

MEDIKA d.d. and its subsidiaries

**ANNUAL REPORT
TOGETHER WITH AUDITORS' REPORT
for the year ended 31 December 2022**

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MANAGEMENT REPORT

In 2022, the Medika Group (the “Group”) generated a consolidated revenue in the amount of HRK 4,732,391 thousand, HRK 601,997 thousand more than the prior year’s figure. The consolidated operating profit amounts to HRK 135,246 thousand, which is by HRK 23,363 thousand higher than the prior year’s figure.

The consolidated profit before tax amounts to HRK 155,527 thousand, and the consolidated net profit amounts to HRK 116,744 thousand, which is HRK 17,235 thousand more than the 2021 figure.

By analysing the individual operating segments (note 6 to the financial statements), 47.1% of the total consolidated revenue was generated by pharmacies (2021: 50.2%), of which 11.3% by own pharmacies (2021: 11.8%). At the same time, 41.0% of the total consolidated revenue was generated from hospitals (2021: 37.0%).

Total consolidated assets amount to HRK 3,058,105 thousand, representing a decrease of 31.3% from the prior year. The amount of consolidated non-current assets increased by 3.0% compared to the prior year, which was most significantly affected by the increase of property with the right of use, equipment and cargo vehicles. The amount of current assets decreased by 40.0%. The consolidated current assets account for 81.6% of the total assets. Trade and other receivables represent the most significant item of the total consolidated assets and decreased by 20.8% from the prior year.

The total consolidated loan debt amounts to HRK 355,581 thousand, of which HRK 17,189 thousand relates to a long-term borrowing, and HRK 338,392 thousand to a short-term portion of the long-term borrowing (note 27).

The equity-to-assets ratio is 24%, showing that the Group finances 24% of its total assets from own sources.

The consolidated performance is presented in the statement of comprehensive income on page 68 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 Pharne has a strategy to expand its pharmacy network all over the territory of the Republic of Croatia.

Treasury shares

At 31 December 2022, Medika d.d. held 1,240 shares, which represents 4.11% of the total amount of shares. The nominal value per share amounts to HRK 6,930.

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 has an associate, ZU Ljekarne Jagatić, in which it holds a share of 49%.

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

Foreign exchange (currency) risk is a significant financial risk. The Group generates most of its revenue on the domestic market and in Croatian kuna (HRK). However, purchases are partly made on foreign markets, which gives rise to the risk of exposure to changes in foreign exchange rates mostly against the euro. All loans are kuna-denominated; hence, there is no exposure to foreign exchange 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 Covid-19

The pandemic caused by the Covid-19 virus that appeared in the Republic of Croatia in March 2020, did not have a significant impact on the company's operations and Medika d.d. did not use any aid provided by the Republic of Croatia to companies whose business was affected by the pandemic.

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: Mrs Ružica Vadić, Chairwoman, Mr Damjan Možina, Vice Chairman; Members: Mr Mihael Furjan, Mr Oleg Uskoković, Mr Josef Pilka, Mr Jozef Harviš, and Mr Antonio Samaržija.

CORPORATE GOVERNANCE STATEMENT (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 managing 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: Mrs Ružica Vađić, Chairwoman, Mr Oleg Uskoković and Mr Dalibor Briški.

NON-FINANCIAL REPORT

1. INTRODUCTION BY THE MANAGEMENT BOARD

Dear readers,

in 2022, Medika marked 100 years of its business aimed at caring for the health of citizens and once again confirmed the reason why it is the leading wholesaler on the Croatian market. With quality and reliable distribution, we contribute to the health of the community and continuously ensure access to quality and safe drugs, products and services.

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.

We have taken due care of environmental, social and governance standards in our business in the past, and now they are becoming key to our long-term success. 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 plan to launch a strategic sustainability agenda in order to prepare the Medika Group 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.

This non-financial report is prepared in accordance with the Global Reporting Initiative Standard for the first time and represents a significant step in our adaptation to the new sustainability standards.¹

President of the Management Board
Jasminko Herceg


3 Medika d.d.
ZAGREB, Capraška 1

¹ GRI 2-22

2. 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.²

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.

Medika celebrated 100 years of activity in 2022, and its results confirmed the status of the leading wholesaler in Croatia and showed the market that Medika continues to build its growth and development on rich tradition and experience. Medika is recognized as a stable partner and long-term link between manufacturers, entities in the healthcare sector and end users. Medika continuously improves and adapts the business to the needs of partners in order to achieve its goal, which is the satisfaction of all stakeholders in the healthcare value chain.

Pharmacy activity is performed in the largest pharmacy chain in the Republic of Croatia - Ljekarne Prima Pharme, which, by providing pharmaceutical care in its 76 branches, represent a significant part of the population's primary health care.

The Group

In its ownership, the Group holds 100% of the subsidiary Ljekarne Prima Pharme, as well as Primus nekretnine d.o.o. In addition, Ljekarne Prima Pharme owns 49% of the affiliated company ZU Ljekarne Jagatić. The data in this non-financial report include all the entities listed, except ZU Ljekarne Jagatić.³

100 years of health care

Pharmeria.hr

During the jubilee 100th anniversary, Medika launched a new digital platform Pharméria.hr, unique on the market for its largest offer of pharmacy and drugstore product range. Pharméria responds to the demands of a modern customer who is interested in price, simplicity and speed of purchase. The broad offer and the diverse product range allow everyone to shop according to their own preferences and choices. Thus, everything for beauty and health can be found in one place – from cosmetics, nutritional supplements, vitamins and plant-based products to medical devices.

² GRI 2-1

³ GRI 2-6

2. ABOUT THE GROUP

100 years of health care (continued)

Ljekarne Prima Pharme

Ljekarne Prima Pharme are an indispensable part of the health chain in Croatia. In February 2022, Ljekarne Prima Pharme established the 76th pharmacy branch in Donja Bistra, while the branches in Donji Lapac, Korenica and Biograd na Moru stopped operating within the institution. In September 2022, after 15 years, Zdravstvena ustanova Ljekarne Delonga was merged. With this, along with the merger of Zdravstvena ustanova Ljekarna Ines Škoko on the island of Brač in December 2021, Ljekarne Prima Pharme has achieved completeness and uniformity of business. During 2022, three branches were refurbished in order to improve the visual recognition of the pharmacy branches.

3. OUR APPROACH TO SUSTAINABLE DEVELOPMENT⁴

Determining materiality

In 2022, the Group launched a systematic process of determining material topics according to the guidelines of the Global Reporting Initiative (GRI) Standard for the first time. The process of determining materiality and impact was carried out in three stages. In the first stage, an analysis of the business context and trends was conducted, determining challenges and opportunities in the market segments of business in the sector. The second stage included stakeholder mapping, assessment of actual and possible impacts and their significance for stakeholders and the environment, and the third stage included stakeholder involvement, determination of topic boundaries and final prioritization of material topics, in which the Management Board also participated.

The process included holding two strategic workshops where the areas of ESG impacts on stakeholder groups was reviewed, 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.

⁴ GRI 2-29; GRI 3-1; GRI 3-2

3. OUR APPROACH TO SUSTAINABLE DEVELOPMENT (continued)

Prioritization of material topics

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. Topics that both external and internal stakeholders highlighted as important are the following:

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

The following topics were assessed as important, but with less pronounced importance than the previous ones:

- 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 the Group to actively manage its impact in these areas, and the Group's future sustainable business strategy should be developed based on them. 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. Engagement in the management of topics of safety and quality of products and services, as well as access to products and services, is assessed by stakeholders as above the standard. Stakeholders recognize opportunities to improve 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.

3. OUR APPROACH TO SUSTAINABLE DEVELOPMENT (continued)

Stakeholders of the Group

In 2022, the Group also carried out stakeholder mapping and identification of the impact on stakeholders. In this process, the following groups of stakeholders were recognized as stakeholders on which the company has real or potential influences: shareholders and owners, managers, employees, customers and end consumers, government bodies, state supervision institutions, credit and financial institutions, business partners, suppliers, local communities, professional and interest groups, civil society associations, educational and scientific institutions and unions. 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.

4. CARE FOR THE ENVIRONMENT AND RATIONAL MANAGEMENT OF RESOURCES

In the Group, we consider that human activities affect climate changes and environment and we are very aware of climate-related impacts on communities and our Group, including environmental, i.e., climate-related, disasters. In the future, with our business, we want to contribute to an active increase in awareness of climate risks, as well as opportunities for our joint contribution to risk reduction. The connection between the environment and human health motivates us every day to work efficiently and dedicatedly on the modernization of our business, which will be based on a conscientious approach to environmental protection and thus contribute to the overall health of our communities.

Management of environmental impacts⁵

Managing the environmental impacts that our company creates through its activities is a duty we have towards the community in which we operate, which we are a part of and with which we cooperate. 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 and improvement of the quality and environmental protection system. 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.

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, impact reduction and environmental protection in the areas of air emissions, discharges into water and soil, use of natural resources, energy use, emissions and waste generation. Aspects of air emissions and waste generation were assessed as the biggest impacts, so the measures adopted and implemented are primarily aimed at reducing them.

⁵ GRI 2-12; GRI 2-13; GRI 2-14; GRI 3-3; GRI 307-1

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

Management of environmental impacts (continued)

Pharmacy branches have a significantly different type of impacts on the environment, but Ljekarne Prima Pharme equally strive to deal with them in the most efficient way possible. Ljekarne Prima Pharme responsibly manage their waste and other substances harmful to the environment, adequately dispose of drugs of different levels of toxicity, and reduce the creation of products that may have a negative impact on the environment and people. By disposing of, recycling and reusing various work materials such as paper and plastic in our daily business, the amount of waste and the use of new resources is reduced. There is a strive to be environmentally responsible by renovating the vehicle fleet and rationalizing business trips in order to reduce the CO₂ footprint in business, but also by investing in energy-efficient consumption, such as lighting and air conditioners. Pharmacies operate in a legally regulated environment, and as such, monitor and respect all regulatory provisions set by national and international institutions in pharmaceutical sector.

Regarding environment approach, we strive to prioritize environmental issues with regard to the organization's operations. The establishment of the quality governance and environmental protection system at the level of the entire Group, as well as its effectiveness, is the responsibility of the Management Board. One of its duties is to appoint team members, responsible persons and others, who are in charge of implementing this system. Management Board defines the System Policy and acquires resources for its implementation and improvement. A member of the Management Board responsible for Quality and Environmental Protection is responsible for the maintenance and promotion of the quality culture, the System Policy and its continuous improvement, the appointment and responsibilities of key employees for the implementation of the management system, its maintenance and promotion through the participation and encouragement of planning, assurance and supervision. At the same time, they are responsible for ensuring that quality and environmental protection indicators are established and met.

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.

Medika monitors environmental protection indicators and objectives on an annual basis, and two main indicators were set for 2022 – the reduction of exhaust gas emissions into the air and the reduction of fuel consumption.

Employees are familiar with all the policies of the system, which is carried out through training during employment, but also continuously later during their work. This enables them to recognize and thus report any non-conformities or deviations from the requirements of the environmental management system. 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.

In the past period, the objective of environmental protection was to reduce the emissions of exhaust gases that arise as a result of the operation of the vehicle fleet. By renewing the Medika's vehicle fleet, i.e., cargo and passenger vehicles, we managed to have a positive effect on this objective. 13 new vehicles were purchased, which produce a smaller amount of exhaust gases per kilometre driven. In addition, the new *SMARTIVO* system was implemented, which controls trucks in motion and provides insight into consumption and driving dynamics. The system thus helps us to better monitor and manage consumption in transport.

NON-FINANCIAL REPORT (continued)

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

Management of environmental impacts (continued)

By implementing and measuring environmental impact indicators that we have carried out so far, we have recognized a positive trend in reducing our 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.

Pharmacy branches of Ljekarne Prima Pharme do not have a practice to evaluate environmental impacts management because they cannot be characterized as significant generators in their operations. Regarding the impact on the air, Ljekarne Prima Pharme uses gas boilers for heating which are regularly controlled, and air conditioners for heating and cooling. Any impacts on the soil are resolved through an organized and legally regulated waste management system. Impacts on water can only be seen in sanitary and faecal sewage, but they do not contain processes that would significantly affect emissions into water.

Energy efficiency and resource management⁶

In order to ensure the most profitable business that is reflected in the environmental impact in the best possible form, energy consumption is closely monitored.

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. As can be seen in the attached tables, the total consumption of electricity in Medika is monitored through higher and lower tariffs, and it is evident that there have been no significant deviations in the last three years. Gas consumption is also monitored, which has recorded a partial decrease in the last three years. This decrease is considered to be the result of global warming, increasingly warmer winters and less need for heating. It does not represent significant deviations or savings. In addition, fuel consumption for passenger and cargo vehicles is recorded in the supplier's bills.

Medika	Total electricity consumption (in kWh)		
	2020	2021	2022
Higher tariff	1,513,552	1,385,368	1,347,828
Lower tariff	808,767	798,821	774,135
Total	2,322,319	2,280,390	2,214,446

Medika	Total electricity and gas consumption (in kWh)		
	2020	2021	2022
Electricity	2,322,319	2,280,390	2,214,446
Gas	898,507	729,389	387,468
Total	3,220,826	3,009,779	2,601,914

⁶ GRI 302-1; 302-2; 302-4; 302-5

NON-FINANCIAL REPORT (continued)

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

Energy efficiency and resource management (continued)

In order to act in the best way for the benefit of the environment in the process of using energy, the Group strives to implement renewable sources in its energy consumption as well. Alternative energy sources such as heat pumps for the production of cooling and heating energy are used. The heat pumps are highly efficient and are monitored by a central supervisor control system (CNUS) that increases the functionality of the system and equipment and thereby contribute to a general reduction in energy consumption. Medika uses energy from the photovoltaic power plant located at the BC Osijek site. The share of renewable energy for 2021 was 4.22 % of total energy, while for 2022 it was 4.18 %.

In the last two years, the consumption of electricity from non-renewable sources was partially reduced, as shown in the tables below. This was achieved through the development of various renewable sources that are now partially used in business, for example the operation of the photovoltaic power plant at the BC Osijek site, whose electricity production for the last two years is shown in the table. The intention is to continue investing in renewable energy sources.

Consumption of electricity from non-renewable sources (In kWh)		
2020	2021	2022
2,322,319	2,184,189	2,121,963

Medika BC Osijek production of electricity	
2021	2022
96,201	92,483

For pharmacy branches, the calculation and insight into the consumption for gas and electricity is visible in the supplier's energy cards. The table below shows that in 2021 there was an increased consumption of gas, the cause of which was a new pharmacy that joined the institution and thus increased consumption. Already in 2022, a decrease of consumption due to warming and less need for gas heating is visible. Electricity consumption varies within 5 percent, which is based on different climatic conditions in the specified period. Pharmacy branches are not able to separate the energy consumption intended for heating or cooling from the rest of the electricity consumption. Steam is not used as an energy source in the operation of the Group. Fuel consumption for company vehicles is monitored by reports and bills from suppliers.

Ljekarne Prima Pharmer	Total electricity and gas consumption (in kWh)		
	2020	2021	2022
Electricity	724,367	757,194	752,371
Gas	13,937	19,880	17,526

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

Energy efficiency and resource management (continued)

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 CO₂ production.

In BC Dugopolje, the obsolete heating and cooling system was replaced with a new high-efficiency heat pump and consequently reduced the primary electricity consumption for heating/cooling the administrative part of the building.

Energy consumption is primarily reduced by the use of LED lighting in business spaces and the STANDBY system for cargo vehicles, which consists of specialized electrical sockets that are used to charge cooling units, and which ensure the necessary temperature conditions for transport in trucks, i.e., the required temperature of 15 to 25 degrees.

In the planning 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. For construction, modern and advanced materials are used when making cooling chambers that serve the needs of storing the stock of drugs and other medical devices, an example of which are thermal “sandwich” panels (ready-made building elements, consisting of external and internal cladding and insulation). The ETICS system (External Thermal Insulation Composing System), i.e., thermal insulation of external walls and external joinery, which has a significantly lower coefficient of energy transmission, is installed in buildings during their reconstruction.

At pharmacy branches, LED lighting devices of class A to A++ and air conditioners 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.

What 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. Thus, pharmacy in Kaštel Novi was moved to a more suitable and adequate location, and when designing the facility, energy-efficient sources of heating and cooling, air conditioning of A+ energy category were used, and the entire pharmacy branch is equipped with LED lighting. With this project, it was not only achieved greater energy efficiency and reduced impact on the environment, but also provided a more accessible and adequate space for patients with secured parking. The same approach was used when changing the location of pharmacy branch in Rijeka, where energy efficient heating and cooling sources were also used during the refurbishment – VRF (variable refrigerant flow) system A++ energy category supplied by the lessor, and the entire pharmacy is also equipped with LED lighting.

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.

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

Responsible fleet management and fuel consumption reduction

So far, consumption outside the organization has not been a subject dealt with by the Group. However, we understand that responsible and sustainable transport management is one of the material topics to which we should pay more attention in the future and systematically plan and monitor the achievement of goals.

In order to make transport sustainable and reduce energy consumption, the Group strives to constantly renew the vehicle fleet. Newly acquired vehicles meet the Euro 6 standard (which prescribes the permissible limits of exhaust gas emissions for light passenger and commercial vehicles) which is proven to consume less fuel per kilometre driven. Medika monitors fuel consumption during the transport and distribution of its products at the locations of Osijek, Rijeka, Dugopolje and Zagreb, both at the level of passenger and cargo vehicles.

The number of kilometres travelled is monitored and the cost of fuel in litres, the table also includes data on the average consumption of litres of fuel per 100 kilometres travelled.

Medika	Total kilometres	Total litres	Average l/100 km
Osijek	663,122.64	66,039	9.96
passenger	143,047.32	8,311	5.81
cargo	520,075.32	57,728	11.10
Rijeka	743,640.32	70,326	9.46
passenger	119,548.70	7,292	6.10
cargo	624,091.62	63,033	10.10
Dugopolje	1,691,978.04	201,757	11.92
passenger	224,833.58	13,962	6.21
cargo	1,467,144.46	187,794	12.80
Zagreb	2,968,034.60	314,268	10.59
passenger	802,585.52	52,248	6.51
cargo	2,165,449.08	262,019	12.10
Total sum	5,840,824.03	680,456	11.65

Ljekarne Prima Pharne kept data on consumption and type of fuel, and during 2022 consumption of 51,220.50 litres of fuel for a total of 38 vehicles was recorded.

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

Waste management and circular economy⁷

With the aim of contributing to the sustainable use of resources and the reduction of environmental impacts, we strive to recycle waste and to implement the circular economy policy in our 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.

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	

⁷ GRI 306-1; 306-2; 306-4

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

Waste management and circular economy (continued)

With initiatives regarding environmental protection, we strive 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. For this purpose, we separate the waste, and we also started the digitalization process with the aim of reducing the use of paper and thus the creation of 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.

We closely monitor the waste we have produced as well as the way in which it is treated, i.e., whether it has been recycled or reused (reuse of waste for useful purposes). The collected waste for Medika and Ljekarne Prima Pharme is listed in the table below.

	Medika			Ljekarne Prima Pharme		
Waste (kg)	2020	2021	2022	2020	2021	2022
Hazardous waste (total)	4,894	3,279	7,025	1,937.6	2,366.5	2,000.2
Recycled	2,101	2,492	4,416	5.6	9.5	6.2
Reused	2,793	787	2,609	1,932	2,357	1,944
Non-hazardous waste (total)	147,095	162,830	203,586	25,889.3	37,198	40,699
Recycled	10,142	10,745	25,207	2,118.3	2,400	2,357
Reused	136,953	152,085	178,379	23,771	34,798	38,342

Although at the moment there are no specific objectives and initiatives regarding the management and reduction of the amount of waste generated, we recognize the importance of proper treatment in the legislative framework when managing waste. In all our business centres and pharmacy branches, we have provided containers for sorting different types of waste, 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.

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

Adaptation of business to climate change⁸

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 for reducing greenhouse gas emissions. The direct sources of emissions produced by the Group, as well as the sources in which the Group participates secondarily, are monitored and shown in the table below (Scope 1 and 2). Scope 1 includes the fuel consumed during transport, and Scope 2 primarily includes electricity and gas, which is partly bought from suppliers.

Currently, emissions from the complete supply chain are not monitored, i.e., Scope 3.

Emissions of GHG (t CO ₂ e)	2020	2021	2022
Scope 1	1,709	1,781	1,821
Scope 2	743	696	605

So far, more specific initiatives to reduce emissions have not been launched, but they have been achieved exclusively by saving primary energy. At pharmacy branches, there is a strive to reduce energy consumption, which also contributes to the reduction of greenhouse gas emissions. This is achieved by frequent preventive servicing of gas systems and air conditioners which are the main generators of energy consumption.

Methods of monitoring and corresponding reduction of transport emissions are used at the Group level (like Smartivo truck tracking), while pharmacy branches of Ljekarne Prima Pharne aim to monitor fuel consumption on a monthly basis and intervene if necessary if there are significant atypical deviations. Currently, Medika's vehicle fleet is being renewed and cargo vehicles are being procured that comply with the latest Euro standards. In 2023, Ljekarne Prima Pharne plan to acquire 11 EURO 6 AP vehicles, and replace all existing Euro 5 vehicles and part of the older EURO 6 EU standard vehicles.

⁸ GRI 305-1; 305-2; 305-4; 305-5

5. 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 2022, 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 climate change mitigation and climate change adaptation. However, in accordance with the regulation, as an entity subject to reporting obligation, the Group observed the proportion of turnover and capital and operating expenditure realized in business, in those segments that can be recognized as supporting environmentally sustainable activities. During 2022, the Group undertook initiatives aimed at avoiding and reducing contributions to climate change, and these were included in the eligibility considerations in accordance with the EU Taxonomy.

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 (Nomenclature of economic activities - European statistical classification of economic activities) 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 depreciation of property, plant and equipment, maintenance, security and cleaning costs, rental costs and property insurance costs, and taxonomy-eligible activities are not recognized in them.

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 2022 is HRK 1,972 thousand (in 2021 it was HRK 3,404 thousand).

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

Through a detailed analysis, the Group found that the activity is aligned with the taxonomy. Transportation is carried out by vehicles of categories N2 and N3 with the highest technically permissible laden weight of up to 7.5 tons, which are considered “zero-emission heavy-duty vehicles” as defined in Article 3, point 11 of Regulation (EU) 2019/1242, and vehicles of category N2 and N3 with technically permissible laden weight of more than 7.5 tons, i.e., “zero-emission heavy-duty vehicles” as defined in Article 3, point 11 of Regulation (EU) 2019/1242. The vehicles are not intended for the transportation on fossil fuels. In the assessment of causing no significant harm, the risks were checked according to the criteria from Appendix A (Regulations 2021/2139): Generic criteria for DNSH to climate change adaptation and in accordance with the Classification of hazards brought about by climate change. It was found that there are temperature risks that are managed in accordance with the general risk management for transport equipment.

In the transition to a circular economy, the existence of both criteria was determined, and there are measures for waste management in accordance with the waste hierarchy in the phase of use (maintenance) and at the end of the life of the vehicle fleet, among other things, the reuse and recycling of batteries and electronics (especially key raw materials). In the category of pollution prevention and control, it was determined that the vehicles comply with the provisions, i.e., road vehicle tires of categories M and N meet the criteria of the highest class of external rolling noise and have a rolling resistance coefficient (which affects the energy efficiency of the vehicle) from the two highest classes from the Regulation (EU) 2020/740, according to the European Product Registry for Energy Labelling (EPREL). The vehicles comply with the requirements of the latest applicable level of homologation with regard to emissions from heavy-duty vehicles according to the Euro VI standard (244) determined in accordance with Regulation (EC) No. 595/2009 and are harmonized with Regulation (EU) No. 540/2014.

As taxonomy-eligible activities in capital expenditure as the economic activity under 7.3 Installation, maintenance and repair of energy efficiency equipment is recognized. Capital expenditure in the BC Rijeka facility included the energy renovation of the facade and the replacement of aluminium exterior joinery, as well as the creation of an insulating layer on the existing outer envelope of the building from a layer of mineral (stone) wool and a silicate layer resistant to external influences. With this renovation and the installation of new thermally improved aluminium joinery, the coefficient of heat transfer has been reduced, and thus the need for heating and cooling of the storage area for storing drugs. The goals of this investment are to reduce the electricity consumption of the storage space at the Rijeka location by about 60,000 kWh per year, that is, to reduce electricity consumption by 20 percent. Investments refer to project documentation, advisory services, supply and installation of insulating materials and assembly of joinery. These investments were made in 2022 in the amount of HRK 1,724 thousand.

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. Investments refer to project documentation, consulting services, supply and installation of a new heat pump. These investments were made in 2022 in the amount of HRK 913 thousand.

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

Activities performed at Ljekarne Prima Pharne are described in the continuation. Renovation of one pharmacy 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 HRK 39 thousand. During 2022, new air conditioners and the lighting was replaced with new LED lighting in eight pharmacies. The mentioned investments were made in 2022 in the amount of HRK 34 thousand.

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.

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

MANAGEMENT REPORT

Proportion of turnover from products or services associated with taxonomy-aligned economic activities – disclosure for the year 2022:

				Substantial contribution criteria in HRK 000										
Economic activities	Codes	Absolute turnover	Proportion of turnover (%)	Climate change mitigation (%)	Climate change adaptation (%)	Water and marine resources (%)	Circular economy (%)	Pollution (%)	Biodiversity and ecosystems (%)					
A. Taxonomy-eligible activities														
A.1. Environmentally sustainable activities (Taxonomy-aligned)			0.00%											
Turnover of environmentally sustainable activities (Taxonomy-aligned)			0.00%											
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)														
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)														
6.6. Road transport of goods		1,972	0.04%	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%					
Total A.1.+A.2.		1,972	0.04%	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%					
				DNSH criteria ("Does Not Significantly Harm")						in HRK 000				
Economic activities	Codes	Absolute turnover	Proportion of turnover (%)	Climate change mitigation (Y/N)	Climate change adaptation (Y/N)	Water and marine resources (Y/N)	Circular economy (Y/N)	Pollution (Y/N)	Biodiversity and ecosystems (Y/N)	Minimum safeguards (Y/N)	Taxonomy-aligned proportion of turnover, for 2022 (%)	Taxonomy-aligned proportion of turnover, year 2021-2022 (%)	Category (enabling activity)	Category (transitional activity)
A. Taxonomy-eligible activities														
A.1. Environmentally sustainable activities (Taxonomy-aligned)			0.00%								0.00%			
Turnover of environmentally sustainable activities (Taxonomy-aligned)			0.00%								0.00%			
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)														
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)														
6.6. Road transport of goods		1,972	0.04%	no	no		yes	yes		no	0.04%			P
Total A.1.+A.2.		1,972	0.04%	no	no		yes	yes		no	0.04%			P
B. Taxonomy-non-eligible activities														
Taxonomy-non-eligible activities		4,755,176	99.96%											
Total B		4,755,176	99.96%											

MANAGEMENT REPORT (continued)

Proportion of CapEx from products or services associated with taxonomy-aligned economic activities – disclosure for the year 2022:

				Substantial contribution criteria						in HRK 000
Economic activities	Codes	Absolute CapEx	Proportion of CapEx (%)	Climate change mitigation (%)	Climate change adaptation (%)	Water and marine resources (%)	Circular economy (%)	Pollution (%)	Biodiversity and ecosystems (%)	
A. Taxonomy-eligible activities										
A.1. Environmentally sustainable activities (Taxonomy-aligned)										
CapEx of environmentally sustainable activities (Taxonomy-aligned)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)										
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)										
7.3 Installation, maintenance and repair of equipment for energy efficiency		2,710	6.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Total A.1.+A.2.										

				DNSH criteria ("Does Not Significantly Harm")										in HRK 000	
Economic activities	Codes	Absolute CapEx	Proportion of CapEx (%)	Climate change mitigation (%)	Climate change adaptation (%)	Water and marine resources (%)	Circular economy (%)	Pollution (%)	Biodiversity and ecosystems (%)	Minimum safeguards	Taxonomy-aligned proportion of CapEx, year X (%)	Taxonomy-aligned proportion of CapEx, year X1-X2 (%)	Category (enabling activity)	Category (transitional activity)	
A. Taxonomy-eligible activities															
A.1. Environmentally sustainable activities (Taxonomy-aligned)															
CapEx of environmentally sustainable activities (Taxonomy-aligned)		0.00%	0.00%	no	no		yes	yes		no	0.00%	0.00%			
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)															
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)															
7.3 Installation, maintenance and repair of equipment for energy efficiency		2,710	6.23%	no	no		yes	yes		no	0.00%	0.00%			
Total A.1.+A.2.															

B. Taxonomy-non-eligible activities

Taxonomy-non-eligible activities		40,789	93.77%
Total B		40,789	93.77%

MANAGEMENT REPORT (continued)

Proportion of OpEx from products or services associated with taxonomy-aligned economic activities – disclosure for the year 2022:

				Substantial contribution criteria						DNSH criteria ("Does Not Significantly Harm")						in HRK 000					
Economic activities	Codes	Absolute OpEx	Proportion of OpEx (%)	Climate change mitigation (%)	Climate change adaptation (%)	Water and marine resources (%)	Circular economy (%)	Pollution (%)	Biodiversity and ecosystems (%)	Climate change mitigation (Y/N)	Climate change adaptation (Y/N)	Water and marine resources (Y/N)	Circular economy (Y/N)	Pollution (Y/N)	Biodiversity and ecosystems (Y/N)	Minimum safeguards	Taxonomy-aligned proportion of OpEx, year 2022 (%)	Taxonomy-aligned proportion of OpEx, year 2022-2021 (%)	Category (enabling activity)	Category (transitional activity)	
A. Taxonomy-eligible activities																					
A.1. Environmentally sustainable activities (Taxonomy-aligned)																					
OpEx of environmentally sustainable activities (Taxonomy-aligned)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%								0.00%				
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)																					
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%								0.00%				
Total A.1.+A.2.		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%								0.00%				
B. Taxonomy-non-eligible activities																					
		43,420	100.00%																		
Total B		43,420	100.00%																		

NON-FINANCIAL REPORT (continued)

6. WORKING ENVIRONMENT AND OPPORTUNITIES FOR OUR 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. Competing for specialists on the market, 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 employee⁹

Based on the Group's 2023-2025 Strategies for the development of the working environment, it is persistently working on the development of business guidelines that ensure 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.¹⁰

Aware of the dynamic and unpredictable times in which the balance between professional and private life has an increasing priority among employees, in addition to minimum overtime hours, we have increased the number of employees in order to establish an even distribution and intensity of tasks per employee.

The Group is continuously working on expanding the portfolio of benefits that it offers to employees. 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 and transportation allowance. In 2022, hot meal allowance is introduced for all our employees.

The Group is aware that it is challenging to balance business and private obligations, therefore employees have the right to days off according to the Employment Ordinance.

In order to show care for our youngest, the children of our employees, the organization gives a gift for children. In order to further motivate them and show that their dedicated work is appreciated, the organization implements various employee reward systems in the form of monetary incentives (rewards) for work results, or salary supplements.

Furthermore, the Group offers its employees additional options in using the voluntary pension fund. There is a possibility of calculation of contributions to the pension fund in the third pension pillar through the gross salary, where the employee pays more to the fund, and less is deducted from the salary. If there is a need for our employees to stay longer at their workplaces in order to solve unforeseen challenges and support the organization as a whole, all overtime hours are paid in accordance with the law that is, the working time is redistributed.

⁹ GRI 2-23; GRI 3-3; GRI 401-1

¹⁰ GRI 2-30

6. WORKING ENVIRONMENT AND OPPORTUNITIES FOR OUR EMPLOYEES (continued)

Working environment and conditions tailored to the employee (continued)

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.¹¹

Most employees return to their previous job after using maternity and parental leave. During 2022, 79 employees (69 women and 10 men) used maternity and parental leave in the Group.

Employee health and safety¹²

At the Group, the brand's historical legacy is built on improving the health and well-being of the communities in which it operates. To fulfil this purpose, we must start by supporting the health and well-being of our employees, as they are also members of our communities and directly impact our ability to care for our customers. 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 the period from 2023 to 2025, the Group has set a goal to completely 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 this process, Occupational Safety Committee plays a significant role, which in accordance with regulations, carries out training for all employees and continuously monitors and collects information related to health and safety protection at the workplace. 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.

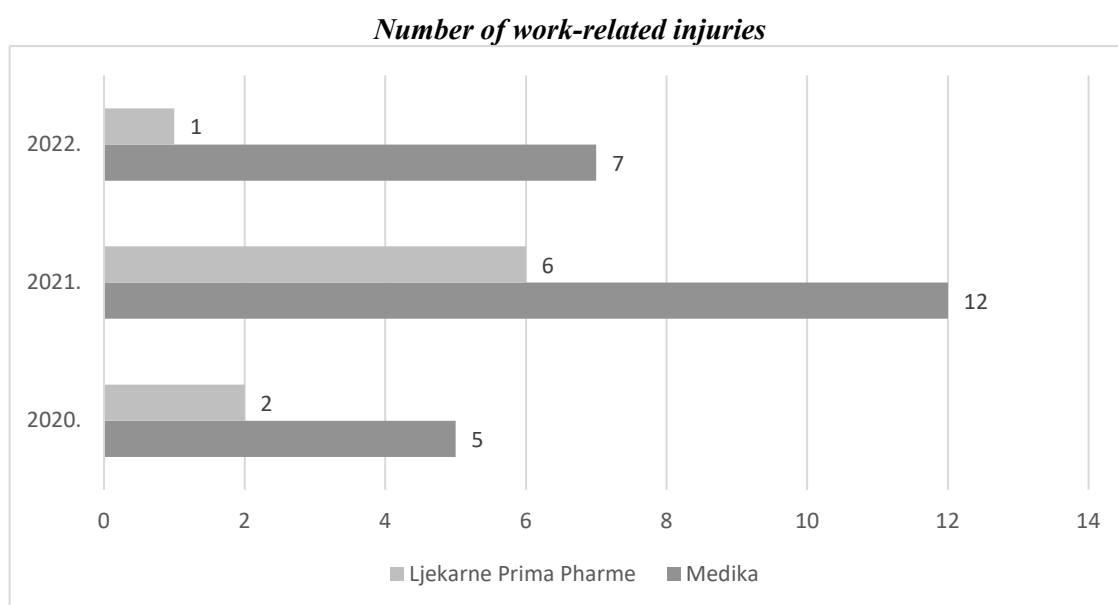
¹¹ GRI 401-3

¹² GRI 3-3; GRI 403-1; 403-2; 403-3; 403-4; 403-5; 403-6

6. WORKING ENVIRONMENT AND OPPORTUNITIES FOR OUR EMPLOYEES (continued)

Employee health and safety (continued)

Considering the number of employees and the demands of certain functions within the organization, a certain number of work-related injuries were recorded, but was significantly reduced in 2022 compared to 2021. 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. All newly hired persons undergo training within 60 days from the moment of starting work within the organization.



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 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.

Also, in addition to mandatory health examinations related to the conditions of the workplace (special working conditions), all employees can perform a medical examination at the expense of the employer every other year. 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.

6. WORKING ENVIRONMENT AND OPPORTUNITIES FOR OUR EMPLOYEES (continued)

Employee health and safety (continued)

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.

As all employees and community faced the impact of the COVID-19 pandemic, employee protection was the Group's top priority. The management processes established at the beginning of the pandemic were maintained and adapted with the aim of ensuring the health of employees and uninterrupted supply of the healthcare system. Safety and welfare measures were implemented in accordance with the best public health practice, such as testing, social distancing, remote work, responsible use of masks and hand hygiene, increased cleaning and disinfection. In addition to protecting employees, this also allowed the distribution of drugs in our supply chains to remain uninterrupted.

In 2020, the Crisis Staff of the Group was established, which was available to employees 24 hours a day through direct telephone lines or through an official mail address. In order to manage the new situation as effectively as possible, a number of general guidelines have been brought for every work position, which changed in accordance with the instructions of the National Headquarters of civil protection. In doing so, directly superior persons within the organization were responsible for implementing the established guidelines in order to preserve the health of the employees and to ensure an unobstructed supply of the health system. The Human Resources Management Department was actively involved in providing all relevant information and support for employee mental health during the pandemic, and it is still available today to all employees.

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.

6. WORKING ENVIRONMENT AND OPPORTUNITIES FOR OUR EMPLOYEES (continued)

Professional development of employees¹³

As an organisation with a hundred years of tradition, the Group has qualified and committed employees and ensures resources for their continuous learning and development. Development activities support employees in continued development of their knowledge and skills abilities, encouraging them to advance their careers and awareness of their successes and contributions within the Group.

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 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.

All Group employees are covered by educational programs and opportunities. 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.

At Ljekarne Prima Pharne level, there is the Council for Education and Professional Development, which operates through an educational team that organizes internal professional trainings and content. In accordance with the continuous investment in the professional and personal development of employees of the institution, it is invested in professional competences of employees through internal and external development and educational programs such as the University Postgraduate Specialist Study of Clinical Pharmacy, program of phytoaromatherapy, young talents' development, sales development programs and development program for Group managers, which involved management development and protentional heiress, 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.

The young talent development program is a two-year development and education program of Ljekarne Prima Pharne, 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.

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

¹³ GRI 3-3; GRI 401-2; 404-3; 404-2

6. WORKING ENVIRONMENT AND OPPORTUNITIES FOR OUR EMPLOYEES (continued)

Professional development of employees (continued)

In the period that follows, investment in the additional education and development of employees will continue. 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. 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.

Diversity and inclusion¹⁴

Encouraging a diverse, fair and inclusive organization is an integral part of the Group's business strategy. As a leading wholesaler in the Republic of Croatia, our mission is to contribute health through quality and reliable distribution. With this comes the duty to the members of our team, patients, users and communities to make significant changes.

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.

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.

¹⁴ GRI 2-7; GRI 2-8; GRI 3-3; GRI 405-1; GRI 406-1; GRI 410-1

6. WORKING ENVIRONMENT AND OPPORTUNITIES FOR OUR EMPLOYEES (continued)

Diversity and inclusion (continued)

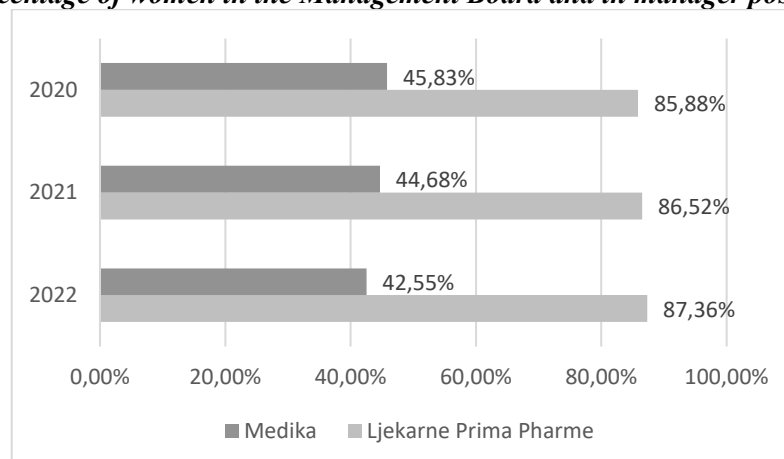
In accordance with our goals to achieve the diversity and equality of opportunities, we continue to promote gender equality in our workforce. We actively seek to ensure that whenever possible we offer employment managers a diverse list of candidates, and at this point women make up the majority of the workforce within the Group.

The ratio of a man and a woman in the Group

	2020		2021		2022	
	M	F	M	F	M	F
Total	283	616	299	641	304	647
Fixed-term contracts	66	110	68	112	62	108
Permanent contracts	217	506	231	529	242	539
Full time	280	607	298	634	303	646
Part time	3	9	1	7	1	1

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



6. WORKING ENVIRONMENT AND OPPORTUNITIES FOR OUR EMPLOYEES (continued)

Diversity and inclusion (continued)

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 Ljekarne Prima Pharme employees	2020		2021		2022	
	M	F	M	F	M	F
< 30 years	8	98	7	112	10	112
30-50 years	20	224	19	215	20	210
> 50 years	2	61	2	63	2	64

Age diversity of Medika employees	2020		2021		2022	
	M	F	M	F	M	F
< 30 years	47	27	51	29	46	28
30-50 years	157	152	167	166	166	167
> 50 years	49	63	53	61	60	66

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 2022, an average of four students were engaged in this way (assuming they worked 8 hours every working day). During 2022, 6 people worked at the Ljekarne Prima Pharme through the student service. Most often, they performed administrative and auxiliary tasks.

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.

6. WORKING ENVIRONMENT AND OPPORTUNITIES FOR OUR EMPLOYEES (continued)

Social partner (continued)

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.

7. OUR CONTRIBUTION TO THE COMMUNITY

Medika 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. The goals of sustainable development and their subgoals will certainly be one of the guidelines and benchmarks to assess our contribution to the community. As a leading wholesaler in Croatia, we are aware of our significant 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 community¹⁵

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.

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.

¹⁵ GRI 413-1

7. OUR CONTRIBUTION TO THE COMMUNITY (continued)**Social responsibility and investment in the community (continued)**

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:¹⁶

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 Veterinary Chamber	
Croatian organization for the verification of the authenticity of medicines	
Association for the Promotion of Protection	

8. RESPONSIBLE CORPORATE GOVERNANCE¹⁷

Medika adheres to the highest standards in order to know what shareholders, customers, business partners, employees and other stakeholders expect. Management Board leads and supervises the practice and the way in which the management implements the responsible business practices of Medika. Transparency and continuous strive are valued in order to improve the business practices guided by the corporate governance policies and strategies. Issues of sustainability, diversity, transparency and ethics are implemented through strategy and regulations, but also through work culture striven to create in the Group. This task is performed by the Management Board, the Supervisory Board and the General Assembly, Audit Committee, the Principal and Expert Council of Ljekarne Prima Pharme. With a joint strategic approach to sustainability and adaptation of Group's operations to the challenges of the new age, the work on adaptation to new regulations in the field of sustainable development will actively start. This refers to the implementation of in-depth impact recording, the creation of an ESG strategy, and the improvement of sustainability reporting.

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.

¹⁶ GRI 2-28

¹⁷ GRI 2-9; GRI 2-10; GRI 2-11; GRI 2-23; GRI 2-24; GRI 3-3

8. RESPONSIBLE CORPORATE GOVERNANCE (continued)

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 2022 they were as follows: Ružica Vadić, president; Damjan Možina, vice-president; and members: Mihael Furjan, Oleg Uskoković, Josef Pilka, Jozef Harviš and Antonio Samardžija.

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 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 consists of: Ružica Vadić, 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 2022 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.

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.

8. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Other mandatory bodies of Ljekarne Prima Pharne

The Expert Council of the Ljekarne Prima Pharne 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 Pharne 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 Pharne 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.

Corporate governance

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 is responsible for reporting to the stock exchange on compliance of Medika with its policies.

Awards and remunerations are regulated by the Remuneration Policy, and the Remuneration Report of the Supervisory Board and the Management Board is adopted at the regular annual General Assembly. The latest report is available on the Medika website.¹⁸

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. 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 2022, the Management Board and management of the Group participated in educational workshops in the field of sustainable development. Members of the Management Board and senior management do not include assessment criteria in the area of sustainability in their key performance indicators.

¹⁸ GRI 2-19; GRI 2-20; GRI 3-3

8. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Corporate governance (continued)

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.¹⁹

Responsible supply chain management²⁰

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 business partners implement 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.

¹⁹ GRI 2-27; GRI 3-3

²⁰ GRI 204-1; GRI 308-1; GRI 414-1

NON-FINANCIAL REPORT (continued)

8. RESPONSIBLE CORPORATE GOVERNANCE (continued)

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.

Although data on responsible business in some cases serve as criteria for cooperation with suppliers, the main criteria are mainly the quality of work done so far and a list of references, commercial conditions, quality and expertise of personnel, and proactivity. We require some of our suppliers to have certain certificates with regard to regulatory status, service and goods as the subject of procurement, such as ISO 9001, ISO 14001, Good Manufacturing Practice Certificate and Permit, Good Pharmaceutical Wholesale Practice Certificate and Permit, and approval, confirmation and registration for products.

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.²¹

Risk management²²

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

²¹ GRI 2-6

²² GRI 2-17; GRI 2-18

NON-FINANCIAL REPORT (continued)

8. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Risk management (continued)

- 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
- 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.

However, environmental and political risks are also recognised. 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. Although the Group does not have defined procedures for climate change risk analysis, it is ready to undertake it if it proves necessary for its business and for the impact it, as a company, can have on society and the environment.

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 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.

8. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Risk management (continued)

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.

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. Regarding stakeholders, 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 are included. 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 consisting of at least the process manager and the coordinator, but also other participants, as necessary for individual initiated assessments, persons responsible for turnover or employees designated by the Management Board for risk management outside the GDP or GMP area participate in these decisions.

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.

8. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Risk management (continued)

The conclusion of the last review by the Management Board pointed to positive points in Medika's business, the achieved results stand as a confirmation that the management of processes, their monitoring and measurement is aligned with the objectives and policy of environmental protection and that progress has been made in business. In particular, 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, 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.

Business ethics and anti-corruption²³

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. Although Medika does not have a department that deals with these issues, it was clearly communicated to its employees that all stakeholders are obliged to apply these regulations. 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.

For 2022, any cases of corruption were not recorded, which is considered a great success and an adequate representation of the Group's business, which the Group strives to conduct.

²³ GRI 2-15; GRI 2-17; GRI 205-2; GRI 205-3; GRI 3-3

8. RESPONSIBLE CORPORATE GOVERNANCE (continued)

IT security and stability²⁴

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. Although not certified, we strictly follow and work in accordance with ISO 27001 guidelines.

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. Medika has an implemented Information System Security Policy, and all employees are familiar with it from the first day of working 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 we expect 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.

In 2020, Medika conducted a comprehensive risk analysis and developed a plan to mitigate the risks. The analysis included an assessment of all types of threats to the security of our IT system, both internal and external. Based on the results of the analysis, Medika created a detailed plan to reduce the perceived risks, including measures for data protection, network security and access control. In addition, the Information Systems Policy and accompanying strategic documents regulating the use of the organization's IT systems were established.

During 2021, network segregation was implemented to separate the server part from users and peripherals (printers and network devices) and made the authorization within the SAP system stricter to ensure access of confidential data only to selected users. During 2022, strengthening of the security of IT systems was continued by conducting penetration tests and phishing tests. Through tests, Medika identified potential security flaws and corrected them before they could be misused by unauthorized persons.

In the coming period, assessment of the risk will continue in order to ensure that all security measures are still effective. It is also planned to implement management and employee training on the importance of information system security and their role in data protection. With these measures, strengthening of the overall safety culture within the Group is encouraged.

²⁴ GRI 218-1

8. RESPONSIBLE CORPORATE GOVERNANCE (continued)

Innovation and development

Although there is no separate department for innovation and development within the Group, policies and development strategies are adopted at the level of the Management Board together with all key departments and experts within our team. 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, but also to meet the expectations and needs of all involved stakeholders, especially its customers, that is patients. 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.

Medika has certificates, permits and solutions and applies policies that demonstrate compliance with the requirements of standards and corresponding laws and regulations that regulate the circulation of certain types of products for all its locations and business centres: Good practice in the wholesale of drugs, Good manufacturing practice, ISO 9001: 2015, ISO 14001:2015 and ISO 50001:2018, Quality System Policy, Environmental Protection Policy, Security and Information Security Policy and Energy Efficiency Policy. In all aspects of our business, including in the context of development and innovation, we are guided by the highest ethical and legal standards and criteria in order to ensure not only safe and best products and services for our customers, but also to be an example of a responsible company on the entire market.

As part of the continuous digital transformation of our business, in October 2022 the project of the so-called marketplace called Pharméria is put into operation. We are proud that this is the first concept of this kind on the Croatian market, and Medika was the leader in this. Pharméria is a platform for end users to purchase products from Medika's product range online. Using the platform, we have connected end users with hundreds of participating pharmacies, most of which have not had the opportunity to be present online and with Medika's suppliers at the other end of the chain. Digitalization of our services or product catalogue was not only of strategic importance for Medika and its further digitalization, but was also a way of contributing to society, especially for those who, due to their geographical location or place of residence, do not have easy access to the physical locations of pharmacies.

Most of Medika's internal processes of the wholesale business have been digitalized, but it continues with this process in order to increase business efficiency and accessibility. Medika currently has several aspects of its business that are recognized as project candidates for digitalization. Success in the approach to development and innovation within the Group is monitored through KPIs (Key Performance Indicator), one of which is the initiation of changes, including those related to IT technology. KPIs are monitored on a monthly basis based on initiated and concluded changes within the deadline. KPI shows the regular activity and management of the organization in the context of development and innovation.

9. 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. Through further innovations and continuous testing and investment in the quality, safety and transparency of our products and services, we strive to maintain the status of the leading wholesale drugstore in Croatia.

9. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Wholesale and retail

Medika, a national wholesaler whose main activities are in the areas of wholesale and retail in the pharmacy business through Ljekarne Prima Parme make the Group. 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. 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, the largest part of our turnover is made up of drugs, about 85 percent.

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 in Croatia, Bosnia and Herzegovina, and Montenegro, and is the organizer of the Pharméria internet platform, which serves as an internet platform for end users (web shop for end users) and is a provider of logistics services for import, warehousing and distribution of products that are not owned by it but owned by third parties (third party logistics providers).

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, Serbia and Slovenia.²⁵

Activities, main products and retail services

Retail activities are reflected in the operations of the pharmacy units of the Ljekarne Prima Parme, which operates in 76 pharmacy branches throughout the Republic of Croatia.

Retail activities includes 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.

²⁵ GRI 2-1

9. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Activities, main products and retail services (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 is also a subject 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.

Other services that were offered as part of the retail services were review, update and certification of the ship pharmacies and testing with a rapid antigen COVID-19 test.

The rest of the retail range is related to cosmetics (products for personal hygiene, care, protection and beautification of the face and body), which can be divided into four main groups, namely products that come into contact with the mucous membrane, products that remain on the skin for a long time, products that are removed from the skin after a short period of time or are used to beautify and colour hair or nails, and children's cosmetics, as well as other health protection products. Other products can also be divided into four groups, namely equipment and accessories for new-borns, products for the protection of human health, not declared as medical products, food supplements, foodstuffs or food additives.²⁶

Safety and quality of services and products²⁷

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 audits 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. Production itself is of great importance when it comes to security and quality, it is regulated by a series of laws such as: the Law on Drugs, the Law on Veterinary Medicine Products, the Law on Medical Devices and the Law on Chemicals, and other regulations that govern operations with various product types. In addition, there are a number of regulations that we take into account and that we follow to maintain a high standard of business and justify the image of the best in our sector.

²⁶ GRI 2-6

²⁷ GRI 2-24; GRI 2-26; GRI 3-3 GRI 416-1; 416-2; 417-1; 417-2

9. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Safety and quality of services and products (continued)

The Group implements the applicable legal provisions of the EU Directive 2011/62/EU and Delegated Regulation 2016/161/EU, which entered into force in February 2019 and seeks to suppress the counterfeit drugs. All prescription drugs that are issued only with a prescription and that are put on the market have to have a unique identifier in the form of a two-dimensional Data Matrix barcode. Drugs 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, but also many others. The Group is a carrier of the ISO 9001:2015, ISO 14001:2015 and ISO 50001:2018, and is also implementing internal business policies such as environmental policy and information safety. Magistral and galenic preparations that are made in pharmacies are prepared on the principles of Good laboratory practice, Good medical practice and Good distribution practice, with certified substances and regularly calibrated scales.

In addition to compliance with the law, the quality and reliability of the Group's products is also evident in its approach. In addition to regulatory compliance, the quality system and its effectiveness is undergoing a review of the Management that gives great importance to the product quality issues. 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.

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.

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. Providing high standards and maintaining them at the high level, also in the selection of the staff and equipment is aimed. The staff is trained through continuous trainings, programs, but also the experience it has, while the equipment is obtained from adequate suppliers and qualified before putting into operation.

At the very end, additional and special attention is paid to the verification and control of the products themselves 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 (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.

9. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Safety and quality of services and products (continued)

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 the Team for quality and environment management system and the Management Board.

Transparent and reliable supply chain²⁸

We seriously take our commitment to the responsibility of the manner in which the products are purchased, packed and ultimately delivered. As one of the largest pharmaceutical supply chains in Croatia, the suppliers of the Group play a key role in providing quality treatments to patients, customers and communities. In the coming period, we will endeavour to reconcile all stakeholders of the value chain with organizational values and policies as efficiently as possible and to set long-term goals to implement ESG strategy in all aspects of business as quickly and effectively as possible.

Medika seeks to provide safe products of high quality to its customers and patients, so the reliability of supply chains is crucial to achieve this goal. Medika manages the supply chains by continuously conducting audits to ensure legal and proven supply chains that will prevent the entry of counterfeit drugs into the regular supply chain.

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 HRK 4 billion, 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.

²⁸ GRI 204-1

9. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)**Transparent and reliable supply chain (continued)**

The Group cooperates with more than 680 suppliers, 35% of which are foreign from the EU, EU economic territories and third countries such as Bosnia and Herzegovina, the United States of America, etc., and 65% of domestic suppliers, presented in the table with information on the amount of payments. 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.

Total turnover of procured goods (in HRK millions):

Medika	2020	%	2021	%	2022	%
Croatia	1,294	39.62	1,913	51.56%	1,889	47.87
Foreign	1,972	60.38	1,797	48.44%	2,057	52.13

In order for the process of cooperation with suppliers to work as efficiently as possible, some of them are assigned a procurement employee that responsibly monitors the supplies of each product, material, the services of the supplier and in accordance with the needs, makes further orders. For the best possible management of resources, assessment of the need of a particular product is made in the SAP program. This program bases the assessment on the current stock of products in Medika, average sales in the previous 3 months, demand by customers, Medika's sales and other specific situations such as seasonal products.

The order is delivered to the supplier via e-mail or via electronic platforms for ordering, and depending on the supplier it is submitted on a daily, weekly, two-week, monthly or quarterly basis. The recommended optimal supply in the assessment of the quantity ordered is for about 30 days in order to ensure sufficient supply of all business centres and to minimize possible product defects in individual or all business centres.

With some suppliers, monthly, quarterly and annual procurement plans are contracted, for the implementation of which the product range heads and the director of the Department of Procurement are responsible. Other than a few exceptions, the procurement employee from the headquarters located in BC Zagreb, orders goods for all branches. On a daily basis, there is an inter-warehouse traffic between Zagreb and branches in Dugopolje, Rijeka and Osijek, which supplies the branches with the necessary goods.

Key items for Medika's procurement can be classified in three categories: goods, materials and services. Goods apply to all drugs, medical devices, veterinary medical products, medical equipment, and all other products in our range that are purchased from suppliers and transferred unchanged to customers. Drug equipment, equipment or computer programs are also purchased from suppliers and are used in the implementation of products. Services relate to different types of activities provided by specialized companies.

9. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Transparent and reliable supply chain (continued)

In the operations of the Group, following supply chains are recognized, pharmaceutical supply chain and a supply chain for all other products intended for health (dietetic, cosmetics, veterinary, dental and other products). The pharmaceutical supply chain consists of all partners participating in the product production and distribution of pharmaceutical products. It includes drug manufacturers, suppliers of raw materials, wholesalers, pharmacies, hospitals and other health care institutions. For transparency and security within this chain, its entire course is legally strictly regulated. This is also evident in respecting the rules of good distribution and manufacturing practices, the serialization of each box of the drug and the implementation of their audit.

Within the pharmaceutical supply chain, they can be distinguished, cold supply chains that require specific attention. In order to ensure the quality of the products, but also the safety of consumers, the goods in the cold supply chains are under special supervision throughout the distribution process, with strictly controlled and defined temperature ranges. Each step in the distribution of pharmaceutical products, from procurement, receipt, storage, delivery, transportation, return of goods, is monitored and documented for the safety of clients.

It should be pointed out that supply chains are also established through pharmacy branches, and during 2022 Ljekarne Prima Pharne cooperated with 95 suppliers, mostly from the territory of Republic of Croatia.

Sustainability in value chain

Product development is of great importance for the strategy, in order to ensure a superior service to its consumers. Process leaders, Development and Investment Service, Logistics Department, Quality and IT Department are responsible for the development in different domains. In order to secure a leading role in the offer of pharmaceutical products, equipment and services on the Croatian market, Medika continuously collects information from various sources, such as internal assessment, market, suppliers, customers and competition, to develop its products and services.

Given that sustainability is one of the key guidelines Medika seeks to include in its business strategy, Medika subjects new products and services to three important procedures, which allow management quality, but also environmental protection during production and distribution: Change Management, Risk Management and General validation plan. In this way, when developing new products, Medika takes into account the possible impacts they may have on the system and environment, in order to act on time.

Planning of quality management and environmental protection management activities is defined by the documents developed by Medika. They document the procedure for determining and evaluating the impact that the Group's activities have on the aspects of the environment, which can be managed or affected by new or planned projects. The objectives of the quality and environmental protection are set on the basis of the basic principles of managing these aspects.

9. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Sustainability in value chain (continued)

For this purpose, the Management Board takes into account in decision-making the requirements and opinions of relevant, internal and external, interested parties. It also took into account the various goals it assessed as challenging, reachable, measurable and acceptable to all interested parties. Of great importance for further business in this domain is also the compliance of products and services and increasing the customer satisfaction, the orientation to goals that ensure a beneficial financial effect for the Group itself, legal and other environmental requirements that must be followed in achieving the goal, the significance of the environmental aspects which the business impacts, but also the opportunities that it offers.

When it comes to managing sustainability and energy efficiency in pharmacy branches, it is important to emphasize that pharmacy branches are often leased and as such have limited options for transition to more efficient energy systems. However, pharmacies are trying to contribute to decrease of the energy cost of business the best they can. They focus on enhancing the existing conditions such as the use of LED bulbs for more effective lighting in certain locations, thus reducing electricity consumption for lighting by as much as 30% to 40%, and the procurement of new air conditioners with energy classes A to A++. In addition, the pharmacy branches seek to separate the waste at the site of origin in individual locations, according to the type of waste and key number in each pharmacy branch.

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. As a leading wholesaler, we know how important our contribution is, therefore, we are continuously investing in its facilities.

Ljekarne Prima Pharmer, as the largest pharmacy institution in the Republic of Croatia, also understands the importance of its contribution, therefore it expands the network of pharmacies, which ultimately contributes to the health system, but to public health in general.

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.

9. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Access to quality products and services (continued)

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: 15 pharmacies
- Istarska county: 3 pharmacies
- Krapinsko-zagorska county: 2 pharmacies
- Međimurska county: 2 pharmacies
- Osječko-baranjska county: 5 pharmacies
- Primorsko-goranska county: 10 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 in accordance with ISO 9001:2015, which documents the quality management process. With this procedure, Medika seeks to determine the basic ways of monitoring and measuring customer satisfaction and is committed to permanent improvement of the quality and environmental protection system and other processes in our business.

By measuring satisfaction, the Group improves the understanding of the experience its customers have 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, various data collection tools are used. Some of the tools are surveys, they can be of a general type, for a target group or surveys carried out at presentations, promotions, fairs and other professional conferences, for which specialized service providers may be engaged. The customer satisfaction survey is carried out regularly, as prescribed, every two years. The last one was carried in 2021 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, 49.3 %, 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.

9. CONSCIOUS MARKET OPERATIONS AND CONSUMER CARE (continued)

Customer satisfaction and care (continued)

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.

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. 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.

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.

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.

9. 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.

NON-FINANCIAL REPORT (continued)

10. GRI INDEX

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Activities and employees	GRI 2-6 Activities, value chain and other business relationships	2 - Our story; 8 - Responsible supply chain management; 9 - Transparent and reliable supply chain; Sustainability in value chain
	GRI 2-7 Employees	6 - Working environment and conditions tailored to the employee; Diversity and inclusion
	GRI 2-8 Workers who are not employees	6 - Working environment and conditions tailored to the employee
Governance	GRI 2-9 Governance structure and composition	8 - Corporate governance
	GRI 2-10 Nomination and selection of the highest governance body	8 - Corporate governance
	GRI 2-11 Chair of the highest governance body	8 - Corporate governance
	GRI 2-12 Role of the highest governance body in overseeing the management of impacts	4 - Management of environmental impacts
	GRI 2-13 Delegation of responsibility for managing impacts	4 - Management of environmental impacts
	GRI 2-14 Role of the highest governance body in sustainability reporting	4 - Management of environmental impacts; 3 - Our approach to sustainable development
	GRI 2-15 Conflicts of interest	8 - Business ethics and anti-corruption
	GRI 2-16 Communication of critical concerns	8 - Corporate governance; Risk management
	GRI 2-17 Collective knowledge of the highest governance body	8 - Responsible corporate governance
	GRI 2-18 Evaluation of the performance of the highest governance body	8 - Corporate governance
	GRI 2-19 Remuneration policies	8 - Corporate governance
	GRI 2-20 Process to determine remuneration	8 - Corporate governance
	GRI 2-21 Annual total compensation ratio	- - -
Policy and practice strategy	GRI 2-22 Statement on sustainable development strategy	1 - Introduction by the Management Board
	GRI 2-23 Policy commitments	6 - Working environment and conditions tailored to the employee; 8 - Responsible corporate governance
	GRI 2-24 Embedding policy commitments	8 - Responsible corporate governance; 9 - Conscious market operations and consumer care
	GRI 2-25 Processes to remediate negative impacts	8 - Responsible corporate governance; 9 - Conscious market operations and consumer care

MANAGEMENT REPORT (continued)

	GRI 2-26 Mechanisms for seeking advice and raising concerns	9 - Conscious market operations and consumer care
	GRI 2-27 Compliance with laws and regulations	8 - Corporate governance
	GRI 2-28 Membership associations	7 - Our contribution to the community
Stakeholder engagement	GRI 2-29 Approach to stakeholder engagement	3- Our approach to sustainable development
	GRI 2-30 Collective bargaining agreements	6 - Working environment and conditions tailored to the employee
Specific disclosures		
Care about the environment		
Material topics	GRI 3-1 Process to determine material topics	3 - Determining materiality
	GRI 3-2 List of material topics	3 - Prioritization of material topics
	GRI 3-3 Management of material topics	4 - Care for the environment and rational management of resources
Management of environmental impacts	302-1 Energy consumption within the organization	4 - Energy efficiency and resource management
	302-2 Energy consumption outside the organization	4 - Energy efficiency and resource management
	302-4 Reduction of energy consumption	4 - Energy efficiency and resource management
	302-5 Reductions in energy requirements of products and services	4 - Energy efficiency and resource management
Energy efficiency and resource management	302-1 Energy consumption within the organization	4 - Energy efficiency and resource management
	302-2 Energy consumption outside the organization	4 - Energy efficiency and resource management
	302-4 Reduction of energy consumption	4 - Energy efficiency and resource management
	306-1 Waste generation and significant waste-related impacts	4 - Waste management and circular economy
	306-2 Management of significant waste-related impacts	4 - Waste management and circular economy
	306-3 Waste generated	4 - Waste management and circular economy
	306-4 Waste diverted from disposal	4 - Waste management and circular economy
Adaptation of business to climate change	305-1 Direct (Scope 1) GHG emissions	4 - Adaptation of business to climate change
	305-2 Energy indirect (Scope 2) GHG emissions	4 - Adaptation of business to climate change
	305-4 GHG emissions intensity	4 - Adaptation of business to climate change
	305-5 Reduction of GHG emissions	4 - Adaptation of business to climate change
Adequate working environment and opportunities for our employees		
Material topics	GRI 3-1 Process to determine material topics	3 - Determining materiality
	GRI 3-2 List of material topics	3 - Prioritization of material topics
	GRI 3-3 Management of material topics	6 - Working environment and opportunities for our employees; 7 - Our contribution to the community
Work environment	401-1 New employee hires and employee turnover	6 - 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	6 - Working environment and conditions tailored to the employee
	401-3 Parental leave	6 - Working environment and conditions tailored to the employee
Employee health and safety	403-1 Occupational health and safety management system	6 - Employee health and safety
	403-2 Hazard identification, risk assessment, and incident investigation	6 - Employee health and safety
	403-3 Occupational health services	6 - Employee health and safety

MANAGEMENT REPORT (continued)

	403-4 Worker participation, consultation, and communication on occupational health and safety	6 - Employee health and safety
	403-5 Worker training on occupational health and safety	6 - Employee health and safety
	403-6 Promotion of worker health	6 - Employee health and safety
Professional development	404-3 Percentage of employees receiving regular performance and career development reviews	6 - Professional development of employees
	404-2 Programs for upgrading employee skills and transition assistance programs	6 - Professional development of employees
Diversity and inclusion	405-1 Diversity of governance bodies and employees	6 - Diversity and inclusion
	406-1 Incidents of discrimination and corrective actions taken	6 - Diversity and inclusion
	410-1 Security personnel trained in human rights policies or procedures	6 - Diversity and inclusion
Contribution to the community		
Community engagement	413-1 Operations with local community engagement, impact assessments, and development programs	7 - Social responsibility and investment in the community
Responsible corporate governance		
Material topics	GRI 3-1 Process to determine material topics	3 - Determining materiality
	GRI 3-2 List of material topics	3 - Prioritization of material topics
	GRI 3-3 Management of material topics	8 - Responsible corporate governance; 9 - Conscious market operations and consumer care
Corporate governance	307-1 Environmental compliance	4 - Adaptation of business to climate change
Business ethics and anti-corruption	205-2 Communication and training about anti-corruption policies and procedures	8 - Business ethics and anti-corruption
	205-3 Confirmed incidents of corruption and actions taken	8 - Business ethics and anti-corruption
IT security and stability	218-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	8 - IT security and stability
Conscious market operations and consumer care		
Transparent and reliable supply chain	204-1 Proportion of spending on local suppliers	8 - Responsible supply chain management; 9 - Transparent and reliable supply chain; Sustainability in value chain
Sustainability in supply chain	308-1 New suppliers that were screened using environmental criteria	8 - Responsible supply chain management
	414-1 New suppliers that were screened using social criteria	8 - Responsible supply chain management;
Safety and quality of products and services	416-1 Assessment of the health and safety impacts of product and service categories	9 - Safety and quality of services and products; Transparent and reliable supply chain
	416-2 Incidents of non-compliance concerning health and safety impacts of products and services	9 - Safety and quality of services and products; Transparent and reliable supply chain
	417-1 Requirements for product and service information and labelling	9 - Safety and quality of services and products; Transparent and reliable supply chain
	417-2 Incidents of non-compliance concerning product and service information and labelling	9 - Safety and quality of services and products

NON-FINANCIAL REPORT (continued)

11. ABOUT THIS REPORT

Non-financial report (Sustainability Report) for 2022, 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 Standard of the Global Reporting Initiative (GRI) and methodologically follows its requirements. GRI indicators are marked in all relevant places within the report, and there is a detailed table of contents at the end. 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., ZU Ljekarne Delonga (merged with Ljekarne Prima Pharme in 2022), 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.²⁹

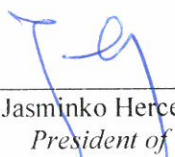
The report covers all disclosures, data and indicators:

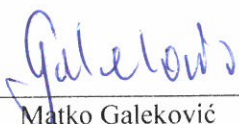
- that are of interest to the Group stakeholders
- that have been recognised as material areas and topics for the Group's operations
- disclosures that may be of importance for evaluations of ESG performance (environmental, social or governance)
- disclosures required for compliance with the GRI Standard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

Contacts for Sustainability reporting:

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Jadranka Tomić, head of Accounting Department
jadranka.tomic@medika.hr

Zagreb, 9 March 2023


Jasminko Herceg
President of
Management Board


Matko Galeković
Member of
Management Board


Jakov Jaki Radošević
Member of
Management Board

³ **Medika** d.d.
ZAGREB, Capraška 1

²⁹ GRI 2-2, GRI 2-3; GRI 2-4; GRI 2-5

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:

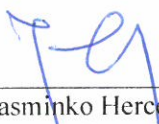
- selecting and then consistently applying suitable accounting policies;
- making reasonable and prudent judgments and estimates;
- following applicable accounting standards, disclose and explain any material departures in the financial statements; and
- preparing the consolidated financial statements 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 68 to 123 were authorised by the Management Board for submission to the Supervisory Board on 9 March 2023, in witness whereof they have been signed below.


Signed on behalf of the Management Board on 9 March 2023 by:



Jasminko Herceg
President of
Management Board



Matko Galeković
Member of
Management Board



Jakov Jaki Radošević
Member of
Management Board

³ **Medika** d.d.
ZAGREB, Capraška 1



Independent Auditors' Report to the shareholders of Medika d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Medika d.d. ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2022, and its consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent Auditors' Report to the shareholders of Medika d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

REVENUE RECOGNITION

Revenue recognized in profit or loss in 2022: HRK 4,732,391 thousand (2021: HRK 4,130,394 thousand). As at 31 December 2022: trade receivables: HRK 1,604,026 thousand (31 December 2021: HRK 1,326,436 thousand).

Please refer to the Note 2.19 Revenue recognition of Significant accounting policies, Note 5 Revenue and Note 6 Segment information in the financial statements.

Key audit matter	How our audit addressed the matter
<p>Revenue is a key measure used to evaluate the performance of the Group. Application of revenue recognition principles of the relevant financial reporting standards is complex and requires making significant assumptions and judgments. Revenue comprises the fair value of the consideration received or receivables for sold goods within the normal course of business. Revenue is recognized when the control of the promised goods has transferred to the customer.</p> <p>In addition, in the Group's case, particular complexity is associated with the fact that revenue is reported net of discounts, incentives and rebates earned by customers. In conjunction with the above, the Group needs to consider whether it receives a distinct good or service in return for payments to customers. If so, then it is required to recognize such payments as expenses when the good or service is consumed. If not, they are recognized as a reduction of revenue. The above adds to the complexity of judgments required from management in establishing an appropriate accounting for said payments.</p> <p>In the wake of these factors, we considered revenue recognition to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • assessing the Group's revenue recognition policy for compliance with relevant provisions of the financial reporting standards; • updating our understanding of and evaluating the Group's revenue recognition process, and testing related internal controls, including the controls associated with estimating and accounting for discounts, incentives and rebates; • for a sample of contracts with customers concluded during the audited year, inspecting contractual provisions and making inquiries of relevant sales and finance personnel in order to challenge the Group's: <ul style="list-style-type: none"> ○ meeting of the contract existence criteria, including, among other things, those relating to the parties' commitment to their obligations and probability of collecting the consideration due; ○ determination of total contract consideration, with particular focus on the estimated amount of variable consideration, such as discounts, price concessions and right of return, also by reference to our analysis of historical data and considering any effects of market changes in the current year. ○ assessment, by reference to nature and substance of the underlying transaction, as to whether any payments to customers represent expenditure for distinct goods or services or sales incentives; ○ determination of the timing of the transfer of control, the resulting pattern of revenue recognition and revenue amounts, by reference to transaction documentation (sales invoices, inventory and shipping documents, and other as appropriate). • obtaining a sample of outgoing invoices to compare the existence and accuracy of total net amount on the invoice (including on-invoice rebates) with goods delivery notes and general ledger entries; • for a sample of customers, obtaining confirmations of the amounts receivable outstanding as at the reporting date, and challenging any significant differences between confirmations received and the Group's records by inspecting the underlying documentation such as contracts with customers, invoices and credit notes; • examining whether the Group's revenue recognition-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.



Independent Auditors' Report to the shareholders of Medika d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

VALUATION OF TRADE RECEIVABLES

Trade receivables as at 31 December 2022: HRK 1,604,026 thousand (31 December 2021: HRK 1,326,436 thousand); related impairment allowance as at that date: HRK 6,430 thousand (31 December 2021: HRK 9,726 thousand).

Please refer to the Note 2.8 *Financial instruments* of Significant accounting policies, Note 4 *Key accounting estimates*, Note 6 *Segment information* and Note 19 *Trade and other receivables* in the financial statements.

Key audit matter	How our audit addressed the matter
<p>The Group is exposed to significant credit risk associated with extended collection periods of trade receivables, in particular as regards the amounts of the HZZO (Croatian State Health Insurance) related receivables, due from health institutions generally directly or indirectly owned by state institutions.</p> <p>Trade accounts receivable are assessed by the Group for impairment at each reporting date, both at an individual and collective basis. Management measures the loss allowance at an amount equal to expected credit losses (ECLs) being a probability weighted estimate of credit losses. Credit losses are measured as the present value of an expected cash shortfall (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that it expects to receive). The estimate takes into account, among other things, repayment history and past credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date (such as current and expected liquidity of the Health System in Croatia).</p> <p>Due to the magnitude of the amounts involved, coupled with the complexity of the judgements and estimated required in estimating expected credit losses in respect of trade receivables, this area was considered by us to be associated with a significant risk of material misstatement. As such, it required our increased attention in the audit and was determined to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • updating our understanding of and assessing the design and implementation of key internal controls over the credit control, trade receivables collection process and making related loss allowances; • assessment of the compliance of the Group's impairment methodology against the relevant financial reporting requirements. As a part of the above, we identified the relevant methods, assumptions and sources of data, and assessed, whether such methods, assumptions and data and their application are appropriate in context of the said requirements; • evaluating whether the Group's estimates of expected credit losses appropriately consider both current economic conditions and forward-looking information; • assessment of the accuracy and completeness of the Group's ECL estimates at 31 December 2022 including: <ul style="list-style-type: none"> ○ for a risk-based sample of debtors, inspecting the debtors' most recent financial statements, credit terms and historical repayment patterns, and making corroborating inquiries of the Group's CFO and relevant finance personnel, to obtain understanding of any credit / repayment uncertainties, significant increase in credit risk or default; ○ inspecting supporting documents in relation to cash receipts from debtors subsequent to the end of the reporting period; ○ considering the outcome of the above procedures, critically assessing the Group's estimate of the expected cash flows from debtor in the sample, also assessing the appropriateness of the discount rate used. • performing a retrospective assessment of the historical accuracy of the Management Board's impairment assumptions and estimates, including estimated loss rates, against actual outcomes; • evaluating whether the disclosures in the financial statements in respect of the expected credit losses for trade receivables satisfy the requirements of the relevant financial reporting standards.

Independent Auditors' Report to the shareholders of Medika d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

IMPAIRMENT OF LICENCES AND GOODWILL

As at 31 December 2022, intangible assets included pharmacy licences with indefinite useful lives stated at HRK 147,840 thousand (31 December 2021: HRK 137,587 thousand); Goodwill as at 31 December 2022: HRK 81,846 thousand (31 December 2021: HRK 80,354 thousand). During 2022 and 2021, the Group did not recognize any impairment losses with respect to goodwill or licences.

Please refer to the Notes 2.6 *Intangible assets* and 2.7 *Impairment of non-financial assets* of Significant accounting policies, Note 4 *Key accounting estimates* and Note 16 *Intangible assets* in the financial statements.

Key audit matter	How our audit addressed the matter
<p>In conjunction with its business acquisitions, the Group recognized goodwill and indefinite-lived intangible assets relating to licences.</p> <p>Pursuant to the relevant provisions the financial reporting standards, annual impairment testing is required for intangible assets with an indefinite useful life and for cash generating units (CGUs) to which such assets or goodwill have been allocated. As disclosed in Note 16, based on its current year's test, the Group did not recognize any impairment in respect of those assets.</p> <p>Management Board uses judgment in allocating goodwill and other long-lived assets, including intangibles, to CGUs for the annual impairment test purposes. A complex model is applied in the test, relying on adjusted historical performance, and a range of internal and external sources of inputs to the assumptions. Significant judgment is required in making key forward-looking assumptions, including forecast cash flows and growth rates, as well as discount rates.</p> <p>Complex models using forward-looking assumptions tend to be prone to greater risk of management bias, error and inconsistent application. These conditions necessitate our additional attention in the audit, in particular to address the objectivity of sources used for assumptions, and their consistent application. Due to the above factors, we considered this area to be a key audit matter.</p>	<p>Our audit procedures in this area, performed, where applicable, with the assistance from our own valuation specialists, included, among other things:</p> <ul style="list-style-type: none"> • updating our understanding and assessing the compliance of the Group's impairment methodology with the relevant financial reporting requirements. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed, whether such methods, assumptions, data and their application are appropriate in the context of the said requirements. This included, among others, considering the appropriateness of the Group's value in use model ("impairment model") applied to perform the annual impairment test, against the relevant requirements of the financial reporting standards; • assessing the integrity of the impairment model, including the accuracy of the underlying calculation formulas; • assessing asset grouping into CGUs, based on our understanding of the Group's operations and business units; • evaluating the quality of the Group's forecasting by comparing historical projections with actual outcomes; • using our knowledge of the Group, its past performance, business and customers, and our industry experience, challenging significant forecast cash flow and growth assumptions. As part of the procedure we, among other things: <ul style="list-style-type: none"> ○ Traced forecasted figures to formally approved budgets, ○ Applied increased scepticism to forecasts in any areas where previous year's forecasts were not achieved, ○ Challenged the discount rate used by reference to publicly available market data, adjusted by risk factors specific to the Group and its industry, ○ Challenged reasonableness of other key macroeconomic assumptions, such as expected market growth. ○ Checked the assumed growth rate by reference to the Group's past performance, its approved plan and strategy, and our experience regarding the feasibility of these in the economic environment in which it operates; • considering the sensitivity of the impairment model to changes in key assumptions, such as forecast growth rates, EBITDA and discount rates to identify the assumptions at higher risk of bias or inconsistency in application; • assessing impairment-related disclosures in the financial statements against the requirements of the financial reporting standards.



Independent Auditors' Report to the shareholders of Medika d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and the Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the 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.

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



Independent Auditors' Report to the shareholders of Medika d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- 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 controls.
- 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' 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 financial statements, including the disclosures, and whether the 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.



Independent Auditors' Report to the shareholders of Medika d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 2 May 2022 to audit the consolidated financial statements of Medika d.d. for the year ended 31 December 2022. Our total uninterrupted period of engagement is four years, covering the year ending 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 7 March 2023;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Tony Ilijanić.



Independent Auditors' Report to the shareholders of Medika d.d. *(continued)*

Report on Compliance with the ESEF Regulation

In accordance with the requirements of Article 462 paragraph 5 of Capital Market Act, we are required to express an opinion on compliance of the consolidated financial statements, as included in the consolidated annual report, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation of the consolidated financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the consolidated financial statements in the applicable xHTML format and their publication
- the selection and application of appropriate iXBRL tags, using judgment where necessary
- ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the RTS on ESEF.

Those charged with governance are responsible for overseeing the Group's ESEF reporting, as a part of the financial reporting process.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the consolidated financial statements included in the consolidated annual report comply, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000)* issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error. Our procedures included, among other things:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process;
- tracing the tagged data to the consolidated financial statements of the Group presented in human-readable format;
- evaluating the completeness of the Group's tagging of the consolidated financial statements;



Independent Auditors' Report to the shareholders of Medika d.d. (continued)

Report on Compliance with the ESEF Regulation (continued)

Auditors' Responsibilities (continued)

- evaluating the appropriateness of the consolidated use of iXBRL elements selected from the ESEF taxonomy used and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements; and
- evaluating the appropriateness of the format of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Group as at and for the year ended 31 December 2022 have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia
d.o.o. za reviziju
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Ivana Lučića 2a, 10000 Zagreb
6

9 March 2023

Tony Ilijanić
Tony Ilijanić
Director, Croatian Certified Auditor

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

<i>(All amounts are expressed in thousands of HRK)</i>	Note	2022	2021
Income	5, 6	4,732,391	4,130,394
Cost of goods sold	6	(4,348,128)	(3,788,014)
Staff expenses	7	(152,708)	(142,633)
Marketing and promotion expenses	8	(9,818)	(8,274)
Depreciation and amortisation	14, 15, 16	(30,403)	(29,218)
Other operating expenses	9	(60,907)	(51,859)
Other gains / (losses) – net	10	4,819	1,487
Profit from operations		135,246	111,883
Financial income	11	19,938	10,593
Financial expenses	11	(2,909)	(4,457)
Net financial gain / (loss)		17,029	6,136
Share in the profit of associates	17	3,252	2,837
Profit before tax		155,527	120,856
Income tax	12	(38,783)	(21,347)
Profit for the year		116,744	99,509
Other comprehensive income for the year		-	-
Total comprehensive income for the year		116,744	99,509
Earnings per share			
– basic and diluted (in HRK and lipa)	13	4,032.05	3,524.69

The notes on pages 73 to 123 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

		As at 31 December	
<i>(All amounts are expressed in thousands of HRK)</i>		2022	2021
Note			
ASSETS			
Non-current assets			
Property and equipment	14	233,409	232,588
Right-of-use assets	15	54,784	49,130
Intangible assets	16	243,175	232,859
Investments in associates	17	25,988	25,856
Deferred tax assets	28	970	999
Trade and other receivables	19	4,888	5,371
		563,214	546,803
Current assets			
Inventories	20	467,091	356,486
Trade and other receivables	19	1,619,599	1,340,680
Cash and cash equivalents	21	408,201	85,107
		2,494,891	1,782,273
Total assets		3,058,105	2,329,076
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	191,429	191,429
Reserves	24	67,360	67,360
Retained earnings and income for the year		459,734	380,139
		718,523	638,928
Non-current liabilities			
Borrowings	27	17,189	34,378
Lease liabilities	15	42,222	37,584
Deferred tax liabilities	28	21,196	19,350
Provisions	29	1,208	1,414
Trade and other payables	26	32,266	28,438
		114,081	121,164
Current liabilities			
Trade and other payables	26	1,850,415	1,526,346
Lease liabilities	15	15,706	13,635
Borrowings	27	338,392	17,202
Income tax payable		20,456	11,459
Provisions	29	532	342
		2,225,501	1,568,984
Total liabilities and equity		3,058,105	2,329,076

The notes on pages 73 to 123 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

<i>(All amounts are expressed in thousands of HRK)</i>	Note	Share capital	Reserve s	Retained earnings and income for the year	Total
Balance at 1 January 2021		164,399	67,360	313,768	545,527
Comprehensive income for the year					
Profit for the year		-	-	99,509	99,509
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	99,509	99,509
Transactions with owners recognised directly in equity					
Release of treasury shares	23	27,030	-	-	27,030
Share based payments	32	-	-	5,018	5,018
Dividend payment	25	-	-	(38,156)	(38,156)
Total transactions with owners recognised directly in equity		27,030	-	(33,138)	(6,108)
Balance at 31 December 2021		191,429	67,360	380,139	638,928
Balance at 1 January 2021		191,429	67,360	380,139	638,928
Comprehensive income for the year					
Profit for the year		-	-	116,744	116,744
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	116,744	116,744
Transactions with owners recognised directly in equity					
Release of treasury shares	32	-	-	3,385	3,385
Dividend payment	25	-	-	(40,534)	(40,534)
Total transactions with owners recognised directly in equity		-	-	(37,149)	(37,149)
Balance at 31 December 2022		191,429	67,360	459,734	718,523

The notes on pages 73 to 123 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts are expressed in thousands of HRK)

	Note	2022	2021
Cash flow from operating activities:			
Profit for the year		116,744	99,509
Adjusted by:			
Income tax	12	38,783	21,347
Share based payments		3,385	5,018
Depreciation and amortisation	14, 15, 16	30,403	29,218
Impairment of trade and other receivables, net	9, 19	715	(776)
Value adjustment on inventories	20	6,144	8,434
Unrealised foreign exchange differences		(207)	1,590
Changes in provisions	29	(16)	(776)
Gain on disposal of property and equipment	10	(1,072)	(216)
Gain on disposal of intangible assets	10	(5,737)	(396)
Modification of lease contract	15	75	-
Impairment of value of intangible assets		821	-
Lease agreement termination	15	(22)	13
Interest income	11	(19,938)	(10,487)
Interest expense	11	2,784	4,457
Share in profit of associate	17	(3,252)	(2,837)
Changes:			
(Increase) / decrease in inventories		(116,151)	9,789
(Increase) / decrease in trade and other receivables		(279,926)	313,539
Increase / decrease in trade and other payables		327,822	(118,638)
Cash generated from operations		101,355	358,788
Interest paid		(2,582)	(4,750)
Income taxes paid		(29,973)	(20,643)
Cash flow from operating activities		68,800	333,395

The notes on pages 73 to 123 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts are expressed in thousands of HRK)

	Note	2022	2021
Cash flow from investing activities:			
Purchases of property and equipment	14	(13,548)	(63,747)
Proceeds from government grants for purchases of property and equipment	14	-	1,011
Proceeds from the sale of property and equipment and intangible assets		7,200	2,711
Purchases of intangible assets	16	(3,363)	(7,090)
Acquisition of subsidiary, net of cash acquired		(12,195)	(10,550)
Proceeds from repayment of given loans		8,400	7,430
Expenses for granted loans		(2,500)	-
Given deposits		(57)	(46)
Interest received		19,921	10,467
Share of profit from associates received	17	3,120	1,176
Cash flow from investing activities		6,978	(58,638)
Cash flow from financing activities			
Repayments of borrowings	27	(216,189)	(728,760)
Proceeds from borrowings	27	520,000	487,000
Repayment of leases	15	(15,961)	(15,232)
Disposal of treasury shares	23	-	27,030
Dividends paid	25	(40,534)	(38,156)
Cash flow from financing activities		247,316	(268,118)
Net increase in cash and cash equivalents		323,094	6,639
Cash and cash equivalents at the beginning of the year		85,107	78,468
Cash and cash equivalents at the end of year	21	408,201	85,107

The notes on pages 73 to 123 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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:

	<u>2022</u>	<u>2021</u>
Zdravstvena ustanova Ljekarne Prima Pharne, Zagreb	100%	100%
- Zdravstvena ustanova Ljekarne Delonga, Zagreb (since May 2007)	-	100%
Primus nekretnine d.o.o., Zagreb	100%	100%

Associates:

	<u>2022</u>	<u>2021</u>
Zdravstvena ustanova Ljekarne Jagatić, Zagreb (since November 2008)	49%	49%

As at 31 December 2022, 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 23.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New standards and amendments to existing not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences - e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group is currently evaluating the effects of these amendments, but does not expect that the amendment will have an effect on the Group's retained earnings.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all companies (including structured entities) controlled by the Company. Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. A subsidiary is consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control over it.

Such investments are presented in these financial statements at cost less impairment losses, if any.

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.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless there are indications that a transferred asset may be impaired. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policy adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(b) Associates

Companies are considered to be associates of the Group if the Group holds between 20% and 50% of the voting power in a company, i.e. in which it has a significant influence, but not control. Such investments are presented in the financial statements of the Group at cost less impairment losses, if any.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, 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.

2.3 Operating segment reporting

An operating segment is an integral part of a business entity that engages in business activities from which revenues can be realized that give rise to expenses and for which there are separate financial statements as well as the operating results of which are regularly reviewed by chief operating decision maker of the business entity in order to decide on resources to be allocated to the segment.

2.4 Foreign currencies

(a) Functional and reporting currency

Items included in the financial statements of each individual member of the Group are presented in the currency of the primary economic environment in which the Group member operates (functional currency). The consolidated financial statements are presented in the Croatian kuna, which is both the functional and reporting currency of the Group and all its members, rounded to the nearest thousand.

(b) Foreign currency transactions

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes costs directly attributable to the acquisition of an asset.

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

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

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

If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount (note 2.7).

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.

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.

Any gain or loss on remeasurement at fair value is included in profit or loss.

Gains and losses on disposal of a business include the carrying amount of goodwill relating to that business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(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.

(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 Impairment of non-financial assets

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

2.8 Financial 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.

Financial assets

In line with IFRS 9, all recognised financial assets are subsequently entirely measured at depreciated cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model and characteristics of contracted cash flows of financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

As of 1 January 2018, 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 2.11.

Financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are reported in the current assets, except for assets which mature more than 12 months after the date of statement of financial position. Such assets are classified as non-current assets.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

(i) Depreciated cost and effective interest rate method (continued)

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.

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 2.11. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(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.

(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 2.11. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

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 method.

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

The Group derecognises financial liabilities when, and only when, the Group's liabilities are paid, cancelled or expired. The difference between the carrying amount of a derecognised financial liability and paid fee per liability fee are calculated into profit or loss.

2.9 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.

Leases in which the Group does not bear a significant portion of the risks and rewards of ownership were classified as operating leases. Payments made under operating leases were recorded in the income statement on a straight-line basis over the term of the lease.

Leased property is classified as a right-of-use. At the same time, a lease liability is recognized on the date the underlying asset is available for use. Assets and liabilities from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments: fixed payments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Leases (continued)

Lease payments are allocated into the principal and the cost of financing. Financing expense is recognized in the income statement over the term of the lease.

Right-of-use assets are recognized using the cost method consisting of: the amount of the initial measurement of the lease liability, all payments made before the lease commences and direct costs. Right of use assets are depreciated over the useful life or lease term, whichever is shorter.

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.

2.10 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.

2.11 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 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.

2.12 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Assets held for sale

Assets are classified as held for sale when carrying value is expected to be recovered primarily through sale rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Assets held for sale are not depreciated and are presented separately.

2.14 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.

2.15 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.

2.16 Income tax

Current tax is determined on the basis of the tax laws in effect in the Republic of Croatia at the balance sheet date. From time to time, the Management reviews individual items declared in the tax returns where such items might be subject to various tax interpretations and considers forming provisions, where necessary, based on the amount expected to be paid to the Tax Administration.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Income tax (continued)

Deferred tax is calculated using the liability method, whilst taking into account the temporary differences between the tax bases of assets and liabilities and their carrying amounts in financial reports. However, deferred taxes are not recognised if it derives from the initial recognition of assets or liabilities within a transaction which is not a business merger and which has no bearing on the accounting profit or taxable profit (tax loss). Deferred tax assets and liabilities are determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised up to the amount of the future taxable profit which is likely to be available for the use of temporary differences.

2.17 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.

Short-term employee benefits include termination benefits and jubilee awards (stated in paragraph (b) above), which will be paid within a period of 12 months after the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Provisions

Provisions are recognised if the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Finance expense

Finance expenses 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.

2.21 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.

2.22 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.

2.23 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.

2.24 Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. Grants related to property, plant and equipment are recognised in profit or loss over the periods and in the proportions in which depreciation on those assets is recognised. In the statement of financial position, government grant is deducted in arriving at the carrying amount of the underlying asset and is recognised in the profit or loss over the useful life of depreciable asset by way of a reduced depreciation charge.

2.25 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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

The Group generates most of its revenue on the domestic market and in Croatian kuna (HRK). However, the Group purchases a part of goods on foreign markets, which exposes it to the currency risk arising from changes in foreign exchange rates mostly against the euro, which may affect future operating results and cash flows. The Accounting and Finance Department of the Company seeks to minimise the foreign exchange risk by reducing the balance of foreign-currency denominated financial liabilities. This mainly relates to borrowings, which are almost entirely denominated in the Croatian kuna, and hence the exposure to the foreign exchange risk is insignificant. The Procurement Department reduced the foreign exchange risk arising from liabilities owed to foreign suppliers by agreeing the Croatian kuna as the payment currency. It is the tendency in the future to agree payments in Croatian kuna with as many existing foreign suppliers as possible so as to minimise the risk arising from transactions with foreign suppliers.

As at 31 December 2022, (notes 19, 21, 26, 27), if the euro would weaken/strengthen against the Croatian kuna by 1.0% (2021: 1.0%), with all other variables held constant, the net profit for the reporting period would have been HRK 6,119 thousand higher/lower (2021: HRK 5,295 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of euro-denominated trade payables.

(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 2022, if the effective interest rate on borrowings (issued at variable rate) would be by 0.10 percentage points higher/lower on an annual level (2021: 0.10 percentage points), the net profit for the reporting period would remain the same since all borrowings as at 31 December 2022 are at fixed rates (2021: all borrowings are at fixed rates).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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 27% of total trade receivables. (2021: 23%)

(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 HRK 408,176 thousand (2021: HRK 85,107 thousand), and the Group had free credit lines in the amount of HRK 453,211 thousand (2021: HRK 682,335 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.

<i>(in thousands of HRK)</i>	Up to 1 month	1 month to 1 year	1-3 years	Over 3 years	Total
At 31 December 2022					
Trade and other payables (note 26)	372,107	1,478,308	32,266	-	1,882,681
Borrowings	1,597	337,471	17,215	-	356,283
Lease liabilities	1,377	14,701	29,959	12,617	58,654

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

<i>(in thousands of HRK)</i>	Up to 1 month	1 month to 1 year	1-3 years	Over 3 years	Total
31 December 2021					
Trade and other payables (note 26)	343,177	1,183,169	11,524	16,914	1,554,784
Borrowings	1,445	15,870	34,480	-	51,795
Lease liabilities	1,246	12,745	26,181	11,762	51,934

In 2023, 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:

	2022	2021
	<i>(in thousands of HRK)</i>	
Total capital (equity and reserves)	718,523	638,928
Total assets	3,058,105	2,329,076
Equity to assets ratio	24%	27%

The 2022 ratio increased in relation to the 2021 ratio and shows that the Group finances 24% of its total assets from own sources. Consequently, 76% of the assets are financed from sources other than owner's equity (2021: 73%).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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 2.11.

As at 31 December 2022, 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 HRK 53 thousand lower than for the reported (2021: HRK 52 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 2.5% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 5 – REVENUE

	2022	2021
	<i>(in thousands of HRK)</i>	
Revenue from sales of goods	4,633,102	4,039,234
Revenue from sale of goods – related parties (note 32)	70,357	64,742
Revenue from sale of services	28,478	25,801
Revenue from sale of services – related parties (note 32)	454	617
	4,732,391	4,130,394

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 Pharne 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 6 – SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	Wholesale			Retail	Total
	Pharmacies	Hospitals	Other	Own pharmacies	
Revenue from sale of goods	1,621,471	1,939,648	541,117	530,866	4,633,102
Revenue from sale of goods - related parties (note 32)	70,163	-	194	-	70,357
Revenue from sale of services	276	2,014	22,097	4,091	28,478
Revenue from sale of services – related parties (note 32)	3	-	451	-	454
Total income	1,691,913	1,941,662	563,859	534,957	4,732,391
Cost of goods sold	(1,582,646)	(1,845,075)	(504,589)	(415,818)	(4,348,128)
Segment result	109,267	96,587	59,270	119,139	384,263
Operating expenses					(249,017)
Profit from operations					135,246
Financial income					19,938
Financial expenses					(2,909)
Net financial loss					17,029
Share in the profit of associates					3,252
Profit before tax					155,527
Income tax					(38,783)
Profit for the year					116,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 6 – SEGMENT INFORMATION (continued)

The segments' results for the year ended 31 December 2021 are as follows:

<i>(in thousands of HRK)</i>	Wholesale			Retail	Total
	Pharmacies	Hospitals	Other	Own pharmacies	
Revenue from sale of goods	1,523,455	1,527,226	506,475	482,078	4,039,234
Revenue from sale of goods - related parties (note 32)	64,314	-	428	-	64,742
Revenue from sale of services	296	1,060	20,373	4,072	25,801
Revenue from sale of services – related parties (note 32)	-	-	617	-	617
Total income	1,588,065	1,528,286	527,893	486,150	4,130,394
Cost of goods sold	(1,492,846)	(1,444,309)	(473,353)	(377,506)	(3,788,014)
Segment result	95,219	83,977	54,540	108,644	342,380
Operating expenses					(230,497)
Profit from operations					111,883
Financial income					10,593
Financial expenses					(4,457)
Net financial loss					6,136
Share in the profit of associates					2,837
Profit before tax					120,856
Income tax					(21,347)
Profit for the year					99,509

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

<i>(in thousands of HRK)</i>	Wholesale			Retail	Retail
	Pharmacies	Hospitals	Other	Own pharmacies	
Trade receivables (note 19/ii/)	391,533	999,419	108,874	104,200	1,604,026

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 6 – SEGMENT INFORMATION (continued)

The analysis of trade receivables by the segments at 31 December 2021 is as follows:

<i>(in thousands of HRK)</i>	Wholesale			Retail	Total
	Pharmacies	Hospitals	Other	Own pharmacies	
Trade receivables (note 19/ii/)	383,828	750,745	91,685	100,178	1,326,436

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 17.6% in 2022 (2021: 15.5%).

NOTE 7 - STAFF EXPENSES

	2022	2021
<i>(in thousands of HRK)</i>		
Net salaries	79,072	78,451
Contributions from and on salaries /i/	37,228	36,197
Other employee benefits /ii/	14,486	6,433
Taxes and surtaxes	8,947	8,361
Management bonuses	4,805	3,507
Employee transportation costs	4,364	4,416
Share based payments	3,386	5,018
Termination benefits	420	250
	152,708	142,633

At 31 December 2022, there were 951 employees at the Group (2021: 940 employees).

/i/ Pension contributions recognised by the Group as payable to mandatory pension funds in respect of 2022 amount to HRK 21,682 thousand (2021: HRK 20,324 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Donations	3,701	4,164
Marketing	3,229	1,937
Entertainment	2,888	2,173
	<u>9,818</u>	<u>8,274</u>

NOTE 9 - OTHER OPERATING EXPENSES

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Maintenance of assets, security services and property insurance	19,538	17,495
Materials and energy	17,451	13,685
Taxes and contributions independent of the results	5,278	4,611
Professional training and consultancy services	4,545	4,156
Telephone, postal and utility services	2,384	2,305
Bank and payment operation charges	2,160	2,419
Rental costs (note 15)	1,780	1,630
Road tolls and transportation costs	1,262	1,249
Impairment of trade and other receivables, net (note 19)	715	(776)
Other costs	5,794	5,085
	<u>60,907</u>	<u>51,859</u>

NOTE 10 – OTHER (LOSSES) / GAINS – NET

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Net foreign exchange losses – trade and other payables	(1,223)	704
Net foreign exchange losses – cash and cash equivalents	(780)	166
Net foreign exchange losses – trade and other receivables	13	5
Gains from the sale of intangible assets (net)	5,737	396
Gains from the sale of property and equipment (net)	1,072	216
	<u>4,819</u>	<u>1,487</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 11 - NET FINANCIAL GAIN / (LOSS)

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Financial income		
Interest income	19,938	10,487
	19,938	10,487
Foreign exchange gains – net		
Foreign exchange gains	-	405
Foreign exchange losses	-	(299)
	-	106
	19,938	10,593
Financial expenses		
Interest expense		
Bank loans (note 27)	(1,527)	(3,059)
Leases (note 15)	(1,245)	(1,371)
Penalty interest	(12)	(27)
	(2,784)	(4,457)
Foreign exchange losses – net		
Foreign exchange losses	(131)	-
Foreign exchange gains	6	-
	(125)	-
	(2,909)	(4,457)

Interest income includes penalty interest paid collected from debtors in the amount of HRK 19,599 thousand (2021: HRK 9,997 thousand).

NOTE 12 – INCOME TAX

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Current tax	28,422	22,368
Additional income tax	10,332	-
Over provision in previous year	-	(768)
	38,754	21,600
Deferred tax (note 28)	29	(253)
	38,783	21,347

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Profit before taxation	155,527	120,856
Income tax at the rate of 18%	27,995	21,754
Effect of non-taxable income and tax incentives	(696)	(684)
Effect of non-deductible expenses	1,124	1,340
Over provision in previous year	-	(768)
Additional income tax	10,332	-
Tax losses for which no deferred tax assets are recognized	3	3
Previously unrecognized deferred tax assets	-	(97)
Utilization of tax losses for which deferred tax assets were not recognised	-	(214)
Impact of different tax rates	25	13
Income tax	38,783	21,347
Effective tax rate	24.94%	17.66%

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%.

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.

Tax inspection

The Ministry of Finance of the Republic of Croatia, the Tax Authority carried out the tax inspection of Medika d.d. in the period from 8 July 2020 to 22 December 2021. The subject of the inspection was income tax in the period from 1 January 2018 to 31 December 2018. The inspection did not determine any irregularities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

	<u>2022</u>	<u>2021</u>
Net profit attributable to the shareholders (<i>in thousands of HRK</i>)	116,744	99,509
Weighted average number of shares (excluding treasury shares)	<u>28,954</u>	<u>28,232</u>
Basic/diluted earnings per share (<i>in HRK and lipa</i>)	<u>4,032.05</u>	<u>3,524.69</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 14 - PROPERTY AND EQUIPMENT

<i>(All amounts are expressed in thousands of HRK)</i>	Land	Buildings	Equipment	Assets under construction and prepayments	Total
Balance at 31 December 2020					
Cost	30,400	202,776	108,054	3,766	344,996
Accumulated depreciation	-	(82,215)	(81,067)	-	(163,282)
Net carrying amount	30,400	120,561	26,987	3,766	181,714
For the year ended 31 December 2021					
Opening carrying amount, net	30,400	120,561	26,987	3,766	181,714
Additions	-	-	1,202	61,534	62,736
Acquisition of subsidiary (note 30)	-	-	186	-	186
Transfer from assets under construction	-	11,652	6,416	(18,068)	-
Disposals	-	(240)	(243)	(142)	(625)
Depreciation	-	(5,435)	(5,988)	-	(11,423)
Closing carrying amount, net	30,400	126,538	28,560	47,090	232,588
Balance at 31 December 2021					
Cost	30,400	213,899	115,330	47,090	406,719
Accumulated depreciation	-	(87,361)	(86,770)	-	(174,131)
Net carrying amount	30,400	126,538	28,560	47,090	232,588
For the year ended 31 December 2022					
Opening carrying amount, net	30,400	126,538	28,560	47,090	232,588
Additions	-	-	783	12,765	13,548
Acquisition of subsidiary (note 30)	-	-	4	-	4
Transfer from assets under construction	-	3,550	8,600	(12,150)	-
Disposals	-	-	(80)	(182)	(262)
Depreciation	-	(5,823)	(6,646)	-	(12,469)
Closing carrying amount, net	30,400	124,265	31,221	47,523	233,409
Balance at 31 December 2022					
Cost	30,400	217,449	119,467	47,523	414,839
Accumulated depreciation	-	(93,184)	(88,246)	-	(181,430)
Net carrying amount	30,400	124,265	31,221	47,523	233,409

Loan liabilities (note 27) have been secured by pledges over property and equipment with a carrying amount of HRK 127,064 thousand as at 31 December 2022 (2021: HRK 119,126 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Right-of-use assets:		
Vehicles	13,992	10,373
Buildings	40,792	38,757
	<u>54,784</u>	<u>49,130</u>
Lease liabilities:		
Current	15,706	13,635
Non-current	42,222	37,584
	<u>57,928</u>	<u>51,219</u>

/ii/ Non-current lease liabilities:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
1-2 years	13,390	11,759
2-5 years	21,765	20,123
Over 5 years	7,067	5,702
Contractual lease liabilities	<u>42,222</u>	<u>37,584</u>

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

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Depreciation	14,978	14,685
Interest expense (note 11)	1,245	1,371
Rental costs related to short-term leases (note 9)	1,780	1,630
	<u>18,003</u>	<u>17,686</u>

The average interest rate is 2.75%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 15 – LEASES (continued)

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

<i>(all amounts are expressed in thousands of HRK)</i>	Vehicles	Business premises	Total
For the year ended			
31 December 2021	11,291	42,197	53,488
Additions	4,224	7,164	11,388
Contract termination	-	(859)	(859)
Disposals	(202)	-	(202)
Depreciation	(4,940)	(9,745)	(14,685)
Closing net book value	10,373	38,757	49,130
At 31 December 2021			
Cost	18,285	59,835	78,120
Accumulated depreciation	(7,912)	(21,078)	(28,990)
Net book value	10,373	38,757	49,130
For the year ended			
31 December 2022	10,373	38,757	49,130
Additions	8,696	13,021	21,717
Contract modifications	(75)	-	(75)
Contract termination	-	(885)	(885)
Disposals	(125)	-	(125)
Depreciation	(4,876)	(10,102)	(14,978)
Closing net book value	13,993	40,791	54,784
At 31 December 2022			
Cost	25,022	66,725	91,747
Accumulated depreciation	(11,029)	(25,934)	(36,963)
Net book value	13,993	40,791	54,784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 15 – LEASES (continued)

/v/ Recognition of lease liability:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Lease liabilities recognized on 1 January	51,219	56,102
Additions	23,502	11,556
Lease payments	(15,961)	(15,232)
Interest expense (note 11)	1,245	1,371
Interest paid	(1,245)	(1,371)
Foreign exchange (gains)/losses – net (note 11)	125	(106)
Contract termination	(885)	(846)
Write-off	(50)	(255)
Lease liabilities recognized on 31 December	57,928	51,219

/vi/ The carrying amounts of the Group's lease liabilities on 31 December are denominated in the following currencies:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
HRK	8,885	7,618
EUR	49,043	43,601
Lease liability	57,928	51,219

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 16 – INTANGIBLE ASSETS

<i>(All amounts are expressed in thousands of HRK)</i>	Goodwill	Licences, software and other rights	Assets under constructio n	Total
Balance at 31 December 2020				
Cost	88,119	184,615	1,005	273,739
Accumulated amortisation and impairment	(10,058)	(44,504)	-	(54,562)
Net carrying amount	78,061	140,111	1,005	219,177
For the year ended 31 December 2021				
Opening carrying amount, net	78,061	140,111	1,005	219,177
Additions	638	115	6,337	7,090
Transfers	-	2,467	(2,467)	-
Acquisition of subsidiary (note 30)	1,655	9,334	-	10,989
Disposals	-	(1,287)	-	(1,287)
Amortisation	-	(3,110)	-	(3,110)
Closing carrying amount, net	80,354	147,630	4,875	232,859
Balance at 31 December 2021				
Cost	87,980	194,633	4,875	287,488
Accumulated amortisation and impairment	(7,626)	(47,003)	-	(54,629)
Net carrying amount	80,354	147,630	4,875	232,859
For the year ended 31 December 2022				
Opening carrying amount, net	80,354	147,630	4,875	232,859
Additions	-	145	3,218	3,363
Transfers	-	6,030	(6,030)	-
Acquisition of subsidiary (note 30)	1,908	10,600	(1,700)	10,808
Disposals	(416)	(425)	(58)	(899)
Amortisation	-	(2,956)	-	(2,956)
Closing carrying amount, net	81,846	161,024	305	243,175
Balance at 31 December 2021				
Cost	89,471	210,053	305	299,829
Accumulated amortisation and impairment	(7,625)	(49,029)	-	(56,654)
Net carrying amount	81,846	161,024	305	243,175

Licences

At the reporting date, pharmacy licences with an indefinite useful life amount in total to HRK 147,840 thousand (2021: HRK 137,587 thousand). Pharmacy activities cannot be undertaken without pharmacy licences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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 5-year business plan approved by Management and Director. Discount rate of 8.41% (2021: 5.58%) and terminal growth rate of 2.50% (2021: 2.50%) were used for discounting the projected cash flow. The growth rate in 5-year business plan is in the range of 4.5% to 5%, depending on the pharmacy branch or the identified unit that generates money. In 2022, the recoverable amount exceeds the carrying amount, so no impairment loss on goodwill was recognised based on a goodwill impairment test.

NOTE 17 – INVESTMENTS IN ASSOCIATES

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

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Balance at 1 January	25,856	24,195
Share of profit paid	(2,270)	(1,176)
Dividend for 2022 advance payment	(850)	-
Transfer of profit made	3,252	2,837
Balance at 31 December	25,988	25,856

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

(All amounts are expressed in thousands of HRK)

	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Net gain</u>
Balance at 31 December 2022				
ZU Ljekarne Jagatić	52,374	32,141	105,950	6,636
Total	52,374	32,141	105,950	6,636

(All amounts are expressed in thousands of HRK)

	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Net gain</u>
Balance at 31 December 2021				
ZU Ljekarne Jagatić	47,770	29,541	98,836	5,790
Total	47,770	29,541	98,836	5,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 18 – FINANCIAL INSTRUMENTS BY CATEGORY

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Financial assets – category: Loans and receivables		
Loans and receivables (note 19/v/)	1,613,804	1,338,980
Cash and cash equivalents (note 21)	408,201	85,107
	<u>2,022,005</u>	<u>1,424,087</u>

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Financial liabilities - category: Other liabilities		
Trade payables (note 26/i/)	1,839,465	1,516,243
Total borrowings (note 27)	355,581	51,580
Lease liabilities (note 15/i/)	57,928	51,219
Other liabilities (note 26)	43,216	38,541
	<u>2,296,190</u>	<u>1,657,583</u>

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 /ii/):

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Hospitals	419,356	292,371
Pharmacies	218,259	223,636
HZZO	54,610	53,376
Other	61,896	60,042
Balance at 31 December	<u>754,121</u>	<u>629,425</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 19 – TRADE AND OTHER RECEIVABLES

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Long-term receivables:		
Given loans /i/	4,620	5,149
Long-term deposits	268	222
	<u>4,888</u>	<u>5,371</u>
Current receivables:		
Trade receivables /ii/	1,604,026	1,326,436
Other current receivables /iii/	10,415	6,849
Given loans /iv/	96	158
Given loans – current portion of non-current receivables /i/	5,062	7,237
	<u>1,619,599</u>	<u>1,340,680</u>
	<u>1,624,487</u>	<u>1,346,051</u>

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

	<u>Effective interest rate</u>	<u>2022</u>	<u>2021</u>
		<i>(in thousands of HRK)</i>	
Loans given to pharmacies	3.0%-5.0%	7,004	10,936
Other given loans	3.0%-5.0%	2,678	1,450
Total non-current receivables, including current portion		9,682	12,386
Current portion of non-current receivables		(5,062)	(7,237)
		<u>4,620</u>	<u>5,149</u>

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

The maturity of long-term loans is as follows:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
From 1 to 2 years	2,115	3,808
From 2 to 5 years	2,505	1,341
Over 5 years	-	-
	<u>4,620</u>	<u>5,149</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	1,582,302	1,306,962
Trade receivables – related parties (note 32)	26,410	25,523
Foreign trade receivables	<u>1,744</u>	<u>3,677</u>
	1,610,456	1,336,162
Expected credit losses	<u>(6,430)</u>	<u>(9,726)</u>
	<u>1,604,026</u>	<u>1,326,436</u>

Ageing structure of receivables:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Not yet due	754,121	629,425
0–180 days past due	818,020	697,062
181–360 days past due	3,370	4,695
Over 360 days past due	<u>34,945</u>	<u>4,980</u>
	<u>1,610,456</u>	<u>1,336,162</u>

Movements in impairment allowance for trade receivables:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Balance at 1 January	9,726	10,552
Increase/ (decrease) (note 9)	705	(772)
Writte-off	<u>(4,001)</u>	<u>(54)</u>
Balance at 31 December	<u>6,430</u>	<u>9,726</u>

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

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
HRK	1,622,798	1,342,674
EUR	1,680	3,375
GBP	<u>9</u>	<u>2</u>
	<u>1,624,487</u>	<u>1,346,051</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
VAT receivables not yet recognized	3,296	4,399
Prepaid expenses	764	849
Other	6,355	1,601
	<u>10,415</u>	<u>6,849</u>

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

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Given loans	106	1,446
	106	1,446
Expected credit losses	(10)	(1,288)
	<u>96</u>	<u>158</u>

Movements in provisions for impairment of given loans:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Balance at 1 January	1,288	1,292
(Decrease) / increase (note 9)	10	(4)
Write-off	(1,288)	-
Balance at 31 December	<u>10</u>	<u>1,288</u>

/v/ Financial assets by category include the following:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Trade receivables	1,604,026	1,326,436
Given cash loans	6,493	9,443
Given commodity loans	3,285	3,101
	<u>1,613,804</u>	<u>1,338,980</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 20 - INVENTORIES

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Trade goods	425,557	334,594
Trade goods – related parties (note 32)	35,225	18,500
Prepayments made	6,688	3,601
Materials	544	458
Impairment allowance on inventories	<u>(923)</u>	<u>(667)</u>
	<u>467,091</u>	<u>356,486</u>

In 2022 the Group recognised an allowance in the amount of HRK 6,144 thousand (2021: HRK 8,434 thousand) as an expense, which relates to damaged, expired inventories and inventories withdrawn from the market which is included in the cost of goods sold.

Inventories in the amount of HRK 130,000 thousand (2021: HRK 130,000 thousand) have been pledged as collateral for the borrowings (note 27).

NOTE 21 - CASH AND CASH EQUIVALENTS

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Domestic currency (HRK) account balance	408,176	85,042
Foreign currency account balance	19	38
Cash in hand	6	24
Cash deposits	<u>-</u>	<u>3</u>
	<u>408,201</u>	<u>85,107</u>

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

NOTE 22 – ASSETS HELD FOR SALE

In 2022. Group did not have assets held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 23 - SHARE CAPITAL

At 31 December 2022, the share capital of the Company amounts to HRK 209,244,420 thousand (31 December 2021: HRK 209,244,420) and is divided into 30,194 shares (2021: 30,194 shares). The nominal value per share amounts to HRK 6,930 (31 December 2021: HRK 6,930). All issued shares are fully paid in.

	Number of shares <i>(in pieces)</i>	Share capital	Treasury shares <i>(in thousands of HRK)</i>	Capital gains/ (losses)	Total
Balance at 1 January 2021	30,194	209,244	(37,187)	(7,658)	164,399
Release of treasury shares \i\	-	-	21,503	5,527	27,030
Balance at 31 December 2021	30,194	209,244	(15,684)	(2,131)	191,429
Balance at 1 January 2022	30,194	209,244	(15,684)	(2,131)	191,429
Balance at 31 December 2022	30,194	209,244	(15,684)	(2,131)	191,429

\i\ During 2022, there were no transactions with own shares (2021: the Company sold 1,700 treasury shares).

In the period from 2013 to 2017, the share capital was increased by using tax relief based on reinvestment of profit in the amount of HRK 148,856 thousand. The distribution of this amount in future periods may result in a tax liability.

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

	2022		2021	
	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%
Other legal persons	1,096	3.63%	1,066	3.53%
Treasury shares	1,240	4.11%	1,240	4.11%
Natural persons	2,084	6.90%	2,114	7.00%
Auctor Holding a.s.	8	0.03%	8	0.03%
Total	30,194	100%	30,194	100%

As at 31 December 2021, 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% (2021: 50.10%) of voting shares when considering non-voting treasury shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 23 - SHARE CAPITAL (continued)

During 2021, the Company released 1,700 treasury shares to the company Auctor d.o.o.

NOTE 24 - RESERVES

<i>(in thousands of HRK)</i>	Legal reserves	Reserves for treasury shares	Total
Balance at 31 December 2020	18,548	48,812	67,360
Changes during the year	-	-	-
Balance at 31 December 2021	18,548	48,812	67,360
Changes during the year	-	-	-
Balance at 31 December 2022	18,548	48,812	67,360

NOTE 25 – RETAINED EARNINGS

Included in the retained earnings are other reserves in the total amount of HRK 31,714 thousand (2021: HRK 31,714 thousand). The other reserves in the amount of HRK 31,714 thousand comprise reserves arisen as a result of hyperinflation during the 1990s, which resulted in a high increase of prices.

In 2022, 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 HRK 40,534 thousand. The dividend per share amounted to HRK 1,400.00. In 2021, the General Assembly adopted in its meeting held on 10 May 2021 a decision to distribute dividends from the retained earnings in the amount of HRK 38,156 thousand. The dividend per share amounted to HRK 1,400.00.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 26 – TRADE AND OTHER PAYABLES

	2022	2021
	<i>(in thousands of HRK)</i>	
Non-current liabilities:		
Trade payables /i/	32,022	28,194
Other liabilities /ii/	244	244
	32,266	28,438
 Current liabilities:		
Trade payables /i/	1,807,443	1,488,049
Other liabilities /iii/	42,972	38,297
	1,850,415	1,526,346
	1,882,681	1,554,784

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

	2022	2021
	<i>(in thousands of HRK)</i>	
Foreign trade payables	1,337,542	1,092,275
Domestic trade payables	378,596	348,551
Trade payables – related parties (note 32)	123,327	75,417
	1,839,465	1,516,243

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

	2022	2021
	<i>(in thousands of HRK)</i>	
HRK	1,140,466	910,636
EUR	698,889	605,508
Other currencies	110	99
	1,839,465	1,516,243

/ii/ Other non-current liabilities fully relate to the down payment for the lease of property acquired in 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 26 – TRADE AND OTHER PAYABLES (continued)

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

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
VAT payable	19,189	16,849
Salaries payable	12,696	11,508
Unused annual leave	3,252	3,335
Other taxes and contributions payable	232	163
Other	7,603	6,442
	<u>42,972</u>	<u>38,297</u>

NOTE 27 – BORROWINGS

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Long-term:	17,189	34,378
Long-term loans /i/	17,189	34,378
Short-term:		
Short-term loans /i/	338,392	17,202
	338,392	17,202
Total borrowings	<u>355,581</u>	<u>51,580</u>

/i/ Borrowings in 2022 relate to financing of operations from different banks. It is denominated in Croatian kunas (HRK) at a fixed rate. The maturity of the borrowing is 24 months.

The short-term borrowing in 2021 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 36 months.

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

	<u>2022</u>	<u>2021</u>
	HRK	HRK
	%	%
Short-term borrowings		
Short-term loans	0,25%-0,60%	0,29%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 27 – BORROWINGS (continued)

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:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Variable-rate borrowings		
Up to 3 months	-	-
3 to 12 months	-	-
Over 1 year	-	-
	<u>-</u>	<u>-</u>
Fixed-rate borrowings		
Fixed-rate loans	355,581	51,580
	<u>355,581</u>	<u>51,580</u>
Total borrowings	<u>355,581</u>	<u>51,580</u>

Given that borrowings in the amount of HRK 355,581 thousand bear interest at fixed rates (2021: HRK 51,580 thousand), there is no exposure to interest rate changes.

The carrying amounts of the Group's borrowings were translated from the following currencies:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
HRK	355,581	51,580
	<u>355,581</u>	<u>51,580</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 27 – BORROWINGS (continued)

Movement in borrowings is as follows:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Borrowings recognized at 1 January	51,580	293,426
Additions	520,000	487,000
Payments	(216,189)	(728,760)
Compensation with receivables	-	(272)
Acquisition of subsidiary (note 30)	-	507
Interest expenses (note 11)	1,527	3,059
Interest paid	(1,337)	(3,380)
Borrowings recognized at 31 December	355,581	51,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 28 – DEFERRED TAX

Pursuant to the income tax legislation, deferred tax assets and deferred tax liabilities are measured at the actual tax rate of 18%, which is effective as from 1 January 2017.

Deferred tax assets

<i>(in thousands of HRK)</i>	Inventories	Receivables	Provisions for employee benefits	Intangible assets	Fixed assets	Right-of-use assets and lease liability	Office supplies	Total
Balance at 1 January 2021	161	5	305	227	-	48	-	746
Tax charged to profit or loss	-	(4)	-	-	-	-	-	(4)
Tax credited to profit or loss	27	-	45	-	44	120	21	257
Balance at 31 December 2021	188	1	350	227	44	168	21	999
Balance at 1 January 2022	188	1	350	227	44	168	21	999
Tax charged to profit or loss	(116)	(1)	(83)	-	(44)	(5)	(21)	(270)
Tax credited to profit or loss	36	18	174	-	-	13	-	241
Balance at 31 December 2022	108	18	441	227	-	176	-	970

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 28 – DEFERRED TAX (continued)

Deferred tax liabilities

<i>(in thousands of HRK)</i>	Acquisition of a subsidiary – licences
Balance at 1 January 2021	17,696
Changes during the year	1,654
Balance at 31 December 2021	19,350
Balance at 1 January 2022	19,350
Tax credited to profit or loss	(62)
Changes during the year (note 30)	1,908
Balance at 31 December 2022	21,196

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 29 – PROVISIONS

<i>(in thousands of HRK)</i>	Employee benefits	Legal disputes	Total
Balance at 31 December 2021	1,649	107	1,756
Long-term portion	1,414	-	1,414
Short-term portion	235	107	342
Balance at 1 January 2022	1,649	107	1,756
Increase	147	-	147
Utilized during year	(163)	-	(163)
Balance at 31 December 2022	1,633	107	1,740
Long-term portion	1,208	-	1,208
Short-term portion	425	107	532

Employee benefits

This provision comprises estimated long-term employee benefits relating to retirement benefits and jubilee awards, as defined by the Collective Agreement. The non-current portion of the provision relates to the rights estimated to become vested with respect to retirement benefits and jubilee awards that will be paid one year after the date of the statement of financial position. The current portion includes jubilee awards and retirement benefits which will be paid within 12 months after the date of the statement of financial position.

Legal disputes

Provisions for legal disputes refer to the provision for costs of initiated litigation in the sued amount increased by the related costs of litigation and interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 30 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2022, the Group acquired 100% ownership over one pharmacies in the agreed amount of HRK 17,692 thousand (2021: 100% ownership over one Institution with two pharmacies and one pharmacy in the agreed amount of HRK 12,126 thousand).

From the date of acquisition to the reporting date, on the basis of the newly acquired subsidiaries, the Group did not generate revenue since the acquisition and merger of the newly acquired company took place on the same date. The subsidiary pharmacies was acquired on 1 February 2022.

These amounts have been calculated using the Group's accounting policies. The net book value of assets acquired and goodwill determined are as follows:

	<u>2022</u>
	<i>(in thousands of HRK)</i>
Acquisition cost	17,692
- Consideration paid	17,692
Fair value of assets acquired	<u>(15,784)</u>
Goodwill (note 16)	<u>1,908</u>

The fair value of the acquired assets is as follows:

	<u>2022</u>
	<i>(in thousands of HRK)</i>
Intangible assets (note 16)	10,600
Property and equipment (note 14)	4
Inventories	599
Trade and other receivables	3,063
Cash and cash equivalents	3,797
Deferred tax liabilities (note 28)	(1,908)
Income tax liability	(38)
Trade and other payables	<u>(333)</u>
Net assets acquired	<u>15,784</u>
Purchase consideration paid in cash	17,692
Advance paid in previous year	(1,700)
Cash and cash equivalents acquired	<u>(3,797)</u>
Net cash outflow	<u>12,195</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 30 – ACQUISITION OF SUBSIDIARIES (continued)

Acquisition of Health Institutions (continued)

In 2022, 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 31 - SUBSEQUENT EVENTS AFTER REPORTING DATE

The Government of the Republic of Croatia adopted the Decision on the announcement of the introduction of the euro as the official currency in the Republic of Croatia (published in "Official Gazette" No. 85/22). With the aforementioned decision, the euro becomes the official monetary unit and legal currency in the Republic of Croatia on 1 January 2023. The fixed conversion rate is set at HRK 7.53450 for one euro. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency that will be calculated prospectively and does not represent an adjusting subsequent event.

NOTE 32 – RELATED-PARTY TRANSACTIONS

The Group enters into transactions with related parties.

The related parties include:

	<u>2021</u>	<u>2020</u>
1. Associate of Zdravstvene ustanove Ljekarne Prima Pharme, Zagreb Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%
2. The company with the highest voting rights, namely the parent company Auctor d.o.o. which holds 48.04% or 50.10% of the voting shares. 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 2022, 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, has an ownership interest of 25.32% and 26.41% of the voting rights in the Company.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 32 – RELATED-PARTY TRANSACTIONS (continued)

Balances resulting from transactions with the related parties and included in the statement of financial position at 31 December 2022 and 31 December 2021 as well as the statement of comprehensive income for the years then ended resulting from these transactions are as follows:

<i>(in thousands of HRK)</i>	Note	2022	2021
Trade and other receivables			
<i>Trade receivables</i>			
Associate of ZU Ljekarne Prima Pharme		26,143	25,143
Auctor Holding a.s.		1	1
Pliva Hrvatska d.o.o.		266	379
	19/ii//	26,410	25,523
Inventories			
Pliva Hrvatska d.o.o.	20	35,225	18,500
		35,225	18,500
Trade payables			
Pliva Hrvatska d.o.o.		123,327	75,417
	26/i//	123,327	75,417
Revenues from sale of goods			
Associate of ZU Ljekarne Prima Pharme		70,163	64,314
Auctor d.o.o.		-	4
Pliva Hrvatska d.o.o.		194	424
	5, 6	70,357	64,742
Revenue from sale of services			
Auctor Holding a.s.		9	26
Pliva Hrvatska d.o.o.		445	591
	5, 6	454	617
Purchase of trade goods			
Pliva Hrvatska d.o.o.		318,304	184,532
		318,304	184,532
Key management compensation – salaries and bonuses for Management Board and Director		7,547	7,075
Supervisory Board, Audit Committee and Governing Council compensation		589	586

Members of the Management Board of the Company, an employee of the Company and Director of ZU Ljekarne Prima Pharme purchased 3,200 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. 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 recognised during the year 2021 and corresponding increase in equity amount to HRK 5,018 thousand and during the year 2022 HRK 3,385 thousand.

MEDIKA d.d., Zagreb, and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

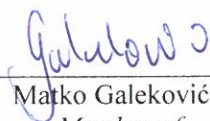
FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 33 - APPROVAL OF FINANCIAL STATEMENTS

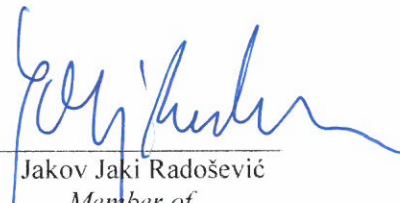
The consolidated financial statements set out on pages 68 to 123 were approved by the Management Board of the Company in Zagreb on 9 March 2023:



Jasminko Herceg
*President of
Management Board*



Matko Galeković
*Member of
Management Board*



Jakov Jaki Radošević
*Member of
Management Board*

³ **Medika d.d.**
ZAGREB, Capraška 1

ODLUKA

o usvajanju Financijskog izvješća o poslovanju Grupe Medika
za 1-12. mj. 2022. god.

Dana 23. ožujka 2023. godine na 21. 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. 2022. god. kako ga je utvrdila Uprava Medike d.d.

Time je Izvješće o poslovanju Grupe Medika za 1-12. mj. 2022. god. usvojeno u skladu s čl. 300 d. Zakona o trgovačkim društvima.

U Zagrebu, 23. 03. 2023.

Predsjednik Uprave

Jasminko Herceg, mag.oec.

1

Medika

Predsjednica Nadzornog odbora
d.d.

ZAGREB, Capraška 1

Ružica Vadić, mag. oec.