Annual Report

for the business year 2021

KONZUM

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Foreword by the President of Management Board

The past year of 2021 was marked by a successful tourist season with excellent sales results in all retail formats and the recovery of the HoReCa channel in the wholesale segment, mostly owing to the more favourable epidemiological measures. In addition to strong sales results during the season, we have performed excellently in all off-season regions and stores throughout the year. We have ensured a smooth distribution of basic necessities to our customers despite the changing epidemiological conditions. We generated almost ten and a half billion kuna in sales revenue, which is an increase of HRK 645 million or 6.6 per cent compared to 2020. We are continuously working on automation, optimisation and digitalisation of processes in retail, wholesale, logistics and all other business areas within the Company, in accordance with our strategic focus on growth supported by digital transformation. We have made a capital investment of HRK 132 million aimed at expanding and modernising our retail network - in 2021, we opened 22 new stores, refurbished 34 of them, and concluded the successful expansion in Istria and Kvarner by taking over the Istrian retail chain Miracolo.

Excellent sales results, process optimisation and efficient cost management enabled us to achieve EBITDA in the amount of HRK 891 million, which is an increase of 22.3 per cent compared to the previous year. In addition to regular settlement of liabilities towards our suppliers, the net repayment of loans amounted to HRK 324 million, in addition to which we repaid HRK 319 million of financial leases and HRK 277 million of interest. By increasing our debt repayment and EBITDA, we reduced the net debt to EBITDA ratio from 5.9x to 4.5x.

Good business performance is also reflected in the continuation of the policy of investing in employee development, as well as the improvement and increase of workers' rights and benefits, since their satisfaction is among our top priorities. With the new salary policy developed in 2021, we will invest over HRK 100 million in salary increases for more than 9,000 employees in retail, wholesale, logistics and online sales. In this way, we show how much we appreciate their daily work and effort.

We nurture our partnerships with small and large suppliers from all over Croatia, with a strategic focus on domestic production and manufacturers. We strive to make the products that we offer in our stores as accessible as possible, and we take care to always justify the trust of our customers, including through an updated loyalty reward program offering various benefits.

Our goal is to offer as many quality domestic products on our shelves as possible, through a sustainable model of cooperation for both suppliers and Konzum. This, on the one hand, enables us to provide our customers with the top quality domestic products in the shortest possible time. On the other hand, by shortening supply chains, we give our contribution to environmental protection, which is another of our strategic determinants. A systematic approach to environmental protection is built into all of the company's retail and logistics facilities, transport and all business processes, and it includes participants at all levels of the company in order to build a healthier future for young people.

At the same time, we contribute to the community in which we operate and which consists of our employees, customers, suppliers and their families by implementing our own initiatives, but also by supporting the implementation of projects of other entities through donations and sponsorships aimed at environmental protection, children and youth, culture, sports and education.

Strengthened and motivated by the excellent fiscal year behind us, we wish to justify the loyalty of our customers and employees, embracing our role as a market leader and continuing to focus on improving the quality of their lives by providing the best value for money.

Zoran Mitreski
President of the Management
Board of Konzum

Basis of preparation

Pursuant to Article 21 of the Accounting Act (official gazette “Narodne novine” nos. 78/15 and 129/16) and in accordance with Article 250.a of the Companies Act (official gazette “Narodne novine” nos. 111/93 Đ 110/15), the Management Board of the Company has prepared the management report. The report will analyse the achievements and results of the Company in 2021 using a number of financial and non-financial indicators.

This report provides a comprehensive overview of the Company’s strategic goals, financial operations and operational business, 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 2021 and includes topics describing the Company’s long-term strategy, retail trends, a summary of key financial and operational results and an overview of particularly important events in 2021. The financial overview includes an abbreviated analysis of the underlying financial statements. The non-financial statement provides an overview of the Company’s achievements and efforts in the area of achieving environmental, social and governance goals of sustainable development (ESG).

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 26 and 27 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 on 21 June 2022.

This version of Management 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 Management report takes precedence over this translation.

About Konzum

Konzum is the leading retail chain in Croatia with a 65-year tradition, from which over half a million people buy every day. There are more than 600 stores located throughout Croatia, in over 300 towns and villages up-country and on the coast and islands. The VELPRO segment with its 16 wholesale centres is the largest wholesaler on the Croatian market. We are a leader in technological innovation and setting standards in the domestic retail and wholesale market, and our advanced solutions help us upgrade the shopping experience to make it even faster and easier.

With its extensive sales network, quality service and a wide range of products, Konzum has become a synonym for trade. We listen to the needs and wishes of customers and constantly adapt our product range to new lifestyles, customer habits and the latest trends in retail. In this way, we strive to remain the first choice for customers and gain and justify the trust they give us.

Konzum employs more than 10,000 employees and is one of the largest employers in Croatia. We continuously promote workers' rights and create a pleasant and stimulating work environment. We foster a policy of equal opportunities, so that everyone has equal access to advancement, additional education and training.

We are leaders when it comes to the strategic orientation towards domestic production and we nurture long-term partnerships with small and large suppliers from all over Croatia. This helps us offer in our stores what is best from our local fields, Croatian rivers, lakes and the sea.

Given that we are one of the largest companies in Croatia, we are aware of our influence and we use it to create a better and more prosperous society. Through numerous projects, initiatives, donations and sponsorships throughout Croatia, we encourage the development of local communities in which we are present.

Strategic overview

» Company strategy

The mission and goal of the Company is to be the undisputed market leader with a focus on customers and improving their quality of life. This can 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 passion, in a sustainable way and with great responsibility towards the community and the environment. We want Konzum to become synonymous with a modern way of shopping for the entire family.

This strategy will be achieved through four foundations of our future development that will be enabled by digital transformation.

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

- **Expand the "Konzum Online" channel,** improve the "Pick up" service and improve the user experience
- **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, digitisation and automation of business processes

» Retail trends

The last few years have been marked by unusual and unexpected changes caused by the COVID-19 pandemic. Economic factors have significantly affected consumer buying habits and purchasing power, and the effects of the pandemic have affected global supply chains.

Taking into account all the challenges that the retail sector is currently facing, the following trends stand out:

- Consumers are increasingly turning to buying basic products instead of luxury ones, and to buying products on sale in order to achieve greater savings
- About half of the total monthly consumption is related to fresh food, meat, fruits and vegetables
- Diversity in sales channels was very important in 2021 because almost all channels are frequently used; however, traditional ways of buying groceries still prevail
- The trend of large weekly purchases has increased compared to several shorter visits during the week
- Supermarkets are the most visited store formats
- More and more customers are using reusable bags
- The focus on health is becoming more and more prominent, so it is important to promote healthy food and nutrition and the safety of shopping
- The recovery of the TO GO segment is visible after mitigating COVID-related measures
- The trend of online shopping is still on the rise, and delivery time is becoming an increasingly important factor

Business Report

» Summary of key achievements

In 2021, Konzum continued to operate in challenging and unusual conditions caused by the COVID-19 pandemic. 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 above expectations, with a **6.6% increase in revenue**, owing to a successful tourist season, the recovery of the HoReCa channel in the wholesale segment and the stabilisation of working conditions influenced by the pandemic thanks to more favourable epidemiological measures throughout the year, especially in the summer.

We continue to record excellent results through digital sales channels, which further strengthens our presence in the online business sphere, in line with our strategic focus on growth led by digital transformation. We continued to expand our retail network through increased capital investments, and we crowned it with the takeover of the Istrian retail chain Miracolo.

A successful year accompanied by 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.

10,423 MIL HRK
Sales revenue
↑6.6% year-on-year

625 487,013sqm
Retail stores — Gross sales area

16 69,984sqm
VELPRO centres — Gross sales area

22
New stores opened

900 THOUSAND
Active Loyalty Card users

1,347 MIL HRK
New value created

144 MIL HRK
Digital business sales
↑2.1% year-on-year

132 MIL HRK
Capital expenditure
↑22.1% year-on-year

↓431 MIL HRK
Financial liabilities decrease

40 MIL HRK
Net profit for the year

891 MIL HRK
Normalised EBITDA
↑22.3% year-on-year

8.55%
EBITDA margin
↑1.1p.p. year-on-year

4.5x
Net debt /EBITDA as at 31 December 2021

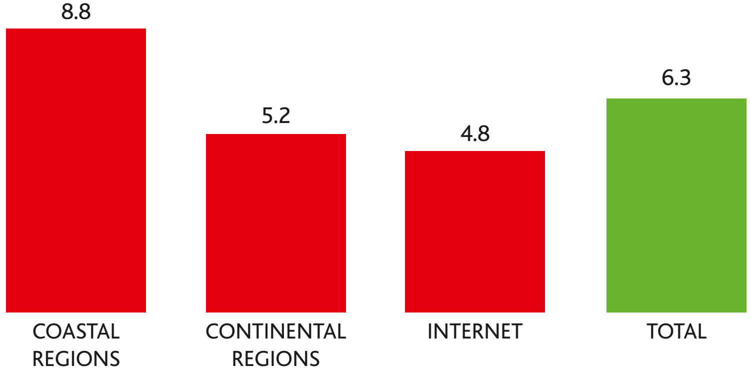
» Business operations in 2021

Retail

Business operations stabilised in 2021 after previous year's impact of the COVID-19 pandemic. In 2021, the store opening hours were not reduced, there was no ban on Sunday work and no shift work (with a disinfection break) as was the case in 2020, which had a positive impact on turnover growth. The only active restriction was related to the limited number of customers in stores according to the square footage of the space, but regardless of that, the **number of receipts increased by 7%** compared to the previous year, while compared to 2019 there was still a decrease of 13%.

Furthermore, 2021 was marked by the trend of a slightly lower consumer basket value, which averaged HRK 89 (2020: HRK 90, 2019: HRK 74). Higher average consumer basket value and a smaller number of receipts in 2021 compared to 2019 indicate that customers have developed new shopping habits in 2020 - they make mostly larger purchases in fewer visits. In 2021, Konzum achieved a 6.3% growth of the like-for-like revenue compared to 2020.

Growth of like-for-like revenue by region in 2021, %



The structure of employees in retail was marked by an increase in the share of casual workers (university and high school students, retirees). In 2021, over 2,300 university students and 800 high school students were employed (half of them as part of the school practicum). In order to include such types of workers in the processes more quickly, mentoring services and training centres are used, which conducted more than 30 trainings over the past year, educating 2000 employees on average.

Digitisation, automation and increasing efficiency are becoming very important factors in daily business. In the past year, the replacement of equipment, simplification and digitalisation of processes and reduction of administrative work additionally saved more than 46,000 working hours. In the following period, we are planning to save another 30,000.

Given the more favourable epidemiological situation in the country, the summer season passed without stricter measures, which resulted in **over 23% growth in revenue in seasonal stores**. In addition to our employees in the seasonal regions, we additionally sent over 200 of our employees from the inland to seasonal positions and employed over 280 seasonal workers.

Retail network development and new investments

The retail network underwent the following important changes in 2021: **22 new stores were opened**, of which 17 in the Primorje-Gorski Kotar and Istria counties, one each in the Dubrovnik-Neretva, Vukovar-Srijem and Krapina-Zagorje counties and two in the City of Zagreb.

A total of 34 stores were refurbished, one of which underwent a complete refurbishment, while the others included minor, partial refurbishments. In October, we **took over the Istrian retail chain Miracolo**, opening 13 new stores and expanding our business in the Istria and Primorje-Gorski Kotar counties, where we currently operate with 101 stores.

We continued to modernise our retail network and services in the bakery department and reduce the waiting time at cash registers for our customers - in 2021, two stores received new self-service cash registers, and 58 stores received self-service bakeries.

In 2021, 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 the shelves and a reduction in costs as a result of reduction in the write-off of goods. With this process, the total degree of automation of ordering exceeded 70% of revenue. In addition to the above, the persons 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.

Digital operations

In the first half of 2021, Konzum Online continued its successful double-digit **growth of 19%** compared to 2020, and at the end of the year, it slowed down due to a more favourable epidemiological situation, which is why we are again recording higher sales growth in physical stores.

We ended the year with **positive results and revenue growth of 2%** compared to a record 2020 when the online channel operated under maximum load, both in Croatia and in the rest of the world. The improvement of the epidemiological situation has led to a reduction in the "Pick up" and "Uber delivery" services. During 2021, we worked on process optimisations and implementations of new functionalities for users on the Web.

According to the Institute of Economics and STATISTA, the Croatian online market is estimated at HRK 4.2 billion, of which the fast-moving consumer goods (FMCG) industry covers about HRK 240 million. Thus, Konzum, as the only national retail chain offering online shopping, occupies a market share of more than 75% in this segment.

Our goal in the forthcoming period is to **expand our presence** and improve our service by **decreasing the delivery time**.

Cryptocurrency payments were implemented in December, making us the first retail chain in the region to offer such a payment service. Our online store supports payment in **13 different cryptocurrencies.** The introduction of cryptocurrency payments is another indicator that Konzum is constantly following global trends, introducing innovations and setting the standard in the retail sector. As the largest retail chain in Croatia with a continuous leading role in the domestic market in terms of business results and technological achievements throughout our 65-year-long history, we are proud to be the leaders in yet another area that is rapidly developing and dictating our future. We will continue to invest in the development of innovations and technologies in order to remain the first choice of our customers and provide the best shopping experience as a next-generation retail chain.

Logistics operations

In terms of procurement and distribution of goods, the fiscal year of 2021 was particularly marked by the continuation of the COVID-19 pandemic and its impact on supply chains, along with a very good tourist season concentrated in the summer months.

Volatility in commodity consumption has caused major problems in global supply chains throughout 2021. The sharp increase in demand was reflected in the lack of resources in overseas transport and the dramatic rise in prices of these services, occasional shortages of raw materials for packaging, lack of capacity in the production of certain types of goods and delays in deliveries. By monitoring the situation, timely and agile approach and cooperation at the level of the Fortenova Group, we successfully overcame most of the challenges, which is why this issue was not significantly reflected on the goods offered by our stores.

The summer season was concentrated in two peak months and was very good; it even exceeded our expectations. This was precisely the cause of the most significant challenge - insufficient imported goods specific to seasonal consumption by distributors (spirits, sunscreens, etc.). The problem was successfully tackled by finding solutions with domestic manufacturers and adjusting the product range in accordance with the availability of goods. Inventory management and coordination between the Sales, Procurement and Logistics departments was excellent. This resulted in excellent coverage of the product range, but also excellent indicators of inventory turnover and minimal remnants of unsold seasonal goods. An unexpectedly good season also caught a part of the tourism sector unprepared, which helped Konzum find enough manpower for quality distribution.

Uncertainty in global supply, raising customer awareness of the importance of supporting local production and job preservation, and trends in healthy living, combined with rising standards of living have led to the need of **shortening supply chains**. The freshness and availability of local products has become a strategic advantage that has also been recognised in our operations. By finding new sources of goods and changing the ordering methods and the distribution model, we have brought new products from smaller manufacturers, which previously found it very difficult to find their ways to the supermarket shelves, closer to customers.

In 2021, the results of the availability of goods and working capital from the previous year were exceeded, while the goals concerning productivity and costs were successfully achieved despite the continued challenge of increased sick leave rates due to isolation and illnesses caused by the COVID-19 pandemic. A part of the vehicle fleet and equipment in the warehouses has been updated, especially the part related to increasing the safety of employees at work. An additional focus on safety has resulted in a reduction in injuries at work.

Throughout the year, development projects were conducted, such as the introduction of automatic orders for fresh food, optimal ordering of goods from suppliers, reorganisation of the procurement of external transport services in the domestic and international markets etc. Important tasks defined during the internal audit of the procurement process and safety at work were fulfilled successfully and on time. Knowledge and good practice exchange projects aimed at achieving synergistic effects among the companies of the Fortenova Group were implemented.

We continued to pay special attention to working with people, our most valuable resource. We managed to maintain a high level of motivation of professionals throughout the year, keeping them involved in all processes, up to date and most importantly - caring about their health. The foundation of successful business and supply functioning in 2021 was the continuous successful adaptation and efficient and engaged management of own human and material resources.

In 2021, **strategic commitment to our own competencies in inventory management and strong own distribution** in conditions of extreme unpredictability again stood out as the key to success.

Wholesale

VELPRO - a partner for professionals - with its 70,000 m2 of sales and storage space is intended primarily to meet the needs of small retailers, hotels, restaurants and the public sector, i.e. legal entities and sole proprietors who can supply themselves with everything they need for their business in one place. It was created as a result of trade experience in wholesale and application of global standards, technologies and knowledge in trade management.

The VELPRO team with its **16 wholesale centres** throughout Croatia is the largest wholesaler on the Croatian market, generating **annual revenue of over HRK 1 billion**. It is strategically focused primarily on supplying professional customers, such as hoteliers and caterers, retail companies and the public sector.

It 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**.

VELPRO employees are assigned to the tasks of receiving goods, filling sales and commission locations, preparing shipments for the delivery of goods to customers and shipping of goods, issuing invoices and distributing goods to customers.

In addition to offering a quality service, a **wide range of more than 9,000 items** is sold and distributed to wholesale customers, including fresh food, fruits and vegetables, fresh meat, packaged food, beverages, cosmetics and chemicals, 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 600 items under its own brands**. Quality service in the largest Croatian wholesale company implies having a modern system of ordering goods via the Internet.

In 2021, the successful integration of wholesale into the company's business systems continued. Despite the negative trends caused by the COVID-19 pandemic during the first quarter, Velpro worked intensively to improve operational processes and align business operations.

Two seasonal stores, Makarska and Krk, have been successfully opened. Cooperation with some customers on certain product groups has been expanded, and Velpro has further strengthened its position in the HoReCa sales channel. The very successful year of 2021 was concluded in a celebratory tone, after achieving total **revenue growth of 17%** and to **mark Velpro's 20 years of business**.

» Awards and acknowledgements

Moms' Choice

A consumer satisfaction survey conducted in October 2021, in which a total of 1,200 mothers participated, showed that Konzum's bakeries are the favourite of mothers among bakeries of all retail chains in Croatia. Thus, our bakeries 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.

Voted Product of the Year - Lumpi

Since 2021, the Konzum's premium baby diaper brand Lumpi has 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 international license "Voted Product of the Year".

The golden shopping cart

In 2021, Konzum won the prestigious title of Trader of the Year for the previous year 2020. We won this award from the magazine Ja trgovac (I, Trader) specialising in the retail and consumer goods industry, thanks to the fact that we have shown great efforts in continuing sustainable business operations and ensuring a stable supply chain even during the global epidemic.

Top 50 Croatian applications

In 2021, our mobile application won a place on the list of the top 50 Croatian applications of the renowned magazine VIDI. We also received the "Thumb up for download" medal thanks to its modern interface and numerous useful features allowing easier purchase.

Mastercard recognition for advancements in the online store and card payment

At the 2021 Golden Shopping Cart Award ceremony, Konzum also won the Mastercard Award for payment innovations thanks to the improvement and development of solutions in the online store and the improvement of the user experience when paying by card.

Our brands

» Financial overview

Financial performance

The results of operations achieved in the period that ended on 31 December 2021 compared to the period that ended on 31 December 2020 are presented below. The individual items of the condensed comprehensive income statement presented will be analysed in detail below.

In 2021, Konzum achieved a normalised EBITDA growth of HRK 163 million, led by an increase in sales revenue in the retail and wholesale segments. EBIT grew further primarily due to lower depreciation costs of fixed assets owned. Increased debt repayment, which was enabled by exceptional operating results, reduced interest expenses, and more favourable exchange rate movements enabled a significant reduction in financial expenses based on exchange rate differences, which generated a net profit before tax of HRK 27 million.

In order to provide readers with a more detailed and accurate 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 income and expenses were reduced by one-off items detailed in the Alternative performance measures section

HRK '000	2021	2020	% Δ
Operating income	10,693,571	10,036,878	6.5%
Sales revenue	10,423,280	9,778,001	6.6%
Other income	270,290	258,878	4.4%
Operating expenses	(9,802,398)	(9,308,261)	5.3%
Normalised EBITDA	**891,173**	**728,617**	**22.3%**
EBITDA margin, %	**8.5%**	**7.5%**	**1.1 p.p.**
EBIT	284,801	66,193	330.3%
EBIT margin, %	2.7%	0.7%	2.1 p.p.
Profit before tax	27,173	(278,584)	(109.8)%
Net profit margin, %	0,3%	(2.8)%	3.1 p.p.

Sales revenue

In 2021, Konzum recorded a total sales revenue growth of 6.6%, led by strong growth in the retail segment. Like-for-like revenue growth of 6.29%, a successful tourist season and more favourable epidemiological measures favoured **retail revenue growth of HRK 498 million** or 5.7%. Apart from the results related to the season, the equally successful results of off-season stores should be highlighted, since they recorded a stable growth of revenue throughout the year compared to the previous year. A total of 22 new stores opened during 2021 contributed to these positive results. The segment of digital operations also continued to grow.

In addition to marking 20 years of Velpro's operations, the wholesale segment achieved **revenue growth of HRK 144 million**, or 16.5%, through the recovery of the HoReCa channel.

The total revenue growth of HRK 645 million rounded off a successful fiscal year and confirmed the position of Konzum as the leading retail chain in the country.

HRK '000	2021	2020	% Δ
Retail revenue	9,264,479	8,766,064	5.7%
Digital revenue	144,232	141,197	2.1%
Wholesale revenue	1,014,569	870,740	16.5%
Sales revenue	**10,423,280**	**9,778,001**	**6.6%**

Other operating income

Konzum generates a smaller part of its revenue by providing services, and the most prominent are advertising services in catalogues and points of sale, business premises rental services and storage services. The total increase in other revenue by HRK 11 million compared to 2020 was led by a significant increase in revenue from marketing activities in the amount of HRK 25 million and an increase in rental and sublease revenue in the amount of HRK 2 million. In 2020, Konzum received COVID support from the state in the amount of HRK 8 million, which, together with lower revenue from export services, is the reason for the decrease in other operating revenue by HRK 17 million in 2021.

HRK '000	2021	2020	% Δ
Marketing services	142,423	116,927	21.8%
Sublease income	58,804	52,251	12.5%
Rental income	21,696	26,144	(17.0)%
Recharged utilities	16,598	15,080	10.1%
Warehousing services	14,429	15,013	(3.9)%
Income from grants	-	8,000	(100.0)%
Other operating income	16,340	25,462	(35.8)%
Other income	**270,290**	**258,878**	**4.4%**

Operating expenses reduced by one-off items

In 2021, operating expenses increased by HRK 494 million or 5.3% in line with better business operations results, higher annual turnover and consequently higher costs of goods sold. Despite the absolute growth, successful operating results outpaced the increase in operating expenses, so their share in total sales revenue decreased by 1.2 percentage points. This is proof of successful cost management and optimisation.

Staff costs increased by HRK 32 million compared to 2020, primarily due to the increase in employee salaries and the payment of rewards and incentives for work performance. At the beginning of 2022, Konzum invested over HRK 100 million in a new salary increase for over 9,000 employees in retail, wholesale, logistics and online store.

Costs of services increased by HRK 56 million. Growth is led by increased costs of current and investment maintenance, higher investment in advertising, increased utilities costs and employment of students due to an increased demand for work force because of the increased turnover.

Material expenses are at a comparable level as in the previous year, with higher energy costs and lower costs of spent spare parts and small supplies.

The increase in other expenses was mostly related to the increased provision for unused vacations and higher amounts of sponsorships and donations, while the savings were realised by lower provisions for termination benefits and litigation.

The costs of impairment increased compared to 2020, primarily due to additional impairment of receivables subject to in-court debt collection.

HRK '000	2021	2020	% Δ
Cost of goods sold	(7,657,864)	(7,270,210)	5.3%
Staff costs	(1,049,606)	(1,017,167)	3.2%
Service costs	(677,491)	(621,726)	9.0%
Material and energy costs	(295,079)	(297,765)	(0.9)%
Other costs	(114,805)	(103,059)	11.4%
Impairment	(7,553)	1,666	(553.3)%
Operating expenses	**(9,802,398)**	**(9,308,261)**	**5.3%**
% of sales revenue	**94.0%**	**95.2%**	**(1.2) p.p.**

* Breakdown of one-off items and adjustments to the financial statements is part of the Alternative performance measures section

Normalised EBITDA

In 2021, Konzum achieved 22.3% higher earnings before interest, taxes, depreciation, and amortisation (EBITDA), mainly due to stronger revenue growth compared to growth in operating expenses, as a result of which the EBITDA margin increased by 1.1 percentage points. Effective cost management provided additional savings that reduced the share of operating expenses in revenue.

One-off costs

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 and out-of-court settlements.

EBIT

With the growth of normalised EBITDA by HRK 163 million, an additional increase in EBIT by HRK 56 million was achieved by reducing the depreciation costs of non-current tangible and intangible assets at the end of the depreciation and amortisation period for a part of owned assets and by reducing one-off operating costs. EBIT margin increased by 2.1 percentage points.

Financial revenue and expenses

The net financial result is more favourable by HRK 87 million compared to 2020, thanks to more favourable movements in the euro exchange rate, which resulted in a positive change in unrealised exchange rate differences in the amount of HRK 62 million. The remaining improvement is primarily related to reduced interest expenses due to increased repayment of financial liabilities.

HRK '000	2021	2020	% Δ
Operating income	10,693,571	10,036,878	6.5%
Operating expenses	(9,802,398)	(9,308,261)	5.3%
Normalised EBITDA	**891,173**	**728,617**	**22.3%**
EBITDA margin, %	**8.5%**	**7.5%**	**1.1 p.p.**
Depreciation and amortisation	(585,747)	(602,632)	(5.6)%
Sale of properties, net	(1,718)	3,944	(143.6)%
One-off expenses	(18,907)	(45,736)	(58.7)%
EBIT	**284,801**	**66,193**	**330.3%**
EBIT margin, %	**2.7%**	**0.7%**	**2.1 p.p.**
Finance income	15,429	2,709	469.6%
Finance costs	(273,056)	(347,486)	(21.4)%
Profit before tax	**27,173**	**(287,584)**	**(109.8)%**
Net profit margin, %	**0.3%**	**(2.8)%**	**3.1 p.p.**

Financial position

Assets and liabilities decreased by 7.6% in 2021, primarily due to an additional decrease in the value of fixed assets due to regular depreciation and amortisation and a decrease in current assets due to higher collection of receivables and a decrease in cash because of the increased repayment of current trade payables, financial debts and finance lease liabilities.

Realised positive net profit after tax enabled additional reduction of negative equity. Negative equity arose due to extraordinary effects during 2019 and 2020, mainly due to business combinations under common control (VELPRO - CENTAR and others) which resulted in 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.

Financial debt includes long-term and short-term loans received from the Fortenova Group, reinstated debt liabilities and related interest based on these loans. Of the total amount, 72% is short-term and 28% long-term debt.

During 2021, the surplus of available funds was used for higher repayment amount of the internal loan, and regular quarterly repayments of reinstated debt continued according to the established repayment plan, which resulted in an annual reduction of liabilities in the total amount of HRK 340 million. The decrease in financial lease liabilities amounted to HRK 94 million, which resulted in a decrease in financial liabilities in the total amount of HRK 431 million at the annual level.

Significant repayment of financial liabilities resulted in a reduction in total net debt in the amount of HRK 229 million. A successful fiscal year contributed to the growth of EBITDA and enabled a significant reduction in the net debt to EBITDA ratio from 5.9x to 4.5x.

HRK '000	31.12.2021	31.12.2020	% ∆
Non-current assets	4,602,816	4,846,659	(5.0)%
Current assets	1,254,905	1,495,899	(16.3)%
TOTAL ASSETS	**5,857,722**	**6,342,559**	**(7.6)%**
Capital and reserves	(415,446)	(449,004)	(7.8)%
Non-current liabilities	2,807,268	3,027,114	(7.3)%
Current liabilities	3,465,900	3,764,448	(7.9)%
TOTAL EQUITY AND LIABILITIES	**5,857,722**	**6,342,559**	**(7.6)%**

Total financial debt	1,650,000	1,990,427	(17.1)%
Short-term borrowings	1,183,745	1,408,288	(15.9)%
Long-term borrowings	466,254	582,139	(19.9)%
Lease liabilities	2,544,784	2,635,822	(3.5)%
Cash and cash equivalents	(159,534)	(361,560)	(55.9)%
Net financial debt	**4,035,250**	**4,264,689**	**(5.4)%**
Normalised EBITDA	**891,173**	**728,617**	**22.3%**
Net debt /EBITDA	**4.5x**	**5.9x**	

Cash flows

Thanks to the overall growth of business operations, reduced shares of operating expenses in total revenue and higher EBITDA margin, net cash from operating activities before changes in working capital increased in 2021 by HRK 180 million compared to 2020.

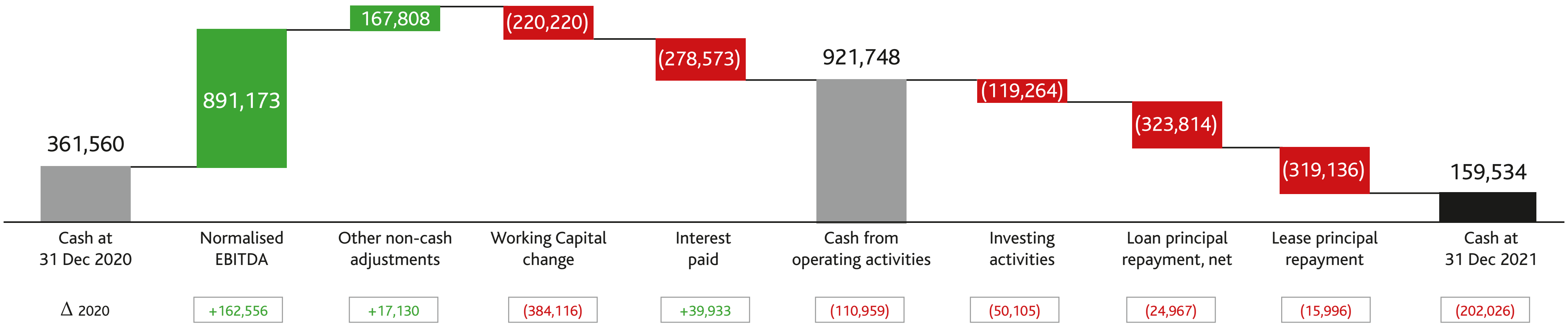
Other non-cash adjustments relate to non-monetary transactions that did not generate cash inflows and outflows such as impairment of assets, changes in provisions, surpluses, deficits, write-offs, spillage, breakdown and breakage of goods. Increase in 2021 is mostly related to a larger amount of regular value adjustments of trade receivables and other current assets.

In 2021, funds were spent on more significant repayment of trade payables in the amount of HRK 115 million. Increased expenditures were also realised for the acquisition of inventories in the amount of HRK 189 million due to the increased turnover during the year. Faster and more efficient collection of receivables generated cash inflows in the amount of HRK 85 million.

With a significant repayment of the principal of the internal borrowing, cash outflows for interest expenses were reduced by HRK 12 million. Outflows on the basis of interest on financial leases were lower by HRK 4 million. In the previous year, Konzum paid HRK 26 million in income tax based on the results from 2019, while in 2021, due to the operating loss, there was no outflow on the basis of income tax.

The surplus of funds was spent on increased capital investments in new stores, refurbishments and optimisations and on the acquisition of the Istrian retail chain Miracolo, which is why outflows from investing activities are higher by HRK 50 million compared to 2020.

The remaining available funds were used to repay financial debts. An amount of HRK 494 million of the principal of the internal borrowing received from the Fortenova Group was repaid, while new proceeds amounted to HRK 170 million. Taking into account the inflows and outflows, the net repayment of the internal borrowing was higher by HRK 25 million compared to 2020, which further reduced the net debt. Regular repayment of the principal of financial lease liabilities was HRK 16 million higher than in the previous year.



» Risk management

Fair value 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 are not significantly different from their carrying values and are categorised at the Level 2 and Level 3 fair value hierarchy.

The Company has used the following methods and assumptions when assessing fair value of its 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 amount approximates their fair value due to the short maturities of these instruments. For longer-term assets, the interest rates do not deviate significantly from the current market rates and, consequently, their fair value approximates their carrying amount.
- **Loans and lease deposits given**
  Since nearly all loans are due within the next two years, the Management Board believes that their fair values do not differ significantly from their carrying amount. In regard to lease deposits, their discounted value has been calculated, and the Management Board has concluded that their fair value does not differ significantly from their carrying amount.
- **Borrowings**
  Since the majority of the borrowings are current and are provided by the owner with a fixed interest rate, which is changed every year according to the statutory interest rate approved by the Ministry of Finance, the Management Board considers that their fair value does not differ significantly from their carrying amount.

Non-financial assets

Fair value assessment methods used to assess investment property and assets held for sale are described in more detail in the notes accompanying the financial statements (Note 5, Note 19 and Note 23).

Risk management objectives and policies

The main risks arising from the Company's financial instruments are **credit risk, foreign exchange rate risk and interest rate risk**. The Management Board reviews and enforces policies for the management of all the risks listed below. The Company has exposure to international markets. Consequently, the Company may be affected by foreign exchange rate changes. The Company also defers the collection of trade receivables, due to which it is exposed to risk of default. These significant risks, with methods used to manage those risks, are described below. The Company does not use derivative instruments for risk management or for speculative purposes.

The primary objective of Company capital management is to ensure the support of Company business, in order to provide returns to Company shareholders and benefits for other stakeholders, and maintaining the optimal capital structure to reduce the cost of capital. Company capital structure concerns share capital consisting of issued capital, reserves and retained earnings. There are currently no capital requirements that are imposed externally.

Credit risk

Credit risk implies that one party may not perform its obligations and 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 flows 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's operations (primarily trade receivables) and financial activities, including deposits and loans. All the expected credit losses on financial assets are probability-weighted 12-month ECL (Stage 1 assets).

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

- **Trade receivables arising from the sale of goods and services**
  The Company applies a simplified approach to measuring expected credit losses, which is based on lifetime expected credit losses for all trade receivables.

  In order to measure expected credit loss, trade receivables 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 debts, and concluded that there was no significant effect on expected credit loss rates.

  Trade receivables are written off directly if there is no reasonable expectation of recovery. Indicators of absence of reasonable expectations that trade receivables will be paid include, but are not limited to, the failure to make contractual payments for a period greater than one year.

- **Debt instruments at amortised cost**
  Other financial assets at amortised cost include deposits and guarantees, loans to related and unrelated parties, and other receivables. The most significant part of financial assets comprises of deposits related to lease contracts which could be offset with the lease liability and hence do not represent a significant credit risk.

The expected credit loss is calculated according to the European Banking Authority (EBA) default rate for Croatia and with probability of default for financial and non-financial institutions.

Even though cash and cash equivalents are also subject to impairment based on the requirements of IFRS 9, identified value impairment in this context is not significant and, therefore, has not been recorded.

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.

Interest rate risk

The majority of interest-bearing items of Company assets and liabilities are loans and borrowings. Interest rate risk means that the value of financial instruments will change due to a change of market interest rates in relation to interest rates applicable to the financial instruments. Interest rate risk related to cash flow is the risk of financial instrument interest expenses being changed during a period. The Company has loans received mostly from its related companies, i.e. from Fortenova grupa d.d. These loans have a fixed interest rate, which is changed every year according to the statutory interest rate approved by the Ministry of Finance. A minor portion of non-current debt is related to borrowings from unrelated companies transferred to the Company through the Settlement, which also have a fixed interest rate. Due to these factors, the Company is not significantly exposed to interest rate risk.

Company sensitivity to potential interest rate change with regards to earnings before tax, if all other variables remain unchanged, due to a change of fair value of monetary assets and liabilities, is shown below:

	Interest rate increase/ decrease in p.p.	Impact on earnings/ loss before tax
2021	+/-0.5	6,876
2020	+/-0.5	8,403

Liquidity risk

The Company is exposed to liquidity risk, since the majority of its liabilities are current. Liquidity risk management implies maintaining enough financial funds and marketable securities and maintaining the availability of financing through adequate amounts of approved credit funds to settle liabilities at maturity and 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. For more details, please refer to Note 37 attached to the financial statements.

Exchange rate risk

The majority of the Company assets are denominated in kuna. A part of the Company's borrowings, lease liabilities and trade payables is denominated in foreign currencies (primarily in EUR). Therefore, the Company is exposed to exchange rate risk. Given the long-term policy of the Republic of Croatia related to maintaining the EUR exchange rate, the Company does not believe that it is significantly exposed to further negative effects of this exposure.

Company sensitivity to potential exchange rate change with regards to earnings before tax, if all other variables remain unchanged, due to a change of fair value of financial assets and liabilities, is shown below:

HRK '000		Exchange rate increase/decrease	Impact on earnings/ loss before tax
2021	EUR	+/- 1%	37,346
	USD	+/- 1%	7
	EUR	+/- 1%	2
	USD	+/- 1%	2
2020	EUR	+/- 1%	37,537
	USD	+/- 1%	78
	EUR	+/- 1%	2
	USD	+/- 1%	2

» 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 enable 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 business events 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	2021	2020
Operating profit	284,801	66,193
Depreciation and amortisation	585,747	620,632
Sale of properties, net	1,718	(3,944)
One-off expenses	18,907	45,736
Normalised EBITDA	**891,173**	**728,617**

Margin EBITDA

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

HRK '000	2021	2020
Normalised EBITDA	891,173	728,617
Sales revenue	10,423,280	9,778,001
EBITDA margin, %	**8.5%**	**7.5%**

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, LFL

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.

%	2021/2020	2021/2019
Like-for-like revenue growth in retail	6.29%	6.34%

One-off costs

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 exceptional restructuring costs, one-time impairment costs and out-of-court settlements.

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

HRK '000	2021	2020
Prior period expenses	(8,044)	(12,923)
Guarantee provisions	(4,295)	540
Severance pay and other restructuring costs	(3,478)	(8,792)
Impairment and collection of receivables	(3,090)	(5,078)
Out of court settlements	-	(19,483)
One-off expenses	**(18,907)**	**(45,736)**

Net (financial) debt

Long-term and short-term borrowings and lease liabilities 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. 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 and liquidity.

New value created

The methodology used to calculate the indicator is presented below.

HRK '000	2021
Profit for the year	40,342
Income tax credit	(13,168)
Staff costs	1,052,191
Interest expense	267,203
New value created	**1,346,568**


Non-financial Report

» 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.**

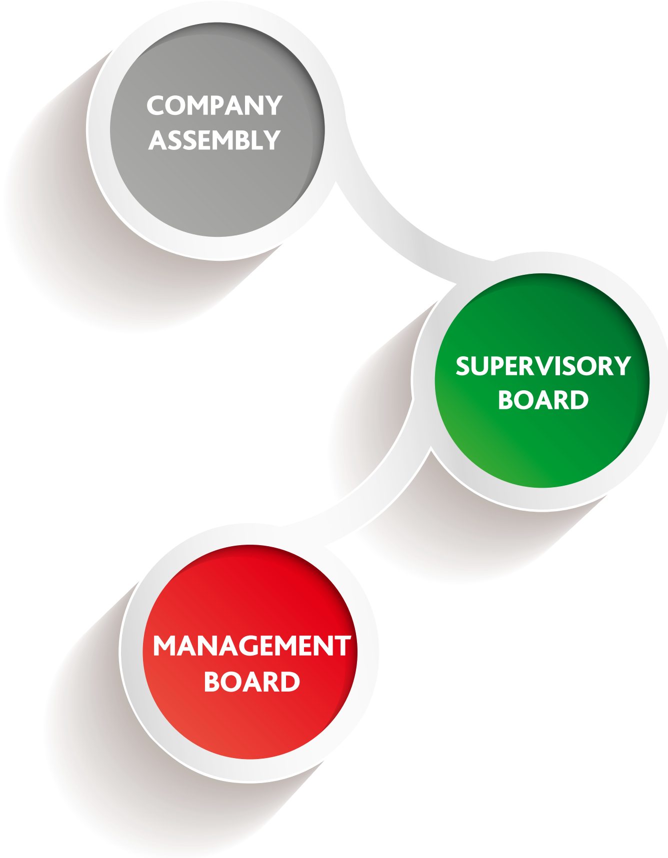
On 31 December 2021, the owner of the Company was **Fortenova grupa d.d.**, Zagreb, Marijana Čavića 1, with a **100% share.**

The owner of Fortenova grupa d.d. was Fortenova Group HoldCo B.V., the Netherlands, with a 100% share.

The ultimate owner of the Group and Company on 31 December 2021 was Fortenova Group TopCo B.V. the Netherlands, while the company with the ultimate control over management on 31 December 2021 was Fortenova Group STAK Stichting, the Netherlands.

CORPORATE BODIES

The Company's corporate bodies include the Management Board, the Supervisory Board and the Assembly. The Management Board and the Supervisory Board act independently and they report to the Company Assembly.



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.

FORTENOVA GRUPA

Supervisory Board

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. After stating their reasons and purpose, each member of the Supervisory Board or Management Board may request the president to convene a Supervisory Board meeting. 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 2021

Fabris Peruško – Member from 16 July 2019, President from 25 March 2021

Paul Michael Foley – Vice-president from 16 July 2019

James Pearson – Member from 1 July 2021

Siegfried Alfons Ganshorn – Member from 1 July 2021

Vladimir Bošnjak – Member from 16 July 2019 until 1 July 2021

Miodrag Borojević – President from 16 July 2019 until 25 March 2021

Management Board

The Management Board consists of three 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 at its own risk, according to the privileges and restrictions defined by the applicable regulations of the Republic of Croatia, the Company's 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's 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 represents the Company 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, namely the President of the Management Board with another member, i.e. any other member of the Management Board with the President of the Management Board or another member.

For the purpose of facilitating business and increasing economy, by an Company internal act, the Management Board has also transferred a part of the representation authority to lower organisational levels within the Company. 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.

MANAGEMENT BOARD MEMBERS in 2021

Zoran Mitreski
Member from 11 January 2019, Chairman of the Board from 15 May 2020

Uroš Kalinić
Member from 11 January 2019

Tomislav Kramarić
Member from June 2020

Slavko Ledić
Chairman of the Board from 11 January 2019 until 15 May 2020

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,
- Responsibilities regarding the performance of contracts and 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 according to regulations.

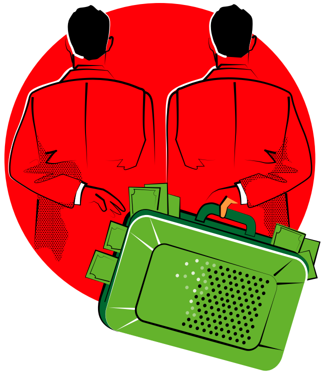
A Compliance officer (CO) is a Company employee whose primary task is to ensure the compliance of Company business. In order to avoid any potential conflict of interest, the CO must be appropriately independent in operational activities so as to perform their duties objectively and appropriately, reporting 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 misdemeanour procedures is negligible in comparison with the business volume.

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 has zero tolerance for corruption in any form or type. The anti-bribery and corruption 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 the Company's key employees 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 Anti-Money Laundering 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 indepenently, 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 a 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 designated 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 that person orally or in writing via mail, handing it in in person or e-mail.

» Social

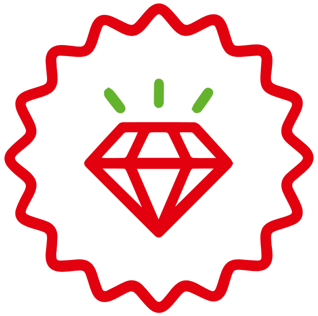
EMPLOYEES

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 work-life balance.

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 more efficient business operations,
- 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 we 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 with regard to our actions and communication. We are consistent with regards to people and process management. We believe that "doing good" in business and in the community 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.

I Have an Idea

The "I Have an Idea" project ("Imam ideju") promotes and encourages employee participation in business development and success, and in the strengthening of corporate values and culture. Our employees are allowed to improve the operation of business, their working environment and the satisfaction of employees with their own ideas.

Recommended ideas are oriented towards numerous business aspects, from those aiming to improve working conditions and efficiency, to those aiming to improve the satisfaction of customers, partners and employees. This is exactly why employees know best what could be improved in the working environment and how to do it.

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.

Employer Partner Certificate - CEP

For 2021, Konzum received the Employer Partner Certificate (CEP), and thus confirmed its commitment to continuous improvement of employee satisfaction and became a shining example in the field of human resources. The certificate is awarded by the Selectio Group, the leading group in Croatia specialising in human resources management, to organisations meeting high-quality standards in managing this important area.

The Employer Partner Certificate confirms the highest management quality in five key human resource areas - Strategy, Recruitment and Selection, Performance Management, Professional Training and Development and Employee Relations. A certification team of experienced HR consultants rated all assessed areas very highly, among which Recruitment and Selection and Employee Relations especially stood out.

Collective Agreement and Unions

The Company concluded a new Collective Agreement on 19 February 2021. The most significant improvements were made regarding the right to additional vacation days based on years of service, transportation allowance and including certain parts which were previously regulated by the employer's decision as an integral part of the Collective Agreement (e.g. one day off for parents whose children start the first grade of elementary school and newborn remunerations).

The new Appendix to the Collective Agreement maintains a high degree of material rights of our employees, such as child care fees, Easter and Christmas bonuses and cash grants, Sunday premium pays, and hot meal remunerations. Together, we continue to build a collective recognisable by mutual respect and camaraderie, admitting and nurturing the importance of dialogue with social partners.

Salary Policy

In 2021, a new payroll system was developed, with its implementation having started 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.

This new, major investment made by Konzum in its employees is a result of good cooperation and agreement with the social partners and the Fortenova Group in which Konzum operates.

For all its positions in the company, regardless of whether they were central functions or positions in operations, Konzum performed an evaluation of positions and the values of all positions within the organisation.

Using an internationally adopted methodology, a system was created which can be connected to market data, which allows for defining a just and competitive salary policy.

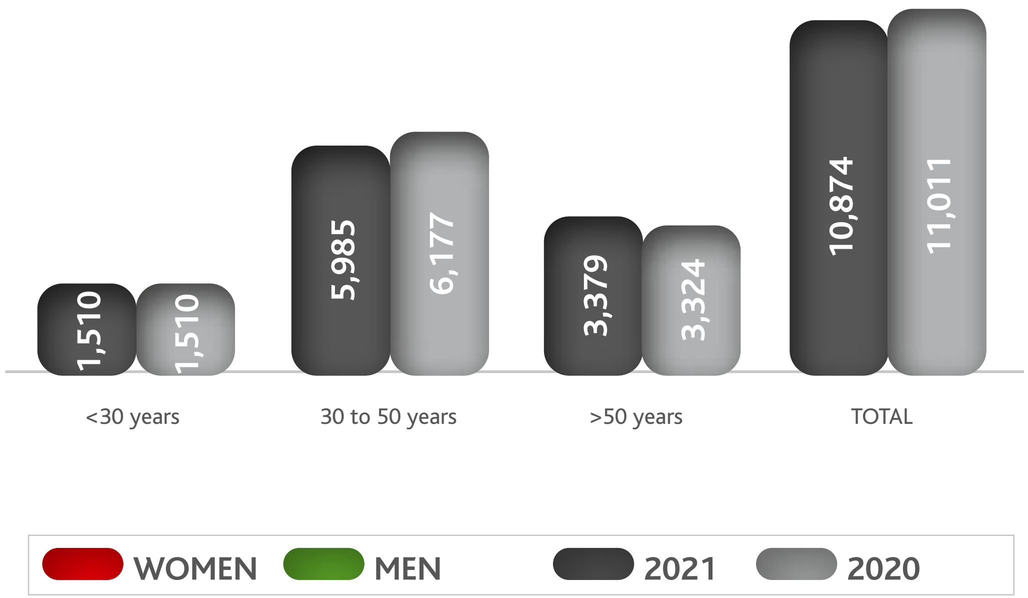
The new salary policy created for 2022 is also one of Konzum's biggest investments in the amount of more than 100 million kuna.

Employee structure

10,874 EMPLOYEES

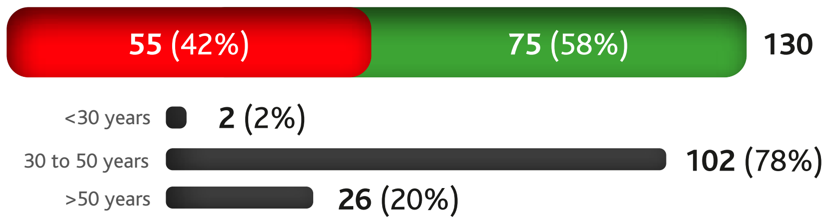
*average headcount on each last day of the month in 2021

Employee structure by age

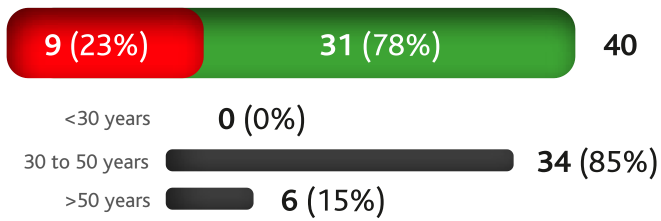


Management structure by gender and age

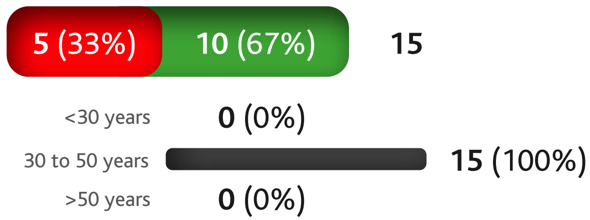
OPERATIONAL MANAGEMENT



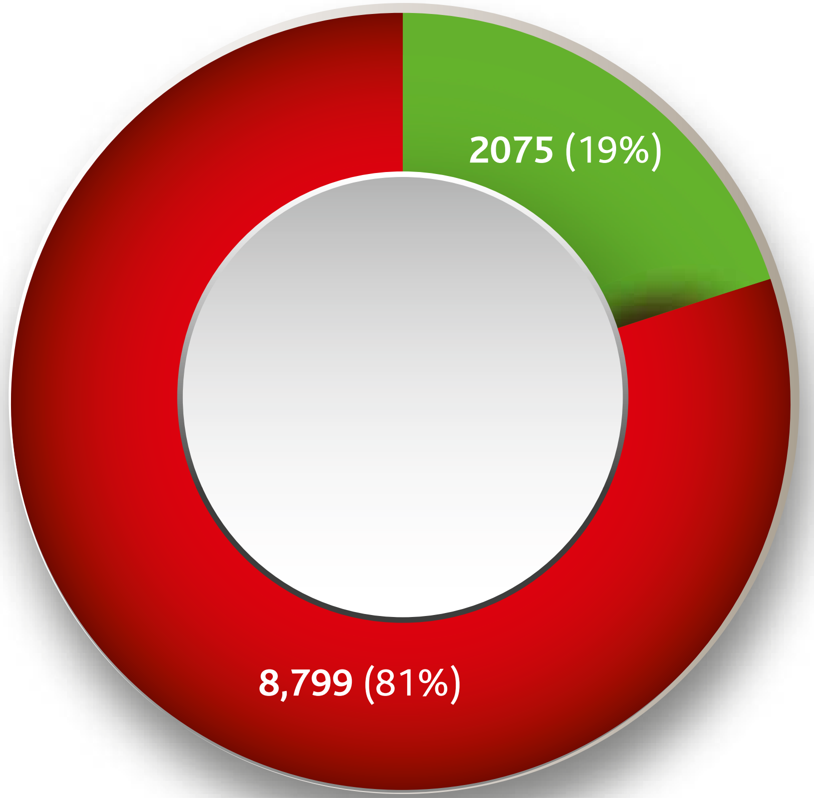
MIDDLE MANAGEMENT



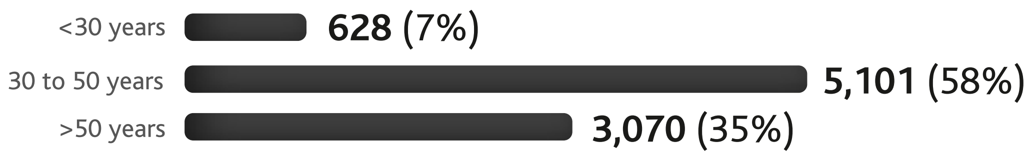
TOP MANAGEMENT



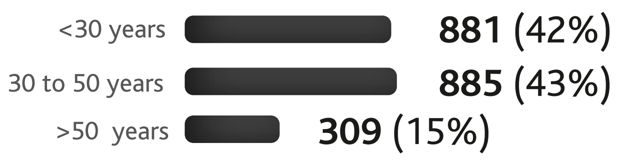
Employee structure by type of contract in 2021



AGE STRUCTURE OF EMPLOYEES WITH INDEFINITE CONTRACTS



AGE STRUCTURE OF EMPLOYEES WITH FIXED-TERM CONTRACTS



INDEFINITE CONTRACT FIXED-TERM CONTRACT

2021

Career Development Management and Employee Rewarding

Career development is defined through the process of Talent Management, which is applied to employees in management roles and which enables recognising employees with a potential to undertake more complex work, enrich existing work or transfer to another position. For operations positions, the superiors monitor their employees and recommend and develop them to be their successors.

Every manager has a pool of employees serving as resources for further development. For central functions, key positions have been defined, and the successors are developed for business process management. When the need to take over a position arises, an employee undertakes additional education in order to develop other necessary skills. For certain central positions, open internal applications are organised in operations so that all employees may get the chance to actively contribute to their own career development.

Employees can earn a reward for their work performance. A number of employees are subject to a performance assessment system related to individual development goals.

Work performance rewards included 96 per cent of employees. In 2021, a total of 86 per cent of employees received a work performance reward.

13th Generation of Konzum's employees who make us proud

At Konzum, we know that we owe our good results to our employees, which is why we nurture a culture of rewarding the best among us and have been selecting those who make us proud for thirteen years in a row. Those are our employees who distinguish themselves in their teams with their work and dedication, and their attitude towards our customers.

During the past year, we distinguished and rewarded as much as 81 hard-working colleagues from retail, logistics, wholesale and online sales - each of them received an award and a gift. All rewarded employees were also invited to our traditional luncheon with their superiors.

Yearly remunerations

- Christmas bonus
- Cash grant (vacation remuneration)
- Easter bonus
- Child care fee (for children younger than 15)

Appropriate remunerations

- Newborn remuneration
- Jubilee awards
- Aids and solidarity compensations

Additional benefits

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

Work-life balance

To its employees, Konzum allows the use of paid leave for various important life events, such as marriage or relocation, which is regulated in detail by the collective agreement. In addition, employees are entitled to one day of paid leave for every voluntary blood donation immediately after every blood donation. All employees sent by Konzum for professional or general training or education, additional days of paid leave may be approved for the purpose of studying for and sitting the exam.

Konzum may approve unpaid leave to its employees for important private needs. Employees whose position permits it may work from home. Konzum's decision prescribes that such employees are compensated for additional expenses.

MultiSport Card

For its employees, Konzum offers the benefit of using the MultiSport card, which allows them to use more than 400 sports facilities across 80 cities in Croatia. In this way, we help our employees explore new sports, contribute to achieving personal sporting goals and support them on their way to a healthy life.

KPD - Konzum Hiking Club

Konzum has always been a major promoter of a healthy lifestyle both for its customers and employees. The KPD hiking club was established in 2020 by a group of Konzum employees and nature lovers with its goal being a more active promotion of health and spreading a positive spirit and healthier bodies.

Everyone is welcome to KPD - Konzum employees, their family members, friends, all people of good will. KPD does not discriminate its members according to any criteria Đ the only thing that is important is the will of individuals to do something good for themselves and those around them.

Employee Training and Education

The educational process of the Konzum Academy complies with business needs and strategy of the Company.

The education encourages and fosters the transfer of knowledge between colleagues, since we, as a company, have enough of our own knowledge that is recognised, structured and shared with other employees. We are one of the rare companies which, for the purpose of conducting training courses, primarily use internal Konzum resources. Along with permanently employed internal instructors, educations are held with the help of our employees specialised in their area of work, helping us spread their expert knowledge across the network.

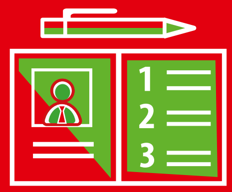
Every new employee undergoes a structured process of introductory training. KABeCeDa is an introductory training program for all employees in central functions, while employee mentors are working with their colleagues on familiarising with the basic processes.

Konzum employees may further be trained in expert and soft skills according to the needs of their position, or according to their individual development plans. We allow our employees professional training, IT courses required by law, training related to the development of inter-personal and personal skills, seminars, conferences, coaching, training levels etc.

More than

60

various training topics



More than

78,000

trainees

71%

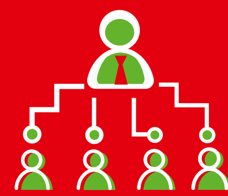
of internal trainings

29%

of external education

94.6%

of managers included in the internal transfer of knowledge



In 2010, a Selection and Education Centre was opened, located within the Maxi Konzum store, in an area of 1300 square meters, with a total of ten rooms of various sizes and purposes. By starting the Academy, our basic goal is to offer our employees the knowledge needed to perform their daily work tasks.

Since the opening of the Centre, more than 5,000 trainings for more than 50,000 Konzum's employees have been held.

We share our know-how with high schools and universities across Croatia during organised expert visits and education for high school and university students and professors.

Our managers are frequent guest lecturers at universities and business schools. In cooperation with schools of commerce, we allow high school students to undergo vocational classes, while since 2019 we have participated in the project of dual education for the salesperson module.

We have equipped 14 school practicum classrooms in order to enable better studying conditions for students to acquire the necessary commercial knowledge and skills.

In 2021, 430 high school students in total attended vocational classes at Konzum.

Konzum INSIGHT DAY 2021

Traditionally, for the third year in a row, we have organised an internal company management conference on which we have assembled the world's leading experts, and in which more than 400 employees participated via Zoom.

Occupational Health and Safety

All employees participate in an occupational health and safety and fire protection training program before they start working in a position or when changing positions.
Forklift operator and first aid trainings are conducted by authorised companies.
In 2021, a total of 8,484 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. a training for the injured worker related to their injury.

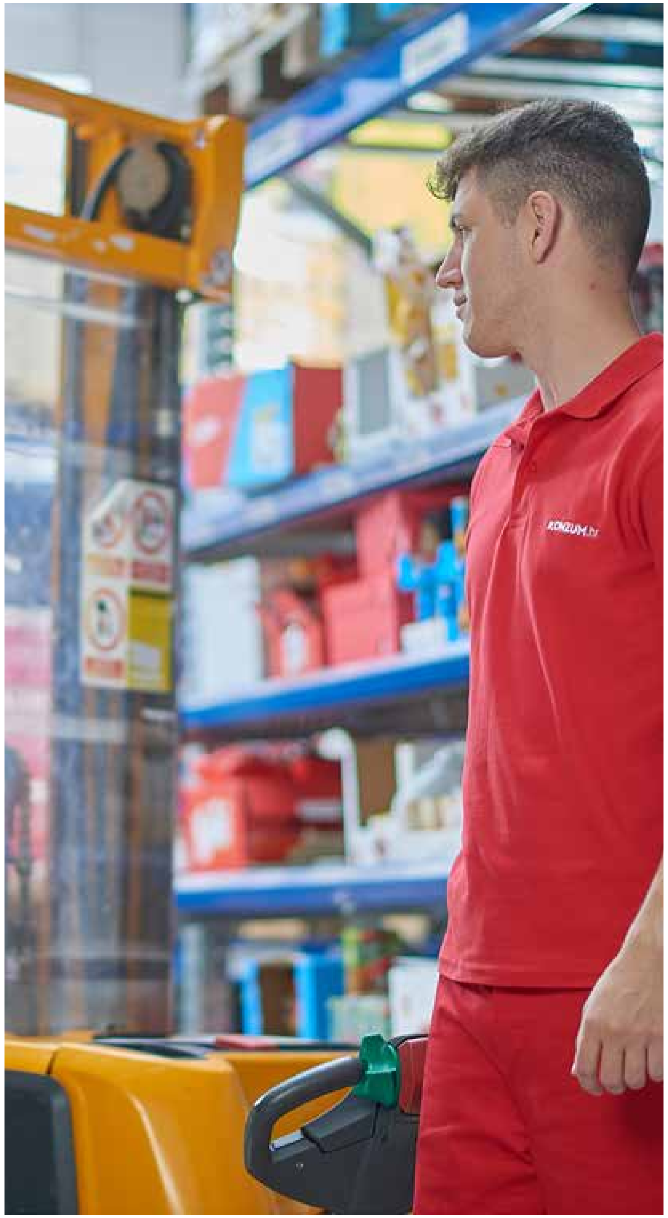
Internal supervisions are performed, where the Occupational Health and Safety and Fire Protection Service checks the condition of facilities and work equipment and interviews the workers. Authorised external companies regularly perform examinations of the working environment, electrical installations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

By putting more emphasis on the education of employees and conducting more frequent internal checks the number of occupational injuries was reduced in 2021. Compared to 2020 it decreased by 11 per cent, and the number of accidents decreased by 18 per cent.

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 get an eye examination before they start working or before they are hired in a position that includes working on a computer. Workers using corrective aids are required to have an 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 an additional benefit, employees may obtain supplementary and additional insurance policies for their family members.



CUSTOMER HEALTH AND SAFETY

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 implementing high hygienic standards in 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.

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

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, customer health and safety always comes first.

The implemented food safety management system is based on requirements of certified standards: ISO 22000 in logistics and retail, and HACCP guidelines described in the Codex Alimentarius in wholesale.

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.

The management systems are established based on risk assessment in all business processes. The processes are described, critical control checkpoints are defined, and corrective measures performed when the critical checkpoint is out of control. In retail and wholesale, the HACCP plans include all critical control checkpoints. The system is verified by performing regular internal controls Đ 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:

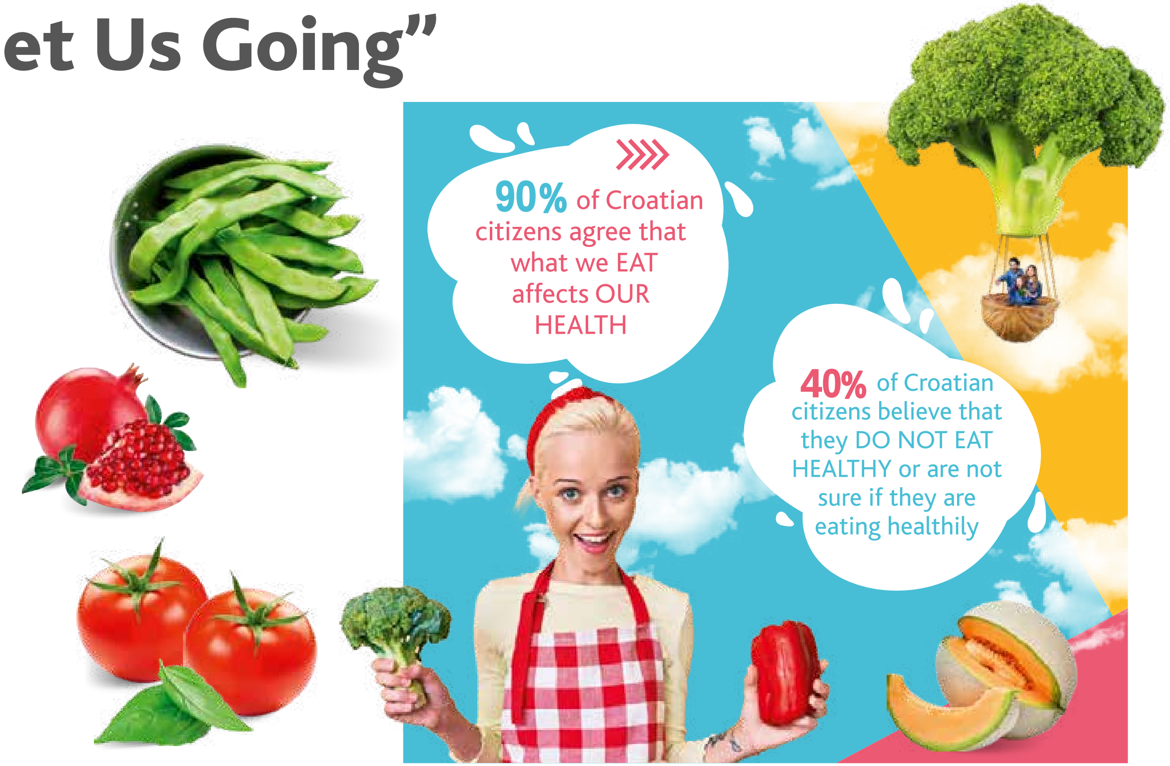
- Internal control plans, performed in organoleptic laboratories,
- Private label monitoring plan (submission for analysis in authorised laboratories), and
- Producer audit plan (depending on the management system certificate owned by the producer).

Educational and Promotional Campaign "Fruit and Vegetables Get Us Going"

Konzum Strives to Encourage Proper Eating Habits in Society

The results of a study on fruit and vegetable consumption among the citizens of Croatia carried out by the Hendal agency on behalf of Konzum in January 2021 has shown that a change of eating habits is necessary.

Therefore, as the biggest retail chain in Croatia, but also the leading retail chain in promoting fruit and vegetables and the leading retail chain in supplying domestic fruit and vegetables according to studies, Konzum has decided, to encourage a change in society.

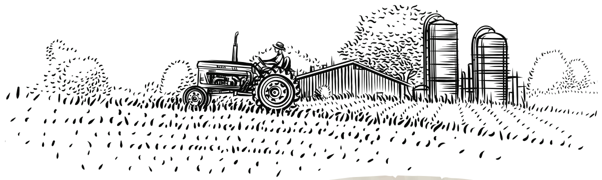


As part of a major educational and promotional campaign under the tagline "Voće i povrće nas pokreće" ("Fruit and Vegetables Get Us Going"), numerous activities directed towards adults and children have been undertaken, together with special promotions and discounts in fresh fruit and vegetables sections in stores across Croatia.

Furthermore, educational and entertaining activities have been designed on a dedicated website through which Konzum still reminds its customers of the benefits of fruit and vegetables and their importance in the healthy nutrition pyramid.

By working together with famous cooks and influencers, and with expert advice from nutritionists, Konzum has also offered its customers additional inspiration to eat food and vegetables as much as possible in their households, but also in their workplace or on-the-go.

LOCAL COMMUNITIES



Domestic Suppliers Support Project "Najbolje iz Hrvatske" ("Best of Croatia")

Partnerships with more than

4000

minor and major suppliers from all over Croatia

NAJBOLJE IZ HRVATSKE

Konzum provides systematic help to Croatian production and domestic manufacturers

From the very beginning of Konzum's business activities, it has demonstrated its commitment to support Croatian agriculture and production, and maintains partnerships with more than 4000 minor and major suppliers from entire Croatia by facilitating direct deliveries to its own distribution centres and collecting stations, or via its strategic partners.

Owing to a long-term business strategy favouring cooperation with domestic manufacturers, more than 75 per cent of Konzum's shelves today consists of domestic products, and this share is as high as 80 per cent for fruit and vegetable.

Last year was truly successful for Konzum's long-term domestic production and domestic manufacturers support project, which brings numerous minor domestic manufacturers into Konzum stores, and highlights their offer under the tagline "Najbolje iz Hrvatske" ("Best of Croatia").

The number of stores in which customers may find this assortment has been significantly increased, namely from 23 in June 2020 to 68 stores today, including 50 Super Konzum stores across Croatia. The total turnover has been increased for as much as 90 per cent.

The good sales results of the "Best of Croatia" project arise from the excellent quality of offered products, great efforts regarding the attractive labelling of shelves and cabinets, and highlighting the offer in 13 regular and four regional catalogues. The biggest increase in sales results has been in the Zagreb region, followed by the Western and Southern regions.

Currently, Konzum offers as much as

280

different products of

64

manufacturers.

Educational Loyalty Program "The Maritians" ("Morsovci")

Konzum draws attention to the necessity of protecting nature, with an emphasis on protected animal species

In 2021, Konzum presented its newest loyalty program, centred around stuffed characters named "The Maritians" ("Morsovci"), which send an important message of the necessity of protecting nature, with an emphasis on protected and endangered aquatic animal species.

With stuffed aquatic animals, Konzum continued its series of successful loyalty programs, which cheered up, entertained and educated its older and younger customers on important social topics.

The Maritians were a reminder of the importance of nature protection, especially of marine life and protected and endangered animal species in the Adriatic Sea. In this way, they further contributed to Konzum's efforts dedicated to the reduction of plastic and environmental protection. More than 448,000 Maritians were sold in total, which found their home in 195,000 households across Croatia, and in more than 46,000 educational and entertaining booklets, in which children could learn many interesting facts about the marine life.

The merry marine crew was joined by Nina the Dolphin ("Dupina Nina"), and Konzum donated HRK 207,000 collected from its sales to the Blue World Institute, an organisation dedicated to the exploration of marine environment and aquatic organisms, education of the public and marine protection.

The donated funds were dedicated to research, education and activities related to the protection of dolphins in the Adriatic Sea.

270.000 KN
collected and donated

INSTITUT PLAVI SVIJET

Konzum’s traditional holiday charity event

Konzum is supporting children and families across Croatia

In 2021, Konzum traditionally brightened up the Christmas and New Year holidays for a great number of families in Croatia and donated almost HRK 155,000 to organisations and associations providing aid to children and families in need through a joint charity event based on MultiPlusCard under the slogan “Najljepši Božić je kad darujemo zajedno” (The most beautiful Christmas is when we give together).

In addition, all Konzum customers who are MultiPlusCard members could contribute to this charity event by donating their bonus HRK to their selected organisation via the MultiPlusCard app or the website multipluscard.hr.

Among the selected organisations and associations was the Aurora Association, which helps people with cerebral palsy and polio, as well as other physical disabilities in the Šibenik-Knin County, and the “Brački pupoljci” (Brač Buds) Association, which provides support to families with children with developmental disabilities. Funds were also allocated to the Centre for Early Childhood Intervention MURID, which deals with the identification of developmental risks and difficulties in child development, the “Slava Raškaj” Centre in Zagreb, which provides services to children and youth with communication difficulties, and to the Children’s Home “Tić” in Rijeka, which specialises in working with children and young people who have experienced violence, abuse or neglect and who live in at-risk families.

The donation was also sent to the Youth Work Association Breza, which provides support to children and youth without adequate parental care, and to the Vladimir Nazor Service Community Centre, whose activities include care for children without adequate parental care from the ages of 7 to 21, children in need of temporary accommodation in crises, children found without parental supervision or are vagrant, and the centre also provides counselling and assistance services to provide support in crises and strengthen one’s capacity.

Konzum again awarded with the certificate of merit “Najdonator” (Top Donor)

For the fourth year in a row, Konzum is the largest food donor in Croatia

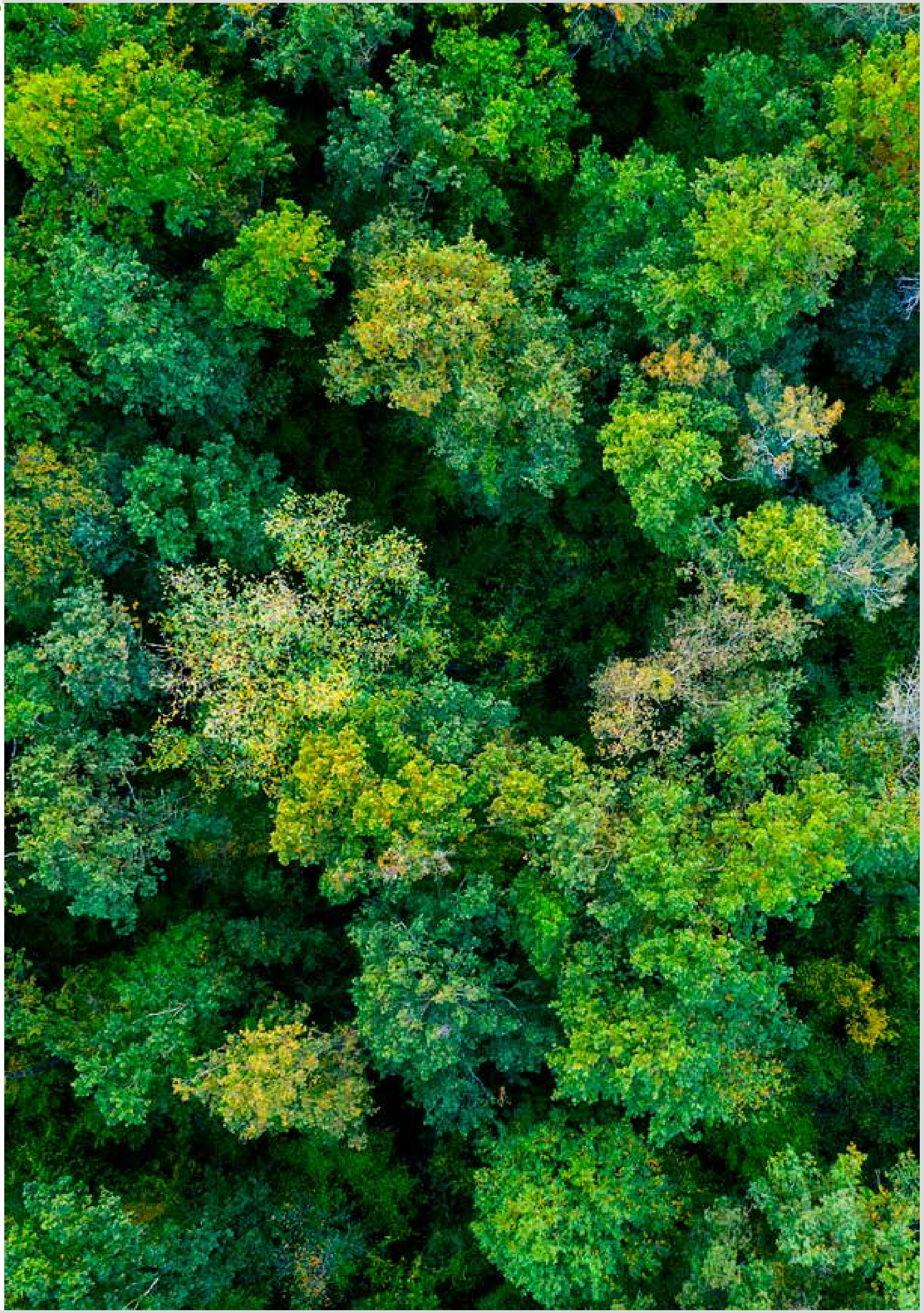
Last year, Konzum was declared the Top Donor as part of an initiative to reduce waste and increase food donations launched by Biljana Borzan, the European Parliament’s rapporteur, and Zoran Grozdanov, the coordinator of the platform “Mreža hrane” (Food Network). The realisable value of the food donated by Konzum in 2020 amounted to HRK 5,879,653.21, VAT excluded, which was the highest total value of food donations among large companies.

Food donation has been one of Konzum’s key activities in the field of social responsibility since 2015, when the company launched processes to donate even larger quantities to people in need.

Konzum’s 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 Konzum achieves in the field of food donation arise from the joint work of numerous employees from various sectors and departments. The food donation chain includes Konzum employees in the Support sector who contact associations, educate stores and look for donation opportunities, as well as finance employees who are in charge of preparing 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 daily inspect products with a “use by” deadline, 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. Donated food is collected almost daily by 14 intermediaries from 47 of the company’s facilities (35 stores, 8 Velpro centres and 4 warehouses).

» Environment



IMPACT OF BUSINESS ON THE ENVIRONMENT

Konzum has been taking systematic care of the environment for many years. In addition to waste management, we manage other activities that have a significant impact on the environment: emissions, energy consumption and energy efficiency. We are the first retail chain in Croatia to implement and certify an environmental management system in all our facilities in accordance with the ISO 14001 standard back in 2010, which confirms our efforts and focus on environmental protection and continuous improvement.

Regular activities that take place during the year are:

- Monitoring waste flows;
- Measuring emissions of pollutants from stationary sources;
- Regular inspections on the tightness of cooling and air conditioning systems.

If irregularities occur in any of the observed segments, a prompt reaction is underway which reduces the impact on the environment. When changing cooling units and installing new equipment, refrigerants that have a lower impact on the ozone layer (lower CO_2 emission equivalent) are installed in the system. One of the most important items is the selection of more energy-efficient equipment with a longer service life, which reduces energy consumption.

By optimising the process of ordering items, proper storage, distribution and sales, as well as proper waste sorting, we ensure that our impact on the environment is minimal.

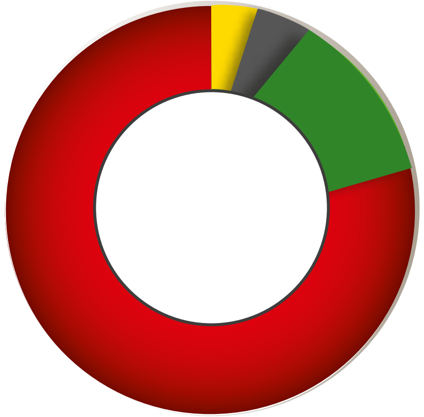
Company management has taken note of global awareness and concerns about the potential impact of climate change. Currently, this matter has had no significant impact on the financial statements, and the future effects on the Company's activities and business plans are difficult to predict. Management continues to monitor developments in this area and will respond as necessary to ensure the Company's viability.

ENERGY EFFICIENCY

The most common energy source in the network is electricity, and in most retail stores it is significantly used for the operation of cooling equipment.

When renovating and opening new stores, CO_2-cooling cabinets with closed doors are ordered.

To ensure the procurement of the most energy efficient equipment, a procedure is prescribed for the procurement of new equipment, and their energy efficiency is one of the main selection criteria. In accordance with the procedure, tenders are held for ordering equipment.



SHARE OF ENERGY CONSUMPTION IN 2021 BY TYPE

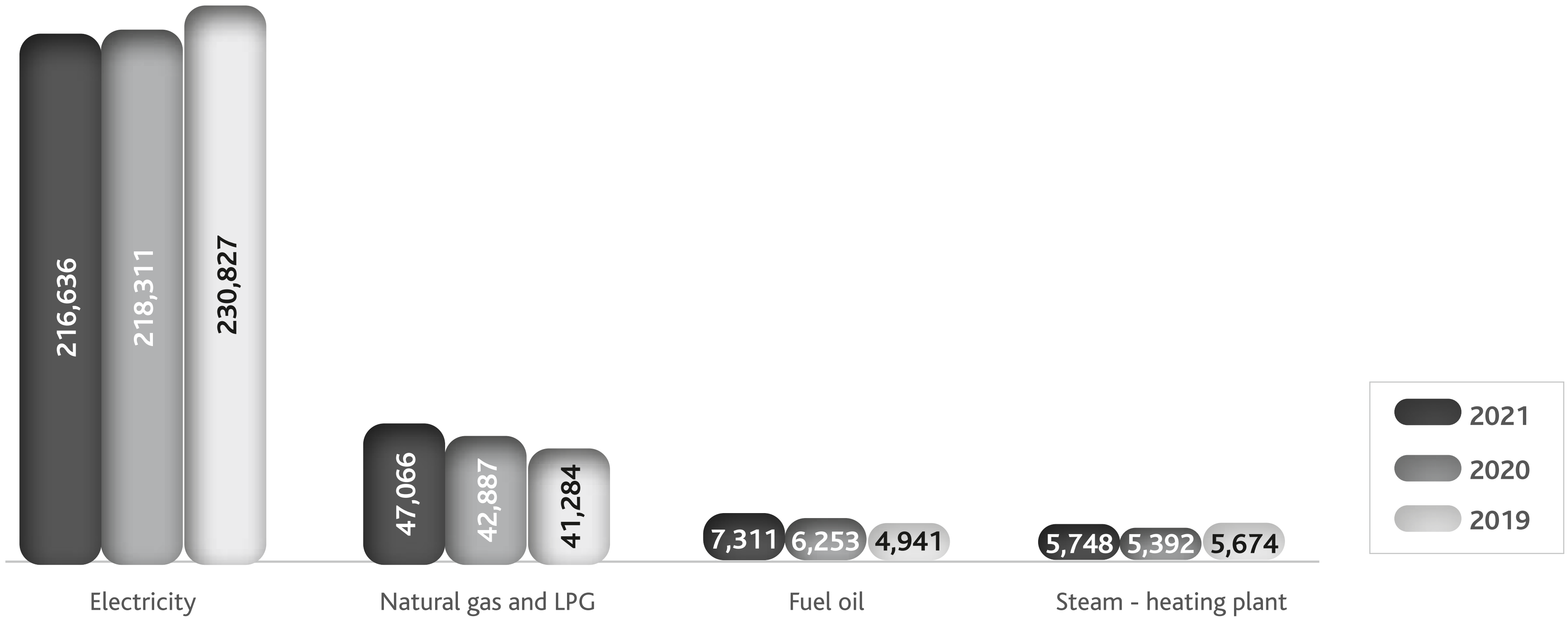
- **electricity** (78.3%)
- **natural gas** (16.9%)
- **fuel oil** (2.6%)
- **steam - heating plant** (2.1%)
- **LPG** (0.1%)

Electric charging stations

We have set up charging stations for electric vehicles in three locations: Karlovac, Delnice and Zagreb. In 2021, 11,938 kWh of energy was consumed while charging.

At the location of a Super Konzum store in Delnice and Karlovac, fast 50 kW DC charging stations have been installed, where the vehicle battery can be charged in about 30 to 45 minutes, while the 160 kW charging station in Sarajevska Street in Zagreb makes the process possible in only 5 to 15 minutes.

Energy consumption by type (in '000kWh)



By investing in more energy-efficient equipment, educating employees and with timely preventive services, we take care of maximising energy savings. The outbreak of the COVID-19 pandemic in 2020 caused changes in almost all aspects of life, and also affected the opening hours of stores that were open part-time and closed on Sundays in one part of the year. For this reason, the indicators for 2020 are not fully comparable with previous periods. Nevertheless, there is a visible decline in energy consumption, especially electricity, compared to 2019.

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 section (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.

In all facilities with gastronomic sections, separators for fats and oils (grease separators) have been installed, and separators for mineral oils and petroleum products have been installed on larger independent facilities. Devices are regularly cleaned in accordance with legal regulations and in a way that ensures that there is no negative impact on the environment.

The amount of water delivered by the public water supply system is regularly monitored and data are compared every month for each location.

Water consumption (in liters)

WASTE MANAGEMENT

Waste management is one of the important aspects identified in assessing the impact of business on environmental protection. Waste generated in facilities is properly sorted according to prescribed instructions and procedures. At the waste generation site, primary selection (sorting) of waste takes place, during which types of waste that can be recycled or recovered (e.g. cardboard, foil) are singled out. Sorted types of waste are temporarily disposed of in adequate containers for individual types of waste. Considering the prevalence and diversity of the sales network, containers have been installed in all facilities that enable the most efficient waste sorting for that location (press containers, roll containers, open containers, etc.).

In order to facilitate the entire process for the facilities, the Waste Management application has been implemented, through which the necessary documentation is prepared, and the ordering system for waste collection has also been automated. The purpose of the application is to maximise the automation of the disposal process in order to speed up the whole process and enable monitoring of the waste flow from all facilities. By proper sorting and by selecting partners who recycle and recover waste after collection, we have contributed to reducing the amount of municipal waste.

In its stores on over 200 m2 of retail space, Konzum provides its customers with the service of handing over non-returnable packaging (PET, glass, sheet metal). In some stores, vending machines for the automatic collection of packaging are installed, while in most cases the acceptance of packaging is done manually.

Customers can bring their waste batteries to all our retail stores without the obligation to purchase anything.

Due to proper handling of all types of waste and with preventive action (setting up secondary containment trays, educating employees, conducting drills in the event of an incident), Konzum did not record any uncontrolled leakage of harmful substances into the environment and there were no environmental incidents. In 2021, 16,488 tons of waste were produced, of which only 0.25 per cent was hazardous waste.

Quantities of produced waste (in tons and percentages)

WASTE CATEGORY	2021 (t)	2021 (%)	2020 (t)	2020 (%)
Cardboard packaging	11,157	67.66%	8,675	65.00%
Animal tissue waste	2,668	16.18%	2,565	19.22%
Plastic packaging	906	5.49%	571	4.28%
Biodegradable waste	818	4.96%	610	4.57%
Fats and oils from separator	395	2.40%	791	5.92%
Other non-hazardous waste	385	2.33%	2	0.01%
Edible waste oils	118	0.71%	110	0.83%
Batteries and accumulators	12	0.07%	9	0.07%
Electrical and electronic waste	30	0.18%	13	0.10%
TOTAL	16,488	100%	13,347	100%

Reducing the use of plastic with the project "Jedna manje" (One less)

Konzum keeps track of environmental protection and reduction of its impact on the environment

The values on which Konzum, as a socially responsible company, bases its business are quality, trust, serviceability, innovation and understanding the needs of all members of the local community. When planning new projects, campaigns and business solutions, Konzum also takes into account the protection of the environment and the reduction of impact on it.

Thus, it continuously implements numerous initiatives aimed at nature preservation for generations to come, and the reduction of plastic is just one of many.

Therefore, the "Jedna manje" campaign was created in April 2021 to reduce plastic waste. The campaign is aimed at encouraging citizens to use reusable eco-friendly bags as often as possible, in order to contribute as much as possible to reducing the amount of plastic waste in Croatia.

In April 2021, Konzum donated HRK 1 to the Civic Environmental Initiative "Čisteći medvjedići" (Cleaning bears) for each purchase of a specially marked reusable eco-friendly bag "Priroda me voli" (Nature loves me) in selected stores throughout Croatia and in the online store. A total amount of HRK 62,298 was collected for the cleaning of forests, beaches and riverbanks in four Croatian counties.

The "Jedna manje" campaign will continue in 2022, so customers who use a reusable eco-friendly bag will once again receive a HRK 1 discount on the total amount of the bill for each purchase at Konzum until the end of the year.

In addition, every time customers made a purchase in which they used a reusable eco-friendly bag, the cashier bill was reduced by HRK 1, thus Konzum additionally rewarded their responsible behaviour when buying.

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 maintained environmental and energy management systems in accordance with the requirements of the international standards ISO 14001 and ISO 50001, and we have decided to implement continuous system improvements in order to improve environmental and energy performance.

In May 2021, an independent company conducted a supervisory audit which confirmed that the company is fully compliant with legal and other obligations, and no non-compliance was found during the audit. Energy audits of facilities were performed, areas of significant energy consumption were located, and goals for monitoring and reducing energy consumption were set.

We provide resources and information for the set goals of environmental protection and energy management, as well as support the procurement of energy-efficient products and services, and design that improves energy performance. In this way, we demonstrate our commitment to environmental protection, including the prevention of pollution, the reduction of environmental pollution and the sustainable use of resources.

By fulfilling our compliance obligations in accordance with all legal and other requirements related to the use and consumption of energy and energy efficiency, as well as our environmental performance, we have laid the foundations of the system.

At Konzum, we are all responsible for implementing the environmental management system and the energy management system. By establishing a value system, raising awareness and sharing knowledge, we contribute to achieving our goals.

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 2021, 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 21 June 2022.

What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2021;
- the statement of financial position as at 31 December 2021;
- the statement of changes in equity for the year ended 31 December 2021;
- the statement of cash flows for the year ended 31 December 2021; 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 2021 to 31 December 2021.

Material uncertainty related to going concern

We draw attention to Note 2, Basis of preparation, to the financial statements, which indicates in the "Going concern" section that the Company is a guarantor of loan notes issued by Fortenova grupa d.d. (the "Parent"), which include compliance requirements with certain financial and non-financial covenants at the end of each quarter and next annual period. The Parent did breach some of these covenants. This situation, along with other matters as set forth in Note 2 to the financial statements, indicate 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

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
Impairments of goodwill and intangible assets with indefinite useful lives As of 31 December 2021, the carrying value of goodwill and intangible assets with indefinite useful lives amounted to HRK 558,286 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 related to group of cash generating units ("CGUs"). As part of our audit, the following procedures were performed: • We assessed whether the determination of groups of CGUs adopted by the Company's management 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 group of CGUs. - We analysed the appropriateness of financial budgets of group of CGUs 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 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, 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.

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; and
- the Management Report has been prepared in accordance with the requirements of Article 21 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 15 September 2021, representing a total period of uninterrupted engagement appointment of 3 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

21 June 2022

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 21 June 2022.

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 2021

	Notes	2021 HRK'000	2020 Reclassified HRK'000
Revenue	*6*	10,423,281	9,778,001
Other income	*7*	270,292	257,036
Total operating income		**10,693,573**	**10,035,037**
Cost of goods sold		(7,665,230)	(7,278,774)
Material and energy costs	*8*	(295,079)	(297,784)
Service costs	*9*	(679,482)	(625,329)
Staff costs	*10*	(1,052,191)	(1,023,267)
Impairment of financial assets	*11*	(5,036)	(6,653)
Other impairments	*11*	1,739	3,240
Other costs	*12*	(126,028)	(123,590)
Gain/ (loss) on sale of property, plant and equipment, net		(1,718)	3,944
Depreciation and amortisation		(585,747)	(620,632)
Total operating expenses		**(10,408,772)**	**(9,968,845)**
Operating profit		**284,801**	**66,192**
Finance income	*13*	15,429	2,709
Finance costs	*14*	(273,056)	(347,486)
Net finance costs		**(257,627)**	**(344,777)**
Profit/(loss) before tax		**27,174**	**(278,585)**
Income tax credit / (expense)	*15*	13,168	25,111
Profit/(loss) for the year		**40,342**	**(253,474)**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss in subsequent periods:			
Actuarial remeasurements of defined benefit liability, net of tax		(6,784)	447
Other comprehensive income/(loss) for the year, net of tax		**(6,784)**	**447**
Total comprehensive income/(loss) for the year		**33,558**	**(253,027)**

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

	Notes	31 December 2021	31 December 2020
		HRK'000	HRK'000
Non-current assets			
Intangible assets	*16*	674,914	692,467
Property, plant and equipment	*17*	1,252,282	1,317,394
Right of use assets	*18*	2,000,443	2,121,887
Investment property	*19*	475,445	513,861
Loans, deposits and other financial assets	*20*	128,098	140,462
Deferred tax assets	*15*	71,157	57,988
Other non-current assets	*21*	478	2,599
Total non-current assets		**4,602,817**	**4,846,658**
Current assets			
Inventories	*22*	707,718	660,480
Loans, deposits and other financial assets	*20*	8,058	6,445
Trade receivables	*24*	328,429	393,486
Other current assets	*25*	51,166	63,033
Cash and cash equivalents	*26*	159,534	361,560
		1,254,905	**1,485,004**
Assets held for sale	*23*	-	10,896
Total current assets		**1,254,905**	**1,495,899**
TOTAL ASSETS		**5,857,722**	**6,342,558**
Capital and reserves	*27*		
Share capital		20	20
Capital reserves		118,046	118,046
Merger reserve	*2*	(193,479)	(193,479)
Accumulated loss		(340,033)	(373,591)
Total capital and reserves		**(415,446)**	**(449,004)**
Non-current liabilities			
Provisions	*28*	126,918	115,227
Loans and borrowings	*29*	466,254	582,139
Lease liabilities	*30*	2,213,890	2,329,528
Other non-current liabilities		206	220
Total non-current liabilities		**2,807,268**	**3,027,114**
Current liabilities			
Trade payables	*31*	1,657,570	1,755,436
Loans and borrowings	*29*	1,183,745	1,408,288
Lease liabilities	*30*	330,894	306,294
Current income tax payable	*15*	-	1,443
Other current liabilities	*32*	293,691	292,988
Total current liabilities		**3,465,900**	**3,764,448**
TOTAL EQUITY AND LIABILITIES		**5,857,722**	**6,342,558**

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 2020		**20**	**118,046**	**-**	**(120,564)**	**(2,498)**
Loss for the year		-	-	-	(253,474)	(253,474)
Other comprehensive income		-	-	-	447	447
Total comprehensive loss for the year		-	-	-	(253,027)	(253,027)
Transactions with owners in their capacity as owners:						
Business combinations under common control	2	-	-	(193,479)	-	(193,479)
Balance as at 31 December 2020		**20**	**118,046**	**(193,479)**	**(373,591)**	**(449,004)**
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)**

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

	Notes	2021	2020
		HRK'000	HRK'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax		**27,174**	**(278,584)**
Depreciation, amortisation and impairment of property, plant, equipment, other intangible assets and right of use assets	*16, 17, 18, 19*	585,747	620,632
Finance income	*13*	(15,429)	(2,709)
Finance costs	*14*	269,611	347,486
Impairment loss on financial assets, net		5,036	6,653
(Gain)/loss on sale of property, plant and equipment		1,718	(3,944)
Loss on from sale of financial assets	*14*	3,445	-
Change in provisions for liabilities and charges		6,320	6,097
Non-current assets shortages /(surpluses)	*12*	1,077	(4,792)
Write-off of goods, spillage, damage, breakage and inventory shortages		151,912	132,373
Income from write-offs of liabilities	*7*	-	(37)
Other non-cash transactions		18,892	37,967
Cash flow before adjustments for changes in working capital		1,055,503	861,142
Changes in inventories		(189,409)	(93,355)
Changes in receivables and other current assets		84,512	(9,840)
Changes in trade payables and other current liabilities		(111,846)	285,242
CASH FLOWS FROM OPERATING ACTIVITIES		838,760	1,043,189
Income tax paid	*15*	(1,476)	(25,914)
Interest paid	*34*	(277,097)	(292,591)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**560,187**	**724,684**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		26,572	26,476
Repayments of deposits paid		5,658	4,131
Proceeds from sale of financial assets		12,572	-
Deposits paid		(14,714)	(12,800)
Purchases of property, plant and equipment and intangible assets		(131,603)	(107,815)
Acquisition of subsidiaries		(17,761)	-
Cash acquired in business combination	*2*	13	20,849
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(119,263)**	**(69,159)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings and loans	*34*	170,000	65,000
Repayment of borrowings and loans	*34*	(493,814)	(363,847)
Repayment of principal element of lease liabilities	*34*	(319,136)	(303,140)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(642,950)**	**(601,987)**
TOTAL NET CASH FLOWS		**(202,026)**	**53,538**
Cash and cash equivalents at beginning of period		361,560	308,022
Cash and cash equivalents at end of period	*34*	159,534	361,560

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 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 at 31 December 2021 is Fortenova Group TopCo B.V., Netherlands, while the ultimate controlling party at 31 December 2021 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 2021 the Company had 10,900 employees on average, and in 2020 10,863 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 2021, the exchange rate for USD 1 and EUR 1 was HRK 6.644 and HRK 7.517 (31 December 2020: HRK 6.139 and HRK 7.537). 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 preparation of 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 operations of the Company. As at 31 December 2021 the Company has higher current liabilities than assets in the amount of HRK 2,210,994 thousand. Current loan obtained from the owner Fortenova grupa d.d. was successfully refinanced on 9 February 2022 with a new revolving loan. According to new loan terms the loan is no longer current and is due on 28 February 2023. After the refinancing current liabilities exceed current assets by HRK 1,061,736 thousand.

For further details please refer to Note 37.

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.

Following the negative impact of COVID-19 in 2020, the overall economic recovery had a positive impact on all aspects of the Company's business in 2021. This positive impact is also reflected in the outlook for 2022 which is included in the plans for 2022 and beyond. The Company's actual performance in Q1 of 2022 is above expectations and the outlook shows this trend will continue throughout the whole year. The Company's operating performance and operating cashflows are sufficient to meet all the financial liabilities that fall due in the foreseeable future.

However, as disclosed in Note 35, the Company assumed the underlying guarantee and pledges for the loan note issued by Fortenova grupa d.d. The loan note finance document prescribes certain financial and non-financial covenants for which quarterly and annually the Group provides compliance certificates to the noteholders. Failure to comply with the covenants represents an event of default under the loan note subscription agreement.

As of the date of authorizing these financial statements, there are events of default under the Subscription Agreement related to non-financial covenants. Also, due to sanctions the Group was unable to repay due interest under the borrowing agreement, representing an event of default. In addition, due to imposed sanctions, there was a change of control as defined by the Group borrowing agreement, allowing the borrower to request early repayment. If the sanctioned minority noteholder were to request repayment of the outstanding notes, the sanctioned noteholder could not legally enforce against the Group's assets. Also, due to sanctions and related restrictions in respect of the sanctioned minority noteholder, there is an uncertainty as to the trustee's ability to perform the full scope of their roles under the Group borrowing agreement. This has caused uncertainty as to the Fortenova Group's ability to close transactions which require the trustee's active engagement, which might result in not meeting the covenants relating to further reductions of the Fortenova Group's leverage ratio in the foreseeable future. The Group, the Majority Noteholders and the trustee are currently discussing how to fully restore the trustee's active role in order for the Group to remain fully compliant with all covenants. Pending the restoration of the trustee's role, the Group and the Majority Noteholders are actively discussing a reset of the leverage covenant which will enable the Group to meet this requirement.

No financial covenant default has occurred up to the financial statements issuance date. All uncertainties relate to a single borrowing agreement. The Group is currently in discussions with the noteholders to come to a waiver of the events of default.

Fortenova is not aware of any enforcement action being initiated, or ongoing, as a result of any of the continuing defaults. Furthermore, the Group is in the process of discussing a proposed waiver letter with the Majority Noteholders requesting these defaults to be waived. The Majority Noteholders have confirmed their present intention and aim to come to a satisfactory resolution with the Group in respect of the events of default. The discussions with the Majority Noteholders started in December 2021 and the Group Management expects the waiver and amendment to be signed by 1 July 2022.

Management has thus determined that the use of the going concern assumption is appropriate and warranted in respect of the preparation of the financial statements for the year ended 31 December 2021. However, considering that the waiver for the ongoing defaults has not been obtained as of the date of authorisation of these financial statements, Management considers that there is a material uncertainty that may cast a significant doubt upon the Company's ability to continue as a going concern and, therefore, that the Company may not be able to realize its assets and discharge its liabilities in the normal course of business.

Business combinations during the reporting period

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 with it 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 acquisition. Purchase consideration paid with a bank transfer during the acquisition of the entity was HRK 17,761 thousand. The consideration was initialy recognised as investment in a subsidiary. On 1 October 2021 the Company merged with Miracolo trgovina d.o.o. and at that time the investment in the subsidiary was eliminated against the predecessory 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)**

Business combinations under common control in 2020

During 2020 the Company has acquired 8 companies. No purchase consideration was paid based on the fact that the acquisitions relate to business combinations under common control. Companies acquired were as follows:

Acquired company	**Date of the acquisition**
VELPRO – CENTAR plus d.o.o.	January 2, 2020
Bio-zone plus d.o.o.	October 15, 2020
Terra Argenta plus d.o.o	October 15, 2020
SK-735 plus d.o.o.	October 16, 2020
Aureum Stella d.o.o.	October 20, 2020
Hotel Forum plus d.o.o.	October 20, 2020
Krka plus d.o.o.	November 12, 2020
Jolly projekti jedan d.o.o.	November 12, 2020

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

	VELPRO – CENTAR plus d.o.o.	**Other companies**	**Total**
	2020	**2020**	**2020**
	HRK'000	**HRK'000**	**HRK'000**
Intangible assets	2,584	2	2,586
Property, plant and equipment	53,683	92,160	145,843
Right of use assets	31,378	-	31,378
Loans, deposits and other financial assets	11,058	16,059	27,117
Inventories	69,016	-	69,016
Trade and other receivables	84,269	8,541	92,810
Cash and cash equivalents	13,260	7,589	20,849
Assets	**265,248**	**124,351**	**389,599**
Provisions	(6,722)	(2)	(6,724)
Lease liabilities	(32,535)	-	(32,535)
Loans and borrowings	(250,707)	(101,743)	(352,450)
Trade and other payables	(178,078)	(13,291)	(191,369)
Liabilities	**(468,042)**	**(115,036)**	**(583,078)**
Merger reserve	**202,794**	**(9,315)**	**193,479**

Reclassification in Statement of comprehensive income for comparative period

In 2021, 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	**2020**	**Reclassifications**				**2020 reclassified**
		HRK'000	**Marketing**	**Net effect on income and expenses**	**Separate presentation of impairments**	**Inventory related costs to cost of goods sold**	**HRK'000**
Revenue		9,778,001	-	-	-	-	9,778,001
Other income	*a), b)*	250,183	31,981	(25,128)	-	-	257,036
Total operating income		**10,028,184**	**31,981**	**(25,128)**	**-**	**-**	**10,035,037**
Cost of goods sold	*a), d)*	(7,095,386)	(31,981)	-	-	(151,407)	(7,278,774)
Material and energy costs	*d)*	(435,396)	-	-	-	137,612	(297,784)
Service costs		(625,329)	-	-	-	-	(625,329)
Staff costs		(1,023,267)	-	-	-	-	(1,023,267)
Impairment of assets	*c)*	(19,656)	-	16,243	3,413	-	-
Impairment of financial assets	*b), c)*	-	-	-	(6,653)	-	(6,653)
Other impairments	*b), c)*	-	-	-	3,240	-	3,240
Other costs	*b), d)*	(146,269)	-	8,885	-	13,795	(123,590)
Gain/ (loss) on sale of property, plant and equipment, net		3,944	-	-	-	-	3,944
Depreciation and amortisation		(620,632)	-	-	-	-	(620,632)
Total operating expenses		**(9,961,991)**	**(31,981)**	**25,128**	**-**	**-**	**(9,968,845)**

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 services which relate to catalogue, billboards and digital marketing income that represent a separate service provided to customers are reported as revenue and not as a reduction in the Cost of goods sold as has been the case so far. New rules for posting the mentioned services in 2021 have been set. The same analysis was conducted for 2020, and thus the previously published amounts of marketing services within the category of Other income and the Costs of purchasing goods sold were corrected. After the new calculation, the amount of marketing services which were deducted from COGS is HRK 31,981 thousand. The same amount was added to Other income.
b) Reclassification of net effect on income and expenses – the Company decided to present all income and expenses incurred on a net basis, and therefore there was a redistribution of amounts within different categories of the Statement of comprehensive income. Bad debt recovery, Reversal of provisions and Surpluses of fixed assets were transferred from Other income to Impairment of financial assets and Other costs note as shown in the following table:

	Reclassifications
	HRK'000
Other income	
Bad debt recovery, net	(13,003)
Reversal of provisions, net	(7,333)
Surpluses of fixed assets, net	(4,792)
Impairment of assets	
Trade receivables - unrelated parties	13,003
Inventory	3,240
Other costs	
Provisions for guarantees	540
Non-current assets shortages /(surpluses)	4,792
Provisions for unused vacation	3,553
	-

c) Separate presentation of impairments– the item Impairment of assets which previously presented the expense in amount of HRK 19,656 thousand was divided into Impairment of financial assets income in the amount of HRK 6,652 thousand (after HRK 13,003 thousand income transferred to this item as disclosed in part b) of this note) and Other impairments expense of HRK 3,240 thousand.

d) Reclassification of inventory related costs to Cost of goods sold - In 2021 the Company reclassified Inventory shortages, net included in Other costs and Write-off of goods, spillage, damage, breakage included in Material and energy costs to Cost of goods sold in the amount of HRK 151,406 thousand. This reclassification achieved presentation of costs of the same nature (but not necessarily function) in the same line item in the Statement of comprehensive income. Also write offs in the amount of HRK 13,525 thousand were included within the category “Other” of Material and energy costs and were reclassified to Cost of goods sold for the same reason.

	Reclassifications HRK‘000
Cost of goods sold	*151,407*
Material and energy costs	
Write-off of goods, spillage, damage, breakage	(118,579)
Other	(19,033)
Other costs	
Inventory shortages, net	(13,795)
	-

3. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a) New and amended standards adopted by the Company:

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - effective for annual periods beginning on or after 1 January 2021;
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 1 June 2021;
- Amendment to IFRS 4 – deferral of IFRS 9 - effective for annual periods beginning on or after 1 January 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 2022 or later, and which the Company has not early adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28
- IFRS 17 "Insurance Contracts"
- Classification of liabilities as current or non-current – Amendments to IAS 1
- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1
- 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
- Amendments to IFRS 17 and an amendment to IFRS 4
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12
- Transition option to insurers applying IFRS 17 – Amendments to IFRS 17
- IFRS 14, Regulatory Deferral Accounts

The Company is still assessing the impact of the standards in the current or future reporting periods and on foreseeable future transactions.

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 loyalty points program, which allows customers to accumulate points that can be redeemed for discount 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 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 deposit.

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 incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. 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 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 prebankruptcy 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, 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
Customer loyalty	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. The estimated useful lives were 20 years in 2021 (2020: 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.

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 Group 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 1-18 years
- right of use for the vehicles and equipment 1-8 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 expense 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, even when the Company retains a non-controlling interest in the subsidiary after the sale. 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 predecessor accounting method means that no 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. No new assessments were made and will be performed one year before the expiration of the current 5-year period. On 31 December 2021 the Company recognizes such right of use assets in the amount of HRK 39,464 thousand (2020: HRK 56,066 thousand). For more details refer to Note 35.

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.

The Company used one discount rate for property (real estate) leases and another for vehicles and equipment. 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 2021 would be to increase it by HRK 15,141 thousand or decrease it by HRK 18,506 thousand (2020: increase by HRK 21,118 thousand or decrease by HRK 17,278 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.

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 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, ie 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 319,321 thousand (2020: HRK 333,937 thousand).

The Company's assessment of fair value of investment property as at 31 December 2021 approximates its net carrying value since all fair value appraisals were performed as at 1 April 2019. 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.

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 2021.

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 2021.

The Company tests whether goodwill has suffered any impairment on an annual basis. For the year ended 31 December 2021 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 three 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:

	2021	**2020**
Net Sales Revenue (% annual growth rate)	2.1%	2.61%
Budgeted gross margin (%)	27.9%	27.6%
Operating expenses (% of NSR)	20.6%	20.14%
Annual average capital expenditure (HRK '000)	24,078	154,352
Long-term growth rate (%)	1.9%	1.3%
WACC Discount rate (%)	8.29%	9.31%

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
Operating expenses	Based on past performance and management’s expectations for the future.
Annual capital expenditure	Expected cash costs in the group of CGUs. This is based on the historical experience of management, and the planned refurbishment expenditure. No incremental revenue or cost savings are assumed in the value-in-use model as a result of this expenditure.
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 annual GDP growth rate until 2050 (Croatia: 1.30%) 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. The Management believes that any reasonably possible change in the key assumptions on which the recoverable amount of the group of CGUs is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related group of CGUs.

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 36 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

	2021 HRK'000	2020 HRK'000
Retail revenue	9,408,712	8,907,261
Wholesale revenue	1,014,569	870,740
	10,423,281	9,778,001

Revenue structure by country is as follows:

	2021 HRK'000	2020 HRK'000
Croatia	10,405,163	9,748,230
Germany	10,097	6,314
Slovenia	3,397	3,022
Bosnia and Herzegovina	1,715	2,809
Sweden	1,210	348
Czech Republic	365	16,904
Other countries	1,334	374
	10,423,281	9,778,001

All of the revenue is recognised at a point of time, which is when the goods are sold and in control of the acquirer.

7. Other income

	2021 HRK'000	2020 HRK'000
Marketing services	142,423	116,927
Sublease income	58,804	52,251
Rental income	21,696	26,144
Recharged utilities	16,598	15,080
Warehousing services	14,429	15,013
Income from fees for packaging waste	5,292	4,775
Income from release of liabilities	-	37
Income from government grants	-	8,000
Other income	11,050	18,809
	270,292	257,036

Revenues from marketing services refer mostly to services of digital and catalogue advertising. This represents a separate service provided to customers and contain directly recharged costs which are related to the mentioned services.

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 sublessee.

Of the total rental and sublease income HRK 17,510 thousand relates to the lease and sublease to owner's subsidiaries (2020: HRK 21,301 thousand). Total rental income from investment property in the Company's ownership amounts to HRK 4,947 thousand (2020: HRK 6,239 thousand).

8. Material and energy costs

	2021	2020
	HRK'000	HRK'000
Energy consumed	220,411	208,655
Raw materials and supplies consumed	64,695	67,664
Spare parts, tires and small inventory used	9,973	21,465
	295,079	297,784

9. Service costs

	2021	2020
	HRK'000	HRK'000
External maintenance services	152,044	130,412
Marketing and promotion	110,538	95,184
Utilities and waste disposal services	88,317	80,671
Short term leases and variable lease costs	65,764	78,554
Management fee (Group)	47,697	44,467
IT services	45,304	43,805
Security services	37,575	40,278
Transport services	41,506	39,651
Student service costs	34,363	24,348
Facility cleaning services	12,927	10,291
Postage and telephones	6,205	6,881
Intellectual services	4,599	2,555
Costs of temporary service contracts and authors' fees	1,802	2,273
Market research	1,117	1,172
Other services	29,724	24,787
	679,482	625,329

Lease expenses relate to expenses from short-term leases and variable lease payments expense. For a detailed breakdown please see Note 30. Other service costs include sample testing services, product analysis, quality control, logistic services, printing and other services. Of the total lease expenses HRK 845 thousand (2020: HRK 2,036 thousand) relates to lease expenses from owner's subsidiaries.

10. Staff costs

	2021	2020
	HRK'000	HRK'000
Wages and salaries	590,192	571,538
Employee compensations, benefits, awards	165,983	162,295
Personal income tax	27,988	29,925
Contributions on salaries	118,001	112,662
Pension insurance contributions	148,599	145,380
Contributions from salaries for accelerated retirement	1,428	1,467
	1,052,191	1,023,267

Contributions on salaries, pension insurance contributions and contributions from salaries for accelerated retirement are defined contribution plans are required by law, they are not defined on a voluntary basis.

11. Impairment of assets

	2021	2020
	HRK'000	HRK'000
Loans deposits and other financial assets	(2,696)	15,459
Other receivables	19,214	4,197
Inventory	(1,738)	(3,240)
Trade receivables - unrelated parties	(662)	(13,003)
Trade receivables - related parties	(10,821)	-
	3,297	3,413

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 36.

12. Other costs

	2021	2020
	HRK'000	HRK'000
Bank charges and payment transaction services	41,314	40,068
Insurance costs	21,654	24,050
Write off of non current assets	9,919	985
Contributions, membership fees, charges and taxes irrespective of result	7,351	8,593
Provisions for unused vacation	7,078	(3,553)
Donation and sponsorship	6,632	2,247
Road fees and technical inspection of vehicles	6,409	6,100
Provisions for guarantees	4,295	(540)
Provisions for termination benefits	4,156	6,894
Expenses for primary healthcare	2,890	2,629
Daily allowances	1,573	1,414
Entertainment	1,231	1,199
Other business travel expenses	1,134	913
Non-current assets shortages /(surpluses)	1,077	(4,792)
Provisions for legal disputes,net	(196)	6,536
Out of court settlements	-	19,483
Other costs	9,511	11,364
	126,028	123,590

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

13. Finance income

	2021 HRK'000	2020 HRK'000
Interest	1,759	549
Foreign exchange gains	13,670	2,160
	15,429	2,709

The structure of interest consists of:

	2021 HRK'000	2020 HRK'000
Interest - related parties	103	212
Interest - unrelated parties	1,656	337
	1,759	549

The structure of foreign exchange difference is given below:

	2021 HRK'000	2020 HRK'000
Foreign exchange differences - related parties		
Foreign exchange differences from leases	(62)	-
Other foreign exchange differences	5,875	34
Foreign exchange differences - unrelated parties		
Foreign exchange differences from leases	6,348	-
Other foreign exchange differences	1,509	2,126
	13,670	2,160

Total amount of interest income of HRK 103 thousand from related parties is related to income from owner's subsidiaries (2020: HRK 62 thousand from the owner and the rest from owner's subsidiaries).
Foreign exchange differences from related parties in the amount of HRK 5,875 thousand are related to exchange differences on loan from the owner.

14. Finance costs

	2021	2020
	HRK'000	HRK'000
Interest	267,203	292,165
Foreign exchange losses	2,408	55,321
Loss from sale of financial assets	3,445	-
	273,056	347,486

The structure of interest is given below:

	2021	2020
	HRK'000	HRK'000
Interest - related parties		
Interest expense on loans	48,206	61,871
Interest expense on lease liabilities	9,805	3,335
Interest - unrelated parties		
Interest expense on lease liabilities	199,096	219,026
Interest expense from reinstated debt	8,907	7,621
Penalty interest	1,189	312
	267,203	292,165

The structure of foreign exchange differences is given below:

	2021	2020
	HRK'000	HRK'000
Foreign exchange differences - related parties		
Foreign exchange differences from leases	-	716
Other foreign exchange differences	56	18,593
Foreign exchange differences - unrelated parties		
Foreign exchange differences from leases	-	32,559
Other foreign exchange differences	2,352	3,453
	2,408	55,321

Total interest on loans of HRK 48,206 thousand (2020: HRK 61,871 thousand) is from the owner. Interest expense from lease liabilities is from owner's subsidiaries.

15. Income tax

a) Components of income tax expense / (benefit)

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

	2021 HRK'000	2020 HRK'000
Current tax	-	-
Deferred tax	(13,168)	(25,111)
Income tax benefit for the year	(13,168)	(25,111)

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

Income tax is calculated at the rate of 18% (2020: 18%) on the Company's taxable income. The reconciliation between tax expense and accounting profit is presented as follows:

	2021 HRK'000	2020 HRK'000
Profit/(loss) before tax	27,173	(278,584)
Theoretical tax credit at statutory rate of 18%:	4,891	(50,145)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible inventory shortages	5,145	6,387
- Other non-deductible expenses	744	1,701
- Impairments	5,838	1,342
- Amortisation and depreciation	7,663	-
- Provisions	5,290	5,048
- Reversal of provisions	-	(2,466)
- Unrealized losses	384	-
Tax effect of other non-taxable income on determination of taxable profit	(14,218)	(8,764)
(Recognised)/ Unrecognised tax loss carry forwards for the year	(9,187)	21,786
Utilisation of previously unrecognised tax loss carry forwards	(19,718)	-
Income tax credit for the year	(13,168)	(25,111)

Tax losses carried forward are as follows:

	2021	2020
	HRK'000	HRK'000
Available for utilisation in 2021	-	161,003
Available for utilisation in 2022	51,456	161,003
Available for utilisation in 2023	51,456	161,003
Available for utilisation in 2024	51,456	161,003
Available for utilisation in 2025	51,456	123,238

The Company recognised deferred tax assets in respect of tax loss carry forwards.

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 as 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.

The movement of deferred tax assets is given below:

	1 January 2021	Recognition of deferred tax assets	Use of deferred tax assets	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)**

	1 January 2020	Recognition of deferred tax assets	Use of deferred tax assets	31 December 2020
Impairments	(9,426)	(2,707)	1,244	(10,889)
Depreciation	(17,718)	(21,853)	-	(39,571)
Provisions	(5,734)	(6,447)	5,048	(7,132)
Unrealized losses	-	(396)	-	(396)
Total	**(32,877)**	**(31,403)**	**6,292**	**(57,988)**

16. Intangible assets

Balances and movements in intangible assets during 2020 and 2021 are shown below:

	Software and other rights HRK'000	Brand HRK'000	Loyalty HRK'000	Goodwill HRK'000	Assets not yet available for use HRK'000	Total HRK'000
Cost						
As at 1 January 2020	44,769	419,422	170,493	124,488	-	759,172
Acquired in business combinations under common control	3,702	-	-	-	-	3,702
Direct additions	-	-	-	-	2,521	2,521
Transfer	2,521	-	-	-	(2,521)	-
As at 31 December 2020	**50,992**	**419,422**	**170,493**	**124,488**	**-**	**765,395**
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	**55,015**	**419,422**	**170,493**	**138,864**	**-**	**783,794**
Accumulated amortisation and impairment						
As at 1 January 2020	10,486	-	21,291	-	-	31,777
Acquired in business combinations under common control	1,216	-	-	-	-	1,216
Amortisation charge for the period	11,509	-	28,426	-	-	39,934
As at 31 December 2020	**23,211**	**-**	**49,717**	**-**	**-**	**72,928**
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	**30,737**	**-**	**78,143**	**-**	**-**	**108,880**
Net book amount						
As at 31 December 2020	27,781	419,422	120,776	124,488	-	692,467
As at 31 December 2021	**24,278**	**419,422**	**92,350**	**138,864**	**-**	**674,914**

The carrying amount of pledged brand at 31 December 2021 amounted to HRK 419,422 thousand (2020: HRK 419,422 thousand).

Increase in goodwill relates to Miracolo acquisition as described in Note 2.

17. Property, plant and equipment

Balances and movements in property, plant and equipment during 2020 and 2021 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 2020	147,692	449,141	417,469	327,030	10,525	1,351,857
Acquired in business combinations under common control	37,869	145,592	16,335	23,327	-	223,123
Direct additions	-	-	-	-	103,258	103,258
Transfer	-	7,428	54,574	8,083	(70,085)	-
Disposal	(371)	-	(748)	(66)	(248)	(1,433)
Write-off	-	-	(7,159)	(80)	(1,874)	(9,113)
Transfer from / (to) investment property	18,207	61,427	-	-	(198)	79,436
As at 31 December 2020	**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
Disposal	(12)	-	(3,690)	(55)	(57)	(3,814)
Write-off	(2,100)	(7,190)	(8,581)	(312)	(2,537)	(20,720)
Transfer	3,903	7,826	85,134	30,923	(127,786)	-
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**
Accumulated depreciation and impairment						
As at 1 January 2020	-	17,342	95,842	50,480	-	163,664
Acquired in business combinations under common control	-	69,340	4,555	3,385	-	77,280
Depreciation charge for the period	-	27,748	99,314	62,808	-	189,870
Disposals	-	-	(244)	(28)	-	(272)
Write-off	-	-	(3,057)	(8)	-	(3,065)
Transfer from / (to) investment property	-	2,257	-	-	-	2,257
Other	-	1,021	1	(1,022)	-	-
As at 31 December 2020	**-**	**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**
Net book amount						
As at 31 December 2020	203,397	545,880	284,060	242,679	41,378	1,317,394
As at 31 December 2021	**205,188**	**513,581**	**281,551**	**223,821**	**28,141**	**1,252,282**

The carrying amount of pledged land and buildings at 31 December 2021 amounted to HRK 350,634 thousand (2020: HRK 381,169 thousand).

At 31 December 2021, 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 62,056 thousand (2020: HRK 75,828 thousand).

18. Right-of-use assets

The Company presents right-of-use assets from leases in a separate line item in 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:

	Land and buildings HRK‘000	Vehicles and equipment HRK‘000	Land unrelated to buildings HRK‘000	Total HRK‘000
As at 1 January 2020	2,118,043	24,027	-	2,142,070
Acquired in business combinations	26,262	5,116	-	31,378
Additions - new contracts	111,385	8,670	690	120,745
Depreciation expense for the period	(332,563)	(15,140)	(159)	(347,862)
Modification of right of use assets	113,744	42	(8)	113,778
Contract termination (disposal)	(29,798)	(180)	-	(29,978)
Transfer from investment property	91,756	-	-	91,756
As at 31 December 2020	**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**

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. Net book value of subleased assets is reclassified from right-of-use assets to investment property. In 2020, due to Velpro-Centar plus d.o.o. acquisition, assets in the net book amount of HRK 64,600 thousand were transferred back from investment property to right-of-use assets as they are no longer subleased.

19. Investment property

Balances and movements in investment property during 2020 and 2021 are shown below:

	2021 HRK'000	2020 HRK'000
Cost		
Opening balance at 1 January	589,011	729,293
Disposals	(27,828)	(350)
Transfer from tangible assets under construction	10	198
Transfer from assets held for sale	10,896	35,429
Transfer to tangible assets	(14)	(79,633)
Transfer from/(to) right of use assets	21,567	(95,927)
Closing balance at 31 December	593,642	589,011
Accumulated depreciation and impairment		
Opening balance at 1 January	75,150	38,611
Depreciation charge for the period	46,929	42,966
Transfer to tangible assets	(1)	(2,257)
Transfer from/(to) right of use assets	(2,977)	(4,171)
Disposals	(904)	-
Closing balance at 31 December	118,197	75,150
Net book amount		
Opening balance at 1 January	513,861	690,682
Closing balance at 31 December	**475,445**	**513,861**

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 2021, the total carrying value of investment property owned by the Company amounts to HRK 156,124 thousand (2020: HRK 179,925 thousand) and investment property recognized as right-of-use assets under IFRS 16 amounts to HRK 319,321 thousand (2020: HRK 333,936 thousand). Out of total investment property HRK 96,322 thousand (2020: HRK 136,838 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 2021 amounted to HRK 65,331 thousand (2020: HRK 100,228 thousand).

The Company's assessment of fair value of investment property as at 31 December 2021 approximates its net carrying value since all fair value appraisals were performed as at 1 April 2019. 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 4,947 thousand (2020: HRK 6,239 thousand) which gives a return on investments owned by the Company of 8% (2020: 15%) and sublease income is HRK 58,804 thousand (2020: HRK 52,251 thousand) with a return on leased assets of 18% (2020: 16%). Direct operating expenses for investment properties that generate rental income amounted to HRK 32,443 thousand (2020: HRK 25,371 thousand) and comprised of costs of utilities and repairs and maintenance expense. Direct operating expenses for investment properties that did not generate rental income amounted to HRK 1,900 thousand (2020: HRK 1,865 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

	2021	**2020**
	HRK'000	**HRK'000**
Non-current assets		
Financial assets at amortised cost		
Unrelated parties		
Lease deposits	136,031	124,301
ECL of deposits	(10,344)	(7,623)
Loans granted	-	5
Receivables for reinstated debt	483	-
Investments in securities	1,489	1,489
Related parties		
Receivables for reinstated debt	439	2,990
	128,098	121,162
Available-for-sale securities		
Financial assets at fair value through profit or loss	-	19,300
Current assets		
Financial assets at amortised cost		
Unrelated parties		
Loans granted	825	9,525
Impairment of loans granted	(741)	(9,508)
Deposits	8,075	6,467
ECL of deposits	(191)	(162)
Related parties		
Loans granted	90	124
	8,058	6,445
Total loans, deposits and other non-current financial assets	136,156	146,907

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

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

	2021 HRK'000	2020 HRK'000
At 1 January	(17,293)	(5,222)
Newly recognised financial assets	(1,537)	(2,398)
Changes in estimates and assumptions	7,516	(11,928)
Derecognition of financial assets	-	1,068
Charge in profit or loss for the period	5,979	(13,258)
Acquired in business combinations under common control	-	(3)
Write-off	37	1,189
At 31 December	(11,277)	(17,293)

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 36.

Movement in available-for-sale securities is given below:

	2021 HRK'000
Cost	
At 1 January 2021	19,300
Disposal of shares	(16,017)
At 31 December 2021	3,283
Impairment	
At 1 January 2021	-
Impairment for the period	3,283
At 31 December 2021	3,283
Net book amount	
At 1 January 2021	19,300
At 31 December 2021	**-**

During 2021 part of the shares invested in a fund were sold and the rest was impaired to zero.

21. Other non-current assets

	2021 HRK'000	2020 HRK'000
Financial assets		
Other non-current receivables	240	2,468
Non-financial assets		
Advances for non-current assets	238	131
	478	2,599

22. Inventories

	2021 HRK'000	2020 HRK'000
Merchandise	680,203	630,981
Raw materials and supplies	27,515	29,499
	707,718	660,480

The Company's inventories are pledged as at 31 December 2021 in the amount of HRK 212,352 thousand (2020: HRK 187,452 thousand).

23. Non-current assets held for sale

	2021 HRK'000	2020 HRK'000
Assets held for sale	-	10,896
	-	10,896

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. During 2021 the Company has decided not to continue with the sale of these assets as they will be used. The entire amount of assets held for sale was thus reclassified to investment property.

There were no pledged assets held for sale at 31 December 2020.

The Company's assessment of fair value of asset held for sale as at 31 December 2021 approximates its net carrying value since all fair value assessments were performed as at 1 April 2019.

Movement of assets held for sale in 2021:

	2021 HRK'000	2020 HRK'000
Opening balance at 1 January	10,896	67,346
Transfer to investment property	(10,896)	(35,429)
Sale	-	(21,021)
Closing balance at 31 December	-	10,896

24. Trade receivables

The overview of receivables is as follows:

	2021 HRK'000	2020 HRK'000
Financial assets at amortised cost		
Receivables from unrelated parties		
Domestic trade receivables	284,425	326,533
Foreign trade receivables	5,081	5,231
Impairment of trade receivables	(21,162)	(26,241)
Receivables from related parties		
Domestic trade receivables	60,517	75,068
Foreign trade receivables	402	12,895
Impairment of trade receivables	(834)	-
	328,429	393,486

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

	2021 HRK'000	2020 HRK'000
EUR	5,369	12,940
USD	114	5,186
	5,483	18,126

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:

	2021	**2020**
	HRK'000	**HRK'000**
At 1 January	(26,241)	(13,556)
Newly recognised financial assets	(6,709)	(1,083)
Changes in estimates and assumptions	(6,204)	394
Derecognised financial assets	24,396	(2,100)
Charge in profit or loss for the period	11,483	(2,790)
Acquired in a business combination	-	(9,946)
Write-off	(7,652)	498
Foreign exchange movements	2	-
Other	412	(447)
At 31 December	(21,996)	(26,241)

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 36.

25. Other current assets

The structure of other current assets is given below:

	2021	**2020**
	HRK'000	**HRK'000**
Non-financial assets		
Prepaid expenses and accrued income	21,912	22,618
Advances given	7,414	13,538
Receivables from the state	14,236	20,158
Other receivables	7,604	6,719
	51,166	63,033

26. Cash and cash equivalents

	2021	**2020**
	HRK'000	**HRK'000**
Bank accounts – HRK	150,709	342,814
Bank accounts – foreign currency	3,725	13,399
Cash on hand	5,100	5,347
	159,534	361,560

At 31 December 2021 of total cash in amount of HRK 3,725 thousand denominated in foreign currency, HRK 3,284 thousand was denominated in EUR and HRK 441 thousand in USD.

All material bank accounts are pledged under the Fortenova grupa d.d. loan at 31 December 2021 as described in Note 35.

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

	2021 HRK'000	2020 HRK'000
A+	107,067	-
A	-	284,430
BBB	5,567	31,498
Other	46,900	45,632
	159,534	361,560

27. 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.

	2021 HRK'000	2020 HRK'000
Share capital	20	20
Capital reserves	118,046	118,046
Merger reserves	(193,479)	(193,479)
Accumulated loss	(380,375)	(120,117)
Profit/ (loss) for the year	40,342	(253,474)
	(415,446)	(449,004)

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 118,046 thousand was transferred to capital reserves on 31 December 2019.

Changes in merger reserves during 2020 and 2021 are a result of business combinations under common control. For details regarding the mergers please see Note 2. Capital reserves and merger reserves are not distributable.

The ownership structure at 31 December is as follows:

	Share % 31 December 2021	Share % 31 December 2020
Fortenova grupa d.d.	100%	100%

28. Provisions

	2021 HRK‘000	2020 HRK‘000
Provision for financial guarantee contracts (i)	6,299	2,005
Provisions for retirement and jubilee benefits (ii)	109,434	98,494
Provisions for legal disputes (iii)	11,185	14,728
	126,918	115,227

(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 35.

Movements in the provision for financial guarantee is as follows:

	2021 HRK‘000	2020 HRK‘000
Net liability at the beginning of the year	2,005	2,544
Increase of guarantee	4,294	-
Decrease (reversal of guarantee)	-	(540)
Net liability at the end of the year	6,299	2,005

(ii) Provisions for retirement and jubilee benefits

All employees are included in the state pension fund. Provisions for retirement and jubilee benefits are established for benefits paid on retirement and jubilee awards (length of service). The amount of 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 2021 are as follows:

	Jubilee and other provisions HRK'000	**Retirement provisions HRK'000**	**Total HRK'000**
Net 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
Net liability at the end of the year	66,896	42,538	109,434

Movements in the provisions for retirement and jubilee benefits in 2020 are as follows:

	Jubilee and other provisions HRK'000	**Retirement provisions HRK'000**	**Total HRK'000**
Net liability at the beginning of the year	51,119	34,250	85,369
Acquired in business combinations	3,966	2,712	6,678
Service cost	5,138	2,540	7,679
Interest cost	962	425	1,387
Payments during the year	(8,286)	(3,671)	(11,957)
Actuarial remeasurements recognised through other comprehensive income	-	(447)	(447)
Actuarial remeasurements recognised through profit or loss	9,785	-	9,785
Net liability at the end of the year	62,685	35,809	98,494

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

	2021	**2020**
Discount rate (annual)	0.4%	0.7%
Wage and salary increases (annual)	1.5%	1.0%
Assumed annual staff turnover	6.5%	6.8%

(iii) Provision for legal disputes

Movements in provisions for legal disputes are as follows:

	2021	**2020**
	HRK'000	**HRK'000**
Net liability at the beginning of the year	14,728	4,692
Additional provisions for legal disputes	4,092	6,536
Decrease in legal disputes provision	(4,301)	-
Payment of legal disputes provision	(3,334)	-
Acquired in business combinations	-	3,500
Net liability at the end of the year	11,185	14,728

29. Borrowings and loans

	2021	**2020**
	HRK'000	**HRK'000**
Financial liabilities at amortised cost		
Non-current liabilities		
Loans from related parties (i)	238,678	310,745
Liabilities for reinstated debt (ii)	227,576	271,394
Current liabilities		
Loans from related parties (i)	1,152,829	1,369,793
Liabilities for reinstated debt (ii)	30,916	38,495
	1,649,999	1,990,427

(i) As at 31 December 2021 liabilities to Fortenova grupa d.d. for related party loans totalled HRK 1,391,507 thousand (2020: HRK 1,680,538 thousand). The interest rate in 2021 was 3.00% (2020: 3.42%). Loan in the amount of HRK 238,678 thousand is due on demand and the rest is due in 2023.

(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 34.

30. Lease liabilities

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

	2021	**2020**
	HRK'000	**HRK'000**
Non-current lease liabilities	2,213,890	2,329,528
Current lease liabilities	330,894	306,294
	2,544,784	2,635,822

The Company had total cash outflows for IFRS 16 contracts of HRK 528,036 thousand in 2021 (2020: HRK 515,575). Total cash outflows relating to short-term leases, leases of low-value assets and variable lease payments were HRK 59,445 thousand (2020: HRK: 47,696 thousand).

Movement of lease liabilities is given below:

	2021	**2020**
	HRK'000	**HRK'000**
Opening balance at 1 January	2,635,822	2,677,089
Acquired in business combinations	-	32,535
New contracts in the period	96,283	120,745
Interest expense in period	208,900	222,361
Payment during the period	(528,036)	(515,575)
Modification of lease liabilities	154,083	113,778
Termination of contract	(12,472)	(30,371)
Foreign exchange (gains)/losses	(6,286)	33,275
Other	(3,510)	(18,015)
Closing balance at 31 December	2,544,784	2,635,822

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:

	2021	**2020**
	HRK'000	**HRK'000**
Depreciation of right -of-use asset	336,510	347,862
Interest expense on lease liabilities	208,900	222,361
Expense relating to short-term leases	25,493	61,613
Expense relating to leases of low-value assets	44	52
Variable lease payments	40,092	16,889
Income from cancellation of IFRS 16 contracts	(2,897)	561
Income from landlord credit notes received	-	334
Foreign exchange (gains)/losses	(6,286)	33,275
Total amount recognised in profit or loss	601,856	682,948

31. Trade payables

The structure of trade payables is:

	2021	2020
	HRK'000	HRK'000
Financial liabilities at amortised cost		
Payables to unrelated parties		
Domestic trade payables	1,276,267	1,261,521
Foreign trade payables	74,166	176,813
Payables to related parties		
Domestic trade payables	306,193	317,102
Foreign trade payables	944	-
	1,657,570	1,755,436

Foreign trade payables by currency are given below:

	2021	2020
	HRK'000	HRK'000
EUR	70,744	64,090
USD	130	2,492
GBP	4,236	231
HRK	-	110,000
	75,110	176,813

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

	Not past due	0 - 90 days	90 - 180 days	180 - 270 days	Over 270 days	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2021	1,525,780	78,473	3,189	5,901	44,227	1,657,570
2020	1,461,222	253,632	8,614	3,671	28,297	1,755,436

32. Other current liabilities

	2021	2020
	HRK‘000	**HRK‘000**
Financial liabilities		
Accrued expenses	94,038	98,420
Non-financial liabilities		
Deferred income	22,764	17,990
Taxes and contributions (other than income tax)	83,847	92,041
Payroll liabilities	47,300	45,862
Accrued vacations	44,196	37,118
Advances received	639	258
Other current liabilities	907	1,299
	293,691	292,988

As at 31 December 2021, accrued expenses refer to the expenses incurred for which the invoices were not yet received.

33. Related party transactions

The Company has transactions with the following related parties: owner, owner’s subsidiaries, other related parties and Company’s key management.

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

Key management compensations are set out below:

	2021	2020
	HRK‘000	**HRK‘000**
Short-term employee benefits	*12,050*	*11,399*
Wages and salaries	6,234	5,318
Other current benefits	250	409
Personal income tax	2,292	2,803
Pension insurance contributions	1,568	1,254
Health insurance contributions	1,706	1,615
Termination benefits	-	*376*
	12,050	11,775

In 2021, compensations of Supervisory Board Members amounted to HRK 174 thousand (2020: HRK 201 thousand).

Cash in Sberbank d.d. as at 31 December 2021 amounts to HRK 591 thousand (2020: HRK 2,203 thousand).

Non-current loans given to related parties are as follows:

	2021	2020
	HRK‘000	**HRK‘000**
Owner's subsidiaries:		
Multiplus card d.o.o.	439	611
Roto Dinamic d.o.o.	-	1,663
Kompas d.o.o. Poreč	-	623
Solana Pag d.d.	-	50
Euroviba d.o.o.	-	14
Poliklinika Aviva	-	9
Agrokor-Energija d.o.o.	-	8
Kor Broker d.o.o.	-	6
Agrolaguna	-	6
Energija Gradec d.o.o.	-	5
	439	2,994

Loans given to related parties are under market interest rates.

Current loans given to related parties are as follows:

	2021	2020
	HRK‘000	**HRK‘000**
Owner		
Fortenova Grupa d.d.	-	48
Owner's subsidiaries:		
Idea d.o.o.	38	46
Multiplus card d.o.o.	52	-
Pet-prom ulaganja plus d.o.o.	-	30
	90	124

Loans given to related parties are under market interest rates.

Loans and borrowings received from related parties are as follows:

	2021	2020
	HRK'000	HRK'000
Owner		
Fortenova Grupa d.d.	1,391,507	1,680,538
	1,391,507	1,680,538

For further details on the nature and terms of the loans obtained from related party please see Note 29.

Loans and borrowings received from other related parties with significant influence over the Company amount to HRK 46,212 thousand.

Trade receivables from related parties for goods and services are:

	2021	2020
	HRK'000	HRK'000
Owner:		
Fortenova Grupa d.d.	108	323
Owner's subsidiaries:		
Tisak plus d.o.o.	17,452	16,892
PIK Vrbovec plus d.o.o.	12,667	19,403
Jamnica plus d.o.o.	10,800	19,468
Zvijezda plus d.o.o.	5,475	4,390
Belje plus d.o.o.	3,555	3,334
Multiplus card d.o.o.	3,297	1,962
Roto dinamic d.o.o.	1,500	1,331
Vupik plus d.o.o.	1,029	1,016
mStart plus d.o.o.	899	1,232
Pik Vinkovci plus d.o.o.	780	857
Žitnjak d.d.	649	265
Agrolaguna d.o.o.	591	734
Konzum d.o.o. Sarajevo	414	598
Vinka plus d.o.o.	370	191
A007 plus d.o.o.	242	304
Eko Biograd plus d.o.o.	94	121
Belje Agro-vet plus d.o.o.	82	92
Energija Gradec d.o.o.	55	-
Euroviba d.o.o.	13	26
Mercator-Hrvatska d.o.o.	8	-
Lovno gospodarstvo Moslavina plus d.o.o.	7	33
Pet-prom ulaganja plus d.o.o.	6	195
Latere Terram plus d.o.o.	3	5
Poslovni sistemi Mercator d.d.	(10)	-
Ledo plus d.o.o.	-	13,745
Irida d.o.o.	-	336
Solana Pag d.d.	-	168
Sojara plus d.o.o.	-	84
Atlas plus d.o.o.	-	82
AGROKOR-ENERGIJA d.o.o.	-	58
Mladina plus d.o.o.	-	33
Kompas d.o.o. Poreč	-	22
	60,086	87,300

Trade receivables from other related parties with significant influence over the Company for goods and services are HRK 82 thousand.

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.

Ledo plus d.o.o. is no longer a related party as of 30 September 2021.

Trade payables to related parties for goods and services are:

	2021	2020
	HRK'000	HRK'000
Owner:		
Fortenova Grupa d.d.	21,231	8,251
Owner's subsidiaries:		
PIK Vrbovec plus d.o.o.	122,557	128,059
Zvijezda plus d.o.o.	53,955	44,501
Jamnica plus d.o.o.	44,252	56,962
Belje plus d.o.o.	26,084	8,753
mStart plus d.o.o.	10,261	11,681
Tisak plus d.o.o.	8,818	7,747
Pik Vinkovci plus d.o.o.	5,012	4,272
Roto dinamic d.o.o.	3,779	2,400
Vupik plus d.o.o.	2,810	2,871
Mercator-Hrvatska d.o.o.	2,489	-
Vinka plus d.o.o.	2,327	1,759
Agrolaguna d.o.o.	1,377	2,816
Multiplus card d.o.o.	1,139	929
Poslovni sistemi Mercator d.d.	618	-
Mercator IP D.O.O.	303	-
Žitnjak d.d.	102	195
MERCATOR EMBA D.D.	23	-
Ledo plus d.o.o.	-	33,118
Solana Pag d.d.	-	2,409
Euroviba d.o.o.	-	364
Roto ulaganja plus d.o.o.	-	15
	307,137	317,102

Trade payables to other related parties with significant influence over the Company for goods and services are HRK 33,199 thousand.

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:

	2021	2020
	HRK'000	HRK'000
Income from sale of goods	68,428	64,609
Lease and sublease income	17,462	21,301
Income from marketing activities	18,386	16,042
Other income	15,719	20,370
Financial income	94	204
	120,089	122,526

Income by related parties is the following:

	2021 HRK'000	2020 HRK'000
Owner:		
Fortenova Grupa d.d.	590	2,463
Owner's subsidiaries:		
Tisak plus d.o.o.	59,864	50,902
Ledo plus d.o.o.	16,897	21,939
Jamnica plus d.o.o.	12,656	10,835
PIK Vrbovec plus d.o.o.	9,512	11,653
Zvijezda plus d.o.o.	5,325	4,105
Žitnjak d.d.	4,430	4,397
Roto dinamic d.o.o.	2,977	7,902
A007 plus d.o.o.	1,882	598
Konzum d.o.o. Sarajevo	1,715	2,809
Belje plus d.o.o.	1,020	662
mStart plus d.o.o.	811	516
Vupik plus d.o.o.	714	845
Poslovni sistemi Mercator d.d.	652	-
Agrolaguna d.o.o.	553	1,044
Multiplus card d.o.o.	159	175
Pik Vinkovci plus d.o.o.	67	323
Euroviba d.o.o.	62	62
Pet-prom ulaganja plus d.o.o.	51	51
Kompas d.o.o. Poreč	40	241
Lovno gospodarstvo Moslavina plus d.o.o.	27	32
Latere Terram plus d.o.o.	24	24
Mercator-Srbija d.o.o.	21	-
Mercator IP D.O.O.	21	-
Kor Broker d.o.o.	16	-
Energija Gradec d.o.o.	10	-
Solana Pag d.d.	4	73
Eko Biograd plus d.o.o.	4	9
Poliklinika Aviva	3	-
Kompas d.d.	1	-
Mladina plus d.o.o.	-	(2)
AGROKOR-ENERGIJA d.o.o.	(1)	-
Belje Agro-vet plus d.o.o.	(2)	(4)
Kompas d.o.o. Poreč	(3)	-
Vinka plus d.o.o.	(3)	(3)
Irida d.o.o.	(4)	(17)
Mercator-Hrvatska d.o.o.	(6)	-
Mondo-Tera d.o.o.	-	685
Atlas plus d.o.o.	-	199
Terra Argenta plus d.o.o.	-	7
Tisak InPost	-	1
	120,089	122,526

Income from other related parties with significant influence over the Company amounts to HRK 262 thousand.

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. The largest part relates to Tisak plus d.o.o. whose main supplier of goods is the Company, and which amounts to HRK 54,079 thousand (2020: HRK 44,436 thousand). The remaining amount relates to income realised by the Company from leasing a part of leased stores and warehouses and providing logistics services. Business combinations under common control with related parties during 2020 are described in Note 2.

Lease and sublease income together with other services shown in the table above is realised from owner's subsidiaries.

Purchases from related parties are as follows:

	2021	2020
	HRK'000	HRK'000
Owner's subsidiaries:		
PIK Vrbovec plus d.o.o.	686,806	730,771
Jamnica plus d.o.o.	239,211	210,844
Zvijezda plus d.o.o.	209,519	174,791
Belje plus d.o.o.	146,081	38,244
Ledo plus d.o.o.	104,624	137,230
Tisak plus d.o.o.	72,425	78,961
Pik Vinkovci plus d.o.o.	64,445	48,530
Vupik plus d.o.o.	14,537	12,657
Agrolaguna d.o.o.	11,029	20,210
Roto dinamic d.o.o.	11,067	9,212
Vinka plus d.o.o.	6,896	4,962
Poslovni sistemi Mercator d.d.	2,756	-
Solana Pag d.d.	2,127	7,834
Mercator IP D.O.O.	1,196	-
MERCATOR EMBA D.D.	187	-
Žitnjak d.d.	-	334
A007 plus d.o.o.	-	8
	1,572,906	1,474,588

Purchases from other related parties with significant influence over the Company amount to HRK 394,414 thousand.

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

As at 31 December 2021 the Company has provisions for loan note guarantee in the amount of HRK 6,299 thousand (2020: HRK 2,005 thousand) as described in Note 35.

34. Changes in financing activities

The Company realised the following changes in financing activities:

	Lease liabilities	**Loans and borrowings**	**Total debt**
	HRK'000	**HRK'000**	**HRK'000**
Opening balance at 1 January 2020	(2,677,089)	(1,940,320)	**(4,617,409)**
Cash flows out of which:			
Proceeds from loans	-	(65,000)	**(65,000)**
Repayment of principal	303,140	363,847	**666,987**
Payment of interest	212,435	80,156	**292,591**
Non-cash movements out of which:			
Acquired in business combinations under common control	(32,535)	(349,365)	**(381,900)**
New lease liabilities	(120,745)	-	**(120,745)**
Interest expense in period	(222,361)	(74,675)	**(297,036)**
Modification and termination of lease liabilities	(83,408)	-	**(83,408)**
Other non-cash movements	(15,258)	(5,071)	**(20,329)**
31 December 2020	(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 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)**

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

35. Contingent liabilities and commitments

Loan note guarantee

Total amount of liabilities for which the Company is a guarantor is currently EUR 1,047 billion (2020: EUR 1,157 billion). The guarantee is related to a financing structured as a debt instrument in the amount of EUR 1,187 billion with an interest rate of 7.3 percent plus EURIBOR, with a 1 percent EURIBOR floor. The bond was issued by the parent company Fortenova grupa d.d. and the financing was led by HPS Investment Partners together with VTB bank. With the above mentioned financing Super-Priority Facility Agreement (SPFA) was fully refinanced. The refinancing will contribute to maintaining mid-term stability and long-term sustainability, enabling growth and development for the entire Group. The first tranche was issued on 6 September 2019 as a 4-year bond.

The Company, together with twenty-two 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, brands and claims that Fortenova grupa d.d. has towards the Company. Pursuant to the Debt Agreement of 25 April 2019 and its Annex no. 2 of 19 April 2021, certain non-current assets and part of the Company's inventories were pledged, as shown in the accompanying notes to the financial statements.

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

	2021
	HRK'000
Maturity	**Loan note**
Liabilities within 1 year	7,872,235
Total undiscounted liabilities at 31 December 2021	**7,872,235**
Carrying amount of liabilities	***7,872,235***

	2020
	HRK'000
Maturity	**Loan note**
Liabilities within 1 year	8,672,360
Total undiscounted liabilities at 31 December 2020	**8,672,360**
Carrying amount of liabilities	***8,672,360***

For financial guarantees a fair value measurement was determined via discounted cash flow models, i.e. a determination of the discounted lifetime expected loss (LECL).

Since all guarantors including the Company are liable jointly and severally, each company share overall risks and each entity will economically and effectively only be able to contribute to this guarantee in the amount of its economic capability which is represented by its share in respective equity of each guarantor.

As a basis for determining LGD the Company, observed discounts from capital market transactions in Croatia and used LGD 2.5%.

Default probability is done implicitly by using the traded spread of the bond transaction.

The weighted credit spread used was 6.52%. These weights are then applied in calculating the probabilities of default from the S&P rating tables.

It is assumed that the fair value of the overall guarantee is best approximated by the Lifetime ECL for the whole bond and that the fair value of the individual contribution of each individual entity is best approximated by the contributing share.

Using the parameter setting as above, the Lifetime ECL is calculated for each entity, based on its percentage share defined above.

The fair value of the guarantee as of 31 December 2021 amounted to HRK 6,299 thousand (2020: HRK 2,005 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 2021, potential future cash outflows of HRK 1,472,767 thousand (undiscounted) (2020: HRK 1,451,827 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 5,5% 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 2021 are HRK 184,372 thousand (undiscounted) (2020: HRK 179,788 thousand).

A 10% increase in sales in stores for 2021 with such variable lease contracts would increase total lease payments by approximately HRK 3,209 thousand (2020: HRK 1,973 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..

36. 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.

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

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total fair value HRK'000	Total net book value 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	-	(94,038)	-	**(94,038)**	**(94,038)**
Non-financial assets					
Investment property (Note 19)	-	-	475,446	**475,446**	**475,446**

The fair value measurement hierarchy for assets and liabilities as at 31 December 2020:

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total fair value HRK'000	Total net book value HRK'000
Financial assets and liabilities					
Financial assets at fair value through profit or loss					
- Investment in a fund	-	19,300	-	**19,300**	**19,300**
Financial assets and liabilities at amortized cost					
- Trade receivables	-	393,486	-	**393,486**	**393,486**
- Trade payables	-	(1,755,436)	-	**(1,755,436)**	**(1,755,436)**
- Loans, deposits and other financial assets	-	127,607	-	**127,607**	**127,607**
- Loans and borrowings	-	(310,745)	(1,679,682)	**(1,990,427)**	**(1,990,427)**
- Cash	5,347	356,213	-	**361,560**	**361,560**
- Accrued expenses	-	(98,420)	-	**(98,420)**	**(98,420)**
Non-financial assets					
Investment property (Note 19)	-	-	513,861	**513,861**	**513,861**
Assets held for sale (Note 23)	-	-	10,896	**10,896**	**10,896**
-					

Fair value 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 further described in respective notes to the financial statements (Note 5, Note 19 and Note 23).

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 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 ‘000 HRK**	**Corresponding PD interval**	**ECL used**
Excellent	6,198	0.00%	0.00%
Good	137,908	0.00%-3.87%	8.60%
Satisfactory	-	3.88%-28.44%	63.20%
Special monitoring	-	28.45%-41.57%	92.38%
Default	-	41.58%-45.00%	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.
Credit quality of counterparties is as follows:

	Counterparties withoutcredit rating			
	New customers	**Customers paying within due dates**	**Customers paying past due dates**	**Total**
Non-current assets				
Loans, deposits and other financial assets	6,797	131,645	-	138,442
Expected credit loss of financial assets	(538)	(9,806)	-	(10,344)
Other non-current receivables	-	240	-	240
Total	**6,259**	**122,079**	**-**	**128,338**
Current assets				
Loans, deposits and other financial assets	-	8,075	915	8,990
Expected credit loss of financial assets	-	(191)	(741)	(932)
Trade receivables	1,017	290,185	59,223	350,425
Expected credit loss of trade receivables	-	(147)	(21,849)	(21,996)
Total	**1,017**	**297,922**	**37,548**	**336,487**

For credit risk regarding issued guarantees please see Note 35.

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 some customers a higher rate was used because of outstanding pre-settlement amounts which are not likely to be recovered in the full amount.

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 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
Specific impairments (100%)	(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**

Impairment losses as at 31 December 2020 on trade receivables are as follows:

31 December 2020	**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	419,727	320,163	48,356	19,195	3,450	28,562
Specific impairments (100%)	(5,042)	-	-	-	-	(5,042)
Default rate %	-	2.23%	0.47%	12.99%	44.90%	51.89%
Expected credit loss	(26,241)	(7,148)	(229)	(2,494)	(1,549)	(14,821)
Trade receivables, net	**393,486**	**313,016**	**48,127**	**16,701**	**1,901**	**13,741**

b) Debt instruments at amortised costs (other financial assets)

Other financial assets at amortised cost include deposits and guarantees, 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 2021, the ECL for financial institutions is 7.24% (2020: 5.88%) and for non-financial institutions is 8.37% (2020: 6.90%)

Impairment losses as at 31 December 2021 on other financial assets are as follows:

	Total HRK'000	Deposits-non financial institutions HRK'000	Deposits-financial institutions HRK'000	Loans and borrowings HRK'000	Receivables for reinstated debt HRK'000
Loans, deposits, other financial assets	147,432	134,952	9,154	2,404	922
Specific impairments (100%)	(741)	-	-	(741)	-
Expected credit loss %	-	7.24%	8.37%	0.00%	0.00%
Expected credit loss	(10,535)	(9,769)	(766)	-	-
Loans, deposits and other financial assets, net	**136,156**	**125,183**	**8,388**	**1,663**	**922**

Impairment losses as at 31 December 2020 on other financial assets are as follows:

2020	Total HRK'000	Deposits – non-financial institutions HRK'000	Deposits – financial institutions HRK'000	Loans and borrowings HRK'000	Receivables for reinstated debt HRK'000
Loans, deposits and other financial assets	143,412	121,192	9,577	9,653	2,990
Specific impairments (100%)	(9,507)	-	-	(9,507)	-
Expected credit loss %		5.88%	6.90%	6.90%	0.00%
Expected credit loss	(7,786)	(7,126)	(661)	-	-
Loans, deposits and other financial assets, net	**126,119**	**114,066**	**8,917**	**146**	**2,990**

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
2021	+/- 0,5	6,876
2020	+/- 0,5	8,403

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. Given the long-term policy of the Republic of Croatia related to maintaining the EUR exchange rate, the Company does not consider it to be significantly exposed to further negative impact of this exposure.

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
2021		
EUR	+/- 1%	37,346
USD	+/- 1%	7
GBP	+/- 1%	2
CHF	+/- 1%	2
2020		
EUR	+/- 1%	37,537
USD	+/- 1%	78
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. For more details see Note 37.

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 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	**2,544,784**	-	330,894	332,043	676,898	1,204,949
Accrued expenses	**94,038**	-	94,038	-	-	-
Total	**5,946,391**	**277,936**	**2,988,311**	**544,666**	**799,625**	**1,335,853**
31 December 2020						
Trade payables	**1,755,436**	294,214	1,461,222	-	-	-
Loans and borrowings	**2,113,943**	19,414	1,454,250	50,306	449,259	140,714
Lease liabilities	**3,863,833**	-	506,705	478,876	1,145,210	1,733,042
Accrued expenses	**98,420**	-	98,420	-	-	-
Total	**7,831,632**	**313,628**	**3,520,597**	**529,182**	**1,594,469**	**1,873,756**

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 35.

37. Subsequent events

In 2021, the ongoing political tension in the region escalated as a result of further developments of the situation in Ukraine. These developments have negatively impacted the commodity and financial markets, and increased volatility, particularly with regard to foreign exchange rates. In late February 2022, the conflict escalated with a military operation involving Russian forces in Ukraine and a state of emergency was declared in Ukraine. There is increased volatility in the financial and commodity markets.

As a result, international sanctions have been imposed on Russian companies and individuals. The most relevant for the Company are as follows:

- the United States, the European Union, the United Kingdom and Canada banned certain Russian banks from SWIFT, the high security network that facilitates payments among 11,000 financial institutions in 200 countries,
- blocking sanctions or asset freeze restrictions on a number of large Russian financial institutions, including, but not limited to VTB Bank (subject of EU, US and UK blocking sanctions), the Group shareholder and loan note holder and Sberbank (subject of US and UK blocking sanctions) the Group's single largest registered shareholder.

The Company is not directly affected, since Russian entities indirectly hold less than 50% of the voting rights in the Company.

On 9 February 2022 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 200 million, with which previous loans were refinanced. The loan interest rate is set at 2.68% for 2022 and the loan is due on 28 February 2023.

On 25 April 2022 Fortenova grupa d.d. decided to increase equity of the Company using a debt to equity conversion in the amount of EUR 70 million. As a result, EUR 38,3 million of current and EUR 31,7 million of non-current loans given to the Company by the owner were transferred into capital reserves. Capital and reserves after the conversion are higher for HRK 529 million.

During the first quarter of 2022 the Company has acquired three companies: : Pet prom ulaganja plus d.o.o., Latere Terram plus d.o.o. i Roto ulaganja plus d.o.o.. No purchase consideration was paid based on the fact that the acquisitions relate to business combinations under common control. Total amount of assets/liabilities acquired is HRK 39 million.

These Annual Financial Statements were approved by the Management Board on 21 June 2022.

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.