000**
EUR	95,645	70,744
USD	1,989	130
CHF	383	-
GBP	3	4,236
	98,020	75,110

As at 31 December, the age structure of trade payables is shown below:

	Not past due	0 - 90 days past due	90 - 180 days past due	180 - 270 days past due	Over 270 days past due	Total
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
2022	1,746,411	161,775	2,501	437	7,326	1,918,450
2021	1,525,780	78,473	3,189	5,901	44,227	1,657,570

31. Other current liabilities

	2022	**2021**
	HRK'000	**HRK'000**
Financial liabilities		
Accrued expenses	96,889	94,040
Non-financial liabilities		
Deferred income	21,531	22,764
Taxes and contributions (other than income tax)	113,376	83,847
Payroll liabilities	53,440	47,300
Accrued vacations	46,916	44,196
Advances received	34,143	639
Deposits	5,068	19
Other current liabilities	1,214	886
	372,577	293,691

As at 31 December 2022, accrued expenses refer to the expenses incurred for which the invoices were not yet received.

32. Related party transactions

The Company has transactions with the following related parties: owner, owner's subsidiaries, entities with significant influence over the Company and the Company's key management.

Key management comprises of the Management Board and key executive directors.

Key management compensations are set out below:

	2022	2021
	HRK'000	**HRK'000**
Short-term employee benefits	*12,578*	*12,050*
Wages and salaries	6,696	6,234
Other current benefits	20	250
Personal income tax	2,370	2,292
Pension insurance contributions	1,711	1,568
Health insurance contributions	1,781	1,706
	12,578	12,050

In 2022, compensations of Supervisory Board Members amounted to HRK 157 thousand (2021: HRK 174 thousand).

There are no loans and borrowings given to related parties in 2022 (2021: HRK 529 thousand).

Loans and borrowings received from related parties are as follows:

	2022	2021
	HRK'000	**HRK'000**
Owner	1,270,041	1,391,507
Entities with significant influence over the Company	-	46,212
	1,270,041	1,437,719

For further details on the nature and terms of the loans obtained from related party please see Note 28 and for interest expense see Note 14 (other foreign exchange differences).

Trade receivables from related parties for goods and services are:

	2022 HRK'000	2021 HRK'000
Owner	365	108
Owner's subsidiaries	67,757	59,978
Entities with significant influence over the Company	11,858	82
	79,980	60,168

Trade receivables from related parties are related to sale of goods and services. Transactions are made under market terms, they are the same as for unrelated parties. Services provided to related parties are warehousing and logistics but also short- term lease and sublease services. ECL of receivables from related parties is HRK 20 thousand in 2022 (2021: HRK 834 thousand).

Trade payables to related parties for goods and services are:

	2022 HRK'000	2021 HRK'000
Owner	8,983	21,231
Owner's subsidiaries	347,310	285,906
Entities with significant influence over the Company	93,018	33,119
	449,311	340,256

Trade payables to related parties are related to the purchase of goods and services. Transactions are made under market terms, they are the same as for unrelated parties.

Income from related parties is as follows:

	2022 HRK'000	2021 HRK'000
Income from sale of goods	84,566	68,690
Other income	25,203	33,180
Finance income	12	94
	109,781	101,964

Income by type of related party is as follows:

	2022 HRK'000	2021 HRK'000
Owner	772	590
Owner's subsidiaries	105,922	101,112
Entities with significant influence over the Company	3,087	262
	109,781	101,964

Income from related parties mostly relates to sale of goods. Transactions are made under market terms, they are the same as for unrelated parties. Services provided to related parties are warehousing and logistics but also lease and sublease services. Business combinations under common control during 2021 and 2022 are described in Note 2.

Costs from related parties are as follows;

	2022	2021
	HRK'000	HRK'000
Service costs	143,603	116,788
Impairment of assets	(30)	(10,821)
Other costs	3,443	8,202
Finance costs	28,000	48,210
Material and energy costs	1,407	483
	176,423	162,862

Costs by type of related party are as follows:

	2022	2021
	HRK'000	HRK'000
Owner	71,550	103,960
Owner's subsidiaries	77,884	44,407
Entities with significant influence over the Company	26,989	14,495
	176,423	162,862

Service costs are mostly related to IT costs, maintenance and management costs in the amount of HRK 108,027 thousand. Transactions are made under market terms, they are the same as the services from unrelated parties. Finance costs are related to interest expense for the loan received from the owner.

Purchases from related parties are as follows:

	2022	2021
	HRK'000	HRK'000
Owner's subsidiaries	1,674,559	1,572,906
Entities with significant influence over the Company	592,513	394,414
	2,267,072	1,967,320

Purchases are related to the total amount of goods purchased during the year from related parties net of VAT.

As at 31 December 2022, the Company has provisions for loan note guarantee in the amount of HRK 6,021 thousand (2021: HRK 6,299 thousand) as described in Note 34.

33. Changes in financing activities

The Company realised the following changes in financing activities:

	Lease liabilities HRK'000	Loans and borrowings HRK'000	Total debt HRK'000
Opening balance at 1 January 2021	(2,635,822)	(1,990,427)	**(4,626,249)**
Cash flows out of which:			
Proceeds from loans	-	(170,000)	**(170,000)**
Repayment of principal	319,136	493,814	**812,950**
Payment of interest	208,900	68,197	**277,097**
Non-cash movements out of which:			
New lease liabilities	(96,283)	-	**(96,283)**
Interest expense in period	(208,900)	(57,116)	**(266,016)**
Modification and termination of lease liabilities	(154,083)	-	**(154,083)**
Termination of contracts	12,472	-	**12,472**
Other non-cash movements	9,796	5,533	**15,329**
31 December 2021	(2,544,784)	(1,649,999)	**(4,194,783)**
Cash flows out of which:			
Proceeds from loans	-	(285,000)	**(285,000)**
Repayment of principal	376,589	462,235	**838,824**
Payment of interest	216,120	39,541	**255,661**
Non-cash movements out of which:			
Acquired in business combinations under common control	(160,660)	(505,252)	**(665,912)**
New lease liabilities	(473,137)	-	**(473,137)**
Transfer to equity	-	529,231	**529,231**
Interest expense in period	(216,173)	(34,974)	**(251,094)**
Modification of lease liabilities	(240,778)	-	**(240,778)**
Termination of contracts	158,206	-	**158,206**
Other non-cash movements	(6,397)	(2,823)	**(9,220)**
31 December 2022	(2,891,014)	(1,447,041)	**(4,338,055)**

Other non-monetary movements on lease liabilities and loans and borrowings are related mostly to foreign exchange differences.

34. Contingent liabilities and commitments

Loan note guarantee

Co-debts, warranties and guarantees

Fortenova grupa d.d. has issued loan notes for the refinancing of the SPFA loan in the total amount of EUR 1,157 million as part of the financing led by HPS Investment Partners in cooperation with VTB Bank.

In order for the new financing to be implemented, the companies within Fortenova grupa d.d. have acted as guarantors with part of their property. The Company has assumed the guarantee on that basis, and the main reason for this is the fact that this refinancing ensures the survival of the company and enables further business continuity and development.

The total amount of liabilities under which Company Konzum plus acted as a guarantor currently amounts to EUR 1,047 million. The guarantee relates to financing structured as a 4-year loan note in the amount of up to EUR 1,187 million with an interest rate of 7.3 percent plus EURIBOR, with a floor of 1 percent. The loan notes were issued by the parent company Fortenova grupa d.d., and the financing was led by HPS Investment Partners in cooperation with VTB Bank. This financing fully refinanced the Super-Priority Facility Agreement (SPFA), ensuring medium-term stability and long-term sustainability, growth and development for the entire group.

On 16 April 2021, the Fortenova Group signed an amendment to the Subscription Agreement based on which Tranche C was approved in the total amount of EUR 385 million, maturing on 15 January 2022. The Company acted as a guarantor for the said Tranche, which was repaid in full during 2021, and the total amount of the Company's potential liabilities for the said Tranche as at 31 December 2021 is HRK 0.

The Company, together with a few other Group companies as a guarantor irrevocably and unconditionally, jointly and severally guarantees to lenders the timely performance. As part of the guarantee under the contracted instrument, the Company enabled the realization of pledges on bank accounts that the Company has in the Republic of Croatia.

The total amount of contingent liabilities of the Company on the basis of co-debts and guarantees as at 31 December 2022 amounts to EUR 1,047,000 thousand (31 December 2021: EUR 1,047,000 thousand).

The provision for loan note guarantees as at 31 December 2022 amounts to HRK 6,021 thousand (31 December 2021: HRK 6,299 thousand).

The provision for loan note guarantees represents the fair value determined using the discounted cash flow model, i.e. by using the discounted lifetime expected credit loss (LECL) as the basis for fair valuation of the guarantee from the perspective of each related company.

Pledged assets

On 29 August 2019, Fortenova grupa d.d. and its group companies including the Company on the one hand and Lucid Trustee Limited as Security Agent on the other hand, entered into a Bank Account Pledge Agreement relating to bank accounts in the Republic of Croatia. The stated Agreement was concluded for the purpose of establishing and perfecting security in favour of the Security Agent, for the purpose of securing current and future claims owed by each Debtor to the Secured Creditors based on a loan note issued by Fortenova grupa d.d. on 6 September 2019.

Liquidity risk

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called:

2022	**HRK '000**
Maturity	**Loan note principal**
Liabilities due within 1 year	7,928,544
Total liabilities at 31 December 2022	7,928,544

2021	**HRK '000**
Maturity	**Loan note principal**
Liabilities due within 1 year	7,872,236
Total liabilities at 31 December 2021	7,872,236

Credit risk

The fair value measurement was determined using the discounted cash flow model, i.e. by determining the discounted lifetime expected credit losses (LECL).

Since all guarantors, including the Company, are jointly and severally liable, all companies bear shared risks and each entity will be able to contribute to this guarantee economically and effectively only to the extent that it is economically viable, i.e. in accordance with its share in the guarantor's capital.

As a basis for determining loss given default (LGD), the Company analysed discounts on capital market transactions in Croatia and used LGD of 2.5%.

Probability of default is determined implicitly by reference to the credit spread of traded bonds of a particular rating category. The weighted credit spread used was 7.63%. These weights are then applied in calculating the probability of default based on S&P credit rating tables.

It is assumed that the fair value of the overall guarantee approximates the credit loss over the expected life of the loan note and that the fair value of the individual contribution of each individual entity approximates the corresponding share.

As at 31 December 2022, the fair value of the guarantee amounts to HRK 6,021 thousand (2021: HRK 6,299 thousand).

Potential future cash outflows under lease extension or termination options

The Company has applied judgement to determine the lease term for all lease contracts that include renewal extension or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and leased assets recognised. Extension options are only included in the lease term if the lease is reasonably certain to be extended. As at 31 December 2022, potential future cash outflows of HRK 1,062,918 thousand (undiscounted) (2021: HRK 1,472,767 thousand) have not been included in the lease liability because it is not reasonably certain that the leases will be extended. Termination options are only included in the lease term if the lease is reasonably certain to be terminated. There are no indications of terminations of contracts and thus no effects are presented.

Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100 % of lease payments are based on variable payment terms with percentages ranging from 2,5 % to 11% of sales. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Contingent liability for variable lease payments not included in lease liabilities in 2022 are HRK 171,688 thousand (undiscounted) (2021: HRK 184,372 thousand). This amount of variable lease payments is calculated as an agreed percentage of expected store revenue per year.

A 10% increase in sales in stores for 2022 with such variable lease contracts would increase total lease payments by approximately HRK 5,551 thousand (2021: HRK 3,209 thousand).

Other contingent liabilities and commitments

According to the Settlement Plan, Konzum d.d. has been classified as non-viable where assets were transferred to the newly established company, Konzum plus d.o.o. which is not the legal successor and is not exposed to contingent liabilities. Therefore, all contingencies not subject to the Settlement Plan (for example part of the court proceedings) have remained within Konzum d.d.

35. Financial instruments and risk management

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities 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: measurement at quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: assets and liabilities measured by valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: assets and liabilities measured by valuations not based on observable market data (that is, unobservable inputs)

Loans and borrowings in level 2 are related to a loan from the owner that does not have a defined due date.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Given that loans, deposits and other financial assets are periodically reset to variable interest rates the carrying value approximates fair value.

The fair value measurement hierarchy for assets and liabilities as at 31 December 2022:

	Level 1	Level 2	Level 3	Total fair value	Total net book value
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets and liabilities					
Financial assets and liabilities at amortized cost					
- Trade receivables	-	378,630	-	**378,630**	**378,630**
- Loans, deposits and other financial assets	-	-	142,900	**142,900**	**142,900**
- Cash	5,175	424,214	-	**429,389**	**429,389**
- Other non-current receivables	-	99	-	**99**	**99**
- Loans and borrowings	-	-	(1,447,041)	**(1,447,041)**	**(1,447,041)**
- Trade payables	-	(1,918,450)	-	**(1,918,450)**	**(1,918,450)**
- Provision for financial guarantee contracts	-	(6,201)	-	**(6,201)**	**(6,201)**
- Accrued expenses	-	(96,889)	-	**(96,889)**	**(96,889)**
Non-financial assets					
Investment property (Note 19)	-	-	825,731	**825,731**	**825,731**
Assets held for sale (Note 22)	-	-	16,313	**16,313**	**16,313**

The fair value measurement hierarchy for assets and liabilities as at 31 December 2021:

	Level 1	**Level 2**	**Level 3**	**Total fair value**	**Total net book value**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**	**HRK'000**
Financial assets and liabilities					
Financial assets and liabilities at amortized cost					
- Trade receivables	-	328,429	-	**328,429**	**328,429**
- Loans, deposits and other financial assets	-		136,156	**136,156**	**136,156**
- Cash	5,100	154,434	-	**159,534**	**159,534**
- Other non-current receivables	-	240	-	**240**	**240**
- Loans and borrowings	-	(238,678)	(1,411,321)	**(1,649,999)**	**(1,649,999)**
- Trade payables	-	(1,657,570)	-	**(1,657,570)**	**(1,657,570)**
- Provision for financial guarantee contracts	-	(6,299)	-	**(6,299)**	**(6,299)**
- Accrued expenses	-	(94,040)	-	**(94,040)**	**(94,040)**
Non-financial assets					
Investment property (Note 19)	-	-	475,445	**475,445**	**475,445**

<u>Fair value of financial assets and liabilities</u>

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. As it is not possible to reach the reference market prices of a significant part of the Company's assets and liabilities, fair values are based on Management estimates with respect to the type of assets and liabilities. Management believes that the fair values of financial assets and liabilities (except if otherwise stated in this note) are not significantly different from their carrying values and are categorised at the Level 2 and Level 3 fair value hierarchy.

The Company used the following methods and assumptions in estimating the fair value of financial instruments:

Trade receivables, trade payables, deposits and other financial assets and liabilities

For assets that mature and trade payables with due date within 3 months, the carrying value approximates their fair value due to the short maturities of these instruments. For longer-term assets, the interest rate does not deviate significantly from the current market rates and, consequently, the fair value approximates the carrying value.

Loans and lease deposits given

Since almost all loans are due within the next two years, the Management Board is of the opinion that their fair value is not materially different from their carrying value. As for lease deposits, discounted value of deposits is calculated, and Management Board has concluded that fair value is not materially different from their carrying value.

Loans and Borrowings

Since most of the borrowings are current and are provided by the owner with a fixed interest rate which changes every year according to the statutory interest rate approved by the Ministry of Finance, the Management Board is of the opinion that their fair value is not materially different from their carrying value.

<u>Non-financial assets</u>

The valuation techniques used for fair value valuation of investment property and assets held for sale are mostly the market method and income method. The accounting policies on this subject are further described in Note 4 Significant accounting policies.

Objectives and risk management policies

The main risks arising from the Company's financial instruments are credit risk, foreign currency risk and interest rate risk. Management reviews and agrees policies for managing each of these risks which are listed below. The Company is exposed to international markets. As a result, the Company may be affected by changes in foreign exchange rates. The Company also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Company does not use derivative instruments either to manage risk or for speculative purposes.

Capital management

The Company's objectives when managing capital are to safeguard the Company'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 capital structure of the Company is applicable to share capital comprising subscribed capital, reserves and retained earnings. At the present there are no externally imposed capital requirements.

Credit risk

Credit risk is the risk that one of the parties to a contract may default on its duties under such contract and that consequently a financial loss may be inflicted on the counterparty. The Company has adopted a policy of doing business only with creditworthy and guarantee-secured companies, which reduces the possibility of financial losses occurring as a result of default. The Company uses information and opinions obtained from specialized credit rating agencies and from the Chamber of Economy, as well as publicly available information on the financial position of companies. It also uses its in-house database in order to appropriately rank the more significant customers. The impact of credit risk on the Company as well as changes in credit ratings of its partners are constantly monitored and measured, with the total value of concluded contracts being appropriately distributed among creditworthy partners. The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

A significant portion of credit risk arises from the Company's operations (primarily trade receivables) and from its financial activities, including deposits and loans. All the expected credit losses on financial assets are probability-weighted 12-month ECL (Stage 1 assets).

Credit risk grading system

For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies an approach based on risk grades estimated by external international rating agencies (European Banking Authority default rate for Croatia). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade / Corresponding internal ratings	**Loans and deposits**	**Corresponding PD interval**	**ECL used**
	'000 HRK		
Excellent	8,932	0%-0.18%	0%
Good	131,897	0%-3.24%	7.20%
Satisfactory	-	3.24%-29.07%	64.60%
Special monitoring	-	29.07%-41.57%	92.38%
Default	-	41.58%-45%	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

The rating models are regularly reviewed by finance Department, back tested on actual default data and updated, if necessary. Despite the method used, the Company regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: loans, deposits and other financial assets.

Maximum exposure to credit risk is as follows:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Non-current assets				
Loans, deposits and other financial assets	16,105	127,141	-	143,246
Expected credit loss of financial assets	(103)	(9,258)	-	(9,361)
Other non-current receivables	-	99	-	99
Total	**16,002**	**117,982**	**-**	**133,984**
Current assets				
Loans, deposits and other financial assets	-	8,955	834	9,789
Expected credit loss of financial assets	-	(23)	(751)	(774)
Trade receivables	1,402	335,502	93,333	430,237
Expected credit loss of trade receivables	-	(3,507)	(48,100)	(51,607)
Total	**1,402**	**340,927**	**45,316**	**387,645**

For credit risk regarding issued guarantees please see Note 34.

Impairment of financial assets

The Company has the following types of financial assets that are subject to the application of the expected credit loss (ECL) model:

a) Trade receivables arising from the sale of goods and services;
b) Debt instruments at amortised costs.

Although cash and cash equivalents are also the subject of impairment based on the requirements of IFRS 9, the identified value impairment in this context is insignificant and thus was not recorded.

a) Trade receivables

The Company applies a simplified approach to measuring expected credit loss, which is based on lifetime expected credit losses for all trade receivables.

In order to measure the expected credit loss, trade receivables are grouped based on asset accounts and days past due.

The expected credit loss rates are based on the past payment profiles, as well as the corresponding historical credit losses experienced within this period. For further details please see Note 4.

The Company has considered the impact of future macroeconomic factors affecting the customers' ability to settle their liabilities and it has concluded that they do not significantly affect the expected credit loss rates.

Trade receivables are directly written-off if there is no reasonable expectation of recovery. The indicators that there are no reasonable expectations of recovery include, amongst others, the failure to make contractual payments for a period greater than one year.

Impairment losses as at 31 December 2022 on trade receivables are as follows:

31 December 2022	**Total HRK'000**	**Not past due HRK'000**	**0 - 90 days HRK'000**	**90 - 180 days HRK'000**	**180 - 270 days HRK'000**	**Over 270 days HRK'000**
Trade receivables	430,237	335,502	35,221	6,365	1,469	51,680
ECL of specific customers	(50,431)	(3,171)	(50)	(52)	(12)	(47,146)
Default rate %	0	0.10%	0.24%	3.58%	11.94%	7.83%
Expected credit loss	(1,176)	(336)	(85)	(226)	(174)	(355)
Trade receivables, net	**378,630**	**331,995**	**35,086**	**6,087**	**1,283**	**4,179**

Impairment losses as at 31 December 2021 on trade receivables are as follows:

31 December 2021	**Total HRK'000**	**Not past due HRK'000**	**0 – 90 days HRK'000**	**90 - 180 days HRK'000**	**180 - 270 days HRK'000**	**Over 270 days HRK'000**
Trade receivables	350,425	290,185	35,939	5,640	411	18,250
ECL of specific customers	(21,307)	-	(6,413)	(485)	(374)	(14,035)
Default rate %	-	0.05%	0.20%	2.81%	4.29%	7.98%
Expected credit loss	(689)	(147)	(59)	(145)	(2)	(336)
Trade receivables, net	**328,429**	**290,038**	**29,467**	**5,010**	**35**	**3,879**

b) Debt and equity instruments at amortised costs (other financial assets)

Other financial assets at amortised cost include deposits and guarantees, investments in securities, loans to related and unrelated parties and other receivables. The most significant part of financial assets comprises of deposits relating to lease contracts which could be offset with the lease liability and hence do not represent a significant credit risk.

The expected credit loss has been calculated according to the European Banking Authority default rate for Croatia and with probability of default for financial and non-financial institutions. In 2022, the ECL for non-financial institutions is 6.16% (2021: 7.31%).

Impairment losses as at 31 December 2022 on other financial assets are as follows:

	Total HRK'000	Deposits HRK'000	Loans and borrowings HRK'000	Investments in securities HRK'000	Receivables for reinstated debt HRK'000
Loans, deposits, other financial assets	153,035	150,077	834	1,719	405
ECL of specific customers	(887)	-	(751)	(136)	-
Expected credit loss %	0.00%	6.16%	0.00%	0.00%	0.00%
Expected credit loss	(9,248)	(9,248)	-	-	-
Loans, deposits and other financial assets, net	**142,900**	**140,829**	**83**	**1,583**	**405**

Impairment losses as at 31 December 2021 on other financial assets are as follows:

2021	Total HRK'000	Deposits HRK'000	Loans and borrowings HRK'000	Receivables for reinstated debt HRK'000
Loans, deposits and other financial assets	147,432	144,106	2,404	922
ECL of specific customers	(741)	-	(741)	-
Expected credit loss %		7.31%	0.00%	0.00%
Expected credit loss	(10,535)	(10,535)	-	-
Loans, deposits and other financial assets, net	**136,156**	**133,571**	**1,663**	**922**

The Company has no derivative financial instruments or any financial instruments that could potentially subject the Company to concentrations of credit risk. The Company does not expect to be exposed to material credit losses on financial instruments.

Interest rate risk

Most of the interest-bearing assets and liabilities of the Company represent loans and borrowings. Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rates which apply to the financial instrument. Interest rate risk related to cash flow is the risk that the financial instrument interest expense will fluctuate over time. The Company has borrowings acquired mostly from related companies, specifically from Fortenova grupa d.d. These loan facilities have a fixed interest rate which changes every year according to the statutory interest rate approved by the Ministry of Finance.

There is a smaller portion of non-current debt related to borrowings from unrelated companies which was transferred to the Company through the Settlement and also has a fixed interest rate. Due to these factors the Company is not significantly exposed to interest rate risk.

The following table shows the sensitivity of the Company's profit before tax on a reasonably possible change in interest rates, with other variables held constant, and due to a change in the fair value of monetary assets and liabilities:

	Increase/decrease in interest rate in p.p.	**Effect on profit/loss before tax HRK'000**
2022	+/- 0,5	6,263
2021	+/- 0,5	6,876

Foreign currency risk

Most of the Company's assets are denominated in HRK. A portion of the Company's borrowings, lease liabilities and trade payables are denominated in foreign currencies (primarily EUR). Consequently, the Company is exposed to the risk of exchange rate fluctuations. During July 2022, the EU Council approved the entry of the Republic of Croatia into the euro area from 1 January 2023. As of that day the EUR becomes the official currency in the country. Considering the mentioned fact the Company does not consider that it is significantly exposed to further negative impact of this risk.

The following table shows the sensitivity of the Company's profit before tax on a reasonably possible change in exchange rates, with other variables held constant, and due to a change in the fair value of monetary assets and liabilities:

	Increase/decrease in exchange rate	**Effect on profit/loss before tax HRK'000**
2022		
EUR	+/- 1%	n/a
USD	+/- 1%	9
GBP	+/- 1%	2
CHF	+/- 1%	2
2021		
EUR	+/- 1%	37,346
USD	+/- 1%	7
GBP	+/- 1%	2
CHF	+/- 1%	2

Liquidity risk

The Company is exposed to liquidity risk since most of the liabilities are current. Liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close market positions. Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flows and balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Maturity table of financial liabilities is provided below:

	Total HRK'000	Past due HRK'000	Less than 1 year HRK'000	Between 1 and 2 years HRK'000	Between 2 and 5 years HRK'000	Over 5 years HRK'000
31 December 2022						
Trade payables	**1,918,450**	172,040	1,746,410	-	-	-
Loans and borrowings	**1,447,041**	15,566	1,278,967	23,412	80,802	48,294
Lease liabilities	**4,193,328**	-	575,082	553,384	1,195,932	1,868,930
Accrued expenses	**96,889**	-	96,889	-	-	-
Total	**7,655,708**	**187,606**	**3,697,348**	**576,796**	**1,276,734**	**1,917,224**
31 December 2021						
Trade payables	**1,657,570**	131,790	1,525,780	-	-	-
Loans and borrowings	**1,649,999**	146,146	1,037,599	212,623	122,727	130,904
Lease liabilities	**3,763,078**	-	547,780	524,425	1,108,346	1,582,527
Accrued expenses	**94,040**	-	94,040	-	-	-
Total	**7,164,687**	**277,936**	**3,205,199**	**737,048**	**1,231,073**	**1,713,431**

Loans and borrowings are presented by contractual and not expected maturity. Amounts disclosed are contractual cash flows based on the earliest possible date of payment and the amounts also include future interest.

For liquidity risk regarding issued guarantees please see Note 34.

36. Subsequent events

Based on the *Act on the introduction of the euro as the official currency in the Republic of Croatia*, from 1 January 2023, the official monetary unit and legal tender in the Republic of Croatia is the euro (EUR). The fixed conversion rate is HRK 7.5345 for 1 euro. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency of the Company that will be calculated prospectively and does not represent an adjusting event after the balance sheet date. The euro transition was successfully implemented.

On 26 April 2023, Fortenova Group launched an international process for examining interest by potential investors for purchase of Fortenova Group MidCo B.V., a Dutch holding company that 100% owns Fortenova grupa d.d. International investment bank Lazard has been hired to support this process which is not expected to close before the end of September 2023.

At the end of the proposed process, if successful, the Fortenova Group would no longer have sanctioned participants in its capital structure.

On 4 September 2023 Fortenova grupa d.d. has entered into a binding agreement to refinance the total amount of short-term Notes through the issuance of the new notes in the aggregate principal amount (including the issuer discount on the notes) of EUR 1.2 billion (HRK 9.0 billion) and has agreed the formal conditions precedent to funding, the fulfilment of which is within the control of Fortenova grupa d.d.

On 23 January 2023 a new loan agreement was signed between the Company and Fortenova grupa d.d. The agreement relates to a revolving loan facility in the amount of EUR 190 million, with which previous loans were refinanced. The loan interest rate is set at 2.4 % for 2023 and the loan is due on 29 February 2024.

During the second quarter of 2023 the Company has acquired the company Žitnjak d.o.o. No purchase consideration was paid based on the fact that the acquisition relates to business combinations under common control. The total amount of assets acquired is EUR 10 million and liabilities EUR 1 million.

These Annual Financial Statements were approved by the Management Board on 13 September 2023.

This version of Annual Financial Statements is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of Annual Financial Statements takes precedence over this translation.