

MEDIKA d.d.

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

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MANAGEMENT REPORT

In 2022, Medika d.d. (the “Company”) generated a non-consolidated revenue in the amount of HRK 4,576,365 thousand, which is HRK 599,751 thousand more than the prior year’s non-consolidated revenue. The non-consolidated operating profit amounts to HRK 101,030 thousand, which is by HRK 13,302 thousand higher than the prior year’s figure.

Profit before tax on a non-consolidated basis amounts to HRK 118,940 thousand, and the non-consolidated net profit amounts to HRK 89,136 thousand, which is HRK 11,636 thousand more than the 2021 figure.

By analysing the individual operating segments (note 6 to the financial statements), 45.3% of the total non-consolidated income was generated by pharmacies (2021: 48.3%). At the same time, 42.4% of the total non-consolidated income was generated from hospitals (2021: 38.4%).

Total non-consolidated assets amount to HRK 2,833,092 thousand, representing a decrease of 32.5% from the prior year. In the structure of non-consolidated assets, the amount of fixed assets is higher by 1.1% compared to the prior year, which was most significantly affected by the purchase of equipment and cargo vehicles. The amount of non-consolidated current assets increased by 38.7% which was most significantly affected by increase in cash and cash equivalents, trade receivables and inventories. The non-consolidated current assets account for 87.4% of the total assets. Trade and other receivables represent the most significant item of the total non-consolidated assets and increased by 19.3% from the prior year.

The total non-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 borrowing (note 26).

The equity-to-assets ratio is 20%, showing that the Company finances 20% of its total assets from own sources.

The non-consolidated performance is presented in the statement of comprehensive income on page 15 of the financial statements.

Expected future development of the Company

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.

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 Pharne and Primus nekretnine d.o.o.

ZU Ljekarne Prima Pharne 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 Company is the long collection period for trade receivables, especially HZZO (Croatian State Health Insurance) related receivables. Therefore, a significant amount of working capital is not available, which strongly affects the cash flow of Medika d.d. and timely settlement of its 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 is a further risk. To lower this risk, the Company has focused on expanding the lines of products that are not limited by law in respect of the price of the product.

Foreign exchange risk

Foreign exchange (currency) risk is a significant financial risk. The Company generates most of its revenue on the domestic market and in the 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 Company's interest rate risk arises from its short-term and long-term borrowings at variable rates. Variable-rate borrowings expose the Company to the interest-rate cash flow risk. Fixed-rate borrowings expose the Company to the interest-rate fair value risk.

A part of the Company's assets are interest-bearing assets, as a result of which its revenue and investing cash flows 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 Company's Management Board estimates that a direct impact on the Company 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 Company 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.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE STATEMENT (continued)

Corporate governance structure (continued)

Management Board

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


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

Audit Committee

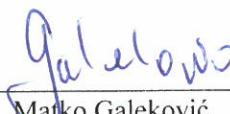
The Audit Committee has been established by decision of the Supervisory Board. The activities of the Audit Committee are governed by the Audit Act, the Companies Act, the Accounting Act and other regulations. The term of office of the Audit Committee members coincides with the term of office for the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

The Audit Committee consists of the following members: Mrs Ružica Vađić, Chairwoman, Mr Oleg Uskoković and Mr Dalibor Briški.

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

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 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 Company Medika d.d. for that period.

On the basis of the relevant review, the Management Board has a reasonable expectation that the Company 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 separate financial statements.

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

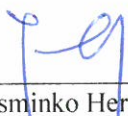
- the selection and consistent application of the appropriate accounting policies;
- making reasonable and prudent judgements and estimates;
- following applicable accounting standards, subject to any material departures disclosed and explained in the separate financial statements; and
- preparing separate financial statements on the going concern principle, unless it is inappropriate to assume the Company will continue its business activities.

Management Board is responsible for keeping proper accounting records, which shall at any time reflect with reasonable accuracy the financial position and the results of operations of the Company and their compliance with the Accounting Act. Furthermore, Management is responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The financial statements set out on pages 15 to 66 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 separate financial statements of Medika d.d. ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2022, and its separate 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 unconsolidated financial position of the Company as at 31 December 2022 and of its unconsolidated financial performance and its unconsolidated 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 Company 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 4,576,365 thousand (2021: HRK 3,976,614 thousand). As at 31 December 2022: trade receivables: HRK 1,641,515 thousand (2021: HRK 1,370,442 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 Company. 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 Company'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 Company 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 Company's revenue recognition policy for compliance with relevant provisions of the financial reporting standards; • updating our understanding of and evaluating the Company'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 Company'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 Company's records by inspecting the underlying documentation such as contracts with customers, invoices and credit notes; • examining whether the Company'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)

IMPAIRMENT OF TRADE RECEIVABLES

Trade receivables as at 31 December 2022: HRK 1,641,515 thousand (2021: HRK 1,370,442 thousand); related impairment allowance as at that date: HRK 6,336 thousand (2021: HRK 9,715 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 Company is exposed to significant credit risk associated with extended collection periods of trade receivables, due from health institutions generally directly or indirectly owned by state institutions.</p> <p>Trade accounts receivable are assessed by the Company 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 Company 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 Company'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 Company's estimates of expected credit losses appropriately consider both current economic conditions and forward-looking information; • assessment of the accuracy and completeness of the Company'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 relevant finance and sales 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 Company'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)*

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Company, 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 Article 21 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 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 Article 21 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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 separate 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 separate financial statements, as included in the separate 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 separate financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the separate 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 separate 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 separate financial statements included in the separate 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 separate financial statements of the Company presented in human-readable format;
- evaluating the completeness of the Company's tagging of the separate 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 separate 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 separate 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 separate financial statements of the Company 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
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Croatia

9 March 2023

KPMG Croatia
d.o.o. za reviziju
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Ivana Lučića 2a, 10000 Zagreb
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SEPARATE 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	4,576,365	3,976,614
Cost of goods sold	6	(4,310,570)	(3,742,325)
Staff expenses	7	(89,156)	(82,435)
Marketing and promotion expenses	8	(9,722)	(8,180)
Depreciation and amortisation	14, 15, 16	(18,322)	(17,318)
Other operating expenses	9	(46,604)	(39,549)
Other losses – net	10	(961)	921
Profit from operations		101,030	87,728
Financial income	11	19,938	10,523
Financial expenses	11	(2,028)	(3,461)
Net financial gain / (loss)		17,910	7,062
Profit before tax		118,940	94,790
Income tax	12	(29,804)	(17,290)
Profit for the year		89,136	77,500
Other comprehensive income for the year		-	-
Total comprehensive income for the year		89,136	77,500
Earnings per share	13	3,078.54	2,745.11
– basic and diluted (in HRK and lipa)			

The notes on pages 20 to 66 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts are expressed in thousands of HRK)	Note	As at 31 December	
		2022	2021
ASSETS			
Non-current assets			
Property and equipment	14	209,589	207,719
Right-of-use assets	15	18,656	16,681
Intangible assets	16	22,849	21,914
Investments in subsidiaries and associates	17	100,199	100,199
Deferred tax assets	27	318	556
Trade and other receivables	19	4,723	5,252
		356,334	352,321
Current assets			
Inventories	20	428,000	319,598
Trade and other receivables	19	1,651,716	1,384,522
Cash and cash equivalents	21	397,042	81,343
		2,476,758	1,785,463
Total assets		2,833,092	2,137,784
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	191,429	191,429
Reserves	23	67,360	67,360
Retained earnings and income for the year	24	315,401	263,800
		574,190	522,589
Non-current liabilities			
Borrowings	26	17,189	34,378
Lease obligations	15	13,151	11,588
Provisions	28	637	943
Trade and other payables	25	32,266	28,438
		63,243	75,347
Current liabilities			
Trade and other payables	25	1,834,870	1,505,702
Borrowings	26	338,392	17,202
Lease obligations	15	7,421	6,042
Income tax payable		14,658	10,738
Provisions	28	318	164
		2,195,659	1,539,848
Total equity and liabilities		2,833,092	2,137,784

The notes on pages 20 to 66 form an integral part of these separate financial statements.

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

<i>(All amounts are expressed in in thousands of HRK)</i>	Note	Share capital	Reserves	Retained earnings and income for the year	Total
As at 1 January 2021		164,399	67,360	220,025	451,784
Comprehensive income for the year					
Profit for the year		-	-	77,500	77,500
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	77,500	77,500
Transactions with owners recognised directly in equity					
Release of treasury shares	22	27,030	-	-	27,030
Share based payments	31	-	-	4,431	4,431
Dividend payout	24	-	-	(38,156)	(38,156)
Total transactions with owners recognised directly in equity		27,030	-	(33,725)	(6,695)
As at 31 December 2021		191,429	67,360	263,800	522,589
As at 1 January 2022		191,429	67,360	263,800	522,589
Comprehensive income for the year					
Profit for the year		-	-	89,136	89,136
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	89,136	89,136
Transactions with owners recognised directly in equity					
Share based payments	31	-	-	2,999	2,999
Dividend payout	24	-	-	(40,534)	(40,534)
Total transactions with owners recognised directly in equity		-	-	(37,535)	(37,535)
As at 31 December 2022		191,429	67,360	315,401	574,190

The notes on pages 20 to 66 form an integral part of these separate financial statements.

SEPARATE 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		89,136	77,500
Adjusted by:			
Income tax	12	29,804	17,290
Share based payments	24, 31	2,999	4,431
Depreciation and amortisation	14, 15, 16	18,322	17,318
Impairment of trade and other receivables, net	9	617	(784)
Value adjustment on inventories	20	5,987	8,265
Unrealised foreign exchange differences		(280)	1,672
Changes in provisions	28	(152)	(14)
Gain on disposal of non-current tangible and intangible assets	10	(1,028)	(46)
Impairment of intangible assets	16	-	2
Lease agreement modification	15	75	-
Interest expense	11	1,977	3,461
Interest income	11	(19,938)	(10,487)
Changes:			
(Increase) / decrease in inventories		(114,389)	8,780
(Increase) / decrease in trade and other receivables		(271,275)	302,969
Increase / (decrease) in trade and other payables		333,243	(110,981)
Cash generated from operations		75,098	319,376
Interest paid		(1,787)	(3,781)
Income taxes paid		(25,646)	(16,284)
Cash flow from operating activities		47,665	299,311

The notes on pages 20 to 66 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

<i>(All amounts are expressed in thousands of HRK)</i>	Note	2022	2021
Cash flow from investing activities:			
Purchases of property and equipment and intangible assets	14, 16	(14,915)	(65,706)
Proceeds from government grants for purchases of property, plant and equipment	14	-	1,011
Proceeds from the sale of property and equipment		1,271	822
Proceeds from repayment of given loans		8,399	7,431
Given loans		(2,500)	-
Interest received		19,923	10,464
Cash flow from investing activities		12,178	(45,978)
Cash flows from financing activities:			
Repayments of borrowings	26	(207,189)	(713,733)
Proceeds from borrowings	26	511,000	487,000
Sale of treasury shares	22	-	27,030
Repayment of leases	15	(7,421)	(7,212)
Dividend payout	24	(40,534)	(38,156)
Cash flow from financing activities		255,856	(245,071)
Net increase in cash and cash equivalents		315,699	8,262
Cash and cash equivalents at the beginning of the year		81,343	73,081
Cash and cash equivalents at the end of year	21	397,042	81,343

The notes on pages 20 to 66 form an integral part of these separate financial statements.

NOTES TO THE SEPARATE 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 Croatia. The principal activity of the Company is the wholesale distribution of pharmaceutical products. The Company is headquartered in Zagreb, Capraška 1, the Republic of Croatia.

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 22.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The preparation of 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 Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The Company has issued these separate financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The Company has also prepared consolidated financial statements for the Company and its subsidiaries (“the Group”) in accordance with IFRS, which were approved by the Management on 9 March 2023. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these separate financial statements should read them together with the Group’s consolidated financial statements as at and for the year ended 31 December 2022 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and amendments to the existing standards not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company 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 Company is currently evaluating the effects of these amendments, but does not expect that the amendment will have an effect on the Company's retained earnings.

2.2 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currencies

(a) Functional and reporting currency

Items included in the Company's financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The separate financial statements are presented in the Croatian kuna (HRK), which is both the functional and reporting currency of the Company, 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.

2.4 Investments in subsidiaries and associates

(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.

(b) Associates

Associates are companies in which the Company has between 20% and 50% of the voting rights, i.e. in which it has a significant influence, but not control. Such investments are presented in these financial statements at cost less impairment losses, if any.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment (continued)

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 Company, 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.

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 Company 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 Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each 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 Company'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 Company 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 SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(b) 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.

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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position of the Company when the Company 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.

As of 1 January 2018, the Company 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 Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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.

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.

NOTES TO THE SEPARATE 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

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 Company 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 Company 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 Company 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 Company 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 Company 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 Company measures the loss for this financial instrument in the amount equal to a 12-month ECL.

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

(i) Significant increase in credit risk

When assessing whether the credit risk for the financial instrument significantly increased since the initial recognition, the Company 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 Company considers both quantitative and qualitative information which are reasonable and available, including the historical experience, which can be accessed without unnecessary costs or engagements.

NOTES TO THE SEPARATE 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 (continued)

In particular, for the loans given, the Company relies on days of default when assessing significant credit risk deterioration. If the debtor is in default more than 60 days, then the Company 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 Company does not currently use the simplification of a low credit risk when assessing the significant increase in credit risk.

The Company 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 Company, in full (without considering any collateral held by the Company).

(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.

NOTES TO THE SEPARATE 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)

(iv) Write-off policy

The Company 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 Company 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 Company 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 Company 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 Company recognises impairment gains and losses in the profit and loss account for all financial instruments with the appropriate adjustment of the carrying amount through the loss provisions account.

Financial liabilities

The financial liabilities recognised by the Company are trade payables and borrowings.

The Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial liabilities (continued)

(b) Borrowings (continued)

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

The Company derecognises financial liabilities when, and only when, the Company'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 company rents certain real estate and vehicles. Lease contracts are concluded for a period of 3 to 5 years and have the possibility of extension. In the case of contracts that contain lease components, the Company allocates fees under the contract to each lease component based on its relative independent price.

Leased property is classified as a right-of-use assets. At the same time, a lease liability is recognized on the date the property is ready for use. Right-of-use assets and lease liabilities are initially recognized at the present value of acquisition cost.

Lease liabilities include the net present value of the following lease payments: fixed payments less any incentives, amounts expected to be payable by the Company 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 Company, the Company'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.

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 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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 realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. 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 Company always reports the provisions for expected credit losses of trade receivables in the amount equal to the life-long ECL.

Trade and loan 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 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.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 measured at tax rates which are expected to be applied in the period when the assets are to be recovered and liabilities settled, based on tax rates and tax laws in force or partially applied on the balance sheet date.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits

(a) Pension obligations and other post-employment benefits

In the normal course of business the Company 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 Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-retirement benefits.

(b) Long-term employee benefits

The Company 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 Company 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 Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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.

2.18 Provisions

Provisions are recognised if the Company 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 stated as an interest expense.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for sold products, goods or services within the normal course of business of the Company. 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.

(b) Service revenue

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

(c) Financial income

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

2.20 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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 SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (which includes foreign exchange rate risk, the fair value interest rate risk and the cash flow interest rate), credit risk and liquidity risk. The pharmaceuticals wholesale 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 Company is focused on minimising or eliminating the potential adverse impact on the Company's financial position. Risk management within the Company is the responsibility of the Department of Accounting and Finance that, in cooperation with other Departments within the Company, identifies, assesses the risks and proposes risk protection measures.

(a) *Market risk*

(i) *Foreign exchange rate risk*

The Company generates most of its revenue on the domestic market and in the Croatian kuna (HRK). However, the Company 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 Department of Accounting and Finance 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 entirely denominated in the Croatian kuna and hence do not give rise to any foreign exchange risk exposure. The Purchase 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 15, 19, 21, 25, 26), 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 5,886 thousand higher/lower (2021: HRK 5,082 thousand), 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 Company's interest rate risk arises from its borrowings. Borrowings granted at variable rates expose the Company to cash-flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company does not use derivative instruments to actively hedge its cash flow and fair value interest rate risk exposure. However, the Company 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 at fixed rates).

NOTES TO THE SEPARATE 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 Company's current assets that may lead to credit risk consist mainly of cash, trade and other receivables. The Company has no significant concentrations of credit risk. The Company 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 that are privately owned. On the other hand, 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 Company secures the recovery of a part of the trade receivables with bills of exchange and promissory notes. A detailed credit risk analysis and the analysis of expected credit losses is presented in notes 18 and 19.

For trade receivables, the Company applied a simplified approach to measuring loss for the life-long expected credit losses.

At the reporting date, the Company is exposed to one customer from the hospital segment, accounting for 27% of total trade receivables. (31 December 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. The aim of the Company is to maintain financing flexibility by ensuring that the credit lines are available. The Department of Accounting and Finance 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 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 Company 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 397,042 HRK thousand (2021: HRK 81,343 thousand), and the Company had free credit lines in the amount of 418,211 HRK thousand (2021: 647,335 thousand) available at demand for liquidity risk management purposes.

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

<i>(in thousands of HRK)</i>	Up to 1 month	From 1 month to 1 year	1-3 years	Over 3 years	Total
31 December 2022					
Trade and other payables (note 25)	360,206	1,474,761	32,169	-	1,867,136
Borrowings	1,597	337,471	17,215	-	356,283
Leases	659	7,134	11,764	1,741	21,298

NOTES TO THE SEPARATE 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)

(in thousands of HRK)

	Up to 1 month	From 1 month to 1 year	1-3 years	Over 3 years	Total
31 December 2021					
Trade and other payables (note 25)	327,072	1,178,630	11,524	16,914	1,534,140
Borrowings	1,445	15,870	34,480	-	51,795
Leases	559	5,841	9,318	2,629	18,357

In 2023, the Company will settle trade and other current liabilities according to the dynamics of collection of receivables, which depends on the liquidity of the entire healthcare system.

3.2 Capital management

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

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

The Company 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
	(in thousands of HRK)	
Total capital (equity and reserves)	574,190	522,589
Total assets	2,833,092	2,137,784
Equity to assets ratio	20%	24%

The 2022 ratio increased from the one in 2021 and shows that the Company finances 20% of its total assets from own sources (2021: 24%). Consequently, 80% of the assets are financed from sources other than owner's equity (2021: 76%).

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 SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 4 - KEY ACCOUNTING ESTIMATES

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

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 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 Company uses reasonable and relevant information, based on historical data. ECL calculation model is further described in note 2.11.

Compared to 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 52 thousand lower than reported (2021: HRK 52 thousand).

Useful life of property and equipment

The determination of the useful life of the assets is based on past experience involving similar assets, as well as on forecast changes in the economic environment and industry-specific factors. The adequacy of the useful life estimates is reviewed once a year, or whenever there is an indication of significant changes in the underlying assumptions.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 5 – REVENUE

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Revenue from sales of goods	4,102,236	3,557,156
Revenue from sales of goods – related parties (note 31)	448,755	396,571
Revenue from sale of services	24,387	21,728
Revenue from sale of services – related parties (note 31)	987	1,159
	<u>4,576,365</u>	<u>3,976,614</u>

NOTE 6 – SEGMENT INFORMATION

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

The Company monitors revenues and gross profit by distribution channels:

1. Pharmacies
2. Hospitals
1. Other customers, divided into:
 - dental practices
 - veterinary clinics
 - medical centres
 - wholesalers
 - other customers (herbal pharmacies, companies, optics, etc.)

The Company 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 applies the same accounting policies in all segments.

NOTES TO THE SEPARATE 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>	Pharmacies	Hospitals	Other	Total
Revenue from sale of goods	1,621,471	1,939,648	541,117	4,102,236
Revenue from sale of goods - related parties (note 31)	448,561	-	194	448,755
Revenue from sale of services	277	2,014	22,096	24,387
Revenue from sale of services – related parties (note 31)	528	-	459	987
Total income	2,070,837	1,941,662	563,866	4,576,365
Cost of goods sold	(1,960,906)	(1,845,075)	(504,589)	(4,310,570)
Segment result	109,931	96,587	59,277	265,795
Operating expenses				(164,765)
Profit from operations				101,030
Financial income				19,938
Financial expenses				(2,028)
Net financial loss				17,910
Profit before tax				118,940
Income tax				(29,804)
Profit for the year				89,136

NOTES TO THE SEPARATE 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>	Pharmacies	Hospitals	Other	Total
Revenue from sale of goods	1,523,455	1,527,226	506,475	3,557,156
Revenue from sale of goods - related parties (note 31)	396,143	-	428	396,571
Revenue from sale of services	296	1,060	20,372	21,728
Revenue from sale of services – related parties (note 31)	534	-	625	1,159
Total income	1,920,428	1,528,286	527,900	3,976,614
Cost of goods sold	(1,824,663)	(1,444,309)	(473,353)	(3,742,325)
Segment result	95,765	83,977	54,547	234,289
Operating expenses				(146,561)
Profit from operations				87,728
Financial income				10,523
Financial expenses				(3,461)
Net financial loss				7,062
Profit before tax				94,790
Income tax				(17,290)
Profit for the year				77,500

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Trade receivables (note 19/ii/)	533,073	999,419	109,023	1,641,515

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Trade receivables (note 19/ii/)	527,872	750,745	91,825	1,370,442

Other assets are not analysed by segment considering the same assets are used in all segments for performing activities. Furthermore, the Company 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 18.15% in 2022 (2021: 16.12%).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 7 – EMPLOYEE COSTS

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Net salaries	43,734	42,107
Contributions from and on salaries /i/	21,353	20,530
Other employee benefits /ii/	8,601	4,489
Management bonuses	4,805	3,507
Taxes and surtaxes	4,787	4,540
Share based payments	2,999	4,431
Employee transportation costs	2,580	2,711
Termination benefits	297	120
	<u>89,156</u>	<u>82,435</u>

As at 31 December 2022, the Company employed 533 employees (31 December 2021: 527 employees).

/i/ Pension contributions recognised by the Company as payable to mandatory pension funds in respect of 2022 amount to HRK 11,896 thousand (2021: HRK 11,458 thousand).

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Donations	3,697	4,164
Marketing	3,204	1,899
Entertainment	2,821	2,117
	<u>9,722</u>	<u>8,180</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 9 – OTHER OPERATING EXPENSES

	2022	2021
	<i>(in thousands of HRK)</i>	
Maintenance of assets, security services and property insurance	14,423	12,541
Materials and energy	13,466	11,246
Taxes and contributions independent of the results	4,469	3,865
Professional training and consultancy services	3,271	3,415
Rental costs (note 15)	1,510	1,067
Telephone, postal and utility services	1,437	1,365
Road tolls and transportation costs	1,261	1,249
Bank and payment operation charges	937	1,321
Impairment of trade and other receivables, net (note 19)	617	(784)
Control and analysis services	415	419
Other costs	4,798	3,845
	46,604	39,549

NOTE 10 – OTHER LOSSES – NET

	2022	2021
	<i>(in thousands of HRK)</i>	
Net gains/(losses) on disposal of non-current tangible and intangible assets	1,028	46
Net foreign exchange gains/(losses) – trade and other receivables	13	5
Net foreign exchange gains/(losses) – cash and cash equivalents	(779)	167
Net foreign exchange gains/(losses) – trade and other payables	(1,223)	703
	(961)	921

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 11 – NET FINANCIAL GAIN / (LOSS)

Financial income	2022	2021
	<i>(in thousands of HRK)</i>	
Interest income	19,937	10,485
Interest income – related companies (note 31)	1	2
	19,938	10,487
Foreign exchange gains – net		
Foreign exchange gains (note 15)	-	36
	-	36
	19,938	10,523
Financial expenses	2022	2021
	<i>(in thousands of HRK)</i>	
Interest expense		
Bank loans (note 26)	(1,514)	(2,928)
Leases (note 15)	(452)	(506)
Penalty interest	(11)	(27)
	(1,977)	(3,461)
Foreign exchange losses – net		
Foreign exchange losses (note 15)	(51)	-
	(51)	-
	(2,028)	(3,461)

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 12 – INCOME TAX

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Current tax	22,105	18,196
Additional income tax	7,461	-
Over provision in previous year	-	(768)
	<u>29,566</u>	<u>17,428</u>
Deferred tax (note 27)	<u>238</u>	<u>(138)</u>
	<u>29,804</u>	<u>17,290</u>

Reconciliation of the Company's tax 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	118,940	94,790
Income tax at a rate of 18% (2021: 18%)	21,409	17,062
Effect of non-taxable income and tax incentives	(32)	(83)
Effect of non-deductible expenses	966	1,079
Additional income tax	7,461	-
Over provision in previous year	-	(768)
Income tax	<u>29,804</u>	<u>17,290</u>
Effective tax rate	<u>25.06%</u>	<u>18.24%</u>

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%.

In accordance with local regulations, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, and may introduce additional tax liabilities 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 SEPARATE 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>)	89,136	77,500
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>3,078.54</u>	<u>2,745.11</u>

NOTES TO THE SEPARATE 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	23,407	184,414	84,999	3,302	296,122
Accumulated depreciation	-	(76,738)	(62,738)	-	(139,476)
Net carrying amount	23,407	107,676	22,261	3,302	156,646
For the year ended 31 December 2021					
Opening carrying amount, net	23,407	107,676	22,261	3,302	156,646
Additions	-	-	-	60,875	60,875
Transfer from assets under construction	-	11,652	5,326	(16,978)	-
Disposals	-	(240)	(193)	(141)	(574)
Depreciation	-	(4,979)	(4,249)	-	(9,228)
Closing carrying amount, net	23,407	114,109	23,145	47,058	207,719
Balance at 31 December 2021					
Cost	23,407	195,580	90,638	47,058	356,683
Accumulated depreciation	-	(81,471)	(67,493)	-	(148,964)
Net carrying amount	23,407	114,109	23,145	47,058	207,719
For the year ended 31 December 2022					
Opening carrying amount, net	23,407	114,109	23,145	47,058	207,719
Additions	-	-	-	12,206	12,206
Transfer from assets under construction	-	3,550	8,008	(11,558)	-
Disposals	-	-	(7)	(182)	(189)
Depreciation	-	(5,367)	(4,780)	-	(10,147)
Closing carrying amount, net	23,407	112,292	26,366	47,524	209,589
Balance at 31 December 2022					
Cost	23,407	199,130	94,333	47,524	364,394
Accumulated depreciation	-	(86,838)	(67,967)	-	(154,805)
Net carrying amount	23,407	112,292	26,366	47,524	209,589

Loan liabilities (note 26) 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 SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 15 – LEASES

The Company 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	13,052	9,209
Business premises	5,604	7,472
	<u>18,656</u>	<u>16,681</u>
Lease obligations:		
Current	7,421	6,042
Non-current	13,151	11,588
	<u>20,572</u>	<u>17,630</u>

/ii/ Long-term lease liabilities are as follows:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
From 1-2 years	6,426	5,034
From 2-5 years	6,725	6,554
	<u>13,151</u>	<u>11,588</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	6,401	6,521
Interest expense (note 11)	452	506
Rental costs related to short-term leases (note 9)	1,510	1,067
	<u>8,363</u>	<u>8,094</u>

The average interest rate is 2.95%.

NOTES TO THE SEPARATE 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:

(all amounts are expressed in thousands of HRK)

	Vehicles	Business premises	Total
For the year ended			
31 December 2021			
Opening carrying amount, net	10,581	6,219	16,800
Additions	3,483	3,121	6,604
Disposals	(202)	-	(202)
Depreciation and amortisation	(4,653)	(1,868)	(6,521)
Closing carrying amount, net	9,209	7,472	16,681
Balance at 31 December 2021			
Cost	16,562	9,444	26,006
Accumulated depreciation	(7,353)	(1,972)	(9,325)
Net carrying amount	9,209	7,472	16,681
For the year ended			
31 December 2022			
Opening carrying amount, net	9,209	7,472	16,681
Additions	8,500	-	8,500
Disposals	(49)	-	(49)
Contract modifications	(75)	-	(75)
Depreciation and amortisation	(4,533)	(1,868)	(6,401)
Closing carrying amount, net	13,052	5,604	18,656
Balance at 31 December 2022			
Cost	23,323	9,444	32,767
Accumulated depreciation	(10,271)	(3,840)	(14,111)
Net carrying amount	13,052	5,604	18,656

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 15 – LEASES (continued)

/v/ Recognition of lease liabilities:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Lease liabilities recognized on 1 January	17,630	18,359
Additions	10,362	6,773
Lease payments	(7,421)	(7,212)
Interest expense (note 11)	452	506
Interest paid	(452)	(506)
Foreign exchange (gains)/losses – net (note 11)	51	(36)
Write-off	(50)	(254)
Lease liabilities recognized on 31 December	20,572	17,630

The Company's entire lease liability as at 31 December 2022 and 31 December 2021 has been converted from the euro.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 16 – INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)

	Software	Goodwill	Assets under construction	Total
Balance at 31 December 2020				
Cost	26,293	11,930	524	38,747
Accumulated amortisation	(19,082)	-	-	(19,082)
Net carrying amount	7,211	11,930	524	19,665
For the year ended 31 December 2021				
Opening carrying amount, net	7,211	11,930	524	19,665
Additions	-	-	3,820	3,820
Transfers from assets under construction	1,169	-	(1,169)	-
Disposals	(2)	-	-	(2)
Amortisation	(1,569)	-	-	(1,569)
Closing carrying amount, net	6,809	11,930	3,175	21,914
Balance at 31 December 2021				
Cost	27,342	11,930	3,175	42,447
Accumulated amortisation	(20,533)	-	-	(20,533)
Net carrying amount	6,809	11,930	3,175	21,914
For the year ended 31 December 2022				
Opening carrying amount, net	6,809	11,930	3,175	21,914
Additions	-	-	2,709	2,709
Transfers from assets under construction	5,579	-	(5,579)	-
Amortisation	(1,774)	-	-	(1,774)
Closing carrying amount, net	10,614	11,930	305	22,849
Balance at 31 December 2022				
Cost	32,710	11,930	305	44,945
Accumulated amortisation	(22,096)	-	-	(22,096)
Net carrying amount	10,614	11,930	305	22,849

Goodwill arose as a result of merging two subsidiaries into the Company in 2008.

Goodwill impairment test

The Company calculated the recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a five-year business plan approved by the Management. For the purposes of the cash flow projections, a discount rate of 8.41% (2021: 5.58%) and a terminal growth rate of 2.50% (2021: 2.50%) were applied. The recoverable amount exceeds the carrying amount.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 17 – INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries

	Interest in %, 2022	Interest in %, 2021	2022	2021
			<i>(in thousands of HRK)</i>	
ZU Ljekarne Prima Pharme, Zagreb	100%	100%	80,000	80,000
Primus nekretnine d.o.o., Zagreb /i/	100%	100%	20,199	20,199
			100,199	100,199

NOTE 18 – FINANCIAL INSTRUMENTS BY CATEGORY

	2022	2021
	<i>(in thousands of HRK)</i>	
Financial assets – category: Loans and receivables		
Loans and receivables (note 19/v/)	1,651,359	1,383,052
Cash and cash equivalents (note 21)	397,042	81,343
	2,048,401	1,464,395
Financial liabilities - category: Other liabilities		
Trade payables (note 25/i/)	1,833,444	1,504,506
Other liabilities (note 25/iii/)	33,448	29,390
Total borrowings (note 26)	355,581	51,580
Leases (note 15)	20,572	17,630
	2,243,045	1,603,106

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/):

	2022	2021
	<i>(in thousands of HRK)</i>	
Hospitals	295,715	292,371
Pharmacies	419,356	290,167
Other	60,247	57,731
Balance at 31 December	775,318	640,269

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 19 – TRADE AND OTHER RECEIVABLES

	2022	2021
	<i>(in thousands of HRK)</i>	
Long-term receivables:		
Given loans /i/	4,620	5,149
Long-term deposits	103	103
	<u>4,723</u>	<u>5,252</u>
Current receivables:		
Trade receivables /ii/	1,641,515	1,370,442
Other current receivables /iii/	4,977	6,619
Given loans /iv/	162	224
Given loans – current portion of non-current receivables /i/	5,062	7,237
	<u>1,651,716</u>	<u>1,384,522</u>
	<u>1,656,439</u>	<u>1,389,774</u>

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

	Effective interest rate	2022	2021
		<i>(in thousands of HRK)</i>	
Loans given to pharmacies	3.0%-5.0%	6,992	10,936
Other given loans	3.0%-5.0%	2,690	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>

The fair value of long-term receivables approximates the carrying amounts.

The maturity of long-term loans is as follows:

	2022	2021
	<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 SEPARATE 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:

	2022	2021
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	1,478,008	1,206,773
Trade receivables – related parties (note 31)	168,099	169,707
Foreign trade receivables	1,744	3,677
	<u>1,647,851</u>	<u>1,380,157</u>
Expected credit losses	(6,336)	(9,715)
	<u>1,641,515</u>	<u>1,370,442</u>

The ageing structure of receivables:

	2022	2021
	<i>(in thousands of HRK)</i>	
Not yet due	775,318	640,269
0-180 days past due	834,235	730,087
181-360 days past due	3,213	4,692
Over 360 days past due	35,085	5,109
	<u>1,647,851</u>	<u>1,380,157</u>

Movements in impairment allowance for trade receivables:

	2022	2021
	<i>(in thousands of HRK)</i>	
Balance at 1 January	9,715	10,522
Increase/(decrease) (note 9)	607	(780)
Write-off	(3,986)	(27)
Balance at 31 December	<u>6,336</u>	<u>9,715</u>

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

	2022	2021
	<i>(in thousands of HRK)</i>	
HRK	1,654,750	1,386,397
EUR	1,680	3,375
GBP	9	2
	<u>1,656,439</u>	<u>1,389,774</u>

NOTES TO THE SEPARATE 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:

	2022	2021
	<i>(in thousands of HRK)</i>	
VAT receivable not yet recognized	3,285	4,399
Prepaid expenses	744	786
Other	948	1,434
	4,977	6,619

/iv/ Short-term loans given reported in the statement of financial position as at 31 December are as follows:

	2022	2021
	<i>(in thousands of HRK)</i>	
Given loans	172	1,512
	172	1,512
Expected credit losses	(10)	(1,288)
	162	224

Movements in provisions for impairment of given loans:

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Trade receivables	1,641,515	1,370,442
Given cash loans	6,492	9,443
Given commodity loans	3,285	3,101
Given cash loans – related parties (note 31)	67	66
	<u>1,651,359</u>	<u>1,383,052</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.

NOTE 20 – INVENTORIES

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Trade goods	389,666	300,717
Trade goods – related parties (note 31)	32,397	15,900
Prepayments made	6,650	3,548
Materials	211	100
Impairment allowance on inventories	(924)	(667)
	<u>428,000</u>	<u>319,598</u>

In 2022, the Company recognised an allowance in the amount of HRK 5,987 thousand (2021: HRK 8,265 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 Company's borrowings (note 26).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 21 - CASH AND CASH EQUIVALENTS

	2022	2021
	<i>(in thousands of HRK)</i>	
Domestic currency (HRK) account balance	397,042	81,311
Foreign currency account balance	-	21
Cash in hand	-	8
Deposits	-	3
	397,042	81,343

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

NOTE 22 – SHARE CAPITAL

At 31 December 2022, the share capital of the Company amounts to 209,244,420 HRK thousand (31 December 2021: HRK 209,244,420 thousand) 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	Share capital	Treasury shares	Capital gains/ (losses)	Total
	<i>(in pieces)</i>		<i>(in thousands of HRK)</i>		
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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 22 - SHARE CAPITAL (continued)

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 2022, 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 Ljekarne 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.

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

NOTE 23 – 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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 24 – 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.

NOTE 25 – TRADE AND OTHER PAYABLES

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Non-current liabilities:		
Trade payables /i/	32,022	28,194
Other liabilities /ii/	244	244
	<u>32,266</u>	<u>28,438</u>
Current liabilities:		
Trade payables /i/	1,801,422	1.476.312
Other liabilities /iii/	33,448	29.390
	<u>1,834,870</u>	<u>1.505.702</u>
	<u>1,867,136</u>	<u>1.534.140</u>

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

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
Foreign trade payables	1,337,543	1,092,275
Domestic trade payables	372,574	336,814
Trade payables - related parties (note 31)	123,327	75,417
	<u>1,833,444</u>	<u>1,504,506</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 25 – TRADE AND OTHER PAYABLES (continued)

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

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
HRK	1,134,445	898,899
EUR	698,889	605,508
Other currencies	110	99
	<u>1,833,444</u>	<u>1,504,506</u>

/ii/ Other non-current payables relate entirely to received deposit for rental of property acquired in 2021.

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

	<u>2022</u>	<u>2021</u>
	<i>(in thousands of HRK)</i>	
VAT payable	17,701	15,474
Salaries payable	6,512	5,782
Unused annual leave	2,827	2,758
Other taxes and contributions payable	212	160
Other	6,196	5,216
	<u>33,448</u>	<u>29,390</u>

NOTE 26 – BORROWINGS

	<u>2022</u>	<u>2021</u>
Long-term:		
Long-term loans /i/	17,189	34,378
	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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 26 – BORROWINGS (continued)

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>
	Kune	Kune
	%	%
Short-term borrowings		
Short-term loans	0,25%-0,60%	0.29%

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

The Company's 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	-	-
	-	-
Fixed-rate borrowings		
Fixed-rate loans	355,581	51,580
	355,581	51,580
Total borrowings	355,581	51,580

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

The carrying amounts of the Company'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
	355,581	51,580

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 26 – BORROWINGS (continued)

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

Movement in borrowings:

	2022	2021
	<i>(in thousands of HRK)</i>	
Borrowings recognized at 1 January	51,580	278,634
Additions	511,000	487,000
Payments	(207,189)	(713,733)
Interest expenses (note 11)	1,514	2,928
Interest paid	(1,324)	(3,249)
Borrowings recognized at 31 December	355,581	51,580

NOTE 27 – DEFERRED TAX ASSETS

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>	Invent -ories	Office suppl- ies	Provisio- ns for employee benefits	Fixed assets	Right-of-use assets and lease liability	Total
Balance at 1 January 2021	194	-	209	-	15	418
Tax charged to profit or loss	-	-	-	-	-	-
Tax credited to profit or loss	36	21	26	41	16	138
Balance at 31 December 2021	228	21	235	41	31	556
Balance at 1 January 2022	228	21	235	41	31	556
Tax charged to profit or loss	(106)	(21)	(83)	(41)	-	(251)
Tax credited to profit or loss	-	-	-	-	13	13
Balance at 31 December 2022	122	-	152	-	44	318

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 28 - PROVISIONS

<i>(in thousands of HRK)</i>	Employee benefits	Legal disputes	Total
Balance at 31 December 2021	1,000	107	1,107
Long-term portion	943	-	943
Short-term portion	57	107	164
Balance at 1 January 2022	1,000	107	1,107
Increase/(decrease)	(95)	-	(95)
Utilized during year	(57)	-	(57)
Balance at 31 December 2022	848	107	955
Long-term portion	637	-	637
Short-term portion	211	107	318

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

During 2022, the Company did not increase provisions for legal disputes.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2022**

NOTE 29 - CONTINGENT LIABILITIES

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

NOTE 30 - 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 31 – RELATED-PARTY TRANSACTIONS

The Company enters into transactions with related parties.

The related parties include:

	<u>2022</u>	<u>2021</u>
1. Subsidiaries:		
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
Primus nekretnine d.o.o., Zagreb	100%	100%
2. Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Delonga, Zagreb (acquired on 07 May 2007, merged on 01 September 2022)	-	100%
3. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb		
Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%
4. 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%		
5. 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 SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 31 – 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 items from the Statement of comprehensive income are shown below:

<i>(in thousands of HRK)</i>	Note	2022	2021
Trade and other receivables			
<i>Given loans</i>			
Subsidiaries – given loans		50	50
Subsidiaries – interest receivables		17	16
	19/v/	67	66
<i>Trade receivables</i>			
Subsidiaries		141,689	143,946
Subsidiaries of ZU Ljekarne Prima Pharne		-	238
Associate of ZU Ljekarne Prima Pharne		26,143	25,143
Auctor Holding a.s.		1	1
Pliva Hrvatska d.o.o.		266	379
	19/ii/	168,099	169,707
Inventories			
Pliva Hrvatska d.o.o.		32,397	15,900
	20	32,397	15,900
Trade payables			
Pliva Hrvatska d.o.o.		123,327	75,417
	25/i/	123,327	75,417
Revenue from sale of goods			
Subsidiaries		370,785	303,811
Subsidiaries of ZU Ljekarne Prima Pharne		7,613	28,018
Associate of ZU Ljekarne Prima Pharne		70,163	64,314
Pliva Hrvatska d.o.o.		194	424
Auctor d.o.o.		-	4
	5, 6	448,755	396,571
Revenue from sale of services			
Subsidiaries		527	521
Subsidiaries of ZU Ljekarne Prima Pharne		6	21
Auctor Holding a.s.		9	26
Pliva Hrvatska d.o.o.		445	591
	5, 6	987	1,159

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

NOTE 31 – RELATED-PARTY TRANSACTIONS (continued)

Financial income

Subsidiaries

		1	2
11		1	2

Purchases of trade goods

Pliva Hrvatska d.o.o.

318,304	184,532
318,304	184,532

Key management compensation – salaries and bonuses
for members

6.581 6,082

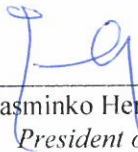
Supervisory Board and Audit Committee compensation

400 394

Members of the Management Board of the Company and one employee of the Company purchased 2,750 shares in Medika d.d. and a member of the Supervisory Board of the Company purchased 972 shares in Medika d.d. from the related entity Auctor d.o.o. primarily via secured loans received from the same related entity. The voting rights of the shares remain with Auctor d.o.o. and may be repurchased by Auctor d.o.o. or transferred to third parties under specific conditions. 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 4,431 thousand and during the year 2022 HRK 2,999 thousand.

NOTE 32 - APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 15 to 66 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 Medike d.d. 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 Medike d.d. za 1-12. mj. 2022. god. kako ga je utvrdila Uprava Medike d.d.

Time je Izvješće o poslovanju Medike d.d. 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 d.d.
ZAGREB, Capraška 1

Predsjednica Nadzornog odbora

Ružica Vadić, mag. oec.

PRIJEDLOG ODLUKE

o upotrebi dobiti za 2022. god.

1. Uprava i Nadzorni odbor Medike d.d. daju Glavnoj skupštini na odlučivanje slijedeći prijedlog odluke o upotrebi dobiti :

Cjelokupna neto dobit Društva u iznosu 89.137.022,17 kn/ 11.830.515,92 EUR, rasporedit će se u zadržanu dobit.

2. Glavna skupština koja će odlučivati o prijedlogu odluke o upotrebi dobiti sazvana je za dan 02.05.2023. godine.

U Zagrebu, 23.03. 2023.

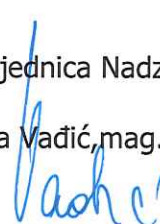
Predsjednik Uprave

Jasminko Herceg, mag.oec.

 **Medika** d.d.
ZAGREB, Capraška 1

Predsjednica Nadzornog odbora

Ružica Vadić, mag. oec.



*Fiksni tečaj konverzije 1 euro = 7.53450 kuna