MEDIKA d.d. and its subsidiaries

ANNUAL REPORT
TOGETHER WITH AUDITOR'S REPORT
for the year ended 31 December 2023

Note: This format is not official format for public announcement.

MEDIKA d.d., Zagreb, and its subsidiaries

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MEDIKA d.d. Zagreb, and its subsidiaries

MANAGEMENT REPORT

In 2023, the Medika Group (the "Group") generated a consolidated revenue in the amount of EUR 750,488 thousand, EUR 122,392 thousand more than the prior year's figure. The consolidated operating profit amounts to EUR 23,398 thousand, which is by EUR 5,448 thousand higher than the prior year's figure.

The consolidated profit before tax amounts to EUR 24,374 thousand, and the consolidated net profit amounts to EUR 20,080 thousand, which is EUR 4,585 thousand more than the 2022 figure.

By analysing the individual operating segments (note 6 to the financial statements), 45.0% of the total consolidated revenue was generated by pharmacies (2022: 47.1%), of which 10.5% by own pharmacies (2022: 11.3%). At the same time, 42.7% of the total consolidated revenue was generated from hospitals (2022: 41.0%).

Total consolidated assets amount to EUR 445,430 thousand, representing an increase of 9.7% compared to the prior year. The amount of consolidated non-current assets increased by 10.4% compared to the prior year, which was most significantly affected by the increase of receivables from customers. The amount of current assets increased by 9.6%. The consolidated current assets account for 81.5% of the total assets. Trade and other receivables represent the most significant item of the total consolidated assets and decreased by 14.7% from the prior year.

The total consolidated loan debt amounts to EUR 22,355 thousand which relates to a short-term portion of the long-term borrowing (note 26).

The equity-to-assets ratio is 25%, showing that the Group finances 25% of its total assets from own sources.

The consolidated performance is presented in the statement of comprehensive income on page 64 of the financial statements.

Expected future development of the Group

The Company will maintain the distribution of medicinal products and medical devices as its principal activity and boost the operations involving those products that constitute the Company's core business.

Zdravstvene ustanove Ljekarne Prima Pharme has a strategy to expand its pharmacy network all over the territory of the Republic of Croatia.

Treasury shares

At 31 December 2023, Medika d.d. held 1,240 shares, which represents 4.11% of the total amount of shares. The nominal value per share amounts to EUR 920.

Subsidiaries and associates

The Company is the whole owner of its subsidiaries Zdravstvena ustanova (ZU) Ljekarne Prima Pharme and Primus nekretnine d.o.o.

ZU Ljekarne Prima Pharme is a whole owner of ZU Ljekarna Šeremet and has an associate, ZU Ljekarne Jagatić, in which it holds a share of 49%.

The company does not have branch offices.

Related parties

The Company with the majority of voting rights, i.e. the parent company Auctor d.o.o., holds an ownership interest of 48.04%, i.e. 50.10% voting shares.

Pliva Hrvatska d.o.o., Zagreb, has an ownership interest of 25.32% and 26.41% of the voting rights in the Company.

Risks

Credit risk

The most significant market risk for the Group is the long collection period for trade receivables, especially those HZZO (Croatian State Health Insurance) and HZZO related receivables. Therefore, a significant amount of working capital of the Group has been immobilized, which significantly affects the cash flow and the Group's ability to timely settle its own liabilities. As the receivables represent, directly or indirectly, amounts owed by state institutions, their collection should not be regarded as probable of default risk. This indirectly increases the need for additional funding, which means additional business costs.

Credit risk arises primarily from trade receivables. The risk is higher when dealing with privately owned pharmacies. Hospitals, on the other hand, have extended collection periods, but there is no risk of non-settlement.

Price risk

A continuing decrease in the prices of prescription medicinal products on the HZZO list and the HZZO administrative approach in determining the prices and margins represents another risk of the Group. To lower this risk, the Group has focused on expanding the lines of products that are not limited by law in respect of the price of the product.

Risks (continued)

Foreign exchange risk

In accordance with the Decision on the announcement of the introduction of the euro as the official currency in the Republic of Croatia (published in the "Official Gazette" No. 85/22), the euro becomes the official monetary unit and legal tender in the Republic of Croatia on 1 January 2023, and consequently the Company has no significant currency risk.

Interest rate risk

The Group's interest rate risk arises from received borrowings and given short-term and long-term borrowings at variable rates. Variable-rate borrowings expose the Group to the interest-rate cash flow risk. Fixed-rate borrowings expose the Group to the interest-rate fair value risk.

A part of the Group's assets are interest-bearing assets, as a result of which its revenue and cash flows from investing activities depend on fluctuations in market interest rates.

Risk related to war in Ukraine

Regarding EU restriction measures, which refers to the consequences of exposure and the impact of the Russian invasion of Ukraine, Medika d.d. declares that it does not have a direct business relationship with entities from Russia or Ukraine, nor it is otherwise directly exposed to those entities in its business.

Nevertheless, the Group's Management Board estimates that a direct impact on the Group operations is possible due to the impact of the entire economy on global level, mainly due to the increase in the price of the products, both raw materials, interest rates and inflation that have increased further with the Russian invasion of Ukraine. Given the uncertain extent of the impact of the economy, the Group monitors developments and assesses the impact on business financial situation and cash flows.

CORPORATE GOVERNANCE STATEMENT

As an entity listed on the official market of the Zagreb Stock Exchange, Medika d.d. applies the Corporate Governance Code of the CFSSA (Croatian Financial Services Supervisory Agency) and the Zagreb Stock Exchange, which will be published on the website of the Zagreb Stock Exchange.

The key components of the internal control and risk management system in the area of financial reporting include the following:

- an appropriate organisational structure at all levels, with appropriate segregation of duties and defined levels of powers;
- internal controls integrated into business processes and activities;
- a comprehensive set of accounting policies and procedures governing the preparation of annual report in accordance with International Financial Reporting Standards adopted by the European Union.

The Company is not involved in any mutual-shareholding relationship with other companies, it has no securities with special rights or securities with restriction to vote.

Corporate governance structure

Medika is a joint-stock company based on the dualistic governance model and its governing bodies are the following:

- General Assembly
- Supervisory Board
- Management Board

General Assembly

The General Assembly decides in the matters specified by the law and the Company's Statute which it also adopts, as well as decides on the use of the profit, on the increase and decrease in share capital, election and revocation of the Supervisory Board members, it provides note of release to the members of the Management and the Supervisory Boards, appoints the external auditor and performs other duties in accordance with the law and the Company's Statute.

Supervisory Board

The Supervisory Board oversees the management of the Company's affairs. To this end, it reviews and examines the business records, accounts and documentation of the Company. The Supervisory Board appoints members of the Management and provides its consent with certain Management decisions, such as strategic plans, business plans, financial statements and major investments. The Supervisory Board submits its report on the supervision over the management of the Company's affairs to the General Assembly to which it also presents decision proposals for adoption. The Supervisory Board consists of seven members. As a general rule, regular Supervisory Board meetings are held quarterly. The Supervisory Board may decide on matters, i.e. cast vote by telephone. The term of office of the Supervisory Board members is governed by the Company's statute and expires at the closing of the General Assembly meeting in which approvals of action are granted for the third business year following, but excluding, the year of election.

The members of the Supervisory Board are as follows: Mr Oleg Uskoković, Chairman, Mr Mihael Furjan, Vice Chairman; Members: Mr Damjan Možina, Mr Jozef Harviš, Mr Josef Pilka, Mrs Tanja Kragulj Mežnarić, and Mr Ivica Roso.

CORPORATE GOVERNANCE STATEMENT (continued)

Corporate governance structure (continued)

Management Board

Management Board defines business plans and controls the implementation, co-ordinates the activities of individual organisational units of the Company and their alignment with the current requirements and business plans, reports to the Supervisory Board about the operational developments and activities, profitability and efficiency, significant transactions and events as well as other matters specified in the Statute.

The Management Board of Medika has three members: Mr Jasminko Herceg, President of Management Board, Mr Matko Galeković, Member of Management Board and Mr Jakov Jaki Radošević, Member of Management Board, which represent the Company and manage its affairs solely.

Audit Committee

The Audit Committee has been established by decision of the Supervisory Board. The activities of the Audit Committee are governed by the Audit Act, the Companies Act, the Accounting Act and other regulations. The term of office of the Audit Committee members coincides with the term of office for the Supervisory Board.

The Audit Committee consists of the following members: Mr Josef Pilka, Chairman, Mr Oleg Uskoković and Mr Dalibor Briški.

NON-FINANCIAL REPORT

1. INTRODUCTION BY THE MANAGEMENT BOARD [1]

Dear readers,

It is our pleasure to present you with the second edition of our non-financial report prepared in accordance with the Global Reporting Initiative (GRI) Standard. In 2023, Medika once again confirmed its status as the leading wholesaler in Croatia and showed the market that it continues to build its growth and development on its rich tradition and experience. By listening to the needs of the market, Medika continuously improves and adapts its business to the needs of its partners in order to achieve satisfaction of all stakeholders in the healthcare value chain.

Medika supplies pharmacies, healthcare institutions, hospitals, healthcare centres, clinics, doctors' practices, veterinary clinics, dental offices, wholesalers and specialized stores with the widest range of products. Relying on our tradition, but also on an innovative approach in business, Medika sets new standards in service quality and invests in the development of sustainable approaches with which we want to contribute to the protection of the environment and climate, as well as the development of society and the prosperity of communities.

The issue of sustainability is increasingly important to our customers, business partners and suppliers, investors and shareholders, credit institutions, but also to our employees and end consumers. This is precisely why we advocate responsible business and initiated all the necessary steps in 2023 to create a strategic sustainability agenda in order to prepare the Medika Group in 2024 and onwards for a time when market success will largely depend on the ability of companies to adapt to new trends and show resilience in challenging business conditions.

In order to provide the availability and quality of our products and services to everyone in the market, we must ensure that our business is successful, sustainable and resilient. Therefore, we build a stimulating work environment, investing in the well-being and professional development of our employees. We take responsibility for our environmental footprint and strive to minimize our impact on the environment in order to protect the planet and its resources. We strictly adhere to ethical business rules in order to build trust with our stakeholders. We expect our suppliers to respect the highest standards because they are also part of our value chain and play an important role in our impacts.

On behalf of the Management Board, I would like to thank all Medika Group employees for their commitment and hard work, as well as their willingness to contribute to the creation of new approaches and the realization of Medika Group's business goals. We thank our customers, business partners and other stakeholders for their trust and cooperation. Only by working together we can create better conditions and opportunities for all of us and achieve prosperity for the entire society with an innovative approach.

President of the Management Board
Jasminko Herceg

[1] GRI 2-22

2. ABOUT THIS REPORT

Non-financial report (Sustainability Report) for 2023, together with the financial statements, provides all stakeholders of the Group deep insight into the Group's operations, processes and ways in which the Group manages material topics and risks, strategic approach to sustainable development, projects and initiatives that the Group as an organization implements with the aim of more efficient management of environmental, social and economic impacts. Financial data has been published in the financial statements and is not repeated in the non-financial report.

The report has been prepared in accordance with the GRI Standard (page 48). In the report, principles of *UN Global Compact* and ESG was also followed, and the Sustainability report is published on an annual basis. The report is not subjected to an external verification, but this option for future reporting periods is considered in case it would be legally required.

This report covers the companies: Medika d.d., Ljekarne Prima Pharme, Primus nekretnine d.o.o. and does not cover ZU Ljekarne Jagatić (in which Ljekarne Prima Pharme has 49 % ownership). The report applies to the same entities as the financial statements. Data for the Group are consolidated, and where this was not possible, separate data are presented.[2]

The report covers all disclosures, data and indicators:

- that are of interest to the Group stakeholders
- that have been recognised as material areas and topics for the Group's operations
- disclosures that may be of importance for evaluations of ESG performance (environmental, social or governance)
- disclosures required for compliance with the GRI Standard requirements

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[2] GRI 2-2; GRI 2-3; GRI 2-4

3. ABOUT THE GROUP

Our story

Medika d.d. is the leading wholesaler founded in 1922 in the Republic of Croatia, with headquarters in Zagreb at the address Capraška 1. Medika's core activities are the sale, warehousing and distribution of human and veterinary drugs, medical devices, equipment and dental aids, cosmetics, dietary, hygiene and other products intended for the health market.[3]

With quality and reliable distribution, Medika contributes to public health and the healthcare system in general, strengthening its position as a leading actor and indispensable partner in the health domain. With its wide range, Medika supplies pharmacies, healthcare institutions, hospitals, healthcare centres, clinics, doctors' practices, wholesalers and specialized stores.

Pharmacy activity is performed in the largest pharmacy chain in the Republic of Croatia - Ljekarne Prima Pharme, which, by providing pharmaceutical care in its 79 branches, represent a significant part of the population's primary health care.

The Group, main activities and products

The Medika Group consists of Medika d.d. whose main activities can be observed in the areas of wholesale and retail sales in the pharmaceutical industry through the Ljekarne Prima Pharme.

In its ownership, Medika holds 100% of the subsidiary Ljekarne Prima Pharme, as well as Primus nekretnine d.o.o. In addition, Ljekarne Prima Pharme is the whole owner of ZU Ljekarna Šeremet and has an associate, ZU Ljekarne Jagatić, in which it holds a share of 49%. The data in this non-financial report includes all the entities listed, except ZU Ljekarne Jagatić.[4]

Wholesale

The primary wholesale activities are the sale, warehousing and distribution of the sales range offered by Medika. This range includes drugs for human and veterinary needs, medical devices, equipment and dental aids, dietary, cosmetic, hygienic and other products intended for the health market. In terms of product range, drugs constitute the largest portion of our turnover, accounting for approximately 85 percent. Buyers of the wholesale range are primarily pharmacies and hospitals, but also other actors such as veterinary clinics, dental practices, health centres, polyclinics and other wholesalers.

In addition to the mentioned basic logistics services and own product range, Medika is also a representative of the Italian natural cosmetic line L'erbolario on domestic market and in addition, the brand has been exported for several years to Bosnia and Herzegovina and Montenegro.

Medika recognized the challenges of digitization and modern processes and in 2022 launched a new digital platform Pharméria. In the last 2 years, Pharméria has the largest pharmacy network of over 280 pharmacy units, with a range exceeding 5000 products. During 2023, Pharméria has become a reliable destination for finding drugstore and pharmacy products. What differs this platform from similar web shops is the possibility of order takeover at the selected pharmacy. The order can also be delivered to home address.

[3] GRI 2-1
[4] GRI 2-6

3. ABOUT THE GROUP (continued)

Given that education is the key to health, in addition to offering a wide and proven range of products, Pharmeria is a platform that provides its users with professional and educational advice. The vision is to become a unique health platform in the near future where users will be able to find all useful tips related to health, nutrition, motherhood and similar topics in just a few clicks, along with the purchase of their favourite products

The dominant market in which Medika operates is the territory of the Republic of Croatia. Over 99 percent of the Group's total revenue was generated by sales on the Croatian market, while it operates to a lesser extent on the markets of Lithuania, Bosnia and Herzegovina, Montenegro, North Macedonia and Slovenia.

Continuing the process of digitalization with the aim of developing the wholesale business and implementing innovative solutions, in order to increase business efficiency and accessibility. Currently, several aspects of the business have been identified as candidates for digitalization.

Retail

Retail activities are reflected in the operations of Ljekarne Prima Pharme pharmacy units. Ljekarne Prima Pharme are an indispensable part of the health chain in Croatia. In May 2023 health institution Ljekarne Delonga was acquired with two pharmacy units in Zagreb. In November 2023, a pharmacy branch started operating in Dražice, while in December 2023 a pharmacy branch started operating in Kastvo. Ljekarne Prima Pharme at the end of 2023 has a total of 79 pharmacy branches. During 2023, five branches were refurbished in order to improve the visual recognition of the pharmacy branches.

Retail activities include pharmacy activities that ensure the supply and manufacture of drugs. By supply we understand the retail sale of drugs, which includes the ordering, storing and issuing of prescription and non-prescription drugs, according to the contract with the Croatian Health Insurance Institute (HZZO), as well as the production and issuing of magistral and galenic preparations of verified quality.

Additionally, retail includes the supply of homeopathic products, medical products, baby food and dietary products, cosmetics and other means for health protection determined by an act of the Croatian Chamber of Pharmacists (HLJK). The supply of medical products is offered to the patients, health institutions and other legal entities, as well as to health workers in private practice.

Pharmacy activity is also perceived as consulting, regarding the prescription, i.e., the correct application of drugs, medical, homeopathic and dietary products. Pharmacy care is carried out through the cooperation of masters of pharmacy and other health professionals with the aim of achieving better pharmacotherapeutic effects, promoting the rational use of drugs and medical devices, and active participation in disease prevention and health protection.

3. ABOUT THE GROUP (continued)

Retail (continued)

As at the level of the entire Group, the quality the Group offers at pharmacy branches is in accordance with the highest standards and intended for the best possible consumer experience. The pharmacy care offered by pharmacy branches, in addition to cost rationalization for certain therapeutic protocols, improves pharmacotherapy procedures in order to achieve all therapeutic goals, as well as monitoring, avoiding or reducing side effects of drugs that may occur. Avoiding interactions, therapeutic duplication or the occurrence of allergies are also subjects of the pharmacy care we offer, which we try to apply through patient education so that they know how to adhere to therapeutic protocols. On a daily basis, the Group works to improve the effect of clinical treatment and implement preventive measures to preserve and protect the health of all our customers and patients.

4. APPROACH TO SUSTAINABLE DEVELOPMENT

Inclusion of stakeholders and determination of materiality[5]

In order to identify material topics and recognize the impact on society and the environment, the Group conducted a comprehensive stakeholder mapping process in 2022. The results of this materiality assessment remain relevant for 2023.

As a first step, the Group identified stakeholders as having actual or potential impacts as following: shareholders and owners, managers, employees, customers and end customers, government bodies, government supervisory institutions, credit and financial institutions, business partners, suppliers, local communities, professional and interest associations, civil society organizations, educational and scientific institutions and trade unions. Furthermore, two strategic workshops were held where material topics were determined, and management's approach to these topics were reviewed. The first strategic workshop was attended by members of the Management Board and managers from the Group, and the second by members of the Working Group that implements the reporting process; a total of forty managers and experts.

Involvement of stakeholders in the assessment of materiality was carried out through online questionnaires in which verification of the importance of impacts and feedback on the degree of involvement of the Group in managing impacts was requested. The stakeholder involvement process included 152 Group's employees from 13 different business segments and 144 external stakeholders from various groups: suppliers, business partners, customers, financial and credit institutions, investors, government bodies and others. Representatives of different groups of stakeholders have different perspectives and knowledge of various aspects of Group's business. Their involvement in determination and prioritizing of material topics was beneficial for our understanding of the impact that our business has on stakeholders and the environment. Quantitative and qualitative calculation methods were used in the prioritization.

The materiality evaluation process also included assessments of negative impacts and sensitive stakeholder groups for each material topic. Management of material areas and key indicators are presented in this report within thematic chapters.

Based on the results of the conducted survey and strategic workshops, the opinions of internal and external stakeholders were compared in the evaluation of the importance and engagement of the Group in the management of certain topics. No significant differences were found in the evaluation of certain topics that both groups consider to be priorities, and which are crucial for Group's operations.

[5] GRI 2-29; GRI 3-1

4. APPROACH TO SUSTAINABLE DEVELOPMENT (continued)

Inclusion of stakeholders and determination of materiality (continued)

Topics that both external and internal stakeholders **highlighted** as important are the following:[6]

- **Safety and access to quality products and services**
- **Customer satisfaction**
- **Working conditions and employee development**
- **Responsible corporate governance**

The following topics were assessed as important with less pronounced importance than the above:

- Transparent and reliable supply chain
- Innovations and development
- Information Technology (IT) security and stability
- Energy efficiency and responsible use of resources
- Contribution to the community
- Diversity and inclusion
- Climate change

Stakeholders expect an active and strategic approach to managing these significant impacts. In order to establish a strategic approach to sustainable development, the Group has already taken preliminary steps in accordance with upcoming legal regulations. In the impact assessment, the opinion on the Group's involvement in the management of some material topics was examined. Stakeholders mostly assess that the Group manages its impacts in accordance with standards. Stakeholders also recognize engagement in the management of topics of safety and quality of products and services, as well as access to products and services, is assessed as above the standard.

On the other hand, stakeholders recognize the possibility of improvement in the management approach in the areas of working conditions and employee development, innovation and development, energy efficiency and responsible use of resources. It is precisely in these areas that stakeholders show their expectations for progress.

External and internal stakeholders alike show a significantly greater interest in topics that are marked as core business, while they give less importance to the topics of climate and environmental protection, investment in the community, and diversity and inclusion. In the questionnaire, stakeholders were invited to express their comments and suggestions regarding the impact of the Group in the context of sustainability. Most of the comments from external stakeholders related to satisfaction with the cooperation and professional approach of the Group in stakeholder relations and impact management, while internal stakeholders had certain suggestions for improvement in the area of the working environment. Both groups emphasize innovation, digitalisation and energy efficiency as areas in which more investment should be made.

5. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES

The Group is aware of its impacts on communities, which are related to the impact on the environment and climate. With its actions and business, the Group wants to contribute to an active increase in awareness of climate risks, as well as opportunities for joint contribution to risk reduction. The connection between the environment and human health motivates every day to work efficiently and dedicatedly on the modernization of its business, which will be based on a conscientious approach to environmental protection and thus contribute to the overall health of communities. The Sustainable Development Goals 2030 offer a new perspective for translating global needs and the Group's ambitions into business solutions. As a result of these changes, the Group will become even more competitive in the market, with this success recognized by both customers and stakeholders.

[6] GRI 3-2

5. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES (continued)

In 2023, continued efforts are focused on sustainable practices, with a focus on improving data collection processes and developing a Sustainability Strategy. This strategy will clearly define and validate the Group's objectives, with its adoption planned for the third quarter of 2024.

Management of environmental impacts[7]

Guided by the most simply described definition of "Sustainable development is the development that meets the needs of present generations without compromising the ability of future generations to meet their own needs, in harmony with nature", efforts are made to use natural resources rationally, reduce air emissions and effectively separate waste. Managing the environmental impacts that the company creates through its activities is a duty the Group has towards the community in which it operates

Taking care of environmental issues is the responsibility of the Management Board, which provides all the necessary human resources and makes decisions on investments in the maintenance as well as improvement of the quality and environmental protection system. It is the responsibility of the Management to ensure that quality and environmental protection indicators are set and met. In addition, Management Board has the function of highlighting the importance and communication about the importance of the system, meeting and fulfilling customer requirements, legal obligations and moral principles in order to ensure successful operations and progress of the company. Encouraging awareness of the process approach, actively providing support to employees involved in the quality system, promoting continuous improvement and managing the Group are just some of the duties of the Management Board. Managers of the quality and environmental protection process system, are responsible for taking care and managing their processes in terms of efficiency, effectiveness, i.e., the results and outputs of the process, and if necessary, to improve them. Medika employees are educated on these topics, and they are expected to independently take care of, respect and adhere to the System Policy, and to work in accordance with the regulations specified in the documentation of the quality and environmental protection management system.

In order to take all possible steps for a positive contribution and impact on the environment, Medika openly communicates with customers in order to improve their relationship with the environment and its protection. With its environmental protection policy and indicators that monitor progress, Medika expresses its focus on management as a key to success.

Aspects of air emissions and waste generation were assessed as the significant impacts, so the measures adopted and implemented are primarily aimed at reducing the emissions and efficient waste digestion. Accordingly, two main indicators have been set for 2023: *reducing air emissions from the fleet and reducing fuel consumption*, which Medika has monitored annually.

By implementing and measuring environmental impact indicators that Group has carried out so far, a positive trend was recognized in reducing the negative impacts on the environment. This success is attributed to our management, which is focused on improving and reducing negative environmental impacts. Further efforts of the Management Board will be focused on the use of modern organizational, technical and technological solutions in the supervision, operation and prevention of potential pollution and threats from the negative impacts of business operations on the environment and sustainable use of resources.

[7] GRI 2-12; GRI 2-13; GRI 2-14; GRI 3-3; GRI 307-1

5. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES (continued)

Energy efficiency and resource management

To maximize profitability and minimize environmental impact, we closely monitor energy consumption. The success of energy management in Medika is set in an energy management system that is established, documented, implemented and maintained in accordance with the ISO 50001:2018 standard. On this basis, an activity plan was adopted with set goals that will try to reduce primary energy consumption and CO_2 production.

Energy consumption[8]

The main energy sources used for the Group's operations are electricity, natural gas, heating oil, diesel, and fuel for the Group's fleet of vehicles (both personal and transportation vehicles). Data on energy consumption is collected for business centres in Zagreb, Dugopolje, Rijeka and Osijek by reading data at metering points, mainly for gas and electricity, which are attached to the distributor's monthly bills, while for pharmacy branches, the calculation and insight into the consumption for gas and electricity is visible in the supplier's energy cards. Fuel consumption for personal and transportation vehicles is recorded in supplier invoices on a monthly basis.

The Group's total energy consumption in 2023 decreased by 2%. This was achieved through the development of various on-site renewable energy sources used in operations, such as absorption chillers for cooling and heating, and solar energy from the photovoltaic power plant located at the location PC Osijek.

Data on energy consumption by type of energy source is visible in table *Total energy consumption in Group Medika*. Steam is not used as an energy source in the operation of the Group.

In order to act in the best possible way for the benefit of the environment in the process of using energy, the Group strives to implement renewable sources in its energy consumption. Consumption outside the organization has not been a subject that the Group has dealt with so far. However, the Group understands that responsible and sustainable transport management is one of the material topics to which more attention should be paid in the future and systematic planning and monitoring of the achievement of goals.

[8] GRI 302-1

5. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES (continued)

in kwh

Total energy consumption in Group Medika

	Medika			Ljekarne Prima Pharme			Grupa Medika		
	2021.	**2022.**	**2023.**	**2021.**	**2022.**	**2023.**	**2021.**	**2022.**	**2023.**
Total consumption of natural gas	729,389	387,468	418,051	19,880	17,526	15,812	**749,269**	**404,994**	**433,863**
Total consumption of fuel distilled from crude oil	-	-	91,556	-	-	-	-	-	**91,556**
Total consumption of fuel used for official vehicles	7,450,052	7,615,069	7,389,002	527,456	503,734	515,483	**7,977,508**	**8,118,803**	**7,904,485**
Total electricity consumption	2,376,591	2,306,929	2,173,797	757,194	752,371	804,074	**3,133,785**	**3,059,300**	**2,977,871**
Total energy consumption	**10,556,032**	**10,309,466**	**10,072,406**	**1,304,530**	**1,273,631**	**1,335,369**	**11,860,562**	**11,583,097**	**11,407,775**
Total electricity produced	***96,201***	***92,483***	***163,010***	***-***	***-***	***-***	***96,201***	***92,483***	***163,010***
Share of renewable energy in total electricity consumption	**4.05%**	**4.01%**	**7.50%**	**0.00%**	**0.00%**	**0.00%**	**3.07%**	**3.02%**	**5.47%**

* Medika uses energy from the photovoltaic power plant located on the site BC Osijek.

5. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES (continued)

Projects to reduce energy consumption[9]

In order to achieve a reduction in energy consumption during planning of renovation and construction of buildings, the standards of sustainable construction and that the buildings have as little negative impact on the environment as possible is taken into account. If possible, external joinery of the same type is also installed at pharmacy branches, as well as armstrong ceilings (suspended ceilings) for the purpose of reducing the volume of the space intended for cooling or heating, so that it takes place as little as possible.

Efforts to reduce electricity consumption include replacing lighting with low-energy LED lighting in business premises and pharmacies, as well as replacing old air conditioning units with more energy-efficient models with inverter technology belonging to energy class A to A+ are installed. Air conditioners are replaced in three to five pharmacy branches a year, or a total of 10 to 15 air conditioners per year.

An important energy efficiency and care for the environment and the communities in which Groups operates is also shown by Group's commitment to finding the best solutions for all pharmacy branches. During the renovation of the pharmacy branch in Sisak, energy-efficient heating and cooling sources were considered in the design phase – VRF system (variable refrigerant flow) A++ energy category, which replaced the previous heating system based on thermoaccumulation stoves. All lighting has been replaced with LED luminaires. During the renovation of the branches in Opatija, Obrovac and Sirobuja Split, all lighting was replaced with new LED technology. During the renovation of the Zvonimirova Split pharmacy branch, the old air conditioning units were replaced with new inverter technology air conditioning units of energy class A+. In the Čakovec, Velebitska Split and Solin pharmacy branches, all lighting was replaced with new LED technology.

Efforts are being made to further reduce energy consumption (and consequently the CO2 footprint in business operations) through the renewal of the vehicle fleet and the rationalization of business travel. In 2023, the Group continued to renew its fleet of trucks and cars. A total of 25 new vehicles were purchased, which produce fewer emissions per kilometre. Of these, 13 new vehicles were purchased for Medika and 12 vehicles for Ljekarne Prima Pharme. These measures demonstrate the Group's commitment to environmental responsibility and its efforts to implement sustainable development principles in its business operations.

STANDBY system is used to power the cooling units of transport vehicles with electrical energy from the grid in order to prepare the temperature conditions in the cargo space. This reduces fuel consumption and extends the life of the vehicle engine.

Adjustment of operations with the aim of reducing greenhouse emissions

Climate change risk assessment was not performed, but the need for such an assessment in the following reporting periods is recognized. The Group recognizes its own responsibility and possibility for reducing greenhouse gas emissions which implements through various projects to reduce energy consumption (See Chapter 5. Subchapter Projects for Reducing Energy Consumption).[10]

[9] GRI 302-4
[10] GRI 305-5

5. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES (continued)

Adaptation of business to climate change (continued)

Scope 1 emissions cover direct greenhouse gas emissions from sources owned or controlled by the Group, including fuels for all vehicles owned or controlled by the Group, as well as emissions from the consumption of natural gas, heating oil and diesel used for heating purposes. Scope 2 emissions cover indirect emissions from the generation of purchased energy (electricity), while Scope 3 emissions, i.e. supply chain emissions, are currently not monitored. The table below shows the values for Scope 1 and Scope 2 for the period from 2021 to 2023, and there are no significant deviations in the given periods.[11]

in t CO2/MWh

	Medika			Ljekarne Prima Pharme			Grupa Medika		
	2021	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Scope 1	1,942	1,906	1,859	4	126	128	**1,946**	**2,031**	**1,987**
Scope 2	535	520	472	178	177	189	**713**	**697**	**661**
Total Scope 1 and Scope 2	**2,477**	**2,426**	**2,331**	**182**	**302**	**317**	**2,659**	**2,728**	**2,648**

Waste management and circular economy[12]

With the aim of contributing to the sustainable use of resources and the reduction of environmental impacts, the Group strives to recycle waste and to implement the circular economy policy in business to the greatest extent possible. In addition, waste management is carried out in a legally regulated manner. During our daily business, we use cardboard packaging, bubble wrap, stretch foil, adhesive tape, stickers and PVC tape as input materials. Considering that in our business we come across various chemicals, some of which can have a negative impact on human health, we pay special attention to the identification of hazardous waste and its management.

The types of hazardous and non-hazardous waste that we have identified in our business are listed in the table below.

[11] GRI 305-1; GRI 305-2

[12] GRI 306-1; GRI 306-2; GRI 306-3; GRI 306-4; GRI 306-5

5. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES (continued)

Waste management and circular economy (continued)

Hazardous waste	Non-hazardous waste
Lead batteries	Paper and cardboard packaging
Cytotoxics and cytostatics	Paper and cardboard
Discarded electrical and electronic equipment containing hazardous components	Plastic packaging
Oil filters	Bulky waste
Discarded equipment containing hazardous components	Inorganic waste
Packaging that contains residues of hazardous substances or is contaminated with hazardous substances	Mixtures of fats and oils from the oil/water separator, which contain only edible oil and fats
Synthetic motor, machine and lubricating oils	Iron and alloys containing iron
Fluorescent tubes and other waste containing mercury	Drugs that are not cytotoxic or cytostatic
Chemicals consisting of or containing hazardous substances	
Metal packaging containing hazardous solid porous materials (e.g., asbestos), including empty pressurized containers	
Waste printer toners containing hazardous substances	
Oily water from the oil/water separator	
Absorbents, filter materials (including oil filters not otherwise specified), wiping cloths and protective clothing, contaminated with hazardous substances	

With initiatives regarding environmental protection, the Group strives to operate sustainably, but also to create a progressive atmosphere in our company in order to encourage our employees and other associates to behave sustainably. As part of these efforts, waste is separated, and the digitalization process is implemented to reduce paper usage and minimize paper waste. The Group has internal regulations on the functioning of the waste management system, and all legal requirements in that area have been implemented. The entire organization also strives to reduce the use of cardboard packaging by using reusable plastic boxes.

External organizations are responsible for waste disposal, which are authorized for this activity and which are supervised by various regulations. In addition, they are system tested at the Group level to ensure that they operate in accordance with regulations and our values. In the process of monitoring and collecting waste, strict documentation is kept, and on an annual level the data is reported to the Register of Environmental Pollution.

Total waste generated by the Group in 2023 was 21% higher compared to 2022. Of the total waste generated by the Group (301,838 kg), 13,568 kg was hazardous waste and 288,270 kg was non-hazardous waste. Of the total amount of hazardous waste, 12,693 kg was recycled/reused, and 875 kg was landfilled/disposed of. Of the total amount of non-hazardous waste, 273,446 kg was recycled/reused, and 14,824 kg was landfilled/disposed of. The increasing waste trend is associated with the expansion of business to new locations.

5. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES (continued)

The collected waste for Medika and Ljekarne Prima Pharme is listed in the table below.[13]

	Medika			Ljekarne Prima Pharme			Grupa Medika		
	2021	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Total produced non-hazardous waste (kg)	**162,830**	**203,921**	**246,370**	**31,064**	**36,122**	**41,900**	**193,894**	**240,043**	**288,270**
Of which recycled (kg)	150,721	177,883	234,530	29,930	31,568	38,916	180,651	209,451	273,446
Of which reused (kg)	12,109	26,038	11,840	1,134	4,554	2,984	13,243	30,592	14,824
Total hazardous waste produced (kg)	**3,662**	**7,487**	**11,701**	**1,986**	**1,888**	**1,867**	**5,648**	**9,375**	**13,568**
Of which recycled (kg)	1,767	6,249	10,838	1,979	1,882	1,855	3,746	8,131	12,693
Of which reused (kg)	1,895	1,238	863	7	6	12	1,902	1,244	875
Total produced hazardous and non-hazardous waste (kg)	**166,492**	**211,408**	**258,071**	**33,050**	**38,010**	**43,767**	**199,542**	**249,418**	**301,838**
Of which total recycled (hazardous and non-hazardous) (kg)	**152,488**	**184,132**	**245,368**	**31,909**	**33,450**	**40,771**	**184,397**	**217,582**	**286,139**
Of which total deferred (dangerous and non-dangerous) (kg)	**14,004**	**27,276**	**12,703**	**1,141**	**4,560**	**2,996**	**15,145**	**31,836**	**15,699**

[13] GRI 306-3; GRI 306-5

5. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES (continued)

In all business centres and pharmacy branches, containers for sorting different types of waste were provided, so that as much as possible can be recycled or processed in an energy and environmentally efficient way, and so that the amount of municipal waste can be reduced to the minimum possible level. Pharmacy branches, such as Ljekarne Prima Pharme, are obliged to allow patients to store waste drugs with them, and then they dispose them in an adequate manner.

6. ANNOUNCEMENTS ON SUSTAINABLE ACTIVITIES IN ACCORDANCE WITH THE EU TAXONOMY

In this part of the report, the Group discloses data in accordance with Article 8 of Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investments, supplemented by the Commission Delegated Regulation (EU) 2021/2139, which establishes the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation, and in accordance with Commission Delegated Regulation (EU) 2021/2178, which prescribes the reporting methodology.

The Group, in accordance with this regulatory framework, has the obligation to disclose information on how and to what extent the company's economic activities can be qualified as environmentally sustainable in relation to the first two goals of the EU Taxonomy – climate change mitigation and adaptation. Eligibility and compliance of economic activities is expressed through three economic indicators: percentage of turnover, capital expenditures and operating expenditure. For reports as at 31 December 2023, the obligation to report includes eligibility criteria, and analysis of eligible activities in relation to technical criteria and determination of compliance with the EU Taxonomy.

The main business activities of the Group are not covered by the EU Taxonomy as those that can significantly contribute to environmental objectives of the European Union.

The calculation of the proportion of taxonomy eligible economic activities was carried out by comparing the activities that make up the proportion of turnover and by comparing the environmentally acceptable capital expenditure and operating expenditure of the Group with the activities listed in the taxonomy. According to the nomenclature of Annexes I and II of the Delegated Regulation, (EU) 2021/2178, NACE codes [14] and associated specific descriptions, the Group recognized the following eligible economic activities, most of which relate to capital expenditure, and the projects in which these investments were made are described in detail below. The proportion of taxonomy-eligible activities in turnover is recognized only on one item. The total turnover shown refers to operating income and does not include financial income. Total operating expenditure includes maintenance costs and cleaning costs, rental costs and property insurance costs.

Revenue

As taxonomy-eligible activities in turnover, we recognized the economic activity under 6.6 Road transport of goods. Medika performs the activity 60.24 Transport of goods (cargo) by road for its clients and earns income from the distribution of goods. The transport service consists of the collection of goods, inspection, sorting of shipments according to the bill of lading, delivery of goods to the customer user of the service, collection of returns and return of shipments to the service users. The transport service is carried out by vehicles owned by Medika, according to all requirements of the GMP (Good manufacturing practise). All vehicles are monitored for temperature from loading to unloading, and it should also be noted that the delivery service is performed in two temperature conditions (ambient from 15 to 25 degrees C and cold from 2 to 8 degrees C). Income from the distribution of goods for 2023 is EUR 453 thousand (in 2022 it was EUR 262 thousand). In a detailed analysis of the compliance criteria, we assessed that, due to the specificity of the requirements, we do not fully meet the criteria and, for this reason, we cannot claim the compliance of the eligible income.

[14] Nomenclature of economic activities - European statistical classification of economic activities

6. ANNOUNCEMENTS ON SUSTAINABLE ACTIVITIES IN ACCORDANCE WITH THE EU TAXONOMY (continued)

Capital expenditures

As taxonomy-eligible activities in capital expenditure as the economic activity under 6.5 Transport by motorbikes, passenger cars and light commercial vehicles, 7.3 Installation, maintenance and repair of energy efficiency equipment and 7.7 Acquisition and ownership of buildings are recognized.

Regarding significant investments, in BC Dugopolje, the obsolete heating and cooling system was replaced with a new high-efficiency heat pump. With this renovation and installation of the VRF system (variable refrigerant flow system), the need for electricity consumption as the primary source of energy for heating and cooling the administration part of the building has been reduced. The goals of this investment are to reduce electricity consumption at the Dugopolje location by around 30,000 kWh per year, or to reduce electricity consumption by 8 percent. These investments were made in 2023 in the amount of EUR 564 thousand.

In PC Osijek, the renovation of the storage area of the facility was carried out, which included the reconstruction of the air conditioning system due to the safety of drug storage and the dilapidation of the existing system. The cost of the renovation was EUR 172 thousand.

In PC Zagreb, investments in 2023 for the equipment of the newly rented warehouse amounted to EUR 448 thousand. These investments include the construction of a cooling chamber, the installation of a power generator, and the monitoring of temperature conditions. The increase in investments in right-of-use assets amounted to EUR 1,148 thousand and relate to the operational lease of the new warehouse and the purchase of new passenger cars.

Activities performed at Ljekarne Prima Pharme are described in the continuation. Renovation of six pharmacies in Zagreb, which included construction craftsman tasks, plasterboard and painting works, electrical installation works, and replacement of existing carpentry and lighting, as well as the installation of a cooling system. The complete lighting of the pharmacy is LED. Total investments amount to EUR 360 thousand. The increase in investments in right-of-use asset amounted to EUR 2,157 thousand and relate to the operational lease of new premises for pharmacy branches and the purchase of new passenger cars.

By a detailed analysis of compliance, it was determined that the activity 7.3 Installation, maintenance and repair of equipment for energy efficiency is partially aligned with the provisions of the taxonomy. The performed activity is in accordance with the minimum requirements established for individual components and systems in applicable national measures implementing Directive 2010/31/EU and, these components are classified in the two highest classes of energy efficiency in accordance with Regulation (EU) 2017/1369 and delegated acts adopted on the basis of that regulation. All works were carried out in accordance with directives and other regulations related to environmental and climate protection. In the verification of the generic criteria for DNSH to pollution prevention and control regarding use and presence of chemicals, we found compliance with the criteria from Appendix C (Regulation 2021/2139). However, a risk assessment was not carried out in accordance with the criteria from Appendix A (Regulation 2021/2139): Generic criteria for DNSH to climate change adaptation and in accordance with the Classification of hazards brought about by climate change. Therefore, it was concluded that the activity is not aligned with the taxonomy. In the next reporting period, the required risk assessment to achieve compliance will be carried out.

6. ANNOUNCEMENTS ON SUSTAINABLE ACTIVITIES IN ACCORDANCE WITH THE EU TAXONOMY (continued)

Operative expenses

Through the analysis of operating expenses, it is concluded that at this moment we are not able to allocate operating expenses to individual activities with certainty. Already in 2023, we have started preparatory actions to improve this process in order to adequately respond to the requirements of the EU Taxonomy in the future period.

An overview of taxonomic eligibility and compliance is shown in the tables below.

Proportion of turnover from products or services associated with taxonomy-aligned economic activities – disclosure for the year 2023:

	2023			Substantial contribution criteria						DNSH criteria ("Does Not Significantly Harm")									
Economic Activities	**Code**	**Turnover**	**Proportion of turnover**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Minimum Safeguards**	**Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2) turnover, 2022**	**Category enabling activity**	**Category transitional activity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
Text		**000 EUR**	**%**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**%**	**E**	**T**
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)	-	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%		
Of which enabling	-	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%	-	
Of which transitional	-	0	0.00%	0.00%						-	-	-	-	-	-	-	0.00%		-
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	**EL; N/EL**	**EL; N/EL**	**EL; N/EL**	**EL; N/EL**	**EL; N/EL**										
6.6. Freight transport services by road	**CCM, CCA**	453	0.06%	EL	EL	N/EL	N/EL	N/EL	N/EL								0.04%		
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)		453	0.06%	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%								0.04%		
A. Turnover of Taxonomy-eligible activities		**453**	**0.06%**	**100.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**								**0.04%**		

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES

Turnover of Taxonomy-non-eligible activities		751,099	99.94%
TOTAL		751,552	100.00%

Proportion of CapEx from products or services associated with taxonomy-aligned economic activities – disclosure for the year 2023:

	2023			Substantial contribution criteria						DNSH criteria ("Does Not Significantly Harm")									
Economic Activities	**Code**	**CapEx**	**Proportion of CapEx, 2023**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Minimum Safeguards**	**Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2) CapEx, 2022**	**Category enabling activity**	**Category transitional activity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
Text		**000 EUR**	**%**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**%**	**E**	**T**
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.00	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%		
Of which enabling	-	0.00	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%	-	
Of which transitional	-	0.00	0.00%	0.00%						-	-	-	-	-	-	-	0.00%		-
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	**EL; N/EL**	**EL; N/EL**	**EL; N/EL**	**EL; N/EL**	**EL; N/EL**										
6.5 Transport by motorbikes, passenger cars and light commercial vehicles	**CCM, CCA**	1,153	12.49%	EL	EL	N/EL	N/EL	N/EL	N/EL										
7.3 Installation, maintenance and repair of energy efficiency equipment	**CCM, CCA**	2,313	25.06%	EL	EL	N/EL	N/EL	N/EL	N/EL								6.23%		
7.7 Acquisition and ownership of buildings	**CCM, CCA**	1,296	14.04%	EL	EL	N/EL	N/EL	N/EL	N/EL								0.00%		
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (a.2)		4,763	51.60%	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%								0.00%		
A. CapEx of Taxonomy-eligible activities (A.1+A.2)		**4,763**	**51.60%**	**100.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**								**0.00%**		

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES

CapEx of Taxonomy-non-eligible activities	4,468	48.40%
TOTAL	9,231	100,00%

MANAGEMENT REPORT (continued)

Proportion of OpEx from products or services associated with taxonomy-aligned economic activities – disclosure for the year 2023:

	2023			Substantial contribution criteria						DNSH criteria ("Does Not Significantly Harm")									
Economic Activities	**Code**	**OpEx**	**Proportion of OpEx, 2023**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Climate Change Mitigation**	**Climate Change Adaptation**	**Water**	**Pollution**	**Circular Economy**	**Biodiversity**	**Minimum Safeguard**	**Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2) OpEx, 2022**	**Category enabling activity**	**Category transitional activity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
Text		**000 EUR**	**%**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y; N; N/EL**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**Y/N**	**%**	**E**	**T**
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%		
Of which enabling	-	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%	-	
Of which transitional	-	0	0.00%	0.00%						-	-	-	-	-	-	-	0.00%		-
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	**EL; N/EL**	**EL; N/EL**	**EL; N/EL**	**EL; N/EL**	**EL; N/EL**										
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)				100%	0.00%	0.00%	0.00%	0.00%	0.00%								0.00%		
A. OpEx of Taxonomy-eligible activities (A.1+A.2)		-	0.00%	**100%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**								**0.00%**		

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES

OpEx of Taxonomy-non-eligible activities		2,480	100.00%
TOTAL		2,480	100.00%

7. WORKING ENVIRONMENT AND OPPORTUNITIES FOR EMPLOYEES

Employees play a key role in the success of the Group. Therefore, we invest efforts in encouraging the motivation and development of employees as well as promoting diversity and inclusion in our work environment. We are aware that as an organization we can only be successful if we have motivated employees with the right qualifications. We want to offer our employees attractive working conditions as well as good opportunities for career development and further training. Open dialogue and good relations between management and employees are key elements of our corporate culture with the aim of creating a safe and healthy working environment.

Working environment and conditions tailored to the employee[15]

Based on the Group's 2023-2025 Strategies for the development of the working environment, we have outlined activities with the goal of ensuring sustainable and efficient management of the working environment and human resources. Although there is no collective agreement, the Group has a positive attitude and openness towards collective organizing and negotiation, and can assess the cooperation with the Union as positive, efficient and cooperative.[16]

Given the global trend of a dynamic business environment that contributes to a reduced work-life balance, we have strategically increased the number of employees to establish an even distribution and intensity of tasks per employee. All overtime hours are paid in accordance with the law, and redistribution of working hours is carried out. Employees are also entitled to days off in accordance with the provisions of the Work Rules.

The Group is continuously working on expanding the portfolio of benefits that it offers to employees.[17] In addition to the payments of Christmas and Easter bonuses, we also provide support for a new born child, death of a close family member, disability of an employee, support for continuous sick leave of more than 90 days, jubilee awards gift in kind, candidate recommendation reward program, scholarships for children of deceased workers, support for education, injury insurance, flexible working hours for workplaces where possible according to the nature of the job, occasional joint employee gatherings, more favourable bank conditions for employees, benefits of contribution to voluntary pension, transportation allowance and hot meal allowance, employee reward systems in the form of monetary rewards for work results, or salary supplements. The Group pays and provides a gift for the children of our employees and organizes occasional gatherings of employees with their children. The Group enables and ensures paid leave and days off, and also focuses special attention on parents and their need for child and family care.[18]

Most employees return to their previous job after using maternity and parental leave. During 2023, 81 employees (70 women and 11 men) used maternity and parental leave in the Group.

[15] GRI 2-23; GRI 3-3; GRI 401-1
[16] GRI 2-30
[17] GRI 401-2
[18] GRI 401-3

7. WORKING ENVIRONMENT AND OPPORTUNITIES FOR EMPLOYEES (continued)

Working environment and conditions tailored to the employee (continued)

Number of workers on maternity leave within the group

	2021	2022	2023
Number of workers on maternity leave within the group	63	72	81

Employee health and safety [19]

The Group is focused on improving the health and well-being of its employees. With a comprehensive approach in operations, we focus on the physical, financial and emotional well-being of employees, especially after the COVID-19 pandemic, which significantly affected all categories, especially mental health.

Occupational safety rules and regular education of all employees on work-related injury prevention make the greatest contribution to reducing accidents in the work environment. By addressing topics such as fire protection, workplace ergonomics, correct lifting techniques, safe work on machines and equipment, especially in distribution centres, concern for employees and their physical safety and health at the workplace is shown. In accordance with the Occupational Safety and Health Act, the Group tries to minimize work-related injuries, and if they do occur within the Group's facilities, the aim for them is to be exclusively characterized as minor physical injuries.

In each case of injury, the facts leading up to the moment of injury are determined, and further steps are taken to prevent them. Here, we can emphasize the involvement of employees in improving occupational safety conditions, continuous education, and timely and clear information - Instructions for safe handling and management of machines and equipment of increased danger for work.

In this process, Occupational Safety Committee plays a significant role, which continuously monitors and collects information related to health and safety protection at the workplace and proposes and implements measures for their improvement. The occupational safety system within the Group is implemented organizationally, that is, the organization has appointed and trained authorized persons for the implementation of occupational safety in accordance with the Occupational Safety Act and carried out a risk assessment covering all employees. This enabled a broader insight and perspective into all business segments and the daily challenges that employees may potentially face.

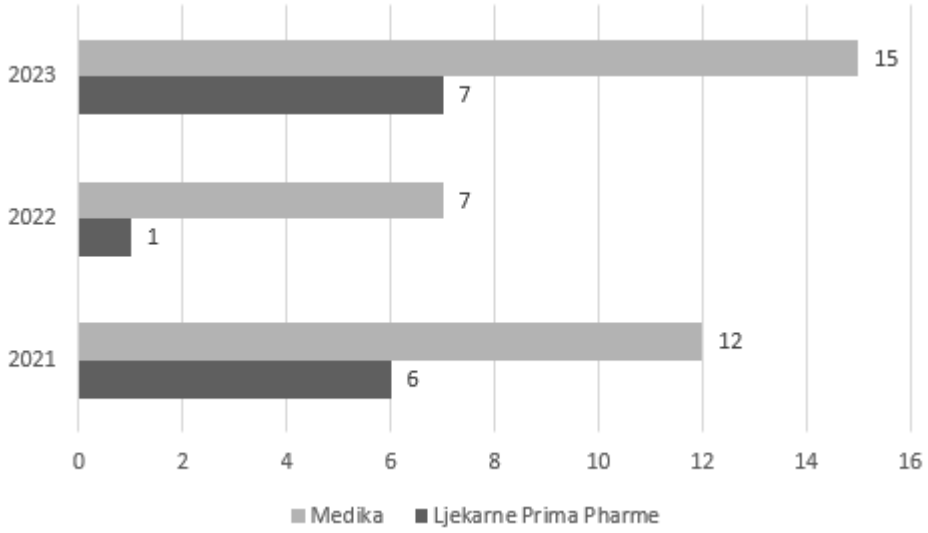
In 2023, there were 22 work-related injuries recorded at the Group level, of which 15 were within Medika and 7 within Ljekarne Prima Pharme.[20] All cases of injury were characterized as minor bodily injuries. The increase in work-related injuries in 2023 compared to 2022 is associated with a high turnover of employees, especially in the warehouse sector where injuries are most common. It is important to emphasize that training on occupational safety is continuously conducted in accordance with the laws, and as for the periodic implementation of exercises and trainings, they are defined by disruptions in work if they occur.

[19] GRI 3-3; GRI 403-1; 403-2; 403-3; 403-4; 403-5; 403-6; 403-8
[20] GRI 403-9

7. WORKING ENVIRONMENT AND OPPORTUNITIES FOR EMPLOYEES (continued)

Employee health and safety (continued)

Number of work-related injuries



In accordance with the Occupational Safety Act, the positive regulations governing this domain as well as the internal regulations in the field of safety, all new employees undergo theoretical and practical training for occupational safety as well as fire protection minimum training, related to the following areas: safe work, safe work with computers (for employees who work for more than 4 hours a day using a computer), fire minimum, evacuation and rescue, employer's authorized representative and worker's representative. Specific occupational safety training is also carried out in accordance with the special requirements of the workplace, such as training for working with dangerous chemicals, operating a forklift, providing first aid or storing and transporting flammable liquids and gases.

Employees who perform their work tasks in jobs with special working conditions (hereinafter: PUR jobs) prescribed in accordance with the Ordinance on jobs with special working conditions (Official Gazette 5/84) are referred to occupational medicine examinations. In Medika, according to the Risk Assessment, it was determined that PUR jobs are performed by employees who, for example, use forklifts, who work daily with chemicals or at heights, who perform driver and delivery jobs, or who work at night.

Workers who perform their work in these jobs are obliged to meet the conditions prescribed by the mentioned Ordinance, i.e., the effective regulations of the Republic of Croatia, which refer to: age, professional qualifications and health status determined by medical examinations in the selected occupational medicine institution. Also, employees who do not perform their work tasks in PUR jobs are referred to occupational medicine examinations. Due to personal health problems or at the request of an employee, Medika refers them to work capacity assessments in order to see if it is necessary to relieve such employees or move them to another workplace according to their capabilities.

7. WORKING ENVIRONMENT AND OPPORTUNITIES FOR EMPLOYEES (continued)

Employee health and safety (continued)

The safety, health and well-being of employees are fundamental to Group's ability to ensure the reliable availability and quality of products and services. The Group offers its employees the possibility of a systematic examination every two years. In doing so, it is ensured that each person has access to the best health care and timely prevention or treatment, expressing not only the care for our employees, but also promoting the collective awareness of the importance of health and care for oneself. Also, the Group has a contracted accident insurance policy for all employees. In order to encourage all employees to an active lifestyle and doing sport, which is necessary for a healthier and better quality of life, all employees are provided with a sports benefits program and every last Tuesday of the month is Fruit Day for employees. The Group believes that each employee plays a role in creating a safe and healthy workplace, whether the job is done in the office, distribution centre, production facility or pharmacy branches. By encouraging a culture of security and well-being, we can better direct our energy to what is the centre of its business – improvement of patients' lives.[21]

Professional development of employees [22]

Education is one of the most important strategic goals of the Group, and the organization and implementation of various educational and development programs is the result of continuous assessments of the work effect and competences and recognition of educational and developmental needs of all our employees. All Group's employees have access to educational programs and opportunities. The Group includes employees assessed as the potentials for growth, development and taking over new, more responsible roles in the future. The key employees are included into educational and development projects with the aim of developing knowledge, skills and competences important to manage people and business processes and change management. In the period that follows, we will continue to invest in additional education and development of employees. Human Resources Management Department, in agreement with directly superior managers, defines employee developmental needs and plans trainings in the annual process. Each direct superior has a responsibility to propose an employee who they think needs development. In order to ensure the opportunity for the professional and personal development of each employee, programs are organized at the Group level that are aimed at employee development, specialist training and individual education. The result of quarterly and annual assessment of all employees are the goals and plans for the personal and professional development of employees, and their inclusion in developmental and educational programs depending on the needs of the development of specific knowledge, skills and behaviour. The professional trainings published on web seminars are available to all employees, and employees are invited to other internal or external trainings depending on educational needs for the development of specific knowledge, skills and behaviour. Examples of some of the educational programs available to our employees are:

The young talent development program is a two-year development and education program of Ljekarne Prima Pharme, which includes employees who were assessed as potentials for growth, development and taking on new, more responsible roles in the future, and who promote the values on which we base the institution's work. The aim of the program is to develop competencies of managing people in the organization, provide a broader picture of business process management, acquire knowledge from different areas of business (e.g., finance and controlling, human resources, central procurement, marketing), and to share the best experiences and practice among employees. The program participants are divided into teams during the program and work on projects which they present to the Management and colleagues on the last module.

[21] GRI 403-7

[22] GRI 3-3; GRI 401-2; 404-3; 404-2

7. WORKING ENVIRONMENT AND OPPORTUNITIES FOR EMPLOYEES (continued)

Employee health and safety (continued)

The sales development program for pharmacists is an internal program that was developed to ensure the systematic transfer of internal knowledge and skills through workshops and monitoring the development of sales skills of colleagues. The goal is to offer pharmacists valuable tools for easier navigation in everyday sales situations specific to the pharmacy.

Development program for Group managers, which involved management development and protentional successors, and is in compliance with strategies approved by the Management Board. The aim of the program is to provide opportunities for acquiring new knowledge and skills, monitoring trends in various fields and promoting organizational culture, quality and knowledge.

Medika has launched a **development and education program** this year that includes Coordinators and key logistics employees. The aim of the program is to develop leadership and communication skills, gain a broader understanding of the business, and acquire knowledge from different areas that will be useful in their work. Participants in the program undergo internal and external training.

The Education and Professional Development Council of Ljekarne Prima Pharme operates through an educational team that organizes internal professional education and takes care of the content.[23] In line with the continuous investment in the professional and personal development of the institution's employees, investments are made in the professional competencies of employees through internal and external development and education programs, such as the university postgraduate specialist study of Clinical Pharmacy, the Phytoaromatherapy program, the young talent development program, and the sales skills development program.

In addition, in 2023, Medika started leadership and communication skills training for Department Heads and other employees who have been identified as having the potential to take on new responsibilities

Diversity and inclusion [24]

Encouraging a diverse, fair and inclusive organization is an integral part of the Group's business strategy. In the Group, different opinions are valued regardless of ethnicity, race, religion, culture, gender identity or sexual orientation, sex, age or ability of the individual. By respecting diversity and promoting an open dialogue on the importance of inclusion and providing equal opportunities, employees have the opportunity to achieve their potential and contribute to the overall culture of the organization, thus achieving greater innovation, creativity, satisfaction, but also business success.

Our values, ethical and professional, are clearly defined within strategic documents and guidelines, and the basic values of the organization as well as the behaviour expected from all members of our team are implemented in all documents of the Group. The Rules of Procedure with provisions on procedure and measures for protection of the dignity of the employees, the Code of Ethics, and the Procedure for the selection and employment of new employees ensure an honest and impartial approach to each individual, regardless of the process or the status of the individual. This enables equal opportunities and options for all existing and potential employees in the future.

[23] GRI 2-13

[24] GRI 2-7; GRI 2-8; GRI 3-3; GRI 405-1; GRI 406-1

7. WORKING ENVIRONMENT AND OPPORTUNITIES FOR EMPLOYEES (continued)

Diversity and inclusion (continued)

In order to ensure a quick and effective resolution of potential discrimination or other forms of dishonest practices in our environment, a commissioner for the protection of the dignity of employees has been appointed to whom all employees may refer if they believe that their rights are violated in any way. In situations, where faced with dishonest and inappropriate practices, we respond seriously and quickly to protect the rights and dignity of individuals and implement the necessary measures of sanctioning individuals whose actions could be characterized as discriminatory or inappropriate in the context of organizational values and guidelines.

At the end of 2023, we employed 7 foreign workers and we carried out various activities for better and faster integration into our organization. Workshops were held on the topic of integration of foreign workers, and mentors were appointed who will focus on introducing them to work, as well as fitting them into the team of our organization.
In accordance with our goals to achieve the diversity and equality of opportunities, we continue to promote gender equality and at this point women make up the majority of the workforce within the Group.

The ratio of a man and a woman in the Group

	2021		**2022**		**2023**	
	M	**Ž**	**M**	**Ž**	**M**	**Ž**
Total	**299**	**641**	**304**	**647**	**317**	**672**
Limited time contract	68	112	62	108	66	96
Contract for an indefinite period	231	529	242	539	251	576
Full time	298	634	302	640	315	666
Part time	1	7	2	7	2	6

Distribution of employees by level of education within the Group

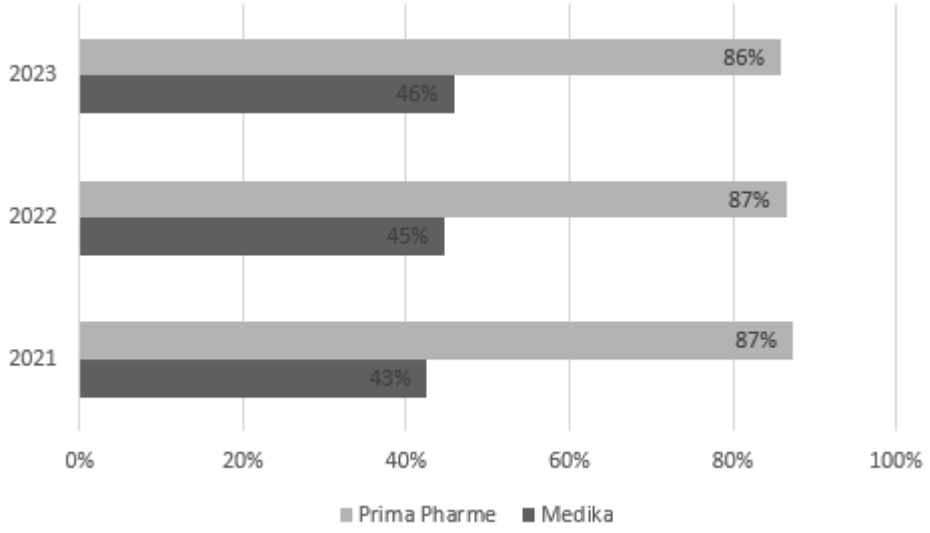
Education	***2021***		***2022***		***2023***	
	M	***Ž***	***M***	***Ž***	***M***	***Ž***
Doctor	-	2	-	2	-	2
VSS	57	243	62	245	60	259
VŠS	17	18	16	19	17	19
SSS	195	371	190	366	204	382
KV/SSS	2	-	1	-	3	-
VKV	-	1	-	1	-	1
KV	17	4	24	11	21	9
PKV	1	-	1	-	1	-
NSS	5	2	5	3	7	-
NKV	5	-	5	-	4	-
Total	***299***	***641***	***304***	***647***	***317***	***672***

7. WORKING ENVIRONMENT AND OPPORTUNITIES FOR EMPLOYEES (continued)

Diversity and inclusion (continued)

Speaking about gender equality and achieving greater representation of women in leadership positions, we are aware that in the future we have to pay even more attention to this and create and implement strategies for the achievement of gender and sex equality and equal opportunities for women within our company. This mission is further stimulated by an objective situation where, despite the existence of high management positions belonging to women, their number is still significantly lower compared to men.

Percentage of women in the Management Board and in manager positions



Within the Group there are leading experts and professionals of different ages and experiences, but regardless of the age of an employee, everyone is treated equally by providing equal opportunities to express their skills and knowledge and progress in their career.

Age diversity of employees	**2021**		**2022**		**2023**	
	M	Ž	M	Ž	M	Ž
< 30 years	58	139	56	140	48	158
30-50 years	186	379	186	377	212	377
> 50 years	55	123	62	130	57	137
TOTAL	**299**	**641**	**304**	**647**	**317**	**672**

At Medika, pupils and students are occasionally employed through the pupil and student service, who perform tasks in the warehouse and administrative and auxiliary tasks. They work occasionally, and by calculating the total number of hours in 2023, an average of fifteen students were engaged in this way (assuming they worked 8 hours every working day). During 2023, 8 people worked at the Ljekarne Prima Pharme through the student service. Most often, they performed administrative and auxiliary tasks.

7. WORKING ENVIRONMENT AND OPPORTUNITIES FOR EMPLOYEES (continued)

Social partner

Social partners are representatives of employers and employees, and play a unique role in social and economic management. They represent important aspects of the world of work, starting with working conditions to the development of continuous training and defining the salary standards. Recognizing the importance of the role of a social partner, Medika conscientiously encourages dialogue with the aim of creating cooperative culture and fellowship between management and employees, to create working conditions and opportunities tailored to the employees, but also to achieve mutual profit and satisfaction. With social dialogue we provide a stable environment for progress and contribute significantly to anticipation and successful change management.

Medika has the elected Workers' Council, which, according to legal powers, protects and promotes the interests of employees, by consulting, co-decision making or negotiating with the employer on issues important for the status of employees, and the Company consults the Workers' Council before making certain decisions, in accordance with legal obligations.

Furthermore, a trade union Medika, a branch of the Croatian trade union (SSSH), was organized in Medika. The company has a good and partner cooperation with the union council within the framework of legal obligations and powers. In Ljekarne Prima Pharme there is also a branch of the Independent Union HUS, "ZU Ljekarne Prima Pharme".

According to its legal powers, the Independent Union HUS "ZU Ljekarne Prima Pharme" protects and promotes the interests of employees, by consulting, co-decision making or negotiating with the employer on issues important for the status of employees, and the Institution consults the Union before making certain decisions, in accordance with legal obligations.

8. CONTRIBUTION TO THE COMMUNITY

Medika Group considers it is important to take responsibility and contribute to the common good, even beyond the framework of our basic activity. We strive to implement our approach to social engagement through all our activities and intend, in the context of a corporate citizen, to develop a strategical orientation to the future and increase the focus on social contributions and engagement throughout the Group. As a leading wholesaler in Croatia, we are aware of our impact on the wide range of stakeholders and generally the health of all members of the community, so continuously encouraging the development of society is the responsibility we recognize and assume as part of our business.

Social responsibility and investment in the community

Based on requests received from associations or hospitals, as a result of emergency situations and needs of employees or the company, Management Board discusses and makes decisions according to the needs of individuals or groups and finds the best way to support its partners and communities. Management Board adopts a plan for this area at the level of the business year, based on data from the previous years. All donations and sponsorships provided by the Group are governed by regulations that are within the framework of tax policies and laws.

8. CONTRIBUTION TO THE COMMUNITY (continued)

Ljekarne Prima Pharme continuously provide scholarships to students in their final years of pharmacy studies until the end of their studies, who, upon successful completion of their studies, continue to work in pharmacies. Throughout Croatia, Ljekarne Prima Pharme continuously provides students with professional practice or professional training in the pharmacies with the mentorship of our experts. Aware of the importance of mentoring from an early age and supporting young people in their professional development, Ljekarne Prima Pharme also takes high school students who attend the pharmacy technician line of study as interns in our pharmacies. Medika has a long tradition of providing professional practice for high school students from the school for transport and pharmacy technician students. In order to additionally contribute to the strengthening of the professional staff on the Croatian pharmaceutical market, specialist practice for students of the doctoral study of pharmacy is also provided.

Once a year, the Group organizes a charity campaign to collect the necessary funds for an institution in need, where the employees are involved in the campaign.

Active memberships in community

Medika, like Ljekarne Prima Pharme, recognizes the importance of active membership and cooperation with different stakeholders in various associations in order to successfully strengthen existing partner relationships, but also build new ones. Therefore, the Group, that is, its employees are members of the following organizations and associations:[25]

Medika	Ljekarne Prima Pharme
Croatian Employers' Association	
American Chamber of Commerce in Croatia	Croatian Chamber of Pharmacists
European Healthcare Distribution Association	Croatian Psychological Chamber
GS1 Croatia	Croatian Pharmaceutical Society
Croatian association of SAP users	Croatian Society of Pharmaceutical Technicians
Croatian Chamber of Commerce	
Croatian Association of Corporate Treasurers	
Croatian Veterinary Chamber	
Croatian organization for the verification of the authenticity of medicines	
Association for the Promotion of Protection	

[25] GRI 2-28

9. RESPONSIBLE CORPORATE GOVERNANCE

Corporate governance [26]

Medika adheres to the highest standards in order to know what shareholders, customers, business partners, employees and other stakeholders expect. We see the importance of corporate governance in the conscientious management of our organization and its operations, as well as their supervision, which is carried out in a legally regulated manner. We strive to carry out these duties conscientiously because we consider them crucial for our company and image, but they are also regulated by the Management Board's Rules of Procedure, the Supervisory Board's Rules of Procedure and the Corporate Governance Code. Corporate governance is a process that is carried out by legally prescribed bodies, that is, the General Assembly, the Supervisory Board and the Management Board, whose powers and obligations are also prescribed by law. Since we are a company that is listed on the stock exchange, we are obliged to follow and comply with the rules and code adopted and supervised by the Zagreb Stock Exchange. The Reporting Department of Medika is responsible for reporting to the stock exchange on compliance with its policy.

Awards and receipts are regulated by the Receipts Policy, and the Report on Receipts of the Supervisory Board and the Management Board is adopted at the regular annual General Assembly. The latest report is available on the Medika's website. (https://www.medika.hr/investitori/financijska-izvjesca/)[27]

Corporate governance

As an organization, we do not yet monitor indicators according to sustainability criteria in corporate management, but in all business situations we behave conscientiously and in accordance with all legal obligations. Plan for 2024 includes adaptation to the new regulation in the field of sustainable development, and it refers to the implementation of in-depth impact recording, the creation of the Sustainable Development Strategy and the improvement of reporting on sustainability. All laws, regulations and ordinances in force are of great importance for its activities. They are recognized and implemented by persons responsible for certain aspects of the business and are included in the organizational part of the business. In 2023, the Management Board and management of the Group participated in educational workshops in the field of upcoming EU regulatory requirements and best practices, new workshops are planned for 2024 with the aim of creating the Group's Sustainable Development Strategy. Members of the Management Board and senior management do not include assessment criteria in the area of sustainability in their key performance indicators.

In order to ensure the adequate application of all laws and to recognize legal and regulatory changes, and to include them in our operations on time, every Department monitors changes of its field of activity and, if necessary, harmonizes internal acts within appropriate deadlines. For this type of adjustment, it is necessary to consult the Management Board beforehand and get their consent. All amendments to internal acts important for the performance of our business are kept in the office of the Management Board and with the director of the Legal, Personnel and Administrative Affairs. Compliance with regulations is of great importance and is strictly enforced in Medika's operations. During the reporting period, there were no cases of non-compliance with laws and regulations, as well as cases of non-compliance[28].

[26] GRI 2-23; GRI 2-24

[27] GRI 2-19; GRI 2-20; GRI 3-3

[28] GRI 2-27; GRI 3-3

9. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Corporative structure[29]

General Assembly of Medika

The General Assembly decides in the matters specified by the law and the Company's Statute which it also adopts, as well as decides on the use of the profit, on the increase and decrease in share capital, election and revocation of the Supervisory Board members, it provides note of release to the members of the Management and the Supervisory Boards, appoints the external auditor and performs other duties in accordance with the law and the Company's Statute.

Supervisory Board of Medika

The Supervisory Board supervises the management of the company. The Supervisory Board appoints the Management Board and gives its approval for certain decisions of the Management Board, such as strategic plans, business plans, financial statements and significant investments. The Supervisory Board submits to the General Assembly a report on the supervision of the management of the company's affairs and makes proposals for decisions to the General Assembly. The Supervisory Board has seven members, and in 2023 until 2 May 2023 were as follows: Ružica Vađić, president; Damjan Možina, vice-president; and members: Mihael Furjan, Oleg Uskoković, Josef Pilka, Jozef Harviš and Zlatko Dunković. From 2 May 2023 and onwards: Oleg Uskoković, president, Mihael Furjan, vice-president, and members: Damjan Možina, Josef Pilka, Jozef Harviš, Tanja Kragulj Mežnarić and Ivica Roso.

Management Board of Medika

The Management Board establishes business plans and controls their implementation, coordinates the activities of individual organizational parts of the Company and their compliance with current needs and business plans, reports to the Supervisory Board on business progress, business profitability, significant operations, etc. in accordance with the provisions of the Statute. The Management Board consists of:

- Jasminko Herceg, president of the Management Board;
- Matko Galeković, member of the Management Board, and
- Jakov Jaki Radošević, member of the Management Board

Audit Committee of Medika

The Audit Committee, as a subcommittee of the Supervisory Board, was established by the decision of the Supervisory Board. Its work is regulated by the Audit Act, the Companies Act, the Accounting Act and other regulations. The term of the Audit Committee is harmonized with the duration of the term of the Supervisory Board. The Audit Committee until 2 May 2023 consists of: Ružica Vađić, president, and members Oleg Uskoković and Dalibor Briški. From 6 June 2023 and onwards the Committee consists of Josef Pilka, president, and members Oleg Uskoković and Dalibor Briški.

The Management Council of Ljekarne Prima Pharme

The Management Council of Ljekarne Prima Pharme manages the institution and has five members, and in 2023 they were: Jasminko Herceg, Matko Galeković, Jakov Jaki Radošević, Željka Radalj and Filip Šarunić. The president and members of the Management Council are appointed by Medika as the founder of Ljekarne Prima Pharme.

[29] GRI 2-8; GRI 2-10; GRI 2-11

9. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Corporative structure (continued)

The Principal of Ljekarne Prima Pharme

The Principal organizes and manages the business and represents the Ljekarne Prima Pharme Pharmacy and is responsible for the legality of the Ljekarne Prima Pharme's work. The professional work of Ljekarne Pharma Pharme is led by the Principal in cooperation with the Expert Council. The Principal is Ivan Gregov, M.Sc. pharm.

Other mandatory bodies of Ljekarne Prima Pharme

The Expert Council of the Ljekarne Prima Pharme is an advisory body to the Director. The Expert Council and the Chairman of the Expert Council are appointed and dismissed by the Director.

The Ethics Committee of Ljekarne Pharma Pharme is a body that ensures the performance of the Pharmacy's activities based on the principles of medical ethics and deontology and performs the tasks prescribed by the Law. The Ethics Committee is appointed by the Management Council, and consists of five members, of which at least 40% are members of the opposite sex. The Management Council also appoints deputy members of the Ethics Committee.

The Committee for Medicines is a body of Ljekarne Prima Pharma that ensures the implementation of all activities related to the use of medicines and medical products. It is appointed by the Management Council and consists of at least five members of the Masters of Pharmacy.

The quality committee is a body of Ljekarne Pharma Pharme that ensures quality control of health care and ensures the implementation of regulations in the field of health care quality. It is appointed by the Management Council and consists of five members representing all industries.

Risk management [30]

Risk management is a crucial process within Medika's business that is applied during the assessment of the impact of certain events or causes and the manner of their consequences on the quality, safety and effectiveness of drugs, the environment, process results and strategic goals. Situations that can affect the mentioned business segments are as follows:

- Determining and adopting strategic goals
- Business, security, operational, hazard and financial risks
- Inconsistencies in quality systems, processes and products when assessing the impact on quality
- Determination, planning and implementation of corrective and/or preventive measures
- Making decisions on the return of a drug to the sales stock
- Initiating changes that can be predicted to have an impact on quality or the environment
- Planning temperature mapping and measurement positions
- Qualification of computer systems
- Selection of transport routes
- Assessments of environmental aspects
- Selection of the contractual organization that participates in the activities of secondary packaging and wholesale distribution of drugs

[30] GRI 2-16; GRI 2-17; GRI 2-18

9. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Risk management (continued)

- Determining the frequency of system testing implementation and criticality of contractual organizations / suppliers
- Prevention of entry of counterfeit drugs into the supply chain
- Changes to key procedures/practices in the area of GMP (Good manufacturing practise)/GDP (Good distribution practise)
- Introduction of new forms of drugs in the procedure of secondary packaging of drugs, etc.

The importance of recognizing these risks for business means ensuring Group's business is within the limits of the stated risks and preventing their negative effects on our patients, customers and users, suppliers, employees, shareholders, but also the entire social community and the environment.

In the analysis of operational and hazard risks, the Group identified four basic groups of risks that it considers important for its business, namely fire protection, occupational safety, illegal activity by third parties and environmental impacts. Environmental and political risks are also recognized.

Natural disasters such as earthquakes and floods are considered as environmental risks. As an insurance against environmental risks, Medika has concluded a property insurance policy against all risks (All Risks insurance policy). Medika considers political risks to be risks from any events caused by the activities of government bodies or extraordinary events on the markets that are important for the company's operations. They can be caused by economic and social reasons such as strikes, riots, events and protests, and population migrations caused by economic and social reasons. War events are also considered to be a political risk.

The Group considers risk analysis to be an important tool for carrying out its activities and ensuring against negative impacts that it may suffer in business. The analysis is carried out according to procedure M06_Risk management for every event that can affect risk management processes, for example complaints, non-conformities, changes or similar. Through the risk assessment, reassessment and overall risk estimate, it can be determined whether the risk management process needs to be repeated due to new circumstances, or whether the conclusions of previous analyses are still applicable and credible. Risk review is performed periodically, especially when new risks are identified, when the level of existing risks changes, or when the risk control process or its effectiveness can be updated with new knowledge or experiences. Periodic review must not be carried out in intervals of more than two years, and it takes into account new risks identified in planned or unplanned events, such as routine work, changes, complaints, product returns, deviations, data monitoring trends, inspections, system testing and others; effectiveness of risk control actions; changes in the levels of observed risks or existing controls and changes in the regulatory environment.

Medika approaches recognized risks by implementing the process of identification, analysis, evaluation, control and communication of risks according to a documented procedure. The principles Medika applies for risk management are: integrated, structured and comprehensive, adapted, inclusive, dynamic and continuous improvement using the best available information and human and cultural factors. The level of resources involved, activities carried out and documentation during risk management depends on the importance and significance of a particular risk. For risks that are considered unacceptable, it is necessary to carry out risk control, or risk mitigation, and then repeat the analysis and assessment. During quantitative risk analysis, the importance of individual risks based on the obtained values can be determined. This sets action priorities in such a way as to first address the risks characterised as priority.

9. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Risk management (continued)

Risk communication is also essential for the entire Group to operate harmoniously, and it is carried out as necessary and appropriate for specific stages of the governance process among stakeholders, including holders of a license for the wholesale of drugs, suppliers, contractual organizations that carry out storage and/or distribution, purchasers of drugs, end users of drugs, manufacturers and holders of drug approvals, competent authorities and owners. The implementation of communication is maintained according to the procedure of the Standard of Communication and Corporate Culture. The Management Board of Medika must be notified at least once a year about all risk assessments carried out and any risk recognized as unacceptable. It is then responsible for providing the resources to implement and initiate preventive measures aimed at reducing risk.

A risk assessment team, including the process manager and coordinator, as well as other necessary participants for individually initiated assessments, is involved in these decisions. This may include persons responsible for turnover or employees designated by the Management Board for risk management outside the GDP or GMP area.

The guidelines that Medika follows when managing risks are the guidelines of Good Manufacturing Practice (GMP) and Good Distribution Practice (GDP), ISO 9001 and ISO 14001 and ICH Q9 Quality risk management – Scientific guideline (guidelines for implementing risk management within the framework of applicable good practices).

In order to ensure the success of the implementation of the risk management process, as well as the effectiveness of the quality and environmental protection system, the Management Board holds meetings where it evaluates the effectiveness of the mentioned processes at least once a year. In addition to mandatory meetings, the Management Board can also require an extraordinary review during the year, if it considers that the need for it has arisen. If, for example, an increased scope of certain activities or a major change affecting the system is recognized, etc., the Management Board can also conduct a review of the part of the system that relates to the recognized activities. The results of the meeting are documented in the minutes, and implementation activities are determined, which are conducted according to procedure *M25 Corrective and preventive measures*. The minutes are approved by the Management Board and forwarded to all key participants, responsible persons and employees responsible for carrying out activities.

The conclusion of the last review by the Management Board pointed to positive points in Medika's business. Based on the verification of the system from the mentioned inputs of the Administration review, the emphasis is that it was held monitoring and measurement is aligned with the objectives and policy of environmental protection and that progress has been made in business.

Improvements to the quality management system and environmental management were identified in the following areas:

- human resource management processes,
- energy efficiency,
- reduction of the average age of the vehicle fleet (passenger and freight program),
- reduction of environmental impact in the area of aspects and goals (electricity, exhaust gases, paper waste, natural resources).

All measurements and indicators of the impact on the environment showed that process management is carried out in a way that controls and reduces the adverse impact on the environment.

9. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Risk management (continued)

Conclusion:

- Medika maintains a high level of system compliance in terms of process management, monitoring and evaluation, i.e. legal compliance;
- Process management is focused on goals and significant aspects of the environment;
- Most of the quality indicators show either the achievement or coming near to the achievement of goals compared to the previous year, especially if the increase in certain activities in the system is taken into account, in addition to the resolution of activities within the stipulated deadlines, e.g. corrective actions, see quality indicators
- The deadlines for certain planned activities were unfulfilled due to the effects of the pandemic, but the above did not affect the overall implementation of activities and quality.

The achieved results confirm that process management, monitoring and measurement are aligned with the objectives and environmental protection policy and that progress has been achieved. Considering the above, the Management Board is satisfied with Medika's business in the last observed period, possible improvements to the quality management system and environmental protection are based on the realization of set goals, compliance with the requirements of laws and norms, and response to the requests of interested parties.

Business ethics and anti-corruption [31]

The Group considers ethical business and anti-corruption to be the foundation of its business, for the benefit of its users, employees and society as a whole. In order to ensure ethical business and prevent any cases of corruption, it has introduced various anti-corruption guidelines and the Code of Ethics, as well as the Code of compliance with the market competition rules.

These documents primarily refer to employees who are expected to apply them in relations with customers, end consumers and tertiary groups with whom business contracts are sought or planned. It was clearly communicated to its employees that all stakeholders are obliged to apply these regulations.
The legal and human resources service delivers internal documents to employees with a signature and, if necessary, additional interpretation, and clearly communicates that they are obliged to apply these regulations. Likewise, if necessary, it carries out procedures for violation of work obligations/internal acts. All employees, as well as members of management bodies, senior, middle and lower management, underwent anti-corruption training, and this topic was additionally confirmed on the webinar.

The Group does not consider these values important only for its own business, but as key social values, which it also expects in the business of others, especially those with whom it has partner relations. Some of its business partners, i.e., suppliers of goods, implement these guidelines themselves. Approximately 40 percent of suppliers are multinational companies that provide distribution contracts in which they have obligations to respect ethical behaviour. Although the guidelines incorporated into the distribution contracts concluded with domestic suppliers are not the same, the need to introduce similar mechanisms in the future is understood.

In the Group's internal operations, inspections are carried out in accordance with regulations, and awareness that irregularities are possible in every company exists. All employees are allowed to submit a complaint to the competent director or the Legal, Personnel and Administrative Affairs, if they notice any form of violation of ethical business or anti-corruption policies in order to help us run an ethically aware company.
In 2023, no cases of corruption were recorded, marking a significant success and reflecting the Group's commitment to conducting business with integrity.

[31] GRI 2-15; GRI 2-17; GRI 2-25; GRI 205-2; GRI 205-3; GRI 3-3

9. RESPONSIBLE CORPORATE GOVERNANCE (continued)

IT security and stability [32]

The Group attaches great importance to ensuring data integrity and protecting its customers, partners, employees and generally information about the organization. As the healthcare system becomes increasingly digitalized, the importance of data protection grows, and the legal requirements for data processing become more comprehensive. This requires dedicated and continuous work to protect the privacy of all customers, patients and all partners in order to ensure that their data is not misused.

Medika's Departments of Legal and Personnel Affairs and the Information Technology (IT) are responsible for the part of Medika's business related to the security of the organization's personal data protection and IT systems. An Information System Security Policy based on the guidelines of the International Standard for Information Security ISO 27001 has been implemented, and all employees are introduced to it from the first day of work in the organization.

Medika continuously invests in the protection of all IT assets within the scope of ISMS (Information security management system) in the context of its integrity, confidentiality and availability, as well as the legal and business interests of the company. Based on this, Medika defines the basic principles and goals, responsibilities and rules that it expects from all its employees.

With the Rulebook on risk management in the IT system, Medika defined the rules of procedure for managing risks arising from inadequate management of the organization's IT system. Also, this Rulebook defines the obligations of responsible persons at all levels of management for initiating and participating in the risk assessment process and dealing with risks, and prescribes obligations related to regular monitoring of risks. The Rulebook on the Appropriate Use of Information Systems was established, which regulates the use of the organization's information systems.

In 2023, management training was performed and, as a basis for risk assessment, a gap analysis of the current state of cyber security in relation to the NIS2 directive (Directive on measures for a high common level of cyber security throughout the Union) was carried out.

In the coming period, it is planned to implement the conclusions derived from the gap analysis with an emphasis on priority areas. Specifically, for the year 2024, it is planned to strengthen the Medika team by introducing a key position - Head of Information Security (CISO). The CISO, together with the IT Service and the Administration, will conduct in-depth analyses of the impact on business and provide strategic support in various aspects of information security. The key responsibilities will include keeping documentation related to information security, organizing and conducting training for employees, maintaining internal and external security audits, as well as improving IT infrastructure management through efficient management of security incidents and events. The CISO will also participate in network segregation projects, implementation of a change tracking system as well as a security patch update system (pathches).

This initiative aims to improve the overall information security at Medika and ensure the protection of the company's vital data and infrastructure. In addition, it will ensure compliance with relevant laws and regulations regarding information security and strengthen the confidence of the company's clients and partners in its services.

[32] GRI 418-1

10. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE

Customer and patient satisfaction are crucial for the long-term sustainability of our business, and accordingly, providing safe, high-quality products is extremely important. We maintain the quality we offer through highly standardized and legally regulated production, distribution and supply processes.

Safety and quality of services and products [33]

In order to manage the quality of products and services in accordance with international standards, as well as the Group's values, to provide its consumers with the best possible service and remain competent among the competition, the Group has aligned its business with a series of certificates, permits and decisions. They prove the fulfilment of requests, standards and appropriate laws and regulations governing the circulation of certain products in all locations and business centres.

Safe and reliable drug supply is possible only with insured quality in the supply chain. This extends from the storage of the product in accordance with the regulations, through accurate delivery to pharmacies and hospitals to the optimal availability of drugs to consumers. The Group's quality insurance systems are monitored by internal controls and official inspections of external bodies. The quality management system of the Group is based on risk and is oriented to processing in accordance with the system certificates according to ISO 9001:2015, ISO 14001:2015 and ISO 50001:2018.

The quality management system is based on the fulfilment and establishment of the requirements of legal regulations in the field of activity regulated. In addition to compliance with the law, the quality and reliability of the Group's products is also evident in its approach, the quality system and its effectiveness is subject to a review by the Management Board, which emphasise great importance to issues of product and system quality. Furthermore, the level of product and system quality is also evident in the objectives and results achieved, in the surveys of satisfaction of our customers that have shown positive results, as well as endeavours and continuous work to improve the Group's products and services.

The Group implements the applicable legal provisions of the EU Directive 2011/62/EU and Delegated Regulation 2016/161/EU. All prescription drugs that are issued only with a prescription are put on the market have to have a unique identifier in the form of a two-dimensional Data Matrix barcode. Drug packaging must also have protection to prevent unauthorized opening. It is important to emphasize that Medika has permits and certificates for good practice in wholesale of drugs and medical devices, as well as for good manufacturing practice for drugs and veterinary medical products.

Furthermore, the Group monitors the recommendations of various Rulebooks that prescribe correct actions within our domain, such as the Rulebook on veterinary medical products and the Rulebook on the conditions to be met by legal persons in performing wholesale and retail trade of veterinary drugs, medicinal additions and veterinary medical products, among others.

At pharmacies branches, quality and safety are secured by controlled storage conditions and compliance with the laws of good practice. Conditions such as temperature, humidity and light are controlled in accordance with the manufacturer's recommendations. In cooperation with the Croatian Medicines Verification Organisation (HOPAL), upon issuing to the patient, each drug is verified through the authentication program.

[33] GRI 2-24; GRI 2-26; GRI 3-3 GRI 416-1; 416-2; 417-1; 417-2

10. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Safety and quality of services and products (continued)

Goals and performance indicators for development of products and services

Business activities and their development in Medika are essential for internal business and product development. Medika bases its business plan on risk analysis and opportunities in the field of imports and distribution of drugs, and other products from its range. All processes of special importance are validated continuously in intervals by monitoring the performance indicators. Our aim is to provide and maintain high standards, including the careful selection of staff and equipment. Staff undergoes continuous training programs and draws from their experience, while equipment is sourced from qualified suppliers and undergoes thorough qualification checks before being put into operation.

At the very end, additional and special attention is paid to the verification and control of the products from entrance to delivery to the user. Some of the quality indicators that Medika practices and encourages in its work are carried out and planned. These include (re)validation, changes that have been launched for the purpose of achieving higher standards, concluding changes in the given time limit, open non-compliance, corrective action done within the time limit, equipment of the series of drugs, scrap materials in production, number and daily average of issued items, the amount of complaints and returns of items, the amount of items in defect in relation to the total issued items, revenue generated compared to the planned and the market share.

Measuring the performance in development of products and services

In order to ensure excellent work quality, the Group must be critical of its own business. For this reason, the Group strives to monitor and measure success in the development of products and services through the quality and environmental protection management systems. The results collected by the system are analysed and evaluated, especially through the quality control of issuing and equipping and through the monitoring of the procurement and sales performance, monitoring the quality indicators, examining the quality of products and implementing the result reports. The system is continuously improving on the basis of various indicators such as sales results, customer satisfaction, supplier evaluation, costs, reactions of principals, realization of goals and protection tasks.

Data analysis includes information of external indicators such as customers' opinions, compliance with the requirements for a product or service, compliance with legislation, properties and trends of processes and products, and information on suppliers, results of communication with all interested parties, degree of achievement of goals and other important information on the effect on quality and environment. Data are collected from various internal and external sources and are sent to the Quality department which processes them and reports to the quality and environment management system team and the Management Board.

Following market trends, the engagement of competitors, the needs of customers and suppliers, Medika develops new products and services in order to ensure and maintain a leading role in the Croatian pharmaceutical products and equipment market. All new products or services by Medika are introduced into the quality management and environmental protection system through documented change and risk management processes and the General Validation Plan. As an organization that is aware of its responsibility in environmental protection, the potential impact of new products or services on the environment is always taken into account when developing new products and services

10. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Responsible sale

The responsible sale starts from the procurement. The goods we offer to our customers come from proven suppliers, and each drug we issue is serialized when issuing, which allows a quick and effective reaction even after the issuing, if necessary. In order to ensure consumer safety, all expiry dates are carefully monitored, and the products are stored in accordance with the regulations, where the temperature conditions in which the products are kept are closely monitored. Cytostatics, narcotics, flammable substances, strong and very strong substances are kept separately. All internal shipments, inter-warehouse stations, relocation of assets, or their write-offs are thoroughly monitored through a number system.

Access to quality products and services

By using a unique portfolio of the Group and the strengths of our long-term partners, it is persistently strived to find new ways to expand access to products increasing their availability and accessibility.

Aware of the importance of access to quality health service and care and availability of the highest quality drugs and pharmaceutical products for all citizens, with its branched network of pharmacies Medika strives to meet all expectations and needs of end customers, that is, patients.

Ljekarne Prima Pharme i.e. all pharmacy branches are adapted and accessible to people with disabilities and equipped with all necessary content for patients and other users to get much needed care or drugs.

Representation in local environments can be illustrated with a list of our pharmacies by counties:

- Dubrovačko-neretvanska: 5 pharmacies
- The city of Zagreb and Zagreb County: 17 pharmacies
- Istarska county: 3 pharmacies
- Krapinsko-zagorska county: 2 pharmacies
- Međimurska county: 2 pharmacies
- Osječko-baranjska county: 5 pharmacies
- Primorsko-goranska county: 11 pharmacies
- Sisačko-moslavačka county: 2 pharmacies
- Splitsko-dalmatinska county: 19 pharmacies
- Šibensko-kninska county: 2 pharmacies
- Vukovarsko-srijemska county: 2 pharmacies
- Zadarska county: 6 pharmacies
- There is one pharmacy in each of the following counties: Karlovačka county, Koprivničko križevačka county, Virovitičko-podravska county.

Customer satisfaction and care

Customer satisfaction is continuously monitored to understand the experience of the customers and all the advantages and disadvantages of the business relationship with Medika. For this purpose, Medika regularly interviews its customers about general satisfaction with services, but also the satisfaction with individual business processes.

Customer satisfaction and care are put in the first place, and this is evident in its values that were implemented in the Group's policies and carried out through the strategies of the Group. The Group manages the client satisfaction by carrying out the process of testing, monitoring and evaluation of the satisfaction of clients/customers with which is committed to permanent improvement of the quality and environmental protection system and other processes in our business.

10. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (CONTINUED)

Access to quality products and services (continued)

By measuring satisfaction, the Group improves the understanding of the experience its customers when using its products and services, and easily recognise disadvantages in business relationship procedures. In order to manage this business segment as precisely as possible and thus ensure the satisfaction of our customers, customer satisfaction surveys are conducted regularly. The last one was carried in 2023 and it showed a high level of satisfaction in various segments such as satisfaction with business cooperation with Medika, wide sales range, services of receiving orders, adherence to agreed deadlines, neatness and accuracy of the goods delivered, the speed at which the complaints are resolved, and financial terms of business.

In this survey, most of the answers were from the Zagreb region, 59.1 %, but the respondents were also from Split, Osijek and Rijeka regions. In addition, an analysis of complaints, market and competition, complaints and compliments, collect benchmarking data was carried out and systematically visited and met with customers to recognize their unexpressed and expressed needs.

This segment of the business is carried out under the supervision of member of the Management Board in charge of sales, who proposes measures to monitor the customer satisfaction, that is, its type, frequency and scope, which is then approved by the Medika's Management. In addition, every Medika employee who comes in contact with customers is obliged to report any feedback from customers which can be considered as important for monitoring their satisfaction. In addition to branches, direct contact with customers can also be made in telephone and field sales, which also serve as a source of information about customer satisfaction.

The process of data processing is divided into data collection, their processing, storage and analysis of the results obtained. The quality team regularly monitors and analyses data collected about complaints and returns and includes them in the "Quality indicators" report. The information obtained is presented to the Management Board and the responsible management. The anonymity of the survey ensures the honesty of the response, so that they can be as productive as possible and point to any possible problems in business, and thus enable us to deal with them. The answers of this kind indicate the way we can adjust and improve our processes to give our clients the best possible experience. If a survey, for example, indicates dissatisfaction with the complaints or mistakes in delivery of goods, it allows us to carry out adequate changes, such as, through cooperation with logistics, the introduction of double controls for higher quality of deliveries.

Customers are also informed through various events. For example, **Medika's Health Day** is a project which gathers around 1000 participants at one-day trainings in four Croatian regions (Zagreb, Osijek, Rijeka, Split), and topics are related to news and products of certain Medika's suppliers. In order to provide additional services to customers in the field of education, we started the **Poslovna abeceda** project 12 years ago. Each year, about 300 participants attend a two-day education from various topics that are not from the field of biomedicine. In this way, we enable heads of pharmacies to acquire the knowledge and skills that are useful to them in their daily work.

Data security

According to the Pharmacy Act, the masters of pharmacy are obliged, when performing pharmacy activities, to obey the Code of Pharmacy Ethics and Deontology. The Code includes the guidelines that a master of pharmacy applies when performing pharmacy activities, work and communication with patients and other users, relationships with other masters of pharmacy and other healthcare professionals, biomedical research, family planning and communication with the media and the public. All masters of Republic of Croatia, accept the Code by a personal statement. Pharmacy branch manager (Master of pharmacy), that is, the head of the pharmacy, is responsible and supervises the work of all employees in pharmacy branch.

10. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Data security (continued)

When it comes to patient data safety, it is provided for by Article 18 in the above Code. According to it, the master of pharmacy is obliged to keep all the information they learned from the patient as a secret when serving the pharmacist's duty, if the patient requires it, except in cases where effective regulations stipulate differently. This means that the master of pharmacy must avoid any activities such as public statements about the disease of the patient and the medical prescriptions, so as not to endanger the professional secret or the health status of the patient. Pharmacy branch manager (Master of pharmacy) is also responsible for respecting the provisions of professional secrets by all pharmacy employees.

Transparent and reliable supply chain and responsible supply chain management[34]

We are aware that our business depends not only on ourselves, but also on a large number of business partners and suppliers with whom we cooperate. In order to ensure that our suppliers the required level of quality, ethics and high standards of business, which are key parts of our sustainability assessments, we select suppliers with a very careful approach. The selection of suppliers is carried out by a team of Medika's experts, Management Board, the director of the Procurement Service and the director of the Quality Service as well as other department directors responsible for certain suppliers of materials and services.

When choosing a supplier, we look at the key aspects that they must possess in order to do business with them, namely adequate resources in the form of employees, space and equipment, appropriate competences, applied quality systems in accordance with the product or service (ISO 9001, ISO 14001, good manufacturing practice, HACCP, good distribution practice, internally established quality system and others), experience in the implementation of contracted activities, necessary permits and certificates if this is determined by regulations for the supplier's field of activity, the need for contracting (for example, a technical cooperation agreement, an agreement on quality or similar), appropriate attitude towards environmental protection and management (e.g. for service providers, contractors, etc.), but also other things such as long-term experience, status of a market-recognized supplier or manufacturer, etc. To ensure the credibility of the presentation of our suppliers during the selection of the final supplier and the conclusion of the contract itself, a system testing can be carried out.

When it comes to potential risks in the supply chain, Medika has systems for their identification and management through the selection process itself, as well as periodic assessment, i.e., evaluation of suppliers. It is carried out on new suppliers after at least 12 months of cooperation, and on existing suppliers at least every 36 months. However, if for some reason a supplier, or its services or materials, is assessed as critical or if the quality of the goods, materials or services changes (e.g., when non-conformities, complaints or counterfeits appear), Medika conducts evaluations even outside of the defined periods.

The evaluation of a supplier is carried out in writing, and includes the areas of communication level and assessment, quality of delivered products, materials and services provided, frequency of complaints or occurrence of counterfeits, accuracy in deliveries, availability and delivery of documentation, terms and conditions of delivery, commercial conditions, but also other things such as environmental protection and GDPR requirements.

[34] GRI 2-25; GRI 204-1; GRI 308-1; GRI 414-1

10. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Transparent and reliable supply chain and responsible supply chain management (continued)

In certain cases, Medika requires its suppliers to comply with business rules and regulations in order to align our supply chain with our quality standards. Thus, for example, our suppliers who have contracts on business and technical cooperation can be familiar with our policies through them, which are the basis for business and technical cooperation. The policies specified in the contracts are quality policies (ISO 9001), GDP and GMP standards, environmental management systems (ISO 14001), occupational health and safety, fire protection and good engineering practices.

In addition to evaluation, Medika also conducts testing of its suppliers. They are carried out on critical suppliers and in the case of new indirectly critical suppliers according to the approved change record. During the duration of the cooperation itself, testing is carried out periodically, and their frequency depends on the results of the periodic evaluation of suppliers, the results of previous testing and according to the recommendations in the report of the previous audit, or according to the risk assessment, and at least once every three years. The system testing criteria include the requirements of the quality contract, good practice (recommendations and guidelines of manufacturing practices or practices in wholesale trade) and Medika's quality system (e.g., environmental protection). System testing is conducted on approximately 0.1% of suppliers of goods, materials or services.

Cooperation with suppliers of goods, materials or services is of utmost importance for strategic sustainability management and as such is contracted on the basis of the bids and offers obtained, the supplier documentation and the assessment carried out. The annual value of the purchased goods is around EUR 750 million, with a distinctive increasing trend. Products are purchased directly from the manufacturer, but also indirectly from other wholesalers, and several departments are in charge of their procurement: department of procurement of drugs, department of procurement of medical devices and medical supplies, dietary and cosmetics procurement department, veterinary department and dentistry department.

The Group cooperates with more than 680 suppliers, 51% of which are foreign from the EU territory, EU economic territories and third countries such as Bosnia and Herzegovina, the United States of America, etc., and 49% of domestic suppliers. The legitimacy of our supply chains is crucial to the Group's business, therefore, none of its suppliers are characterized as restricted parties or otherwise subjected to any economic sanctions of the United States, Great Britain, the European Union, Switzerland or export control limitations.

It should be pointed out that supply chains are also established through pharmacy branches, and during 2023 Ljekarne Prima Pharme cooperated with 74 suppliers, mostly from the territory of Republic of Croatia.

GRI INDEX

Statement of use	Medika Group reported in accordance with GRI Standards for the period from 1 January 2023 until 31 December 2023
Used GRI 1	GRI: The basics 2021

GRI standard	Publication	Page number	Annotation
General publication			
GRI 2: General publications 2021	2-1 Organizational details	3. About the group – Our story	
	2-2 Entities included in the organization's sustainability reporting	2.About this report	
	2-3 Reporting period, frequency and contact point	2. About this report	
	2-4 Restatements of information	2. About this report	
	2-5 External assurance	-	Report is not verified.
	2-6 Activities, value chain and other business relationships	3. About the group – The group, main activities and products	
	2-7 Employees	7. Working environment and opportunities for employees – Diversity and inclusion	
	2-8 Workers who are not employees	7. Working environment and opportunities for employees – Diversity and inclusion 9. Responsible corporate governance – Corporate governance	
	2-9 Governance structure and composition	9. Responsible corporate governance – Corporative structure	
	2-10 Nomination and selection of the highest governance body	9. Responsible corporate governance – Corporative structure	
	2-11 Chair of the highest governance body	9. Responsible corporate governance – Corporative structure	
	2-12 Role of the highest governance body in overseeing the management of impacts	5. Care for the environment and rational management of resources –	

GRI standard	Publication	Page number	Annotation
		Management of environmental impacts	
	2-13 Delegation of responsibility for managing impacts	5. Care for the environment and rational management of resources – Management of environmental impacts 7. Working environment and opportunities for our employees – Employee health and safety	
	2-14 Role of the highest governance body in sustainability reporting	5. Care for the environment and rational management of resources – Management of environmental impacts	
	2-15 Conflicts of interest	9. Responsible corporate governance – Business ethics and anti-corruption	
	2-16 Communication of critical concern	9. Responsible corporate governance – Risk management	
	2-17 Collective knowledge of the highest governance body	9. Responsible corporate governance – Risk management 9. Responsible corporate governance – Business ethics and anti-corruption	
	2-18 Evaluation of the performance of the highest governance body	9. Responsible corporate governance – Risk management	
	2-19 Remuneration policies	9. Responsible corporate governance – Corporate governance	
	2-20 Process to determine remuneration	9. Responsible corporate governance – Corporate governance	
	2-21 Annual total compensation ratio	-	
	2-22 Statement on sustainable development strategy	1. Introduction by the management board	
	2-23 Policy commitments	7. Working environment and opportunities for employees – working environment and conditions tailored to the employee	

GRI standard	Publication	Page number	Annotation
		9. Responsible corporate governance – Corporate governance	
	2-24 Embedding policy commitments	9. Responsible corporate governance – Corporate governance 10. Conscious market operations and consumer care – Safety and quality of services and products	
	2-25 Processes to remediate negative impacts	9. Responsible corporate governance – Business ethics and anti-corruption 10. Conscious market operations and consumer care – Transparent and reliable supply chain and responsible supply chain management	
	2-26 Mechanisms for seeking advice and raising concerns	10. Conscious market operations and consumer care – Safety and quality of services and products	
	2-27 Compliance with laws and regulations	9. Responsible corporate governance – Corporate governance	
	2-28 Membership associations	8. Contribution to the community – Active memberships in community	
	2-29 Approach to stakeholder engagement	4. Approach to sustainable development – Inclusion of stakeholders and determination of materiality	
	2-30 Collective bargaining agreements	7. Working environment and opportunities for employees – working environment and conditions tailored to the employee	
Material topics			
GRI 3: Material publication 2021	3-1 Process to determine material topics	4. Approach to sustainable development – Inclusion of stakeholders and determination of materiality	
	3-2 List of material topics	4. Approach to sustainable development – Inclusion of stakeholders	

GRI standard	Publication	Page number	Annotation
		and determination of materiality	
	3-3 Management of material topics	5. Care for the environment and rational management of resources – Management of environmental impacts 7. Working environment and opportunities for employees – working environment and conditions tailored to the employee 7. Working environment and opportunities for employees – Employee health and safety 7. Working environment and opportunities for employees – Professional development of employees 7. Working environment and opportunities for employees – Diversity and inclusion 9. Responsible corporate governance – Corporate governance 9. Responsible corporate governance – Business ethics and anti-corruption 10. Conscious market operations and consumer care – Safety and quality of services and products	
GRI 201 Economic performance 2016	201-1 Direct economic value created and distributed	MANAGEMENT REPORT	
GRI 204 Procurement practise 2016	204-1 Proportion of expenditure on local suppliers	10. Conscious market operations and consumer care – Transparent and reliable supply chain and	

GRI standard	Publication	Page number	Annotation
		responsible supply chain management	
GRI 205: Anticorruption 2016	205-2 Communication and training on anti-corruption policies and procedures	9. Responsible corporate governance – Business ethics and anti-corruption	
	205-3 Confirmed cases of corruption and measures taken	9. Responsible corporate governance – Business ethics and anti-corruption	
GRI 302: Energy 2016	302-1 Energy consumption within the organization	5. Care for the environment and rational management of resources – Energy efficiency and resource management	
	302-4 Reduction of energy consumption	5. Care for the environment and rational management of resources – Projects to reduce energy consumption	
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	5. Care for the environment and rational management of resources – Waste management and circular economy	
	305-2 Energy indirect (Scope 2) GHG emissions	5. Care for the environment and rational management of resources – Waste management and circular economy	
	305-5 Reduction of GHG emissions	5. Care for the environment and rational management of resources – Projects to reduce energy consumption	
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	5. Care for the environment and rational management of resources – Waste management and circular economy	
	306-2 Management of significant waste-related impacts	5. Care for the environment and rational management of resources – Waste management and circular economy	
	306-3 Waste generated	5. Care for the environment and rational management of resources – Waste management and circular economy	

GRI standard	Publication	Page number	Annotation
	306-4 Waste diverted from disposal	5. Care for the environment and rational management of resources – Waste management and circular economy	
	306-5 Waste intended for one of the disposal procedures	5. Care for the environment and rational management of resources – Waste management and circular economy	
GRI 307: Compliance with environmental laws and regulations 2016	307-1 Non-compliance with environmental laws and regulations	5. Care for the environment and rational management of resources – Management of environmental impacts	
GRI 308: Assessment of suppliers' compliance with environmental criteria 2016	308-1 New suppliers that have been verified using environmental impact criteria	10. Conscious market operations and consumer care – Transparent and reliable supply chain and responsible supply chain management	
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	7. Working environment and opportunities for employees – working environment and conditions tailored to the employee	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	7. Working environment and opportunities for employees – working environment and conditions tailored to the employee	
	401-3 Parental leave	7. Working environment and opportunities for employees – working environment and conditions tailored to the employee	
GRI 403: Health and safety in the workplace 2018	403-1 Occupational health and safety management system	7. Working environment and opportunities for employees – Employee health and safety	
	403-2 Hazard identification, risk assessment, and incident investigation	7. Working environment and opportunities for employees – Employee health and safety	

GRI standard	Publication	Page number	Annotation
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	403-4 Worker participation, consultation, and communication on occupational health and safety	7. Working environment and opportunities for employees – Employee health and safety	
	403-5 Education of workers on health and safety in the workplace	7. Working environment and opportunities for employees – Employee health and safety	
	403-6 Promotion of worker health	7. Working environment and opportunities for employees – Employee health and safety	
	403-7 Prevention and mitigation of workplace health and safety impacts that are directly related to business relationships	7. Working environment and opportunities for employees – Employee health and safety	
	403-8 Workers covered by the occupational health and safety management system	7. Working environment and opportunities for employees – Employee health and safety	
	403-9 Work-related injuries	7. Working environment and opportunities for employees – Employee health and safety	
	403-10 Illnesses related to work	-	In 2023, no case of occupational disease was recorded.
GRI 404: Training and education 2016	404-2 Programs for upgrading employee skills and transition assistance programs	7. Working environment and opportunities for employees –Professional development of employees	
	404-3 Percentage of employees receiving regular performance and career development reviews	7. Working environment and opportunities for employees –Professional development of employees	
GRI 405 Diversity and equal	405-1 Diversity of governance bodies and employees	7. Working environment and opportunities for	

GRI standard	Publication	Page number	Annotation
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GRI 406 Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	7. Working environment and opportunities for employees – Diversity and inclusion	
GRI 414 Assessment of suppliers' compliance with social criteria 2016	414-1 New suppliers that were screened using social criteria	10. Conscious market operations and consumer care – Transparent and reliable supply chain and responsible supply chain management	
GRI 416: Customer health and safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	10. Conscious market operations and consumer care – Safety and quality of services and products	
	416-2 Incidents of non-compliance concerning health and safety impacts of products and services	10. Conscious market operations and consumer care – Safety and quality of services and products	
GRI 417: Marketing and branding	417-1 Requirements for product and service information and labelling	10. Conscious market operations and consumer care – Safety and quality of services and products	
	417-2 Incidents of non-compliance concerning product and service information and labelling	10. Conscious market operations and consumer care – Safety and quality of services and products	
GRI 418: Consumer privacy 2016	418-1 Corroborated complaints regarding privacy violations and losses of customers' personal dana	9. Responsible corporate governance – IT security and stability	

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT AND SUPERVISORY BOARD

Pursuant to the Accounting Act of the Republic of Croatia, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with the International Financial Reporting Standards ("the IFRSs") which give a true and fair view of the financial position and results of operations of the Medika Group ("the Group") for that period.

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

In preparing consolidated financial statements, the Management Board is responsible for:

- selecting and then consistently applying suitable accounting policies;
- making reasonable and prudent judgments and estimates;
- following applicable accounting standards, disclose and explain any material departures in the financial statements; and
- preparing the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business activities.

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

The Management Board is responsible for submitting its annual report, together with the consolidated financial statements, to the Supervisory Board, following which the Supervisory Board is required to approve the consolidated financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements set out on pages 64 to 112 were authorised by the Management Board for submission to the Supervisory Board on 6 March 2024, in witness whereof they have been signed below.

Signed on behalf of the Management Board on 6 March 2024 by:

Jasminko Herceg	Matko Galeković	Jakov Jaki Radošević
President of Management Board	*Member of Management Board*	*Member of Management Board*

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Medika d.d.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Medika d.d. (the Company) and its subsidiaries (together – the Group), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for opinion

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

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

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

Key audit matters

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

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

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Key Audit Matter	How we addressed Key Audit Matter
Revenue recognition As indicated in Note 2 Significant accounting policies and Note 5 Revenue, the Group recognizes revenue in the amount net of value added tax, estimated returns, rebates and discounts. Revenue measurement therefore involves estimates related to such agreements. At the reporting date, amounts of discounts, and rebates that have been incurred and not yet invoiced to the customers are estimated and accrued. Due to the variety of contractual terms, management is required to monitor a large number of individual customer arrangements in order to estimate the discounts and rebates amounts at the reporting date. This is considered complex and includes risk of incorrect inclusion or non-inclusion of discounts and rebates in the current period and year-end accruals, or incorrect calculation of these amounts recorded as at the reporting date. Due to the above mentioned, revenue recognition is considered a key audit matter.	Our audit procedures included understanding of the revenue recognition process including discounts and rebates recognition and assessing compliance with the policies in terms of applicable accounting standards. We walked through and tested the operating effectiveness of the controls over revenue recognition process. Based on a sample, we assessed revenue transactions, taking place at either side of the reporting date as well as credit notes issued after the reporting date to evaluate whether that revenue was recognized in the correct period. We also developed an expectation of the current year sales revenue balance considering historical revenue and historical discounts and rebates information, compared it to the actual sales revenues and examined unexpected differences. On a sample of key customers, we inspected respective contractual terms included in respective agreements with these customers and recalculated the amounts of discounts and rebates. Where our recalculation based on contractual terms materially differed from management records, we obtained explanation and support for the differences. We obtained customer confirmations of amounts outstanding at the reporting date for a sample of customers and gained understanding and reconciled with supporting evidence any significant differences between customer confirmations received and the Group's accounting records. We also assessed on the adequacy of the relevant disclosures in the consolidated financial statements and if these are in line with the requirements of the IFRS.

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Key Audit Matter	How we addressed Key Audit Matter
Valuation of trade receivables As indicated in Note 2 Significant accounting policies, Note 4 Key Accounting estimates and Note 19 Trade and other receivables, trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. As at 31 December 2023, trade receivables represent more than 50% of assets and more than 50% of trade receivables are overdue. The impairment loss is assessed based on the type of customer, based on historical data, the current and expected liquidity of the Health System of the Republic of Croatia, as well as specific assessments of the Group for individual customers, depending on the current state of the market and their financial position. Due to the range of judgements and assumptions used in the models, as well as the significance of the amounts included in the consolidated financial statements, we consider this area to be a key audit matter.	We assessed management's estimate regarding recoverability of the receivables from the state hospitals. We tested aged balances where no provision was recognized to check that there were no indicators of impairment. This included verifying whether any payments subsequent to the end of the reporting period had been received, reviewing historical payment patterns and any correspondence or agreement with customers on expected settlement dates. We tested the accuracy of data in the expected credit loss model and tested mathematical accuracy of the model. We also tested the validation of ageing structure which shows the maturity of overdue receivables. Where specific provisions have been recognized, we selected a sample of trade receivable balances and understood the rationale behind management's judgement on indicators of impairment and provisioning. In order to evaluate the appropriateness of these judgements we verified whether balances were overdue, the customer's historical payment patterns and whether any payments subsequent to the end of the reporting period had been received. We have discussed with management the estimates of timing of collection and the amount of historically uncollected trade receivables. We obtained customer confirmations of amounts outstanding at the reporting date for a sample of customers and gained understanding and reconciled with supporting evidence any significant differences between customer confirmations received and the Group's accounting records. We also assessed on the adequacy of the relevant disclosures in the consolidated financial statements and if these are in line with the requirements of the IFRS.

Other matter

Consolidated financial statements of the Group for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 9 March 2023.

Other information

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

Other information (continued)

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

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

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

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

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

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

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

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

Responsibilities of management and Audit Committee for the consolidated financial statements

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement
We were initially appointed as auditors of the Company on 2 May 2023, representing a total period of uninterrupted engagement appointment of 1 year.

Consistence with Additional Report to Audit Committee
We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 6 March 2024 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

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

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

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

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

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

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

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

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Report on Other Legal and Regulatory Requirements (continued)

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

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

The aim of our procedures was to assess whether:

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

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

Conclusion
Based on the procedures performed and evidence gathered, the consolidated financial statements presented in ESEF format for the year ended on 31 December 2023, contained in the aforementioned attached electronic file and prepared pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, are prepared in all material respects in line with the requirements of Articles 3, 4 and 6 of the ESEF Regulation.
Further to this conclusion, as well as the opinion contained in this independent auditor's report related to accompanying consolidated financial statements and annual report for the year ended 31 December 2023, we do not express any opinion on the information contained in these presentations or on any other information contained in the aforementioned file.

The partner in charge of the audit resulting in this independent auditor's report is Berislav Horvat.

Berislav Horvat
President of the Management Board and Certified auditor

6 March 2024

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are expressed in thousands of EUR)	Note	2023	2022
Income	5, 6	750,488	628,096
Cost of goods sold	6	(690,847)	(577,096)
Staff expenses	7	(22,706)	(20,268)
Marketing and promotion expenses	8	(1,279)	(1,303)
Depreciation and amortisation	14, 15, 16	(4,333)	(4,035)
Other operating expenses	9	(8,989)	(8,084)
Other gains / (losses) – net	10	1,064	640
Profit from operations		**23,398**	**17,950**
Financial income	11	2,277	2,646
Financial expenses	11	(1,732)	(386)
Net financial gain / (loss)		**545**	**2,260**
Share in the profit of associates	17	431	432
Profit before tax		**24,374**	**20,642**
Income tax	12	(4,294)	(5,147)
Profit for the year		**20,080**	**15,495**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**20,080**	**15,495**
Earnings per share			
– basic and diluted (in EUR and CENT)	13	**693.51**	**535.14**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are expressed in thousands of EUR)	Note	As at 31 December 2023	2022
ASSETS			
Non-current assets			
Property and equipment	14	29,695	30,979
Right-of-use assets	15	8,109	7,271
Intangible assets	16	35,617	32,275
Investments in associates	17	3,482	3,449
Deferred tax assets		152	128
Trade and other receivables	19	5,476	649
		82,531	**74,751**
Current assets			
Inventories	20	78,724	61,994
Trade and other receivables	19	241,792	214,957
Given deposits	19	32,000	-
Cash and cash equivalents	21	10,383	54,178
		362,899	**331,129**
Total assets		**445,430**	**405,880**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	25,414	25,407
Reserves	23	8,940	8,940
Retained earnings and income for the year		75,338	61,017
		109,692	**95,364**
Non-current liabilities			
Borrowings	26	-	2,281
Lease liabilities	15	6,071	5,604
Deferred tax liabilities	28	3,337	2,813
Provisions		171	160
Trade and other payables	25	4,244	4,283
		13,823	**15,141**
Current liabilities			
Trade and other payables	25	296,095	245,592
Lease liabilities	15	2,198	2,085
Borrowings	26	22,355	44,912
Income tax payable		1,214	2,715
Provisions		53	71
		321,915	**295,375**
Total liabilities and equity		**445,430**	**405,880**

MEDIKA d.d., Zagreb, and its subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are expressed in thousands of EUR)	Note	Share capital	Reserves	Retained earnings and income for the year	Total
Balance at 1 January 2022		25,407	8,940	50,453	84,800
Comprehensive income for the year					
Profit for the year		-	-	15,495	15,495
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**15,495**	**15,495**
Transactions with owners recognised directly in equity					
Share based payments	30	-	-	448	448
Dividend payment	24	-	-	(5,379)	(5,379)
Total transactions with owners recognised directly in equity		**-**	**-**	**(4,931)**	**(4,931)**
Balance at 31 December 2022		**25,407**	**8,940**	**61,017**	**95,364**
Balance at 1 January 2023		25,407	8,940	61,017	95,364
Comprehensive income for the year					
Profit for the year		-	-	20,080	20,080
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**20,080**	**20,080**
Transactions with owners recognised directly in equity					
Release of treasury shares	30	-	-	473	473
Share capital increase	22	7	-	(7)	-
Dividend payment	24	**-**	**-**	(6,225)	(6,225)
Total transactions with owners recognised directly in equity		**7**	**-**	**(5,759)**	**(5,752)**
Balance at 31 December 2023		**25,414**	**8,940**	**75,338**	**109,692**

MEDIKA d.d., Zagreb, and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are expressed in thousands of EUR)	**Note**	**2023**	**2022**
Cash flow from operating activities:			
Profit for the year		**20,080**	**15,495**
Adjusted by:			
Income tax	12	4,294	5,147
Share based payments		473	448
Depreciation and amortisation	14, 15, 16	4,333	4,035
Impairment of trade and other receivables, net		95	95
Value adjustment on inventories		813	815
Unrealised foreign exchange differences		-	(27)
Changes in provisions		(7)	-
Gain on disposal of property and equipment	10	(1,343)	(142)
Gain on disposal of intangible assets		-	(761)
Losses from the sale of tangible assets		268	-
Modification of lease contract		2	(6)
Impairment of value of intangible assets		-	119
Lease agreement write-off		(7)	(7)
Lease agreement termination		(2)	(1)
Interest income	11	(2,277)	(2,646)
Interest expense	11	1,732	370
Share in profit of associate		(431)	(432)
Changes:			
(Increase) / decrease in inventories		(17,340)	(15,417)
(Increase) / decrease in trade and other receivables		(31,309)	(37,154)
Increase / decrease in trade and other payables		48,693	43,522
Cash generated from operations		**28,067**	**13,453**
Interest paid		(1,685)	(343)
Income taxes paid		(5,882)	(3,978)
Cash flow from operating activities		**20,500**	**9,132**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are expressed in thousands of EUR)	Note	2023	2022
Cash flow from investing activities:			
Purchases of property and equipment	14	(2,368)	(1,799)
Proceeds from the sale of property and equipment and intangible assets		2,993	956
Paid advances for the acquisition of property under the right of use		(145)	-
Purchases of intangible assets		(383)	(446)
Acquisition of subsidiary, net of cash acquired	29	(2,095)	(1,619)
Proceeds from repayment of given loans		1,265	1,115
Expenses for granted loans		(897)	(332)
Given deposits		(32,000)	(8)
Interest received		2,273	2,644
Share of profit from associates received		398	415
Cash flow from investing activities		**(30,959)**	**926**
Cash flow from financing activities			
Repayments of borrowings	26	(122,885)	(28,694)
Proceeds from borrowings	26	98,000	69,016
Repayment of leases	15	(2,226)	(2,119)
Dividends paid	24	(6,225)	(5,379)
Cash flow from financing activities		**(33,336)**	**32,824**
Net increase in cash and cash equivalents		**(43,795)**	**42,882**
Cash and cash equivalents at the beginning of the year		54,178	11,296
Cash and cash equivalents at the end of year	21	**10,383**	**54,178**

NOTE 1 – GENERAL DATA

Medika d.d. (hereinafter: "the Company") is a joint stock company incorporated in the Republic of Croatia. The principal activity of the Company and its subsidiaries (together "the Group") is the wholesale and retail distribution of pharmaceutical products. The Company is headquartered in Zagreb, Capraška 1, the Republic of Croatia.

The Group is comprised of the Company and the following subsidiaries and associates:

Subsidiaries:

	31.12.2023	31.12.2022
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
- Grupna privatna praksa Ljekarna Milanka Ivandić i Ana Ivandić, Dražice (since October 2023)	100%	-
Primus nekretnine d.o.o., Zagreb	100%	100%

Associates:

	31.12.2022	31.12.2021
Zdravstvena ustanova Ljekarne Jagatić, Zagreb (since November 2008)	49%	49%

As at 31 December 2023, the Company's shares were listed on the official market of the Zagreb Stock Exchange. The ownership structure of the Company is shown in note 22.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS). The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards adopted by the European Union (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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

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

- **Amendments to IFRS 17** *Insurance contracts*: Initial Application of IFRS 17 and IFRS 9 – Comparative Information, issued on 9 December 2021 (effective date for annual periods beginning on or after 1 January 2023).

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

- **Amendments to IAS 12** *Income taxes***:** International Tax Reform – Pillar Two Model Rules, issued on 23 May 2023 (effective date for annual periods beginning on or after 1 January 2023).

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

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

The adoption of these Standards and Interpretations had no significant impact on the consolidated financial statements of the Group.

Standards and Interpretations issued by IASB and endorsed by the EU but not yet effective

- **Amendments to IAS 1** *Presentation of Financial Statements:* Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date, issued on 23 January 2020 and 15 July 2020 respectively (effective date for annual periods beginning on or after 1 January 2024).

- **Amendments to IFRS 16** *Leases*: Lease Liability in a Sale and Leaseback, issued on 22 September 2022 (effective date for annual periods beginning on or after 1 January 2024).

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Adoption of new and revised International Financial Reporting Standards (continued)

Standards and Interpretations issued by IASB but not yet adopted by the EU

At the date of authorization of these consolidated financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU:

- **Amendments to IAS 21** *The Effects of Changes in Foreign Exchange Rates:* Lack of Exchangeability (issued on 15 August 2023).

- **Amendments to IAS 7** *Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures:* Supplier Finance Arrangements (issued on 25 May 2023).

The Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the consolidated financial statements of the Group.

2.3 Consolidation

(a) Subsidiaries

The acquisition method of accounting is used to account for subsidiaries acquired by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policy adopted by the Group.

(b) Associates

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss (position "Share in the profit of associates"), and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equal or exceeds its interest in the associate, including any unsecured receivables which form an integral part of the net investment, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are also eliminated unless there are indications that an asset exchanged in the transaction may be impaired. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.4 Foreign currencies

(a) Functional and reporting currency

The items included in the Group's consolidated financial statement are expressed in the currency of the primary economic environment in which the Group operates (functional currency). Given that the Republic of Croatia introduced the euro as the official currency on 1 January 2023, in accordance with the Law on the Introduction of the Euro as the official currency in the Republic of Croatia, the Group changed the presentation currency for the purposes of preparing consolidated financial statements for the year ended 31 December 2023 from kuna to euros, and the consolidated financial statements for the year ended 31 December 2023 were first time prepared in euros. From 1 January 2023, the euro is also the functional currency of the Group (until 1 January 2023, it was kuna).

Although the change in the presentation currency in the consolidated financial statements represents a change in accounting policy that requires retroactive application, the Group did not publish the third balance sheet in the financial statements for the year ended December 31, 2023 in accordance with International Accounting Standard 8 (IAS) Accounting Policies, Changes in Accounting Estimates and Errors, given that it has determined that the change in the presentation currency has no significant impact on the Group's consolidated financial statements, due to the stable HRK/EUR exchange rate over the past few years.

(b) Foreign currency transactions (continued)

Foreign-currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. However, if the gain or loss on a monetary item is recognized directly in the reserve, then any component of foreign currency application and profit or loss should be recognized directly in the reserves.

Non-monetary assets and items denominated in foreign currencies that are measured at historical cost are not re-translated. Foreign-currency denominated non-monetary assets and liabilities measured at historical cost are translated to the functional currency using the exchange rate list in effect at the transaction dates.

2.5 Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses.

Land and assets under construction are not depreciated. Depreciation of other assets is provided using the straight-line method so as to write down the cost of an asset over its estimated useful life. Depreciation is provided on an individual asset basis until the asset is fully written off or written down.

The estimated useful lives are as follows:

Buildings	10 – 40 years
Equipment	2 – 20 years

Gains and losses arisen on disposal are determined by comparing the proceeds with carrying amount, and are recognised within “Other gains/(losses) – net” in the income statement.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of acquisition of a subsidiary over the acquisition-date fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Separately recognised goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date, to each of the acquirer's cash generating units, or groups of cash generating units, expected to benefit from the synergies of the combination. Each such unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

(b) Licences

Cost incurred by the Group in obtaining pharmacy operation licences, without which no pharmacy activities can be performed, are capitalised to the extent that future economic activities are probable. These licences are amortized over their useful life. Impairment review is made on an annual basis.

c) Software

Software licences are capitalised based on the cost of purchase and costs incurred in bringing software into a working condition for its intended use. The cost is amortised over the useful life of the assets, which ranges from 5 to 10 years, using the straight-line method.

(d) Other rights

Other rights are shown at historical cost, they have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of other rights over their estimated useful lives (5 years).

2.7 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position of the Group when the Group becomes a party to the contractual provision of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs which may be directly attributed to the acquisition or issuing the financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of financial assets and financial liabilities at initial recognition, where appropriate. Transaction costs which may be directly attributed to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit and loss.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.7 Financial instruments (continued)

Financial assets

The Group classifies its financial assets in a category measured at depreciated cost, using the effective interest rate method, within a business model whose aim is to collect contracted cash flows and according to which the cash inflow is made exclusively based on payments of principal and interest on the principal amount outstanding (IFRS 9).

At each reporting date, the Group performs a review to identify any objective evidence that a financial asset may be impaired. Impairment testing of trade and other receivables is described in note 2.10.

Financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognised in profit or loss.

(i) Depreciated cost and effective interest rate method

The effective interest method is a method of calculating the depreciated cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, aside from purchased or incurred credit-impaired financial assets (i.e. assets which were credit-impaired during the initial recognition), the effective interest rate is a rate that accurately discounts the estimated future cash inflow (including all fees and points paid or received, which constitute an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding the expected credit losses, during the expected life of a debt instrument or, where appropriate, during a shorter period, to gross carrying amounts of the debt instrument at initial recognition. For purchased or incurred credit-impaired financial assets, the effective interest rate adjusted to the loan is calculated by discounting estimated future cash flows, including expected credit losses, to the depreciated cost of the debt instrument at initial measurement.

The depreciated cost of financial assets is the amount at which the financial instrument is measured at initial recognition, less of payments of principal and plus accumulated depreciation, using the effective interest rate method for any difference between the opening amount and amount at maturity, adjusted for any loss. Gross carrying amount of financial assets is the depreciated cost of financial assets before adjustments for any loss.

Interest income is recognised by applying the effective interest rate for debt instruments, which are subsequently measured at depreciated cost. For financial assets, other than purchased or incurred credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, aside for the financial assets which subsequently became credit-impaired.

For financial assets which subsequently became credit-impaired, interest income is recognised by applying the effective interest rate to the depreciated cost of financial assets. If, in the following reporting periods, the credit risk for the credit-impaired financial instrument improves in the way that the financial instrument is no longer credit-impaired, the interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial assets.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.7 Financial instruments (continued)

For the purchased or incurred credit-impaired financial assets, the Group recognises interest income by using the effective interest rate adjusted by the credit risk to the depreciated cost of financial assets at initial recognition. The calculation is not returned to a gross basis, even if the credit risk of the financial assets subsequently improves so that the financial assets are no longer credit-impaired.

Interest income is recognised in the profit and loss account, and is included in the item "Financial income – interest income" (note 11).

Impairment of financial assets

The Group recognises the provisions for expected credit losses of trade receivables and debt instruments measured at depreciated cost. The amount of expected credit losses is calculated at every reporting date in order to reflect the changes in the credit risk since the initial recognition of an individual financial instrument.

The Group always recognises life-long expected credit losses (ECL) for trade receivables based on a selected simplified approach. The expected credit losses for these financial assets are described in Note 2.10. The Group currently does not adjust the loss rate for future macroeconomic conditions, since it has not performed an analysis of the impact of macroeconomic factors on historical loss rates, including the time value of money, where appropriate.

For the given loans, the Group recognises the life-long ECL in case of a significant increase in credit risk since initial recognition. However, if the credit risk for the financial instrument has not significantly increased since the initial recognition, the Group measures the loss for this financial instrument in the amount equal to a 12-month ECL.

Life-long ECL represents expected credit losses resulting from all potential cases of default during the expected lifetime of the financial instrument. By contrast, a 12-month ECL represents a part of the life-long ECL, on account of the probability of a default status in the 12 months following the reporting date.

(i) Significant increase in credit risk

When assessing whether the credit risk for the financial instrument significantly increased since the initial recognition, the Group compares the risk of default on the reporting date to the risk of default of the financial instrument on the date of initial recognition. During the assessment, the Group considers both quantitative and qualitative information which are reasonable and available, including the historical experience, which can be accessed without unnecessary costs or engagements.

In particular, for the loans given, the Group relies on days of default when assessing significant credit risk deterioration. If the debtor is in default more than 30 days, then the Group assumes that there is a significant increase in credit risk.

Despite the aforementioned, we assume that the credit risk for the financial instrument has not significantly increased since the initial recognition if we determine that the financial instrument has a low credit risk at the reporting date. We conclude that the financial instrument has a low credit risk if:

- The financial instrument has a low risk of default;
- The debtor has a strong ability to settle his/her contractual obligations in the short term; and
- Adverse changes in economic and business conditions in the long term may, but do not necessarily have to, decrease the lessee's ability to meet his/her contractual cash flow obligations.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.7 Financial instruments (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

However, the Group does not currently use the simplification of a low credit risk when assessing the significant increase in credit risk.

The Group regularly monitors the efficiency of criteria used to determine whether there has been a significant increase in credit risk and reviews them so that the criteria may identify a significant increase in credit risk before any default occurs.

(ii) Definition of default status

The following facts, which represent a case of default for internal credit risk management purposes are data that are internally developed or obtained from external sources, indicating that it is unlikely that the debtor will pay his/her creditors, including the Group, in full (without considering any collateral held by the Group).

(iii) Credit-impaired financial assets

Financial assets are credit-impaired when one or more events with an adverse effect on estimated future cash flows of the financial assets occurred. Proof of credit impairment of the financial asset includes data available on the following events:

- Significant financial difficulties of the issuer or debtor;
- Default status (as defined above);
- When the issuer, due to the debtor's financial difficulties, grants the debtor a concession, which he would otherwise not consider;
- It becomes probable that the debtor will go into bankruptcy or undertake another type of financial restructuring;
- The disappearance of an active market for a specific financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off financial assets when there are data pointing to the fact that the debtor is in serious financial difficulties and that there is no real chances of return, for example when the debtor has gone into liquidation or bankruptcy. Written-off financial assets can still be subject to enforcement activities within the Group recovery procedures, with regard to the relevant legal advice, where appropriate. Recovery is recognised in the profit or loss account, on the Other operating expenses position.

(v) Measurement and recognition of expected credit losses

Measurement of expected credit losses represents a loss rate function, calculated in line with the model described in note 2.10. In terms of exposure in the moment of default, for the financial assets it represents a gross carrying amount of the assets at the reporting date.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.7 Financial instruments (continued)

(v) Measurement and recognition of expected credit losses (continued)

For the financial assets, the expected credit loss is assessed as the difference between all contractual cash flows maturing in line with the contract and all expected cash flows, discounted at the original effective interest rate.

If the Group measured provisions for expected loan losses for financial instruments in the amount equal to life-long ECL in the previous reporting period, but at the current reporting date it determined that the life-long ECL conditions are no longer met, the Group measures the loss in the amount equal to a 12-month ECL at the current reporting date, except for the assets for which a simplified approach was used (trade receivables). The Group recognises impairment gains and losses in the profit and loss account for all financial instruments with the appropriate adjustment of the carrying amount through the loss provisions account.

Financial liabilities

The financial liabilities recognised by the Group are trade payables and borrowings. The Group measures all financial liabilities at depreciated cost.

(a) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(b) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In future periods, borrowings are reported at depreciated cost. Any difference between the proceeds (less the transaction costs) and the redemption value is recognized in the profit and loss account over the period of the loan, using the effective interest rate method.

2.8 Leases

The Group leases certain properties and vehicles. The contracts are concluded for a period of 3 years to 10 years and have the possibility of extension. Contracts may contain lease and non-lease components, allocation of consideration between components is based on their relative stand-alone prices.

Lease liabilities include the net present value of the following lease payments: fixed payments less any incentives, variable lease payments that are based on index, initially measured using the index as at commencement date, amounts expected to be payable by the Group under residual value guarantees. Lease payment to be made under reasonably certain extension options are also included in the measurement of the liability. Lease liabilities are discounted using the interest rates implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group' s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to right-of-use asset in a similar economic environment with similar terms, security and conditions.

All leases that with a remaining lease term of less than 12 months and leases of assets with low value are recognized in the income statement on a straight-line basis over the term of the lease.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.9 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs attributable to the purchase of goods and is calculated based on the weighted average purchase price. Net realisable value represents the estimated selling price in the ordinary course of business less all variable selling costs. Examination of damaged and/or obsolete inventories is preformed continuously and for all such inventories a provision is charged to cost of goods sold.

2.10 Trade and loan receivables

The Group always reports the provisions for expected credit losses of trade receivables in the amount equal to the life-long ECL.

Trade and credit receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

The impairment loss is assessed based on the customer's activity, i.e. the borrower's activity, and based on historical data, the current and expected liquidity of the Health System of the Republic of Croatia, as well as specific assessments of the Sales Department for individual customers, depending on the current state of the market and the inability to collect them.

There were no changes in the assessment techniques or material assumptions during the current reporting period. The impairment losses on trade receivables are recognised in the income statement within "Other operating expenses".

Loans and receivables with maturities greater than 12 months after the reporting date are classified as non-current assets.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits with banks and other short-term highly liquid instruments with original maturities of up to three months.

2.12 Share capital

Share capital consists of ordinary shares.

The consideration paid for purchased treasury shares, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.13 Reserves

(a) Legal reserves

The legal reserves are required under Croatian law according to which the Company has to build up legal reserves with a minimum of a twentieth part (5%) of the profit for the year until the legal reserves together with capital reserves reach 5% of the share capital. Legal reserves are not distributable.

(b) Other reserves

Other reserves are formed in accordance with Croatian law and decisions of the General Assembly.

(c) Reserves for treasury shares

Reserves for treasury shares are formed in accordance with Croatian law and decisions of the General Assembly.

2.14 Employee benefits

(a) Pension obligations and other post-employment benefits

In the normal course of business the Group makes payments, through salary deductions, to mandatory pension funds on behalf of its employees, as required by law. All contributions paid to the mandatory pension funds are recognised as salary expense when accrued. The Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-retirement benefits.

(b) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards and retirement benefits for full-age retirement) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit obligation is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Benefits falling due more than 12 months after the reporting date are discounted to their present value.

(c) Short-term employee benefits

The Group recognises a provision for bonuses, unused annual leave and other benefits when there is a contractual obligation or a past practice giving rise to a constructive obligation.

Short-term liabilities for termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.15 Revenue recognition

Revenue comprises the fair value of the consideration receives or receivables for sold products, goods or services within the normal course of business of the Group. Revenue is reported in the amount net of value added tax, estimated returns, rebates and discounts. Revenue is recognised when the delivery liability has been settled by transferring the control of the promised goods or services to the customer.

(a) Sales of goods

Sales of goods revenue is recognized when the control of goods is transferred to the customer, i.e. when the goods are delivered to the customer. The delivery is performed when the goods have been dispatched to a specific location, risk of obsolescence and loss is transferred to the customer, the customer received the goods pursuant to the contract, and the Company has objective proof that all of the conditions for the receipt of goods have been met. The Company allocates the transaction cost to the delivery liability based on the relative individual sales prices.

Retail revenue is recognized at the time of sale of goods to the buyer. Retail revenue is mostly made in cash or through credit cards. Reported revenue includes credit card fees that are included in other operating expenses.

(b) Service revenue

Service revenue is recognized in the accounting period in which service is performed.

(c) Financial income

Financial income represents interest income earned on term deposits with banks and on given loans and is recognised on a time proportion basis using effective interest rate method.

2.16 Borrowing costs

Borrowing costs comprise interest expense accrued on borrowings, impairment losses recognised on financial assets, and foreign exchange losses. Borrowing costs are recognised in income statement using the effective interest rate.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

2.17 Dividends payable

Dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved in the General Meeting of the Company's shareholders.

2.18 Value added tax

The Tax Authorities require that VAT is settled on a net basis. VAT on sale and purchase transactions is recognised in the statement of financial position on a net basis. Where an amount receivable is impaired, the impairment loss is recognised in the gross amount of the receivable, i.e. including VAT.

NOTE 2 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.19 Earnings per share

The Company presents basic earnings per share (EPS) for its ordinary shares. Basic earnings per share are determined by dividing the profit or loss for the year from ordinary shares by the weighted average number of ordinary shares during the year.

2.20 Share based payments

The key management members of the Company acquired certain number of the Company's shares from its parent company based on predefined share price that is different from fair value of share and whose acquisition is conditioned upon employment period in the Company, i.e. providing service to the Company. This arrangement is considered as a reward plan for the key management members based on the value of the Company's shares. The fair value of the employee service received in exchange for the shares acquired through the arrangement is recognised as an expense with a corresponding increase in equity over the defined employment period. The total amount to be reported as an expense over the necessary employment period refers to the difference between the fair value of the shares acquired at the grant date and the acquisition price for which the key management members bought shares from the parent company. The amount recognized as an expense is adjusted to reflect the number of the key management members expected to meet the condition of providing the service to the Company, i.e. expected to remain employed in accordance with time condition set.

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to various financial risks: market risk (which includes foreign exchange risk, fair value interest rate risk, interest rate cash flow risks and investment in securities risk), credit risk and liquidity risk. The pharmaceuticals wholesale and pharmacy industry in the Republic of Croatia is highly influenced by the state which plays its role by imposing strict legislation and the health system funding. As the dynamic of funding by the state is beyond control or prediction and given the inability to predict financial market trends, the overall risk management of the Group is focused on minimising or eliminating the potential adverse impact on the Group's financial position. Risk management within the Company is the responsibility of the Accounting and Finance Department that, in cooperation with the Management Board and other departments within the Company, identifies, assesses the risks and proposes risk protection measures.

(a) Market risk

(i) Foreign exchange risk

In accordance with the Decision on the announcement of the introduction of the euro as the official currency in the Republic of Croatia (published in the "Official Gazzete" No. 85/22), the euro becomes the official monetary unit and legal tender in the Republic of Croatia on 1 January 2023, and consequently the Company no significant currency risk.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from its borrowings. Borrowings granted at variable rates expose the Group to cash-flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group does not use derivative instruments to actively hedge its cash flow and fair value interest rate risk exposure. However, the Group continuously monitors changes in interest rates. Various scenarios are simulated taking into account refinancing, renewal of existing positions and alternative financing.

As at 31 December 2023, if the effective interest rate on borrowings (issued at variable rate) would be by 0.10 percentage points higher/lower on an annual level (2022: 0.10 percentage points), the net profit for the reporting period would remain the same since all borrowings as at 31 December 2023 are at fixed rates (2022: all borrowings are at fixed rates).

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group's current assets that may lead to credit risk consist mainly of cash, trade receivables and other receivables. Group The Group has no significant concentrations of credit risk. The Group has sales policies in place to ensure that the sale is made to customers with an appropriate credit history. With respect to credit risk exposure, customers are grouped into three categories: pharmacies, hospitals and other customers. A higher credit risk is found among pharmacies. However, collection period for hospitals is longer, but there is no risk that the receivables will not be recovered. Other customers are not significant because of dispersion over a large number of customers and individually small balances. The Group secures the recovery of a part of the trade receivables with bills of exchange and promissory notes. A detailed credit risk analysis is presented in notes 18 and 19.

For trade receivables, the Group applied a simplified approach to measuring loss for the life-long ECL.

The Group is exposed to one customer from the hospital segment, accounting for 23% of total trade receivables. (2022: 27%)

(c) Liquidity risk

Prudent liquidity risk management implies the maintenance of a sufficient cash level, ensuring the availability of financial assets due to adequate amounts of contracted credit lines and the ability to settle all liabilities. It is the objective of the Company and the Group to maintain flexibility in funding, by ensuring availability of the agreed credit lines. The Accounting and Finance Department of the Company regularly monitors the level of available sources of cash funds. Customers consist largely of those owned by, or dependent of, the Republic of Croatia. Hence, the Group’s liquidity risk level also depends on the state. The insufficient level of cash from period to period is a direct consequence of the schedule of payments received from the state in settling the state's liabilities concerning the health system. Where the payment periods are extended by the state, the Group agrees extended payment deadlines with its suppliers. Any shortfall is covered using lines of credit available at commercial banks. At 31 December 2022, the balance of cash and cash equivalents amounts to EUR 10,383 thousand (2022: EUR 54,178 thousand), and the Group had free credit lines in the amount of EUR 96,326 thousand (2022: EUR 60,151 thousand) available at demand for liquidity risk management purposes.

The table below analyses financial liabilities of the Group by contractual maturities. The amounts presented below represent undiscounted cash flows.

(in thousands of EUR) **At 31 December 2023**	**Up to 1 month**	**1 month to 1 year**	**1-3 years**	**Over 3 years**	**Total**
Trade and other payables (note 25)	71,268	224,827	2,994	1,250	300,339
Borrowings	5,063	17,422	-	-	22,485
Lease liabilities	200	2,034	3,136	2,959	8,329

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

(in thousands of EUR) **31 December 2022**	**Up to 1 month**	**1 month to 1 year**	**1-3 years**	**Over 3 years**	**Total**
Trade and other payables (note 25)	49,387	196,205	4,283	-	249,875
Borrowings	212	44,790	2,285	-	47,287
Lease liabilities	183	1,951	3,976	1,675	7,785

In 2024, the Group will settle trade payables and other current liabilities according to the collection of receivables which depends on the liquidity of the entire healthcare system.

3.2 Capital management

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

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

The Group monitors capital on the basis of the self-financing ratio in the financial statements. This ratio is calculated as the proportion of total equity and total assets.

The equity-to-total assets ratio is as follows:

	2023	**2022**
	(in thousands of EUR)	
Total capital (equity and reserves)	109,692	95,364
Total assets	445,430	405,880
Equity to assets ratio	**25%**	**23%**

The 2023 ratio increased in relation to the 2022 ratio and shows that the Group finances 25% of its total assets from own sources. Consequently, 75% of the assets are financed from sources other than owner's equity (2022: 77%).

3.3 Fair value measurement

The nominal amount value of trade receivables less impairment allowance and of trade payables are assumed to approximate their fair values.

NOTE 4 - KEY ACCOUNTING ESTIMATES

The Group makes estimates that are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assumptions for determining the amount of provisions for trade receivables

Due to the significance of the amount of trade receivables recognised in the statement of financial position, the Management estimates the probability of recovering trade receivables (i.e. potential losses) based on an analysis of individual categories of such assets. Factors taken into consideration by the Management include: receivables from customers in earlier years, current and expected liquidity of the Health System of the Republic of Croatia, as well as a specific assessment of the Sales Department for individual customers, depending on the current market trends and their financial position.

When measuring ECL, the Group uses reasonable and relevant information, based on historical data. ECL calculation model is further described in note 2.10.

As at 31 December 2023, if the discount rate were to increase by 1 percentage point, assuming that all other indicators remained unchanged, profit before tax for the reporting period would be EUR 17 thousand lower than for the reported (2022: EUR 7 thousand).

Useful life of property and equipment

Determining the useful lives of assets is based on historical experience with similar assets as well as anticipated changes in the economic environment and factors relating to the industry in which the Group operates. The useful life is reviewed annually or whenever there are indications of significant changes in the underlying assumptions.

Pharmaceutical licenses and goodwill impairment

The goodwill and pharmaceutical licenses with indefinite useful life impairment testing is performed once a year during the reporting period in accordance with the accounting policy explained in notes.

Goodwill relates partially to goodwill arising on acquisition of the subsidiaries Farmis and Famacon that were later merged into Medika and partially arising on acquisitions of pharmacies. At the end of 2022 impairment test was performed for a cash-generating units to which goodwill and licenses have been allocated to base on estimated future cash flows. The recoverable amount of an asset or cash generating unit is its value in use. In assessing value in use the estimated future cash flows are discounted to their present values which are based on financial projections for the period of five years approved by the Management.

Management Board set the planned growth rates and gross margins based on past experience and expected market development. Terminal growth rate of 2.0% and pre-tax discount rate reflecting specific risks related to relevant business segments, were used in discounted cash flow model.

The sensitivity analysis indicates if discount rate increased by 0.5% (assuming an unchanged terminal growth rate) or terminal growth rate decreased by 0.5% (assuming an unchanged discount rate), there would be no impairment of other rights.

NOTE 5 – REVENUE

	2023	2022
	(in thousands of EUR)	
Revenue from sales of goods	735,737	614,918
Revenue from sale of goods – related parties (note 30)	10,057	9,338
Revenue from sale of services	4,555	3,780
Revenue from sale of services – related parties (note 30)	139	60
	750,488	**628,096**

NOTE 6 – SEGMENT INFORMATION

Segment information follows the structure used by the Company and the Group for internal reporting purposes, which has remained unchanged in comparison with the prior year.

The Group monitors revenues and gross profit through two main distribution channels: wholesale and retail.

The wholesale distribution channel consists of:

1. Pharmacies

2. Hospitals

3. Other customers, divided into:
   - dental practices
   - veterinary clinics
   - medical centres
   - wholesalers
   - other customers (herbal pharmacies, companies, optics and other)

Retail distribution channel consists of self-owned pharmacies (subsidiary ZU Prima Pharme and its subsidiaries).

The Group uses margin calculated as sales revenue minus cost of goods sold as a performance measure of a particular segment.

There are no transactions between the segments. The Company and the Group apply the same accounting policies in all the segments.

NOTE 6 – SEGMENT INFORMATION (continued)

The segments' results for the year ended 31 December 2023 are as follows:

	Wholesale			Retail	
(in thousands of EUR)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	**Total**
Revenue from sale of goods	248,787	320,457	88,334	78,159	735,737
Revenue from sale of goods - related parties (note 30)	10,041	-	16	-	10,057
Revenue from sale of services	41	99	3,747	668	4,555
Revenue from sale of services – related parties (note 30)	1	-	138	-	139
Total income	**258,870**	**320,556**	**92,235**	**78,827**	**750,488**
Cost of goods sold	(242,332)	(304,692)	(82,881)	(60,942)	(690,847)
Segment result	**16,538**	**15,864**	**9,354**	**17,885**	**59,641**
Operating expenses					(36,243)
Profit from operations					**23,398**
Financial income					2,277
Financial expenses					(1,732)
Net financial loss					**545**
Share in the profit of associates					431
Profit before tax					**24,374**
Income tax					(4,294)
Profit for the year					**20,080**

NOTE 6 – SEGMENT INFORMATION (continued)

The segments' results for the year ended 31 December 2022 are as follows:

	Wholesale			Retail	
(in thousands of EUR)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	**Total**
Revenue from sale of goods	215,206	257,436	71,819	70,458	614,918
Revenue from sale of goods - related parties (note 30)	9,312	-	26	-	9,338
Revenue from sale of services	37	267	2,933	543	3,780
Revenue from sale of services – related parties (note 30)	-	-	60	-	60
Total income	**224,555**	**257,703**	**74,837**	**71,001**	**628,096**
Cost of goods sold	(210,053)	(244,884)	(66,970)	(55,189)	(577,096)
Segment result	**14,502**	**12,819**	**7,866**	**15,812**	**51,000**
Operating expenses					(33,050)
Profit from operations					**17,950**
Financial income					2,646
Financial expenses					(386)
Net financial loss					**2,260**
Share in the profit of associates					432
Profit before tax					**20,642**
Income tax					(5,147)
Profit for the year					**15,495**

The analysis of trade receivables by the segments at 31 December 2023 is as follows:

	Wholesale			Retail	
(in thousands of EUR)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	**Retail**
Trade receivables (note 19/i/)	69,504	140,901	16,829	15,888	243,122

The analysis of trade receivables by the segments at 31 December 2022 is as follows:

	Wholesale			Retail	
(in thousands of EUR)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	**Total**
Trade receivables (note 19/i/)	51,965	132,645	14,450	13,830	212,890

NOTE 6 – SEGMENT INFORMATION (continued)

Other assets are not analysed by segment considering the same assets are used in all segments for performing activities. Furthermore, the Group does not follow assets per geographical areas since it operates only in the area of Republic of Croatia.

Revenue from the most significant customer, from the hospital segment, was 16.01% in 2023 (2022: 17.6%).

NOTE 7 - STAFF EXPENSES

	2023	2022
	(in thousands of EUR)	
Net salaries	11,516	10,495
Contributions from and on salaries /i/	5,451	4,941
Other employee benefits /ii/	2,418	1,923
Taxes and surtaxes	1,362	1,187
Management bonuses	736	638
Employee transportation costs	681	579
Share based payments	472	449
Termination benefits	70	56
	22,706	**20,268**

At 31 December 2023, there were 990 employees at the Group (2022: 951 employees). The average number of employees during 2023 was 961 employees (2022: 945 employees).

/i/ Pension contributions recognised by the Group as payable to mandatory pension funds in respect of 2023 amount to EUR 3,189 thousand (2022: EUR 2,878 thousand).

/ii/ Other employee benefits relate to accruals for unused annual leave, business trip expenses, aids, awards and similar.

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	2023	2022
	(in thousands of EUR)	
Donations	475	491
Marketing	411	383
Entertainment	393	429
	1,279	**1,303**

NOTE 9 - OTHER OPERATING EXPENSES

	2023	2022
	(in thousands of EUR)	
Maintenance of assets, security services and property insurance	3,098	2,593
Materials and energy	2,029	2,316
Professional training and consultancy services /i/	791	603
Taxes and contributions independent of the results	755	701
Telephone, postal and utility services	323	316
Bank and payment operation charges	315	287
Rental costs (note 15)	306	236
Road tolls and transportation costs	292	167
Impairment of trade and other receivables, net (note 19)	95	95
Other costs	985	770
	8,989	**8,084**

/i/ The total amount of fees for the statutory audit of annual financial statements for 2023 is EUR 48 thousand (2022: EUR 38 thousand). In 2022, the fee for tax consulting charged by the audit firm amounts to EUR 6 thousand.

NOTE 10 – OTHER (LOSSES) / GAINS – NET

	2023	2022
	(in thousands of EUR)	
Gains from the sale of property and equipment (net)	1,343	142
Losses from the sale of tangible asset	(268)	-
Net foreign exchange losses – trade and other payables	(10)	(162)
Net foreign exchange losses – cash and cash equivalents	(1)	(103)
Net foreign exchange losses – trade and other receivables	-	2
Gains from the sale of intangible assets (net)	-	761
	1,064	**640**

NOTE 11 - NET FINANCIAL GAIN / (LOSS)

	2023	2022
	(in thousands of EUR)	
Financial income		
Interest income	2,277	2,646
	2,277	**2,646**
Foreign exchange gains – net		
	-	-
	2,277	**2,646**
Financial expenses		
Interest expense		
Bank loans (note 26)	(1,499)	(203)
Leases (note 15)	(220)	(165)
Penalty interest	(13)	(2)
	(1,732)	**(370)**
Foreign exchange losses – net		
Foreign exchange losses	(16)	(17)
Foreign exchange gains	16	1
	-	(16)
	(1,732)	**(386)**

Interest income includes penalty interest paid collected from debtors in the amount of EUR 2,160 thousand (2022: EUR 2,601 thousand).

NOTE 12 – INCOME TAX

	2023	2022
	(in thousands of EUR)	
Current tax	4,472	3,771
Additional income tax	(154)	-
Over provision in previous year	-	1,371
	4,318	5,142
Deferred tax	(24)	5
	4,294	**5,147**

NOTE 12 – INCOME TAX (continued)

Reconciliation of the Group's tax (benefit)/expense as per income statement and the tax at the statutory tax rate is presented in the table below:

	2023	2022
	(in thousands of EUR)	
Profit before taxation	**24,374**	**20,642**
Income tax at the rate of 18%	4,387	3,716
Effect of non-taxable income and tax incentives	(101)	(92)
Effect of non-deductible expenses	162	149
Over provision in previous year	(154)	-
Additional income tax	-	1,371
Impact of different tax rates	-	3
Income tax	**4,294**	**5,147**
Effective tax rate	17.62%	24.93%

In accordance with the Law on Additional Income Tax, which is in force from 23 December 2022, the tax base for the additional tax is the positive difference between the taxable profit from the 2022 tax period and the average taxable profit from four previous tax periods increased by 20%. The tax rate of the additional income tax is 33%. The stated tax is not applicable for the business year ending on 31 December 2023.

Under the local regulations, the Tax Authority may at any time inspect the books and records of the Group companies within 3 years following the end of the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Management is not familiar with any circumstances which may lead to contingent liabilities in that respect.

NOTE 13 – EARNINGS PER SHARE

Earnings per share are determined, by dividing the Company's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares.

	2023	2022
Net profit attributable to the shareholders *(in thousands of EUR)*	**20,080**	**15,495**
Weighted average number of shares (excluding treasury shares)	28,954	28,954
Basic/diluted earnings per share *(in EUR and CENT)*	**693.51**	**535.14**

NOTE 14 - PROPERTY AND EQUIPMENT

(in thousands of EUR)	**Land**	**Buildings**	**Investment Property**	**Equipment**	**Asset under construction and prepayments**	**Total**
Balance at 31 December 2022						
Cost	4,035	27,095	1,294	15,307	6,250	53,981
Accumulated depreciation	-	(11,563)	(32)	(11,516)	-	(23,111)
Net carrying amount	**4,035**	**15,532**	**1,262**	**3,791**	**6,250**	**30,870**
For the year ended 31 December 2022						
Opening carrying amount, net	4,035	15,532	1,262	3,791	6,250	30,870
Additions	-	-	-	105	1,694	1,799
Transfer from assets under construction	-	472	-	1,141	(1,613)	-
Disposals	-	-	-	(11)	(24)	(35)
Depreciation	-	(708)	(65)	(882)	-	(1,655)
Closing carrying amount, net	4,035	15,296	1,197	4,144	6,307	30,979
Balance at 31 December 2022						
Cost	4,035	27,567	1,294	15,856	6,307	55,059
Accumulated depreciation	-	(12,271)	(97)	(11,712)	-	(24,080)
Net carrying amount	**4,035**	**15,296**	**1,197**	**4,144**	**6,307**	**30,979**
For the year ended 31 December 2023						
Opening carrying amount, net	4,035	15,296	1,197	4,144	6,307	30,979
Additions	-	1	-	81	2,286	2,368
Acquisition of subsidiary (note 30)	-	-	-	2	-	2
Transfer from assets under construction	-	169	-	1,985	(2,154)	-
Disposals	(928)	(967)	-	(5)	-	(1,900)
Depreciation	-	(735)	(65)	(954)	-	(1,754)
Closing carrying amount, net	3,107	13,764	1,132	5,253	6,439	29,695
Balance at 31 December 2023						
Cost	3,107	26,205	1,294	17,961	6,439	55,006
Accumulated depreciation	-	(12,441)	(162)	(12,708)	-	(25,311)
Net carrying amount	**3,107**	**13,764**	**1,132**	**5,253**	**6,439**	**29,695**

The fair value of real estate classified as Investment in real estate does not deviate significantly from the book value.

Loan liabilities (note 26) have been secured by pledges over property and equipment with a carrying amount of EUR 16,214 thousand as at 31 December 2023 (2022: EUR 16,864 thousand).

NOTE 15 – LEASES

The Group leases vehicles and business premises under lease agreements.

/i/ The leases presented in the statement of financial position at 31 December are as follows:

	2023	2022
	(in thousands of EUR)	
Right-of-use assets:		
Vehicles	1,493	1,857
Buildings	6,616	5,414
	8,109	**7,271**
Lease liabilities:		
Current	2,198	2,085
Non-current	6,071	5,604
	8,269	**7,688**

/ii/ Non-current lease liabilities:

	31.12.2023	31.12.2022
	(in thousands of EUR)	
1-2 years	1,865	1,777
2-5 years	2,773	2,889
Over 5 years	1,433	938
Contractual lease liabilities	**6,071**	**5,604**

/iii/ Leases presented in the statement of comprehensive income are as follows:

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Depreciation	2,139	1,988
Interest expense (note 11)	220	165
Rental costs related to short-term leases (note 9)	306	236
	2,665	**2,389**

The average interest rate is 3.91% (2022.: 2.75%).

NOTE 15 – LEASES (continued)

/iv/ An overview of the movement of right-of-use assets is as follows:

(in thousands of EUR)	**Vehicles**	**Business premises**	**Advance payments for premises**	**Total**
For the year ended 31 December 2022				
Opening carrying amount, net	**1,377**	**5,144**	-	**6,521**
Additions	1,153	1,728	-	2,881
Contract modification	(10)	-	-	(10)
Contract termination	-	(117)	-	(117)
Disposals	(16)	-	-	(16)
Depreciation	(647)	(1,341)	-	(1,988)
Closing net book value	1,857	5,414	-	7,271
For the year ended 31 December 2022				
Cost	3,321	8,856	-	12,177
Accumulated depreciation	(1,464)	(3,442)	-	(4,906)
Net book value	**1,857**	**5,414**	**-**	**7,271**
For the year ended 31 December 2023				
Opening carrying amount, net	1,857	5,414	-	7,271
Additions	333	2,695	-	3,028
Transfer from intangible asset (note 16)	-	-	34	34
Contract termination		(75)		(75)
Realized advances	-	-	(9)	(9)
Contract modification	14	-	-	14
Disposals	(14)	(1)	-	(15)
Depreciation	(697)	(1,442)	-	(2,139)
Closing net book value	1,493	6,591	25	8,109
For the year ended 31 December 2023				
Cost	2,803	10,756	25	13,584
Accumulated depreciation	(1,310)	(4,165)	-	(5,475)
Net book value	**1,493**	**6,591**	**25**	**8,109**

NOTE 15 – LEASES (continued)

/v/ Movement in lease liability:

	2023	2022
	(in thousands of EUR)	
Lease liabilities recognized on 1 January	**7,688**	**6,798**
Additions	2,875	3,114
Contract modification	16	4
Lease payments	(2,226)	(2,119)
Interest expense (note 11)	220	165
Interest paid	(220)	(165)
Foreign exchange (gains)/losses – net (note 11)	-	16
Contract termination	(77)	(118)
Write-off	(7)	(7)
Lease liabilities recognized on 31 December	**8,269**	**7,688**

NOTE 16 – INTANGIBLE ASSETS

(All amounts are expressed in thousands of EUR)	**Goodwill**	**Licences, software and other rights**	**Assets under construction**	**Total**
Balance at 31 December 2022				
Cost	11,677	25,832	647	38,156
Accumulated amortisation and impairment	(1,012)	(6,238)	-	(7,250)
Net carrying amount	**10,665**	**19,594**	**647**	**30,906**
For the year ended 31 December 2022				
Opening carrying amount, net	10,665	19,594	647	30,906
Additions	-	19	427	446
Transfers	-	800	(800)	-
Acquisition of subsidiary (note 29)	253	1,407	(226)	1,434
Disposals	(55)	(56)	(8)	(119)
Amortisation	-	(392)	-	(392)
Closing carrying amount, net	10,863	21,372	40	32,275
Balance at 31 December 2022				
Cost	11,875	27,879	40	39,794
Accumulated amortisation and impairment	(1,012)	(6,507)	-	(7,519)
Net carrying amount	**10,863**	**21,372**	**40**	**32,275**
For the year ended 31 December 2023				
Opening carrying amount, net	10,863	21,372	40	32,275
Additions	-	12	371	383
Transfers	-	243	(243)	-
Transfer to right-of-use (note 15)		-	(34)	(34)
Acquisition of subsidiary (note 29)	524	2,912	-	3,436
Disposals	-	(3)	-	(3)
Amortisation	-	(440)	-	(440)
Closing carrying amount, net	11,387	24,096	134	35,617
Balance at 31 December 2023				
Cost	12,399	30,484	134	43,017
Accumulated amortisation and impairment	(1,012)	(6,388)	-	(7,400)
Net carrying amount	**11,387**	**24,096**	**134**	**35,617**

Licences

At the reporting date, pharmacy licences with an indefinite useful life amount in total to EUR 20,764 thousand (2022: EUR 19,622 thousand). Pharmacy activities cannot be undertaken without pharmacy licences.

NOTE 16 – INTANGIBLE ASSETS (continued)

Impairment test of goodwill and licences with indefinite useful life

The Group calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a 8-year business plan approved by the Management. Discount rate of 8.07% (2022: 8.41%) and terminal growth rate of 2.00% (2022: 2.50%) were used for discounting the projected cash flow. The longer term of the business plan was used in the calculation due to the expected stabilization of business in the long term. The recoverable amount exceeds the carrying amount.

The sensitivity analysis shows that even with a significant decrease of the terminal growth rate and the increase of the WACC rate, there are still no indicators for a value adjustment, respectively, the impairment test is not sensitive to changes in key variables.

NOTE 17 – INVESTMENTS IN ASSOCIATES

The Group holds a 49% share in the associate Zdravstvena ustanova Ljekarne Jagatić, which was acquired in 2008.

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Balance at 1 January	3,449	3,432
Share of profit paid	(231)	(302)
Dividend advance payment	(167)	(113)
Transfer of profit made	431	432
Balance at 31 December	**3,482**	**3,449**

Information on associates for the year ended 31 December can be summarised as follows:

(All amounts are expressed in thousands of EUR)	**Assets**	**Liabilities**	**Income**	**Net gain**
Balance at 31 December 2023				
ZU Ljekarne Jagatić	7,391	4,755	15,446	879
Total	**7,391**	**4,755**	**15,446**	**879**

(All amounts are expressed in thousands of EUR)	**Assets**	**Liabilities**	**Income**	**Net gain**
Balance at 31 December 2022				
ZU Ljekarne Jagatić	6,951	4,266	14,062	881
Total	**6,951**	**4,266**	**14,062**	**881**

NOTE 18 – FINANCIAL INSTRUMENTS BY CATEGORY

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Financial assets – category: Loans and receivables		
Loans and receivables (note 19/v/)	245,234	214,188
Cash and cash equivalents (note 21)	10,383	54,178
	255,617	**268,366**

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Financial liabilities - category: Other liabilities		
Trade payables (note 25/i/)	292,870	244,140
Total borrowings (note 26)	22,355	47,193
Lease liabilities (note 15/i/)	8,269	7,688
Other liabilities (note 25)	7,469	5,735
	330,963	**304,756**

The quality of financial receivables not yet due and not impaired can be assessed based on the historical data about the customers.

The quality of receivables not yet due and not impaired is considered from the aspect of the different credit risk exposures of the debtors (note 19 /i/):

	2023	2022
	(in thousands of EUR)	
Hospitals	58,819	55,658
Pharmacies	35,349	28,968
HZZO	7,854	7,248
Other	9,887	8,215
Balance at 31 December	**111,909**	**100,089**

NOTE 19 – TRADE AND OTHER RECEIVABLES

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Long-term receivables:		
Trade receivables /i/	4,175	-
Given loans /ii/	1,263	613
Long-term deposits	38	36
	5,476	649
Current receivables:		
Trade receivables /i/	238,947	212,890
Short-term deposits	32,000	-
Other current receivables /iii/	1,996	1,382
Given loans /iv/	239	13
Given loans – current portion of non-current receivables /i/	610	672
	273,792	214,957
	279,268	**215,606**

/i/ Trade receivables, as reported in the statement of financial position at 31 December, are as follows:

	2023	2022
	(in thousands of EUR)	
Domestic trade receivables	239,667	210,007
Trade receivables – related parties (note 30)	3,987	3,506
Foreign trade receivables	405	231
	244,059	213,744
Expected credit losses	(937)	(854)
	243,122	**212,890**

Ageing structure of receivables:

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Not yet due (note 18)	111,909	100,089
0–180 days past due	128,617	108,570
181–360 days past due	157	447
Over 360 days past due	3,376	4,638
	244,059	**213,744**

NOTE 19 – TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements in impairment allowance for trade receivables:

	2023	2022
	(in thousands of EUR)	
Balance at 1 January	854	1,291
Increase/ (decrease) (note 9)	83	94
Writte-off	-	(531)
Balance at 31 December	**937**	**854**

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	31.12.2023	31.12.2022
	(in thousands of EUR)	
EUR	279,249	215,605
USD	19	-
GBP	-	1
	279,268	**215,606**

/ii/ Given loans, as reported in the statement of financial position as at 31 December, are as follows:

	Effective interest rate	2023	2022
		(in thousands of EUR)	
Loans given to pharmacies	2.0%-5.0%	1,293	927
Other given loans	3.0%-6.0%	580	358
Total non-current receivables, including current portion		1,873	1,285
Current portion of non-current receivables		(610)	(672)
		1,263	**613**

Fair value of long-term receivables approximates their carrying value.

The maturity of long-term loans is as follows:

	31.12.2023	31.12.2022
	(in thousands of EUR)	
From 1 to 2 years	487	281
From 2 to 5 years	652	332
Over 5 years	124	-
	1,263	**613**

NOTE 19 – TRADE AND OTHER RECEIVABLES (CONTINUED)

/iii/ Other receivables, as reported in the statement of financial position as at 31 December, are as follows:

	2023	2022
	(in thousands of EUR)	
VAT receivables not yet recognized	845	438
Prepaid expenses	97	101
Other	1,054	843
	1,996	**1,382**

/iv/ Given loans, as reported in the balance sheet as at 31 December, are as follows:

	2023	2022
	(in thousands of EUR)	
Given loans	252	14
	252	14
Expected credit losses	(13)	(1)
	239	**13**

Movements in provisions for impairment of given loans:

	2023	2022
	(in thousands of EUR)	
Balance at 1 January	1	171
(Decrease) / increase (note 9)	12	1
Write-off	-	(171)
Balance at 31 December	**13**	**1**

/v/ Financial assets by category include the following:

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Trade receivables	243,122	212,890
Given cash loans	1,206	862
Given commodity loans	906	436
	245,234	**214,188**

The commodity loans given relate to trade receivables past due that have been reprogrammed and the payment has been agreed in future periods. The loans are not intended to generate financial benefit, but rather to collect current receivables from customers.

NOTE 20 - INVENTORIES

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Trade goods	71,097	56,482
Trade goods – related parties (note 30)	5,348	4,675
Prepayments made	2,561	888
Materials	68	72
Impairment allowance on inventories	(350)	(123)
	78,724	**61,994**

Inventories in the amount of EUR 13,272 thousand (2022: EUR 17,254 thousand) have been pledged as collateral for the borrowings (note 26).

NOTE 21 - CASH AND CASH EQUIVALENTS

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Domestic currency (EUR) account balance	10,378	54,174
Foreign currency account balance	-	3
Cash in hand	5	1
	10,383	**54,178**

Cash on EUR and foreign-currency denominated accounts is held with commercial banks in Croatia.

NOTE 22 - SHARE CAPITAL

At 31 December 2023, the share capital of the Company amounts to EUR 27,778,480 (31 December 2022: EUR 27,771,507) and is divided into 30,194 shares (2022: 30,194 shares). The nominal value per share amounts to EUR 920 (31 December 2022: EUR 919.77). All issued shares are fully paid in.

	Number of shares	Share capital	Treasury shares	Capital gains/ (losses)	Total
	(in pieces)		*(in thousands of EUR)*		
Balance at 1 January 2022	30.194	27,771	(2,081)	(283)	25,407
Balance at 31 December 2022	**30.194**	**27,771**	**(2,081)**	**(283)**	**25,407**
Balance at 1 January 2023	30.194	27,771	(2,081)	(283)	25,407
Increase in share capital \i\		7	-	-	7
Balance at 31 December 2023	**30.194**	**27,778**	**(2,081)**	**(283)**	**25,414**

NOTE 22 - SHARE CAPITAL (continued)

\i\ During 2023, the share capital was increased based on the Decision of the General Assembly of the Company, the decision on the adjustment of share capital and shares by increasing the share capital, which was held on 2 May 2023. The Company's share capital is aligned with euros. Share capital was increased in the total amount of EUR 7 thousand from the retained profit of earlier periods.

The ownership structure of the Company as at 31 December is as follows:

	31.12.2023		31.12.2022	
	Number of shares	**%**	**Number of shares**	**%**
Auctor d.o.o.	14.506	48,04%	14.506	48,04%
Pliva Hrvatska d.o.o.	7.646	25,32%	7.646	25,32%
Krka d.d. Novo Mesto	3.614	11,97%	3.614	11,97%
Natural persons	1.092	3,62%	1.096	3,63%
Treasury shares	1.240	4,11%	1.240	4,11%
Other legal persons	2.088	6,92%	2.084	6,90%
Auctor Holding a.s.	8	0,03%	8	0,03%
Total	**30,194**	**100%**	**30,194**	**100%**

As at 31 December 2023, Auctor d.o.o. holds 14,506 shares (out of which 3,929 shares were acquired by members of the Management Board, one employee of the Company, the Director of ZU Ljekarni Prima Pharma and a member of the Supervisory Board of the Company and transferred by fiduciary to Auctor d.o.o.), accounting for 50.10% (2022: 50.10%) of voting shares when considering non-voting treasury shares.

NOTE 23 - RESERVES

(in thousands of EUR)	**Legal reserves**	**Reserves for treasury shares**	**Total**
Balance at 31 December 2021	**2,462**	**6,478**	**8,940**
Changes during the year	-	-	-
Balance at 31 December 2022	**2,462**	**6,478**	**8,940**
Changes during the year	-	-	-
Balance at 31 December 2023	**2,462**	**6,478**	**8,940**

NOTE 24 – RETAINED EARNINGS

Included in the retained earnings are other reserves in the total amount of EUR 4,209 thousand (2022: EUR 4,209 thousand). The other reserves in the amount of EUR 4,209 thousand comprise reserves arisen as a result of hyperinflation during the 1990s, which resulted in a high increase of prices.

In 2023, the General Assembly adopted in its meeting held on 02 May 2022 a decision to distribute dividends from the retained earnings in the amount of EUR 6,225 thousand. The dividend per share amounted to EUR 215.00. In 2022, the General Assembly adopted in its meeting held on 2 May 2022 a decision to distribute dividends from the retained earnings in the amount of EUR 5,379 thousand. The dividend per share amounted to EUR 185.81.

In 2023, the share capital was increased from retained earnings in the amount of EUR 7 thousand in accordance with the Decision of the General Assembly of the Company.

NOTE 25 – TRADE AND OTHER PAYABLES

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Non-current liabilities:		
Trade payables /i/	4,244	4,251
Other liabilities /ii/	-	32
	4,244	**4,283**
Current liabilities:		
Trade payables /i/	288,626	239,889
Other liabilities /iii/	7,469	5,703
	296,095	245,592
	300,339	**249,875**

/i/ Trade payables recognised as at 31 December are as follows:

	2023	2022
	(in thousands of EUR)	
Foreign trade payables	216,787	177,523
Domestic trade payables	56,092	50,249
Trade payables – related parties (note 30)	19,991	16,368
	292,870	**244,140**

NOTE 25 – TRADE AND OTHER PAYABLES (continued)

The carrying amounts of trade payables are denominated in the following currencies:

	31.12.2023	31.12.2022
	(in thousands of EUR)	
EUR	292,868	244,125
Other currencies	2	15
	292,870	**244,140**

/ii/ Other long-term liabilities refer entirely to the deposit received for the rent of the property acquired in 2021. In 2023, it is included in other short-term liabilities.

/iii/ Other payables recognised as at 31 December are as follows:

	2023	2022
	(in thousands of EUR)	
VAT payable	2,715	2,547
Salaries payable	2,001	1,685
Unused annual leave	377	431
Other taxes and contributions payable	57	31
Other	2,319	1,009
	7,469	**5,703**

NOTE 26 – BORROWINGS

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Long-term:	-	2,281
Long-term loans /i/	-	2,281
Short-term:		
Short-term loans /i/	22,355	44,912
	22,355	44,912
Total borrowings	**22,355**	**47,193**

/i/ Borrowings in 2023 relate to financing of operations from different banks. It is denominated in euros at a fixed rate. The maturity of the borrowing is 12 months.

NOTE 26 – BORROWINGS (continued)

The short-term borrowing in 2022 relates to the current portion of the long-term borrowing. The borrowing is used for financing of operations. It is denominated in Croatian kunas (HRK) at a fixed rate. The maturity of the borrowing is 24 months.

The effective interest rates at the reporting date are as follows:

	2023 EUR %	2022 EUR %
Short-term borrowings		
Short-term loans	0.29%-4.35%	0.25%-0.60%

The carrying amounts of short-term borrowings correspond mainly with their fair values.

The exposure to changes in the interest rates on the borrowings and the contractual repricing dates at the reporting date is as follows:

	31.12.2023	31.12.2022
	(in thousands of EUR)	
Variable-rate borrowings	-	-
Fixed-rate borrowings		
Fixed-rate loans	22,355	47,193
Total borrowings	**22,355**	**47,193**

Given that borrowings in the amount of EUR 25,355 thousand bear interest at fixed rates (2022: EUR 47,193 thousand), there is no exposure to interest rate changes.

Loans received are secured by registered lien over the Group's property and equipment (note 14), inventories (note 20) as well as bills of exchange and promissory notes.

Movement in borrowings is as follows:

	2023	2022
	(in thousands of EUR)	
Borrowings recognized at 1 January	**47,193**	**6,846**
Additions	98,000	69,016
Payments	(122,885)	(28,694)
Interest expenses (note 11)	1,499	203
Interest paid	(1,452)	(178)
Borrowings recognized at 31 December	**22,355**	**47,193**

NOTE 27 - CONTINGENT LIABILITIES

As at 31 December 2023 and as at 31 December 2022, management did not identify any contingent liabilities.

NOTE 28 – DEFERRED TAX

Deferred tax liabilities

(in thousands of EUR)	**Acquisition of a subsidiary – licences**
Balance at 1 January 2022	**2,568**
Tax credited to profit or loss	(8)
Changes during the year	253
Balance at 31 December 2022	**2,813**
Balance at 1 January 2023	**2,813**
Changes during the year (note 30)	524
Balance at 31 December 2023	**3,337**

The deferred tax liability arose at the acquisition of the subsidiary as a result of the difference arising from the measurement of assets and liabilities of subsidiaries in consolidation at fair values, while the tax base of assets and liabilities remained at the level of expense.

NOTE 29 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2023, the Group acquired 100% ownership over an Institution with 2 pharmacies and 1 pharmacy (2022: 1 pharmacy) in the agreed amount of EUR 3,176 thousand.

From the date of acquisition to the reporting date, on the basis of the newly acquired subsidiaries, the Group generated revenue in the amount of EUR 1,658 thousand and income in the amount of EUR 62 thousand.

In case the acquisition was realized on 1 January 2023, the Group would generate revenues in the amount of EUR 3,629 thousand and profit in the amount of EUR 111 thousand based on the newly acquired subsidiaries.

NOTE 29 – ACQUISITION OF SUBSIDIARIES (continued)

Pharmacies were acquired on 1 May 2023 and 1 October 2023. These amounts have been calculated using the Group's accounting policies. The net book value of assets acquired and goodwill determined are as follows:

	2023
	(in thousands of EUR)
Acquisition cost	**3,176**
- Consideration paid	2,131
Obligations for the purchase of subsidiaries	(1,045)
Fair value of assets acquired	(2,655)
Goodwill (note 16)	**524**

The fair value of the acquired assets is as follows:

	2023
	(in thousands of EUR)
Intangible assets (note 16)	2,912
Property and equipment (note 14)	2
Inventories	203
Trade and other receivables	832
Cash and cash equivalents	36
Deferred tax liabilities (note 28)	(524)
Income tax liability	(4)
Trade and other payables	(802)
Net assets acquired	**2,655**
Purchase consideration paid in cash	2,131
Cash and cash equivalents acquired	(36)
Net cash outflow	**2,095**

In 2023, the Group has allocated the purchase price on identified assets, including intangible assets not identified in the statement of financial position, in accordance with IAS 38 “Intangible Assets”.

The Management of the Group identified and fair valued a pharmacy licence as the only form of intangible assets which arises on the acquisition of medical institutions/pharmacies. The assets were fair valued at the acquisition date at the net present value of cash flows from the use of identified tangible and intangible assets of the Group and those directly attributable to them.

NOTE 30 – RELATED-PARTY TRANSACTIONS

The Group enters into transactions with related parties.

The related parties include:

	2023	2022
1. Associate of Zdravstvene ustanove Ljekarne Prima Pharme, Zagreb Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%

2. The company with the highest voting rights, the parent company Auctor d.o.o. which holds 48.04% shares (50.10% of the voting right in the Company). In the course of the financial restructuring of Auctor d.o.o., during 2019, there was a transfer of ownership of Auctor d.o.o. to Auctor Holding a.s. that led to an indirect change in the ownership of the Company's shares. Auctor Holding a.s. owns a 100.00% stake in Auctor d.o.o., while the owners of Auctor Holding a.s. are Auctor Prime d.o.o. with 55% and JTPEG Croatia Investments a.s. with 45.00%. During 2023, the transaction of sale and transfer of shares was carried out to Auctor Holding a.s. The structure of ownership and voting rights over Auctor Holding a.s. is Auctor Holding a.s. with 50% and JTPEG Croatia Investments a.s. with 50%

3. Pliva Hrvatska d.o.o., Zagreb, holds 25.32% shares (26.41% of the voting rights in the Company).

NOTE 30 – RELATED-PARTY TRANSACTIONS (continued)

Balances resulting from transactions with the related parties and included in the statement of financial position at 31 December 2023 and 31 December 2022 as well as the statement of comprehensive income for the years then ended resulting from these transactions are as follows:

(in thousands of EUR)	**Note**	**2023**	**2022**
Trade and other receivables			
Trade receivables			
Associate of ZU Ljekarne Prima Pharme		3,936	3,470
Pliva Hrvatska d.o.o.		51	36
	19/ii/	3,987	3,506
Inventories			
Pliva Hrvatska d.o.o.	20	5,348	4,675
		5,348	4,675
Trade payables			
Pliva Hrvatska d.o.o.		19,991	16,368
	26/i//	19,991	16,368
Revenues from sale of goods			
Associate of ZU Ljekarne Prima Pharme		10,041	9,312
Pliva Hrvatska d.o.o.		16	26
	5, 6	10,057	9,338
Revenue from sale of services			
Auctor Holding a.s.		1	1
Pliva Hrvatska d.o.o.		138	59
	5, 6	139	60
Purchase of trade goods			
Pliva Hrvatska d.o.o.		48,286	42,246
		48,286	42,246
Key management compensation – salaries and bonuses for Management Board and Director		1,070	1,001
Supervisory Board, Audit Committee and Governing Council compensation		98	78

Members of the Management Board of the Company and one employee of the Company in the middle of 2020 purchased 2,750 shares in Medika d.d. and a member of the Supervisory Board of the Company purchased 972 shares in Medika d.d. from the related entity Auctor d.o.o. primarily via secured loans received from the same related entity. The voting rights of the shares remain with Auctor d.o.o. and may be repurchased by Auctor d.o.o. or transferred to third parties under specific conditions until the middle of 2026. During 2021, the fiduciary ownership right of Auctor d.o.o. was removed from 243 Medika d.d. shares of a member of the Supervisory Board. Expense and corresponding capital increase recognized until 2023 cumulatively amounts to EUR 1,589 thousand (cumulatively amounts to EUR 1,117 thousand until 2022). Expense and corresponding capital increase recognised during the year 2022 and corresponding increase in equity amount to EUR 448 thousand and during the year 2023 amount to EUR 472 thousand. Over the next three years, the estimated cost is EUR 1,221 thousand.

NOTE 31 – EVENTS AFTER THE BALANCE SHEET DATE

There were no other events after the balance sheet date that would have had a significant impact on the consolidated financial statements as of or for the period then ended.

NOTE 32 - APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 64 to 112 were approved by the Management Board of the Company in Zagreb on 6 March 2024:

Jasminko Herceg *President of* *Management Board*	Matko Galeković *Member of* *Management Board*	Jakov Jaki Radošević *Member of* *Management Board*

***

100 GODINA Medika

ODLUKA

o usvajanju Financijskog izvješća o poslovanju Grupe Medika za 1-12. mj. 2023. god.

Dana 20. ožujka 2024. godine na 5. sjednici Nadzornog odbora Medike d.d. za trgovinu lijekovima i sanitetskim materijalom, Zagreb, Capraška 1, Nadzorni odbor Medike d.d. dao je suglasnost na Financijsko izvješće o poslovanju Grupe Medika za 1-12. mj. 2023. god. kako ga je utvrdila Uprava Medike d.d.

Time je Izvješće o poslovanju Grupe Medika za 1-12. mj. 2023. god. usvojeno u skladu s čl. 300 d. Zakona o trgovačkim društvima.

U Zagrebu, 20.03.2024.

Predsjednik Uprave

Jasminko Herceg

1 Medika d.d. ZAGREB, Capraška 1

Predsjednik Nadzornog odbora

Oleg Uskoković