2023
ANNUAL REPORT

Krka, d. d., Novo mesto

Living a healthy life.

Contents

In accordance with Commission Delegated Regulation (EU) 2019/815 and Paragraph 1 of Article 134 of the Market in Financial Instruments Act (ZTFI-1), the official and original version of the report is the one created in the European Single Electronic Format (ESEF), prepared in the Slovenian language and published via SEOnet, the official electronic dissemination information system of the Ljubljana Stock Exchange. This version of the annual report is a translation. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

INTRODUCTION

Statement by the President of the Management Board[1]

Dear shareholders, business partners and employees,

We meticulously plan and execute our business strategy, recognising its critical significance for our sustained growth and survival within the competitive landscape of generic pharmaceuticals. The Krka Group's stable business and sustainable growth over numerous years serve as evidence that the path we are pursuing is indeed the right one. Business indicators for 2023 suggest we successfully navigated risks and significantly boosted our sales. We capitalised on market conditions effectively, generating record revenue of €1.8 billion for the Krka Group.

Record sales and EBITDA

The year 2023 proved to be dynamic for our company, the pharmaceutical industry, and the economy at large, rendering the business environment across most sales and purchasing markets susceptible to fluctuations. We are content with our ability to identify numerous opportunities and successfully leverage them despite facing various challenges, thanks to our responsiveness and adaptability.

Last year, the Krka Group generated €1,806.4 million in sales, a 5% year-on-year rise, surpassing the 2023 sales targets, and created the highest EBITDA to date, totalling €504.2 million, up 3% on 2022. Net profit amounted to €313.7 million, and ROE to 14.5%.

The development potential of generic pharmaceutical markets is promising, as generic pharmaceuticals enhance healthcare accessibility and contribute to the sustainability of national health systems. The increasing demand for our products stems from their innovative nature and superior quality. In 2023, we manufactured and packed 16.9 billion solid forms, marking our highest production volume to date. We are pleased that despite the complexity of purchase markets, we managed to further shorten the average lead time from order placement to product deliveries to our customers and, in turn, significantly increased process flexibility throughout our supply chain. We are purposefully fostering a culture of adaptability and agility within our organisation, leveraging it as a cornerstone of our competitive edge.

Once more, we have received confirmation that maintaining top quality in medicinal products remains paramount for gaining competitive advantages in the market. In-house analyses show that our vertically integrated business model delivers top-quality medicinal products and supports our agility and flexibility. Our foremost commitment lies in continuously developing and producing innovative, high-quality generic pharmaceuticals marketed under our brand names. Our marketing and sales teams have a thorough understanding of the expectations of our patients, the expert community, and buyers, enabling us to tailor our product portfolio to their needs.

A leading provider of generic medicines across numerous markets

We strive to expand the availability of our medicines across various markets, enhancing our adaptability to diverse economic conditions worldwide. With one of the most robust marketing and sales networks among pharmaceutical firms in our established markets, we ensure widespread access to our products. We have also effectively handled sales across the majority of western European markets via our network. In 2023, we exported 94% of products to over 70 markets spanning six regions. Our presence is strong in Slovenia and markets in eastern, central, western, and southeastern Europe, as well as overseas.

Region East Europe remained the leading region in 2023 and generated sales of €594 million. Sales totalled €346.8 million in the Russian Federation, our biggest single market in size. Sales denominated in the national currency presented 15% growth, while sales volume increased by 7% year on year. Even so, sales value converted into euro decreased by 10% due to Russian rouble depreciation. We ranked second among foreign providers of generic medicines, capturing a 2% market share in the country, and outperformed the market growth rate.

[1] GRI 2-22

In Ukraine, one of our key markets, we encountered several challenges in 2023. Despite this, we recorded sales of €83.4 million, equivalent to 88% of total sales generated the previous year, making us the country's second-largest foreign provider of generic medicines by market share.

We recorded strong sales in Belarus, Mongolia, Armenia, and Azerbaijan, where our product sales generated €57.2 million, up 17%. We were the second-largest foreign provider of generic medicines in Belarus. Product sales also increased in Kazakhstan, Moldova, and Kyrgyzstan, reaching €42 million, up 8% on 2022. In Uzbekistan, Georgia, Tajikistan, and Turkmenistan, our product sales totalled €64.6 million, up 21%.

Region Central Europe generated product sales totalling €397.1 million, up 9%. We increased sales in all markets. We experienced the highest increase in sales in Poland, elevating it by €12.7 million to €180.8 million. Lithuania recorded the highest relative growth, reaching 20%. Poland is one of our key markets, where we were the third-largest foreign provider of generic medicines.

We were also satisfied with our sales growth in Czechia, another key market. Product sales totalled €60.9 million, a 9% year-on-year increase. We ranked fourth among foreign providers of generic medicines. In Hungary, we ranked second among primarily foreign providers of generic medicines. We generated sales of €52.3 million, an 11% year-on-year increase, which made Hungary one of our largest markets in the region. Product sales in Slovakia, another key and fourth-largest regional market, generated €42.8 million, up 6% on 2022. We ranked fourth among all providers of generic medicines.

The markets of Region West Europe are collectively regarded as one of our key markets. Regional sales amounted to €369.6 million in 2023, a 13% year-on-year increase. Germany remained our most important regional market, where we ranked eighth among all foreign providers of generic medicines, recording product sales of €105.9 million, up 20% on 2022.

In Italy, Portugal, and Spain, product sales amounted to €88.7 million, up 11% year on year. In Scandinavia, our product sales totalled €62.9 million. We were among the leading generic providers of many products in Sweden, Finland, Norway, and Denmark. We recorded quick growth in the markets of the United Kingdom, Ireland, and Austria, where total sales saw a 21% year-on-year increase, reaching €46.4 million. France and the Benelux recorded a 4% year-on-year decrease, generating sales total of €53.1 million.

Region South-East Europe generated product sales of €249.3 million, up 11% on 2022. We increased sales in all markets. Product sales in Romania, one of our key markets and the largest regional market, increased by 15% to €72.4 million. We ranked fourth among foreign providers of generic medicines in the country. Croatia is another key market. Capturing a 3.5% market share, we ranked second among foreign providers of generic medicines, fourth among all providers of generic medicines, and second among animal health product manufacturers. Croatian sales totalled €46 million, up 12% on 2022. Serbia recorded €37.5 million in sales and growth of 16%, positioning the country third among regional markets. Furthermore, we excelled in solidifying our presence in Bulgaria, North Macedonia, Bosnia and Herzegovina, Kosovo, Albania, Montenegro, and Greece.

In the domestic market, one of our key markets, we captured a 7.3% market share, raking us first among all providers of generic medicines. Krka manufactured one-fifth of all medicines sold in Slovenia. Sales of products and services amounted to €113.8 million in 2023. Product sales were valued at €66.1 million, up 9%. Effective business operations contributed to 10% growth, with Terme Krka, our subsidiary specialising in tourism and health resort services, also playing a significant role in this achievement.

We have been experiencing growing success beyond our traditional markets as well. Region Overseas Markets generated €75.2 million in sales, a 14% year-on-year rise. All four regional sales offices recorded growth: the Middle East, Far East and Africa, China, and the Americas.

Krka's products trusted by over 100 million people

Our most important product group are prescription pharmaceuticals. They generated €1,469.4 million in revenue, up almost 6% on 2022. Our reliable supplies establish us as an essential partner in treating the most common diseases. Accounting for over 50% of our product portfolio, cardiovascular agents serve as the cornerstone, with therapies for the central nervous system and gastrointestinal tract following closely behind. Our pain relievers, antidiabetics, oncology agents, and medicines for treating blood and blood-forming organs have further solidified their position within our portfolio.

More than 100 million people trust our medicines. Every day, we contribute to enhancing the lives of people diagnosed with hypertension and hyperlipidemia, depression, anxiety, dementia, heartburn, stomach problems, pain, diabetes, cancer, and many others. In 2023, we launched several new products containing generic active ingredients, also in combination form, added new pharmaceutical forms or pack sizes to the existing range, and launched them on new markets.

We are experiencing strong sales in our non-prescription product category and continue to expand its range. They generated €177.3 million in sales last year. Cough and cold products accounted for over 50% of overall non-prescription product sales, followed by pain relievers, vitamins and minerals.

Our animal health products have also become more firmly established. In 2023, Krka Group sales of products for farm and companion animals amounted to €104.6 million, a 12.5% year-on-year climb. The Russian Federation, Poland, and Germany recorded the highest growth, primarily owing to companion animal products, which accounted for over 70% of overall sales.

We finalised nearly 700 registration procedures last year

Our product development relies on scientific research findings and data obtained from our research and development studies. We integrate modern methods into the development of new products and continuously enhance existing ones. Over 800 experts across diverse fields contribute to advancing our development portfolio with state-of-the-art equipment and innovative methods.

Last year, our portfolio expanded by 14 new products, including ten prescription pharmaceuticals and two veterinary medicines. Additionally, two products were added to our consumer health and food supplement range. By the end of 2023, our portfolio comprised nearly 500 authorised products in a variety of pharmaceutical forms.

We currently have approximately 170 projects in the pipeline to ensure new product launches by 2035. We intend to add more than 20 products to extend our portfolio of cardiovascular agents and antidiabetics. We also focus on medicines for treating blood and blood-forming organs and cancer.

One of our primary sustainable development goals is to ensure widespread access to contemporary medicines, aligning with the right to medical care as outlined in the *Universal Declaration of Human Rights*. Last year, we finalised 698 marketing authorisation procedures, including 497 for prescription pharmaceuticals and nine for non-prescription products, directly facilitating access to medications for patients across multiple markets. With a primary focus on expanding our animal product portfolio, we finalised 192 procedures in the animal health segment.

We prioritise product quality in all our development projects. At the same time, we also look to minimise the environmental impact of technological processes, reduce our carbon footprint, and align with circular economy objectives whenever feasible.

We address rising market demands through investments

We continued our investments in new production equipment and process upgrades to reduce our response times further and improve quality, in line with the increasing demand for our products. We rearranged our development-and-control laboratories to improve working conditions for our researchers. We allocated €131.9 million to investments, including €111.8 million to the controlling company, and €20.2 million to subsidiaries. We invested primarily in the production of finished products, digitalisation of systems, intangible assets, and infrastructure.

At our central site in Novo mesto, Slovenia, we replaced and upgraded packaging lines at Notol, our primary solid-form production, and installed a new high-capacity tablet press at Notol 2, another solid-form production plant. We invested €26 million in OTO, the Solid Dosage Products plant in Novo mesto, Slovenia, to increase capacities for compression mixture preparation and granulation in the tablet compression process and in logistic capacities. We increased granulation and packaging capacities at the Ljutomer lozenge production plant in Slovenia. We installed an inspection machine to increase production capacity for uncoated lozenges and a robotic cell to optimise packaging. The construction of Paviljon 3, a six-story building housing microbiology laboratories and other facilities, in Novo mesto, Slovenia, was nearing completion. The investment was worth €19.3 million. We installed a new line in the production and distribution centre in Jastrebarsko, Croatia, to increase production capacities for veterinary solid dosage forms by one quarter.

We established a joint venture with a local partner in India

We have maintained a successful partnership with our Indian collaborator, Laurus Labs Ltd., for several years. Last year, we opted to fortify our partnership by pooling our know-how and resources, laying the groundwork for establishing a joint venture named Krka Pharma Pvt. Ltd., headquartered in Hyderabad. In January 2024, we signed the incorporation contract. Registered capital of up to €50 million will be paid in gradually as needed. Additionally, we plan to progressively expand our business activities.

Laurus Labs, a research-driven pharmaceutical and biotechnology company established in 2005, is a global player in its portfolio of selected APIs. The company provides integrated development and manufacturing services, from the clinical stage of pharmaceutical development to commercial production. We believe that our joint venture with Krka's 51% and Laurus's 49% stakes will deliver synergies and enable both companies to extend their product portfolios and enter new markets, consolidating their status in the global market.

We managed business and financial risks

In 2023, the foreign exchange risk heightened due to the significant volatility of the Russian rouble, which constitutes the majority of Krka's currency exposure. Payments effected in the Russian rouble significantly mitigated the risk. We also successfully managed trade receivables, and hence the long currency position. Insurance against currency risk for the Russian rouble was not attainable. We were not exposed to currency risk in Ukraine.

We finance our business operations using our cash flows, which proved especially advantageous during the period of increasing interest rates and limited liquidity in 2023. While many companies experienced occasional disruptions in their supply chains, the Krka Group sustained sufficient inventories thanks to its strong liquidity position. Business operations continued without interruption primarily due to the vertically integrated business model, relatively short supply chains established with long-term business partners, and the ongoing search for new competitive suppliers.

The energy commodities market has been notably unpredictable in recent years. Krka effectively navigated the situation through timely forward purchasing of energy commodities. Additionally, in 2023, we optimised estimated billing powers and secured a purchase contract for carbon-free electricity supplies in 2024 and 2025 at competitive prices. Prices for energy commodities, raw materials, utility supplies, technological equipment, and various services remained volatile. To mitigate this risk, we engaged new or additional suppliers.

Our ESG score positions us as one of the leading pharmaceutical companies

Our ESG score validates the effectiveness of our sustainable business practices and ESG governance within the Krka Group. S&P Global, one of the leading international credit and ESG rating agencies, assessed Krka's ESG compliance in 2023. In November 2023, Krka scored 50 out of 100 in the *2023 S&P Global Corporate Sustainability Assessment*. We take pride in our achievement of placing among the top 10% (out of 348) of the world's highest-ranking pharmaceutical companies, following several years of systematically integrating sustainability into our business processes. Our scores were 60 out of 100 in the governance dimension, 42 out of 100 in the environmental dimension, and 41 out of 100 in the social dimension.

At the 25th Energy Experts Conference held in April 2023, the panel declared Krka as the most energy-efficient company, which reaffirms our commitment to upholding the highest standards in environmental protection also. Krka earned the title in both the expert jury's assessment and among internet users, attributed to our complex, efficient, and sustainable management of energy and natural resources, leading to reductions in the specific use of energy and greenhouse gas emissions. In 2023, one of our employees was honoured with the Environmental Sustainability Manager of the Year award.

We took home the Most Reputable Employer in Slovenia award once again

The labour market landscape remained challenging throughout the year. Above all, active head-hunting and our reputation among job seekers were instrumental in recruiting the top-tier employees. We also intensified our educational activities and once again received the *TOP Education Management Certificate* at the Edutainment 2023 convention. The certificate is awarded to Slovenian companies that make above-average investments in employee education and development. In 2023, we were once again honoured by MojeDelo.com as the most reputable employer in Slovenia. This marked our seventh time receiving the award.

At the end of 2023, the Krka Group employed 12,753 persons, including 973 agency workers. We employed 1,827 persons to drive the expansion of our business with their know-how and skills. Last year, the number of employees in Krka increased by 3% and in the Krka Group by 2%.

Krka share price rose almost 20%

In 2023, we allocated 56.3% of the consolidated net profit attributable to equity holders of the controlling company generated in 2022 for dividend payout. Gross dividend per share increased by 17.2%. We paid out dividends of €6.60 gross per share, the highest to date.

We made efforts to ensure quality communication with shareholders and analysts, providing transparent and regular updates on significant business events and performance results, along with clear information about Krka’s strategy and plans. In 2023, we participated in 13 investment conferences with investors from more than 15 countries. We organised three webcasts to present our quarterly business reports. We also hosted Krka Investor Day and held conference calls with more than 100 investors.

At the December 2023 investor conference, we received the *Best Investor Relations Award* among all companies listed on the Ljubljana and Zagreb Stock Exchanges for the fourth time.

We revised the five-year Krka Group development strategy

As part of the routine biannual updates, the Management and Supervisory Boards revised the *2024–2028 Krka Group Development Strategy*, further enhancing all aspects essential for the successful development, production, and sales of the Krka Group’s innovative generic pharmaceuticals under corporate product brands.

Our strategic objective for the next five years is to achieve an average growth of at least 5% in both sales volume and sales value, and above-average sales growth against market dynamics. We aim to reinforce our position or place among the leading providers of generic pharmaceuticals under our brand names in individual markets and selected therapeutic categories.

We aim to strengthen and optimise our vertically integrated business model, which provides us with a significant competitive edge. The model will further ensure high product quality, safety, and efficacy standards and the best business performance possible. We are committed to maintaining a focus on the long-term profitability of our products. We aim to achieve a targeted EBITDA margin averaging at least 25% over the next five years.

We plan to extend our operations, partly by engaging contractual partners in developing and producing certain APIs and finished products, while maintaining continuous quality assurance. We aim to continue fostering organic growth and complement it with long-term partnerships and targeted acquisitions.

We strive to maintain a focus on products from our well-established therapeutic categories for chronic diseases. Additionally, our updated strategy places particular emphasis on our new antidiabetic and oncology agents.

We plan to continue developing complex products that provide us with a significant competitive edge. These include many combinations of active substances, new pharmaceutical forms, strengths, and innovative delivery systems. Our product portfolio includes 150 single-pill combinations, more than that of any other manufacturer. Physicians frequently prescribe them to simplify therapy and enhance patient compliance, thereby improving treatment outcomes. Combination products allow for better life cycle management and significantly higher added value than mono-component medicines, even though their development and tests are considerably more complex and expensive. Apart from cost reduction, this approach also contributes to environmental conservation by reducing energy consumption and packaging materials. Additionally, it facilitates transportation optimisation, aligning with our set ESG goals.

Over the next five years, we plan to allocate 10% of revenue to research and development, with an average annual investment of €140 million. The revised strategy places increased emphasis on digitalisation and enhances Krka Group sustainability governance. We plan to maintain consistency in our dividend policy over the next five years and allocate at least 50% of net profit attributable to equity holders to dividends. Furthermore, our strategy includes meeting the financial demands of the Krka Group for investments and acquisitions on an annual basis.

We plan to sustain our growth in 2024

Our target for 2024 is to reach €1,850 million in sales for Krka Group products and services, with exports to account for 94% of total sales. Prescription pharmaceuticals are expected to remain the most important product category, accounting for 81% of total sales. Our target is for net profit to surpass €310 million. The total number of employees in Slovenia and abroad is projected to rise by 3%. The Company plans to invest more than €150 million primarily in expanding production and development facilities, infrastructure, and technological upgrades.

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Krka's 2023 performance results confirm the significance of diligence, know-how and perseverance in reaching objectives. We plan to maintain this approach throughout the anniversary year of 2024. We have been fostering our values for seventy years, leveraging them for the collective good and Krka's growth. Krka's extraordinary wealth lies in our exceptional experts, premium products, and diverse market presence. I am steadfast in my belief that we will continue to earn and maintain the trust of our shareholders and customers. As we celebrate our 70th anniversary, we have every reason to take pride in our past achievements while simultaneously looking forward to a future brimming with new opportunities.

Jože Colarič
President of the Management Board and CEO

Financial highlights

Alternative performance measures

In this annual report, the Krka Group applies alternative performance measures specified in the European Securities and Markets Authority (ESMA) guidelines. The selected measures additionally disclose the Group and Krka performance. Values are measured in € thousand, except where specifically indicated that the measure is shown in €. Proportions are presented in percentages or as ratios between two categories.

Alternative performance measure	Calculation method	Criteria for measure selection
Earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit (EBIT) + Depreciation/Amortisation	Indicates company performance in its core operations and is a close approximation of cash flows from operating activities; Is the main source of shareholder returns and allows comparison of business performance regardless of the financing structure and company business capital intensity.
Operating profit (EBIT)	Operating income – Operating expenses	Is the performance indicator of company core operations; Allows comparison of business performance regardless of the financing structure.
Investments	Purchase of property, plant and equipment + Purchase of intangible assets	Indicates assets held for acquisition, maintenance and upgrade of tangible fixed assets for increasing the scope of operations and further development of the Krka Group.
EBITDA margin	Earnings before interest, tax, depreciation and amortisation (EBITDA)/Revenue	Exhibits relative performance of company core operations and is used to compare business performance with other companies, excluding the financing structure and capital intensity of company's operations.
EBIT margin	Operating profit (EBIT)/Revenue	Exhibits company pricing policy and ability to control operating costs; Exhibits relative performance of company core operations, excluding the financing structure.
EBT margin	Profit before tax (EBT)/Revenue	Exhibits relative company performance, including the financial result.
Net profit margin (ROS)	Net profit/Revenue	Exhibits overall company performance.
Return on equity (ROE)	Net profit/(Equity as at 1 Jan + Equity as at 31 Dec)/2	Exhibits company efficiency in generating profits based on shareholder's equity; Exhibits efficiency in terms of increasing company value for the shareholders.
Return on assets (ROA)	Net profit/(Assets as at 1 Jan + Assets as at 31 Dec)/2	Exhibits efficiency of company's total asset management; The higher the number, the more efficient company operations.
Liabilities/Equity	Current liabilities + Non-current liabilities / Equity	Indicates debt-to-equity ratio; Is an important metric for monitoring company capital adequacy and can be used to assess the extent of company reliance on external debt financing.

Alternative performance measure	Calculation method	Criteria for measure selection
Research and Development expenses as a percentage of revenue	R&D expenses/Revenue	Exhibits Krka Group's development orientation; is a strategic measure.
Gross dividend per share	Dividend per share for the previous period per the AGM resolution	Exhibits shareholders' participation in the company's profit.
Price/Earnings ratio (P/E)	Closing price on the Ljubljana Stock Exchange as at 31 Dec/Earnings per share (EPS)	Exhibits how much investors in the market are willing to pay per €1 of company's earnings; Estimates the value of the company and its shares in the market.
Book value per share	Equity as at 31 Dec/Total number of shares issued	Exhibits the share price arising from the book value of equity.
Price/Book value (P/B)	Closing price on the Ljubljana Stock Exchange as at 31 Dec/Book value	Compares company's share price in the market and its book value at a particular date. Indicates potential share overvaluing or undervaluing.
Market capitalisation (year-end)	Closing price on the Ljubljana Stock Exchange as at 31 Dec X Total number of shares issued	Indicates the Krka Group market value relative to the company share price on the Ljubljana Stock Exchange.
Current ratio	Current assets/Current liabilities	Exhibits company current liquidity and/or ability to settle current liabilities.
Quick ratio	(Current assets – Inventories)/Current liabilities	Exhibits company current liquidity and/or ability to settle current liabilities, excluding inventories.
Acid test ratio	(Investments + Cash and cash equivalents)/Current liabilities	Exhibits company current liquidity and/or ability to settle current liabilities, including most liquid assets only.
Receivables turnover ratio	Net credit sales/Average receivables	Measures how many times a year a company collects its average receivable balance, indicating company liquidity; Quantifies company effectiveness as per trade receivable management; Includes information on the average payment term of all company customers.
Dividend payout ratio	Gross dividend per share for the year/Earnings per share from the previous year	Exhibits percentage of net profit paid to shareholders via dividends and not retained by a company to reinvest in core operations or to pay off debt.
Dividend yield	Gross dividend per share/Share price as at 31 December on the Ljubljana Stock Exchange	Exhibits dividend yield for dividend beneficiaries relative to share market price.
Gearing ratio	(Borrowings + Trade payables + Current liabilities from contracts with customers + Other current liabilities – Cash and cash equivalents)/Equity	Exhibits equity financing and indicates the financial risk level associated with company; An important ratio of company capital adequacy.
Net cash flow from operating activities	Calculation shown in the 'Statement of cash flows'.	Exhibits cash flow generated by the company from operating activities before investment and financial decisions and the related proceeds and payments.

Krka Group financial highlights[2]

€ thousand	2023	2022	2021	2020	2019
Revenue	1,806,391	1,717,453	1,565,802	1,534,941	1,493,409
– Of that revenue from contracts with customers (products and services)	1,798,969	1,708,542	1,560,288	1,529,959	1,489,080
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	504,215	488,895	463,625	502,432	385,437
Operating profit (EBIT)[2]	399,621	381,211	354,788	390,744	274,195
Profit before tax (EBT)	367,126	433,073	362,417	338,992	284,368
Net profit	313,732	363,662	308,150	288,949	244,272
Non-current assets (year-end)	1,059,267	1,125,025	1,075,052	990,998	1,041,833
Current assets (year-end)	1,705,024	1,562,475	1,461,936	1,244,544	1,142,785
Equity (year-end)	2,181,766	2,138,509	1,919,085	1,751,812	1,667,516
Non-current liabilities (year-end)	149,218	132,130	162,674	172,796	160,905
Current liabilities (year-end)	433,307	416,861	455,229	310,934	356,197
R&D expenses	178,582	162,580	154,559	153,447	152,421
Investments	131,932	105,974	66,386	76,613	112,568

RATIOS	2023	2022	2021	2020	2019
EBITDA margin	27.9%	28.5%	29.6%	32.7%	25.8%
EBIT margin	22.1%	22.2%	22.7%	25.5%	18.4%
EBT margin	20.3%	25.2%	23.1%	22.1%	19.0%
Net profit margin (ROS)	17.4%	21.2%	19.7%	18.8%	16.4%
Return on equity (ROE)[3]	14.5%	17.9%	16.8%	16.9%	15.2%
Return on assets (ROA)[4]	11.5%	13.9%	12.9%	13.1%	11.7%
Liabilities/Equity	0.267	0.257	0.322	0.276	0.310
R&D expenses/Revenue	9.9%	9.5%	9.9%	10.0%	10.2%

NUMBER OF EMPLOYEES	2023	2022	2021	2020	2018
Year-end	11,780	11,598	11,511	11,677	11,696
Average	11,667	11,569	11,581	11,631	11,484

SHARE INFORMATION	2023	2022	2021	2020	2019
Total number of shares issued	32,793,448	32,793,448	32,793,448	32,793,448	32,793,448
Earnings per share (EPS) in €[5]	10.14	11.69	9.92	9.27	7.73
Gross dividend per share in €	6.60	5.63	5.00	4.25	3.20
Closing price on LJSE at the end of the period in €	110.00	92.00	118.00	91.40	73.20
Price/Earnings ratio (P/E)	10.85	7.87	11.90	9.86	9.47
Book value in €[6]	66.53	65.21	58.52	53.42	50.85
Price/Book value (P/B)	1.65	1.41	2.02	1.71	1.44
Market capitalisation in € thousand (year-end)	3,607,279	3,016,997	3,869,627	2,997,321	2,400,480

[1] The difference between operating income and expenses increased by accumulated depreciation and amortisation
[2] The difference between operating income and expenses
[3] Net profit/Average shareholders' equity in the year
[4] Net profit/Average total asset balance in the year
[5] Net profit for the year attributable to majority equity holders of the Krka Group/Average number of shares issued in the year, excluding treasury shares
[6] Equity as at 31 Dec/Total number of shares issued

[2] GRI 2-6, 201-1

Krka's sustainable development indicators

	Unit of measure	2023	2022	2021	2020	2019
ENVIRONMENTAL DATA						
Water consumption (total)	**m^3**	**1,300,876**	**1,461,617**	**1,461,024**	**1,623,046**	**1,399,303**
Drinking water	m^3	656,773	676,482	643,965	684,950	613,919
River water	m^3	644,103	785,135	817,059	938,096	785,384
Energy (total)[a, 3]	**GJ**	**952,265**	**1,010,667**	**953,366**	**969,833**	**956,577**
Electric power	GJ	339,501	361,190	330,453	344,957	356,610
Natural gas	GJ	612,739	584,480	601,041	604,287	580,048
Liquid petroleum gas	GJ	0	0	17,750	20,564	19,409
Fuel oil (extra light)	GJ	26	64,997	4,122	26	510
Generated electric power – alternative sources (total)	**GJ**	**43,137**	**29,315**	**53,337**	**48,294**	**39,482**
Solar power plant	GJ	246	275	266	280	252
Cogeneration[2]	GJ	42,891	29,040	53,071	48,014	39,230
Energy intensity						
Specific use of energy[b]	MJ/€	1.21	1.52	1.62	1.62	1.66
Specific use of energy[b]	TJ/billion units	73.2	77.4	78.1	78.1	82.6
Wastewater (total)[4]	**m^3**	**1,150,199**	**1,305,619**	**1,266,494**	**1,388,829**	**1,225,003**
Cooling water	m^3	348,682	424,261	407,807	517,090	392,490
Industrial wastewater	m^3	801,517	881,358	858,687	871,739	832,513
– Suspended solids load	t	7.3	7.0	11.8	10.3	23.9
– Biochemical oxygen demand	t	3.1	3.6	3.1	7.0	6.9
– Chemical oxygen demand	t	38.3	48.0	41.4	42.1	57.5
– Nitrogen	t	5.2	6.2	5.1	2.9	4.9
– Phosphorus	t	0.5	0.7	0.7	0.6	0.7
Environmental load units[c] (ELU)	ELU	1,239	1,584	1,371	1,241	1,737
Waste (total)	**t**	**11,519**	**11,932**	**11,369**	**12,512**	**11,091**
Hazardous waste (total)	**t**	**6,245**	**6,786**	**6,480**	**7,329**	**6,047**
Solid waste	t	855	871	808	889	789
Liquid waste	t	5,390	5,915	5,672	6,440	5,258
Non-hazardous waste (total)	**t**	**5,274**	**5,146**	**4,889**	**5,183**	**5,044**
Disposal at landfills (total)	t	601	665	763	791	802
Composites (energy use)	t	97	/	/	/	/
Composites (processing)	t	567	502	495	427	489
Biomass (composting)	t	1,223	1,447	1,231	1,618	1,308
Recycling waste (total)	t	2,786	2,532	2,381	2,327	2,422
– Paper	t	1,237	1,303	1,243	1,273	1,221
– Plastics	t	564	513	421	380	401
– Glass	t	128	113	110	135	136
– Metal	t	229	188	186	150	239
– Wood	t	212	398	421	389	425
– Wood (reuse, pallets)	t	386	/	/	/	/
– Electric and electronic equipment	t	30	17	19	20	23

[3] GRI 302-1
[4] GRI 306-3

	Unit of measure	2023	2022	2021	2020	2019
ENVIRONMENTAL DATA						
Air emissions[5]						
Energy related CO_2 – direct	t CO_2-eq	30,742	33,475	35,046	34,709	33,332
Energy related CO_2 – indirect[d]	t CO_2-eq	0	0	0	45,707	47,251
Energy related SO_2	t	0.4	3.7	1	1	1
Energy related NO_x	t	21.5	35.9	28.0	27.9	26.8
Ozone-depleting substances and fluorinated greenhouse gases	t CO_2-eq	1,029	1,174	1,277	2,501	1,744
Compliance						
Extraordinary events related to environment		0	0	0	0	0
Environmental protection (total)	**€ thousand**	**10,894**	**11,968**	**11,599**	**10,056**	**7,672**
Environmental protection costs	€ thousand	8,095	7,701	6,258	6,357	5,517
Investments in environmental programmes	€ thousand	2,799	4,267	5,301	3,699	2,155
SOCIETY						
Number of employees		**6,509**	**6,320**	**6,228**	**6,191**	**5,907**
Slovenia		5,910	5,763	5,690	5,679	5,386
Representative offices abroad		599	557	538	512	521
Health and safety						
Number of accidents		19	32	22	21	27
Lost time injury frequency rate (LTIFR)		2.0	3.3	2.4	2.3	2.8
Proportion of disabled employees	%	5.2	5.0	5.0	4.9	5.3
Education and training						
Number of education and training hours	hour/employee	38	44	27	32	41
Education and training costs	€/employee	864	754	603	667	897

[a] The calculation of GJ was based on net calorific values published on the website of the Slovenian Environment Agency.

[b] Calorific value assessment methodology changed in 2022. Higher heating value (HHV) was considered instead of the previously used lower heating value (LHV). All indicators for the last five years were updated accordingly.

[c] Environmental load units (ELU) indicate the annual load on the environment due to wastewater discharge at a particular pollution source. The calculation takes into account the average annual value of an individual parameter, which is assigned the appropriate factor, and the annual wastewater rate of discharge at a particular outlet (Rules on Initial Measurements and Operational Monitoring of Wastewater; Official Gazette of the Republic of Slovenia No. 94/14, as amended, No. 98/15).

[d] The calculation of tonnes of CO_2 was based on the emission factors published on the website of the Slovenian Environment Agency.

[5] GRI 305-6, 305-7

At a glance[6]

The Krka Group consists of the controlling company, Krka, d. d., Novo mesto, a subsidiary in Slovenia, Terme Krka, d. o. o., Novo mesto, and 33 subsidiaries outside Slovenia.

The Krka Group develops, produces, markets, and sells human health products (prescription pharmaceuticals and non-prescription products), animal health products, and health resort and tourist services.

Production takes place in the controlling company in Slovenia and at Krka subsidiaries in the Russian Federation, Poland, Croatia, and Germany. In addition to production, these subsidiaries, apart from Krka-Rus in the Russian Federation, deal with marketing and sales. In China, production takes place in leased production facilities. Other subsidiaries outside Slovenia market and/or sell Krka products, but do not have production capacities.

Terme Krka, d. o. o., Novo mesto provides health resort and tourist services and operates through the following branches: Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec, and Talaso Strunjan. Terme Krka is also the majority owner of Golf Grad Otočec, d. o. o.

In 2023, we established a wholly-owned subsidiary in the Netherlands, Krka Netherlands B.V.

ID card

Krka, d. d., Novo mesto	
Registered office	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
Telephone	+386 (7) 331 21 11
Fax	+386 (7) 332 15 37
E-mail	info@krka.biz
Website	www.krka.si
Core business	Manufacture of pharmaceutical preparations
Business classification code	21,200
Year established	1954
Registration entry	1/00097/00, District Court of Novo mesto
Tax number	82646716
VAT number	SI82646716
Company ID number	5043611000
Share capital	€54,732,264.71
Total number of shares issued	32,793,448 ordinary registered no-par value shares

[6] GRI 2-1

Krka Group business model

Key risks and opportunities

- Consistent quality and uninterrupted supply of APIs and products
- Patient safety
- Technological and scientific progress and development of innovative generic medicines
- Expansion of product portfolio and broader use of combination medicines
- Talent management
- Employee inclusion and diversity
- Supply chain and business continuity
- Resilient and flexible vertically integrated business model
- Ageing population and changing purchasing power
- Measures for increasing accessibility of medicines
- Raising awareness of healthy lifestyles and treatment of modern-day common diseases
- Availability of resources for healthcare expenditure
- Engagement of key stakeholders and factoring in their interests and expectations
- Legislative and regulatory compliance
- Digitalisation and information security
- Climate change and environmental impact management
- Energy security and efficiency
- Growing competition
- International political and trade challenges
- Other business, economic, social and governance risks and opportunities

Resources

Employees

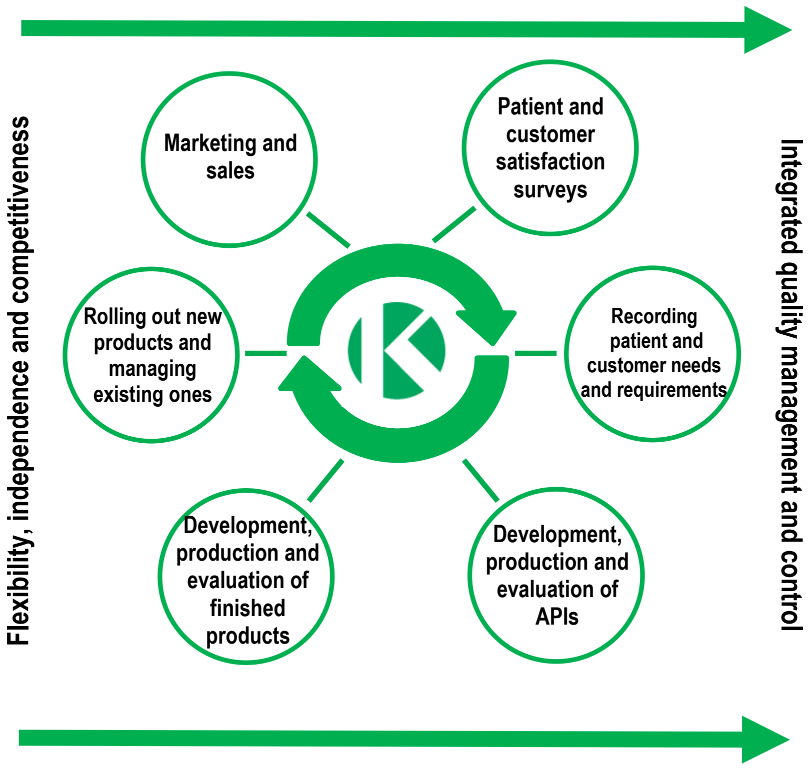
Research and technological capacities

Intellectual capital

Financial resources

Incoming materials

Environment and natural resources



Value creation for stakeholders

Quality, safe, and effective medicines based on innovative solutions

Affordable treatment

Investment in research and development

Stable dividend policy

Safe and healthy work environment

Employment opportunities and development of knowledge, skills, and talents

Natural resource efficiency

Improvement of quality of life in the community

Purchase of materials and services

Prescription pharmaceuticals
- Cardiovascular system
- Central nervous system
- Gastrointestinal tract
- Pain relief
- Diabetes
- Blood and blood-forming organs
- Antiinfectives for systemic use
- Oncology
- Other

Non-prescription products

Animal health products

Health resort and tourist services

Krka Group organisational chart

Region Central Europe

- **Poland**
  KRKA - POLSKA Sp. z o.o.
- **Czechia**
  KRKA ČR, s. r. o.
- **Hungary**
  KRKA Magyarország Kft.
- **Slovakia**
  KRKA Slovensko, s.r.o.
- **Lithuania**
  UAB KRKA Lietuva
- **Latvia**
  SIA KRKA Latvija

Region Overseas Markets

- **China**
  Ningbo Krka Menovo Pharmaceutical Co. Ltd.
- **US**
  KRKA USA LLC
- **UAE**
  Krka GCC L.L.C

Region South-East Europe

- **Croatia**
  KRKA-FARMA d.o.o.
- **Romania**
  KRKA ROMANIA S.R.L.
- **Serbia**
  KRKA-FARMA DOO BEOGRAD
- **North Macedonia**
  KRKA-FARMA DOOEL Skopje
- **Bosnia and Herzegovina**
  KRKA FARMA d.o.o., Sarajevo
- **Bulgaria**
  KRKA Bulgaria EOOD
- **Greece**
  KRKA HELLAS E.P.E.

Slovenia

- KRKA, d. d., Novo mesto
- TERME KRKA, d. o. o., Novo mesto

Region East Europe

- **Russian Federation**
  KRKA-RUS LLC
- **Russian Federation**
  KRKA FARMA LLC
- **Ukraine**
  KRKA UKRAINE LLC
- **Kazakhstan**
  LLC 'KRKA Kazakhstan'

Region West Europe

- **Germany**
  TAD Pharma GmbH
- **Sweden**
  Krka Sverige AB
- **Austria**
  KRKA Pharma GmbH, Wien
- **Ireland**
  KRKA PHARMA DUBLIN LIMITED
- **Portugal**
  KRKA Farmacêutica, Unipessoal Lda.
- **Spain**
  KRKA FARMACÉUTICA, S.L.
- **Italy**
  KRKA FARMACEUTICI MILANO S.R.L.
- **France**
  KRKA France Eurl à capital variable
- **Belgium**
  KRKA Belgium, SA
- **United Kingdom**
  KRKA UK LTD
- **Finland**
  KRKA Finland Oy
- **Germany**
  123 Acurae Pharma GmbH
- **Netherlands**
  KRKA Netherlands B.V.

The chart includes companies operating as at 31 December 2023.

Production and distribution companies

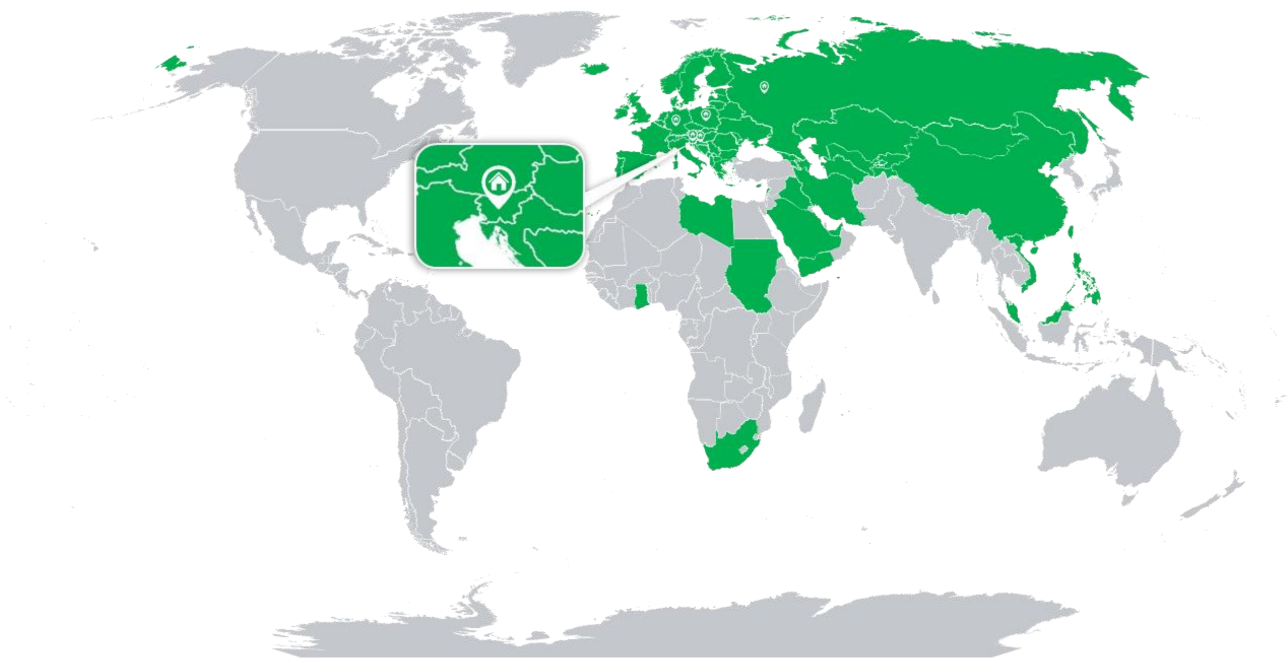
Other subsidiaries outside Slovenia

Joint venture for development, production, and distribution

Health resort and tourist services

Abbreviated company names are used in the remainder of this document.

Krka in global markets[7]



[7] GRI 2-1

2023 highlights

Business operations

- The Krka Group generated product sales of €1,806.4 million, up 5% year on year, and net profit of €313.7 million.
- The proposed dividend per share of €6.60 gross, up 17% on the previous year, was approved at the 29th Annual General Meeting.
- We participated in ten investment conferences and held three webcasts to present our business operations to investors and analysts. We hosted the Krka Investor Day at the company's headquarters for the tenth time. We routinely provided updates to both the financial and general public regarding our performance, ensuring compliance with applicable regulations and stock exchange reporting rules.
- The Krka Group set new records: we sold 17.5 billion tablets and capsules and surpassed €100 million in animal health product sales and €90 million in sales of rosuvastatin-containing medicines.
- We established a new subsidiary in the Netherlands, KRKA Netherlands B.V.
- We revised the *2024–2028 Krka Group Development Strategy* to factor in sustainability aspects and align with our business objectives, thereby upholding our economic, social, and environmental responsibilities in the communities where we operate.
- We upgraded our sustainability governance by adopting the Krka Group *ESG Policy* and strategic ESG goals, which were fully incorporated into the *Krka Group Development Strategy* in 2023. They outline our strategic orientations, objectives and key performance indicators for specific key ESG aspects.
- On 24 November 2023, Krka scored 50 (out of 100) in the 2023 S&P Global Corporate Sustainability Assessment, ranking it among the top 10% in the pharmaceutical industry.

Visibility

- Krka once again scored highly in key parameters of the 2023 Slovenian Business Excellence survey, conducted by an independent Slovenian agency, and retained the top spot among 54 surveyed companies. The overall excellence score factored in corporate visibility, performance, reputation and sustainable operations.
- Krka won its fourth Best Investor Relations Award at the investment conference held by the Ljubljana and Zagreb Stock Exchanges.
- Krka was recognised as one of the leading employers in the reputation poll conducted by the Slovenian company Mojedelo.com in partnership with Universum Global. We have received the award for being the most reputable employer in Slovenia seven times since the poll began.
- Krka was awarded the 2023 WIPO IP Enterprise Trophy by the World Intellectual Property Organization (WIPO), the United Nations specialised agency for intellectual property that contributes to developing a balanced and effective global intellectual property ecosystem.
- Our performance in the Slovenian pharmaceutical market earned us the 2022 Excellence Award by IQVIA, the leading global provider of healthcare and IT solutions, market research and clinical trial services.
- At the Slovenian Conference of Energy Experts (Dnevi energetikov), Krka was recognised as Slovenia's most energy-efficient company because of its integrated, efficient, and sustainable energy management.

- Our long-standing, close, and fruitful partnership with the Slovenian National Institute of Chemistry earned us special recognition from the Institute for research collaboration.

- Krka received the silver TOP Education Management certificate, distinguishing it as one of the Slovenian companies that prioritise investment in employee education and development.

- Krka innovations received four gold and three silver awards at the innovation ceremony of the Chamber of Commerce of Dolenjska and Bela krajina.

- At the Slovenian Chamber of Commerce and Industry Innovation Day, Krka researchers received one gold and one silver award for innovation, winning the gold award for sitagliptin medications for managing type 2 diabetes and the silver award for an integrated reference substance management system. The awards are a testament to our commitment to continuously supplement our portfolio with new products that build on innovative approaches and improved technological solutions.

- On its 85th anniversary, the Slovenian Academy of Sciences and Arts honoured Krka with a special recognition for our enduring collaboration and support in the fields of science and art.

- The high quality of our products and services is widely recognised and confirmed by various certificates. The Slovenian Institute of Quality and Metrology (SIQ) presented Krka with an award, recognising our common efforts to deliver on the highest quality and safety standards.

- Krka was named the top large company in the 2022 Best Company Campaign for the Dolenjska and Posavska regions, organised by the local weekly *Dolenjski list* in collaboration with the Chamber of Commerce of Dolenjska and Bela krajina, Posavje Chamber of Commerce and Industry, and the Slovenian company Prva bonitetna agencija.

Sustainability

- Krka hosted an international symposium on innovative approaches for managing type 2 diabetes, with over 140 attendees from 14 countries, as well as an international cardiology symposium in Amsterdam, which attracted over 200 participants from 19 countries. Through these events, we contribute to the United Nation's goal of reducing deaths caused by noncommunicable diseases by one-third by 2030.

- The 2022 Talent-of-the-Year Awards were announced at the 17th traditional meeting with Krka's sponsorship recipients. Three outstanding young individuals were recognised for their achievements in sports and culture.

- Through our social responsibility initiative, Krka's Week of Charity and Volunteering, employees from 19 countries promoted the principles of volunteerism and mutual assistance, fostering intergenerational connection.

- Head of Environmental Protection at Krka Slavko Zupančič received the 2023 environmental sustainability manager of the year award, presented by the Chamber of Commerce and Industry of Slovenia for the first time.

- Our Krka Car-Free Day united our employees from 13 countries in reaffirming our shared commitment to sustainable mobility, a healthy environment, and improved quality of life for the eighth consecutive year.

- We delivered on our sustainability commitments by purchasing a new heavy-duty electric truck. We added it to our fleet in 2023 as the first user in Slovenia. This addition marks a significant upgrade to our electric vehicle fleet and establishes a new benchmark, reaffirming our commitment to advancing our long-term sustainable mobility policy.

- We continued our unique and long-standing tradition of Krka Prizes by conferring secondary school, undergraduate and graduate level prizes for the 53rd consecutive time. Recipients had the opportunity to present their research papers at a scientific symposium.

- For 70 years, we have remained dedicated to our mission of promoting healthy and fulfilling lives. To mark our anniversary, we continued our support for various healthcare institutions. We provided donations of devices and equipment to the Division of Paediatrics at the University Medical Centre Maribor, the Division of Paediatrics at the University Medical Centre Ljubljana, as well as paediatrics departments in ten other general Slovenian hospitals, underscoring our commitment to the well-being of the youngest members of our community.

- For the 12th consecutive year, we presented the Volunteer of the Year Award and expressed gratitude to Krka employees who regularly donate blood.

- Krka's Culture and Arts Society continued its work as an inseparable part of our company and its culture for over 50 years.

Employees

- At the 20th International Regulatory and Pharmacovigilance Conference, attendees discussed prevailing regulatory hurdles, with the best regulatory affairs employees receiving awards, recognitions, and commendations.

- More than 170 colleagues from 38 countries attended the 25th Marketing and Sales Conference. The event focused on Krka's strategy through 2026 and its marketing and sales objectives.

- The 3rd Technological Conference brought together 180 pharmaceutical technology employees from six different countries. Over two days, the event offered the attendees the chance to share knowledge and experiences, enabling them to excel further in the competitive generic pharmaceutical market.

- The International Corporate Performance Management Conference was held for the fourth time. 154 attendees were from Krka headquarters and 40 from Krka's units abroad and Terme Krka.

- The 14th HR Conference focused on challenges facing global labour markets.

- The newly-elected Works Council convened 18 worker assemblies. The President and members of the Management Board briefed 3,370 employees on performance results, plans for the current year, strategy, and other current issues.

- All employees contribute to Krka's progress. We acknowledged their commitment and professional achievements by presenting the 2023 Krka Awards.

- The best employees in marketing and sales were presented with Marketing Awards for the 25th consecutive year. Recipients hailed from 29 countries.

- Numerous training and educational programmes are a testament to the value that Krka places on knowledge. 24 employees completed the 19th Krka International Leadership School, while 20 employees completed the Leadership School at the operational level and 20 at the basic level. The international programme for expert and project teams included 46 employees.

- We thanked our colleagues and organisational units that submitted the best useful proposals and improvements for their innovation efforts, contributing to the company's progress.

- We are the only company in Slovenia to offer six national vocational qualification programmes for the pharmaceutical industry. We introduced them in 2000. In 2023, 127 Krka employees completed different programmes and acquired knowledge that will help them manage highly automated working processes and use computer-controlled technological systems more easily.

- We continued with our tradition of organising an annual event for our recently retired colleagues, acknowledging the contributions made by multiple generations of employees to our company's success.

Subsequent events

The events after the end of the period had no impact on the 2023 financial statements.

Establishment of joint venture in India

On 25 January 2024, Krka notified investors that it had reached an agreement with Indian company Laurus Labs Ltd. to establish a joint venture, Krka Pharma Pvt. Ltd., in Hyderabad, India. Under the agreement, Krka holds a 51% stake and Laurus a 49% stake in the new company.

Krka and Laurus have been contractual partners for years, with their respective businesses complementing one another. After discussing opportunities to strengthen their cooperation and leveraging synergies by combining know-how and resources, the two partners agreed to establish and develop the new company gradually. The joint venture will devise a strategy to penetrate the Indian market and other markets beyond the European Union, where neither party currently offers its finished products.

The newly established company's registered capital amounts to €50 million in Indian rupees. Depending on financing needs, Krka and Laurus agreed to subscribe to the registered capital in stages. The joint venture will develop its business activities step by step.

Repurchase of treasury shares

Krka repurchased 44,992 treasury shares between 1 January 2024 and 18 March 2024, and thus held 1,960,958 treasury shares at the end of this period, accounting for 5.98% of total shares.

BUSINESS REPORT

Corporate governance statement[8]

Krka employs a two-tier corporate governance system. The Management Board runs the Company and is overseen by the Supervisory Board. Corporate governance is based on the legislation of the Republic of Slovenia, Slovenian and international good practice, the publicly available *Corporate Governance Policy* of the Company and its internal rules.

Governing bodies are:
- Annual General Meeting (AGM);
- Supervisory Board; and
- Management Board.

Annual General Meeting

Under the Slovenian *Companies Act* (ZGD-1), the Company's highest body is the Annual General Meeting (AGM). It is where shareholders directly participate in the Company's governance, and all fundamental and statutory decisions are taken. Each share, except for treasury shares, represents one vote at the AGM. Krka has one share class only: ordinary no-par value shares.

The Management Board calls the AGM once a year, at least 30 days before the due date. Upon request, all materials for each AGM can be viewed at the Company's registered office starting from the notice date.

All shareholders entered in the shareholder register as at the record date, which is published in the notice, have the right to attend and vote at the AGM. The same applies to their representatives and proxies.

At the AGM, the Management Board provides shareholders with all information required to assess the agenda, taking into account all legal or other information disclosure restrictions.

In the 2023 AGM notice, per Item 8.2 of the *Corporate Governance Code for Listed Companies* in force, the Company requested all major shareholders to publicly disclose their investment policies in respect of their shareholdings in the Company, in particular their voting policy, the type and frequency of their engagement in the Company's governance, and the flow of their communication with the Company's managerial and supervisory bodies.

At the 29th AGM of 6 July 2023, shareholders:
- Received the Management Board annual report for 2022, including the auditor's report, the Supervisory Board report verifying and endorsing the 2022 annual report, and the 2022 Management and Supervisory Board remuneration report;
- Adopted the resolution on the appropriation of accumulated profit for 2022;
- Discharged the Management and Supervisory Boards of liability for 2022;
- Discussed the remuneration policy for management and supervisory bodies in compliance with the Companies Act, and approved it at consultative voting;
- Elected Luka Cerar to the Supervisory Board as a shareholder representative for a five-year term commencing on 7 July 2023;
- Adopted the resolution on the remuneration for the Supervisory Board members;
- Authorised the Management Board to acquire treasury shares, provided that total treasury shares, including shares already held by the Company when the authorisation was issued, do not exceed 10% of the Company's share capital.

According to the 2024 financial calendar, the regular AGM is set for 11 July. The Company must give 30 days clear notice before the AGM is held and publish it on the AJPES website, in the Company's printed or online publication if it is due for

[8] GRI 2-9, 2-10

publication at the time of the notice and on the Company's website. The notice must also comply with the *Financial Instruments Market Act*.

Further information on shareholders and voting rights is available under 'Investor and share information'.

Supervisory Board

The Supervisory Board supervises the Company's operations and business management and selects and appoints members to the Management Board. The body meets at least four times a year. Under the provisions of the *Articles of Association*, the Supervisory Board pre-approves the annual business and financial plan and the strategy for adoption by the Management Board. It also carries out other tasks in accordance with the *Companies Act*. It primarily approves (a) the appointment, removal, and remuneration of the Head of Internal Audit; (b) the act regulating the purpose, meaning, and duties of Internal Audit; and (c) the annual and multi-year plans of Internal Audit. It is also briefed about the annual Internal Audit report. The President of the Supervisory Board concludes contracts with the external auditor. The Management Board can only invite shareholders in the AGM notice to attend and vote at the AGM even if they are not physically present at the meeting if permission is granted by the Supervisory Board (Item 6.21 of the *Articles of Association*).

The *Articles of Association* stipulate the composition of the Supervisory Board. The Supervisory Board has nine members: six are elected by the AGM, and the Company's Works Council elects three employee representatives. The President of the Supervisory Board is always elected from the AGM-appointed members. Members are appointed for a five-year term and can be reappointed.

With the terms of office expired for Jože Mermal, Andrej Slapar, Julijana Kristl, and Boris Žnidarič, the AGM elected Jože Mermal, Matej Lahovnik, Julijana Kristl, and Boris Žnidarič to new five-year terms of office at their 26th regular meeting held on 9 July 2020. Another two shareholder representatives sit on the Supervisory Board: Luka Cerar elected by the AGM on 6 July 2023, and Mojca Osolnik Videmšek elected by the AGM on 4 July 2019.

The President of the Supervisory Board is Jože Mermal. His deputies are Matej Lahovnik, a shareholder representative, and Franc Šašek, an employee representative. If the President of the Supervisory Board is absent, the shareholder representative replaces him, and if the latter is also absent, the employee representative replaces him in turn.

The Supervisory Board's performance complies with legislation, recommendations of professional associations, primarily the Slovenian Directors' Association, and other good practice recommendations, particularly the *Slovenian Corporate Governance Code*.

Supervisory Board members' remuneration, reimbursement, and other benefits are not directly linked to the Company's performance and are disclosed in the financial report under the Note entitled 'Related party transactions' and in the report to the AGM on Krka's Management and Supervisory Board remuneration. In addition to attendance fees, members receive fixed amounts for exercising their functions and additional payments, i.e. for membership on committees, chairing the Supervisory Board or acting as a deputy to its president, presiding committees, and for special undertakings. All remuneration amounts were fixed by resolutions passed at the 29th regular AGM in 2023.

Supervisory Board members report to the Company and competent institutions on any acquisitions or disposals of Company shares, and Krka makes the information public. Please find the disclosure on how many Krka shares Supervisory Board members hold in the financial report's 'Related party transactions' section.

In addition to the *Companies Act*, the *Rules of Procedure of the Supervisory Board* govern any potential conflict of interest of the members. Supervisory Board members must consider the Company's objectives when discharging their duties and accordingly subordinate any personal interests or interests of third parties. All members were asked to complete a conflict of interest questionnaire. The questionnaire is available on the Krka website. The *Rules of Procedure of the Supervisory Board* outline steps to be taken by members in case of a conflict of interest. The document is available at http://www.krka.biz/en/for-investors/documents/corporate-governance-documents/. A conflict of interest can constitute an impediment to voting. Any non-temporary material conflict of interest may be grounds for terminating a member's term of office and is assessed when drafting the proposal for that person's election.

The work of the Supervisory Board and related committees is detailed in '2023 Supervisory Board report', published on SEOnet (http://seonet.ljse.si) of the Ljubljana Stock Exchange, ESPI of the Warsaw Stock Exchange, and Krka's webpages together with the *2023 Annual Report*.

Shareholder representatives

Jože Mermal

President of the Supervisory Board

Jože Mermal (born 1954) comes from Ljubljana and holds a university degree in economics. Since 2019, when BTC introduced the one-tier management system, Mermal has chaired the company's management board. He had successfully managed BTC for over 26 years before that, having worked creatively in many senior managerial positions since 1978.

He was the driving force behind the project to restructure and transform public warehouses into a thriving, dynamic, and rapidly expanding company that has also become one of Europe's largest business, shopping, entertainment, recreation, culture, and innovation centres: BTC City. As the founder and strategist of BTC, he has been supporting investments in development to reach the company's long-term goal: to make BTC an open company for future generations. Under his stewardship, the company has forged links with long-term business partners through various exploits, creating a unique business ecosystem and seeking new opportunities and challenges in an age of mass society, globalisation, innovation, and sustainable development.

In partnership with the Municipality of Ljubljana, he has been involved in setting up a 230 hectare urban regeneration project for the city of Ljubljana, the Šmartinska District Partnership. Crystal Palace, the Radisson Blu Plaza Hotel, and Ikea have been constructed as part of the project. He has also collaborated with the Municipality of Ljubljana in setting up the Intermodal Logistic Terminal (ILT) Ljubljana.

Under his management, ABC Accelerator was established in 2015. Its principal function is the development of a start-up business ecosystem. He also holds key managerial roles in various sports organisations and at international sporting events.

Under his management, BTC has received a plethora of awards and prizes for various community projects. He participates in cultural, sporting, educational, humanitarian, and scientific events, which he supports and is involved in.

He has received several awards for his work, including Manager of the Year in 1997 and the Primus Award for Excellence in Communication in 2001 by the Slovenian Public Relations Society. He is a keen advocate of culture and was named Cultural Patron of the Year in 2011. His visionary management and creativity at BTC earned him the Vision Manager Award in 2012, which is conferred by public relations experts from south-eastern Europe. In 2013, the Municipality of Ljubljana conferred the Marjan Rožanc Award on Mermal for sporting achievements. The Chamber of Commerce and Industry of Slovenia awarded him for exceptional business and entrepreneurial achievements in the category of large companies in 2013. Under Mermal's management, BTC has become the first—and, to this date, the only—Slovenian company listed on the London Stock Exchange. In 2015, he received a gold plaque from the Managers' Association of Slovenia for more than two decades of support. The highest managerial lifetime achievement award followed it, the Best Manager of South-Eastern Europe 2016 award, which is bestowed by the Independent Agency for the Selection and Promotion of Managers. Mermal was awarded the title of a 2017 honorary citizen of Ljubljana, the highest honour bestowed by the Municipality of Ljubljana, for his contribution to the renown, significance, and development of the municipality and its inter-city and international relations. At the awards for best managers and companies from central and south-eastern Europe, he received the Best Manager and Best Company in Europe lifetime-achievement award in 2019. In 2020, the Management Board of the Managers' Association of Slovenia awarded Mermal the Lifetime Achievement Award in Management.

Prof. Dr Matej Lahovnik

Deputy President of the Supervisory Board

Matej Lahovnik holds a PhD in economics. He is a full professor at the Faculty of Economics in Ljubljana and has worked there since 1995. As a researcher, teacher, and mentor, he deals with strategic management, mergers and acquisitions, organisation, and business skills. Lahovnik has served twice as Minister of Economic Development and Technology to the Government of the Republic of Slovenia. He led the corporate governance and investment negotiation teams during

Slovenia's OECD membership talks. He is a member of the Strategic Council for Macroeconomic Issues of the Government of the Republic of Slovenia.

He has been involved in many scientific project teams researching the behaviour of enterprises and financial institutions in transition; Slovenian economic development strategy; successful competitive strategies of Slovenian and Croatian companies; company acquisitions in economies in transition; and market regulations post-EU accession. He has authored or co-authored many papers on strategic management and mergers and acquisitions published in scientific and research journals and at conferences. He has co-authored a scientific monograph and authored or co-authored two university textbooks.

Dr Boris Žnidarič

President of the Human Resource Committee

Boris Žnidarič holds a PhD in social sciences and a master's degree in law. Up to his retirement, he served on the management board of Kapitalska družba, d. d., Ljubljana, a company that manages additional funds for pension and disability insurance. Before that, he held various roles at the Triglav Group insurance company. He was assistant to the president of the management board of Zavarovalnica Triglav, where, in addition to leading and directing heads of organisational units, he was also responsible for strategic human resource management at subsidiaries. He was on the management board of Triglav Osiguranje in Zagreb, Croatia. He also managed the Celje regional unit of Zavarovalnica Triglav, and led the central insurance fraud prevention and detection department. Before taking up that role, he was an adviser to a management board member for strategic human resource management in the Triglav Group, and an assistant director for legal, human resources, and general affairs at the Ljubljana unit. He holds a certificate of professional competence for supervisory board membership. In addition to his diverse career in insurance, he is also a university lecturer.

Luka Cerar

Luka Cerar (born 1976) holds a master's degree in international finance. He is the CFO for the European region at Albaugh TKI, d. o. o. He is accountable for finance, treasury, controlling, strategic planning, reporting, IT, and taxation in Europe, the Near East, and Africa, where seventeen Albaugh's legal entities and two manufacturing plants operate. Albaugh is one of the global leaders in the production and sale of post-patent crop protection products and plants.

Before joining Albaugh, Cerar worked as the finance director at Atlantic Grupa in Slovenia. He gained ample experience in pharmaceutical industry. Between 2001 and 2019, he completed many demanding strategic and financial assignments at Novartis and Sandoz, also having worked abroad for 12 years in Austria, Germany, Denmark, and Croatia. His most recent posts in Novartis' subsidiary in Slovenia were that of the finance director and director. He received the 2018 Team of the Year award from Novartis Slovenia and an award from Novartis for improving performance analyses in 2016. Sandoz awarded him in 2013 for the best practice in finance.

Cerar graduated in economics from the Faculty of Economics in Ljubljana in 2000. He continued studies in the UK and France, at Westminster Business School and SKEMA Business School, respectively, where he earned his master's degree in international finance in 2004. In 2007, Cerar earned the Novartis Business Diploma from Harvard Business School.

He holds a certificate of professional competence for supervisory board membership of the Slovenian Directors' Association.

Mojca Osolnik Videmšek

Mojca Osolnik Videmšek (born 1966) holds a university degree in economics. She sits on the management board of Gorenjska banka, d. d., a bank, and is responsible for risk management. A bank employee since 2014, she sat on the management board from 2014 until 2019 and acted as the director of the bank's subsidiary GB Leasing, d. o. o. from 2019 until 2022. She has been on the management board of the bank again since 2022.

Before taking up employment with Gorenjska banka, she was responsible for various challenging areas of work at another Slovenian bank, NLB, d. d., primarily concerning corporate governance at the NLB Group. As director of Capital

Investments Management and Control, she sat on several supervisory boards and audit committees of subsidiaries in Slovenia and abroad. She was also director of the office of the management board and secretary general at NLB.

She has additionally acquired expertise through executive roles in public administration. From September 1994 until April 1999, she worked as head of the Prime Minister's Office. Between 2001 and 2003, she was director of the Administrative Office of the Prime Minister of the Republic of Slovenia and, for a brief spell in 2000, Secretary General at the Ministry of Foreign Affairs. She holds a certificate from the Slovenian Directors' Association. She sat on the management board of the Slovenian Directors' Association for three terms of office.

Prof. Dr Julijana Kristl

Julijana Kristl holds a PhD in pharmaceutical sciences and worked at the Faculty of Pharmacy at the University of Ljubljana (1977–2021). She upskilled through programmes at the University of Geneva and the University of Lyon, as well as within the pharmaceutical industry.

Her scientific career started in the area of pharmaceutical technology. Her greatest achievements include sustainable development and deploying pharmaceutical nanotechnology in Slovenia and beyond. Her work initially focused on developing and evaluating API nanodelivery systems that support innovative modes and new treatment mechanisms. Other notable achievements include lipid and polymer nanostructure (various nanoparticles and nanofibres) research and development, the discovery of mechanisms for increasing active ingredient solubility and bioavailability, and understanding the correlation between the structural composition and the real-time cell response on contact with them. Owing to her achievements, she is a pharmaceutical nanotechnologist of global renown. In 2021, the Ministry of Education, Science and Sport of the Republic of Slovenia awarded Kristl the Zois Lifetime Achievement Award. She was awarded emeritus status by the University of Ljubljana in 2022 for her significant contribution to the development of pharmaceutical science and dedicated pedagogical and scientific work.

Throughout her career, she held many managerial posts, serving as Vice-Dean, Head of the Chair of Pharmaceutical Technology, Dean of the Faculty of Pharmacy, and as Vice-Rector at the University of Ljubljana (two terms). She is an active member of many prominent commissions and committees at state and university levels. Since 2021, she has actively participated in the council of the Slovenian Quality Assurance Agency for Higher Education, Slovenian Directors' Association, Slovenian Pharmaceutical Society, and the Outstanding Achievements Awards and Recognition Committee of the Republic of Slovenia.

She is committed to research, gaining and sharing know-how with students and the scientific and business communities. She sets high professional goals, is future-focused, and acts to benefit the community. Her knowledge, personal skills, independence, and autonomy are solid foundations for a successful tenure on the Supervisory Board of Krka.

Employee representatives

Franc Šašek

Deputy President of the Supervisory Board

Franc Šašek (born 1967) has a degree in organisational sciences. He joined Krka in 1984 and heads up Technical Services. Since the beginning of his career, he has been involved in engineering and technical services, holding positions such as technologist, Head of the Technical and Technological Preparations Department, and subsequently, senior specialist in maintenance and project management.

In 2004, he was the SAP PM-maintenance project team leader for the rollout of the business process management system (SAP) and subsequently appointed process owner for maintenance in the Krka Group. In 2021, he was appointed as the process owner to the project team for the rollout of the new system, SAP S/4HANA, again as the maintenance project manager.

He has served as an authorised person and trainer for quality assurance since 1999. He conducted internal audits of the integrated quality system as a certified internal quality auditor between 2000 and 2013. He was appointed Information Security Officer for engineering and technical services in 2007, and in 2019, he was also Business Continuity Officer. He is jointly responsible for integrated quality system maintenance, compliance, and business continuity in the organisational unit and the Company.

In 2009, he completed supervisory and management board member training at the Slovenian Directors' Association. Šašek was elected President of Krka's Works Council for 2009–2013 and 2014–2018, and again for 2019–2022. He assumed his third term as an employee representative on the Supervisory Board on 21 June 2019.

Dr Mateja Vrečer

Mateja Vrečer (born 1966) has worked at Krka since 1990. She started as a pharmaceutical engineering graduate, later passing the pharmaceutical engineering certification examination, which she followed up with a master's degree and then a doctorate in pharmaceutical sciences. She first worked in Research and Development on regulatory feasibility studies for planned new products, and once approved, she managed product registration and product launch campaigns in Slovenia. In 1997, she was appointed Deputy Director of Quality Management, and in March 2007, she took up the role of Head of International Quality Assurance. In September 2011, she accepted the position of Director of Quality Management.

She was an employee representative of the Krka Supervisory Board in 2005–2009 and 2009–2014. In June 2014, she was reappointed to her third term of office. The Works Council elected Vrečer as an employee representative for another term of office commencing on 21 June 2019.

Tomaž Sever

Tomaž Sever was born in 1967. After graduating as a mechanical engineer, he earned a master's in management and organisational sciences. He has been employed at Krka since 1995. He is Deputy Director of Sales and Director of Region Central Europe, entrusted with market research; establishing and expanding Krka's presence in individual markets; specifying the product range; recommending pricing strategies for individual markets; taking part in the preparation of sales campaigns; designing, developing, and managing distribution channels; and participating in the sales network creation abroad. Before joining Krka, he worked for IBM Slovenia d. o. o. from 1992 to 1995, first as an information systems sales representative and later managing information system installation projects.

Sever joined the Krka Supervisory Board as an employee representative in the 2005–2009 term, was reappointed for another five-year term of office in 2009, and started his third term as an employee representative in June 2014. The Works Council elected him to the Supervisory Board as an employee representative for another term of office that commenced on 21 June 2019.

Independent expert, member of the Audit Committee

In accordance with Article 280 of the *Companies Act*, the Supervisory Board appointed Borut Šterbenc, an independent accounting and auditing expert, to the Audit Committee. He is not a member of the Supervisory Board.

Borut Šterbenc

Independent Accounting and Audit Expert, Member of the Audit Committee

Certified auditor Borut Šterbenc (born 1978 in Ljubljana) holds a university degree in economics. He graduated from the Faculty of Economics, University of Ljubljana. On 1 January 2020, he assumed chairmanship of the management board of Kolpa, d. d., Metlika. Up to 2011, he was a project manager at KPMG, where he planned, led, and conducted complex audits in many Slovenian companies, including Krka, Intereuropa, Sava, NEK, and Lama. Šterbenc is also a supervisory board member at Pokojninska družba A, d. d. and an experienced rapporteur to governance and supervisory bodies. He is a certified auditor registered with the Agencija za nadzor nad revidiranjem (Agency for Public Oversight of Auditing). He also holds a certificate of professional competence for supervisory board membership issued by the Slovenian Directors' Association. He is fluent in English, Croatian, and Russian.

Management Board

The Management Board's primary duties are to:
- Manage the Company and make business decisions directly and independently;
- Adopt the development strategy of the Krka Group following endorsement by the Supervisory Board;
- Ensure appropriate risk management; and
- Act with the reasonable care and diligence of a good and honest manager and protect business secrets.

The Management Board has five members:
- President of the Management Board;
- Three members; and
- A worker director representing employee interests regarding human resource and social issues.

The President and other members of the Management Board of Krka were not members of any governance or supervisory bodies outside the Krka Group in 2023.

The term of office of Management Board members is six years. Members can be reappointed. The candidacy procedure and selection of the Management Board members took place in 2021, when the Supervisory Board appointed the Management Board for a term of office commencing on 1 January 2022.

The Rules of Procedure of the Management Board set out the operational functions and allocation of responsibilities within the Management Board. The body's operating approach is to coordinate opinions and make decisions by consensus. In line with the Rules of Organisation and the Rules of Procedure of the Management Board, Management Board members also have executive management duties. Every member is responsible for a certain number of organisational units, which facilitates direct cooperation between the Management Board and directors of organisational units.

The following bodies assist the Management Board:
- Directors' Committee;
- Sales Committee;
- Development Committee;
- Quality Committee;
- Investment Committee;
- Human Resource Committee;
- Information Technology Committee;
- Economics and Finance Committee;
- Corporate Identity Committee; and
- Sustainability Committee.

The committees bring together Management Board members, managerial staff, and experts from individual sectors in Krka. They prepare business policies and strategic guidelines for individual areas and also have some decision-making responsibilities for implementing annual plans. Certain committees also have a risk management remit.

Remuneration, reimbursements, and other benefits for Management Board members are established in accordance with the remuneration policy for management and supervisory bodies (Article 294a of the *Companies Act*) and detailed in individual work contracts between the Supervisory Board and each Management Board member, aligning with the aforementioned remuneration policy. In compliance with the *Companies Act*, a consultative resolution at the AGM decides the remuneration policy for management and supervisory bodies. This provision has been applied to AGMs since 24 August 2021.

In 2023, payments to Management Board members were made in cash. The data are disclosed in the financial report under the Note entitled 'Related party transactions', and in the report on remuneration for the members of the Management and Supervisory Boards of Krka, reviewed at the AGM of 6 July 2023.

Management Board members and their related parties report to the Company and the competent institutions on any acquisition or disposal of the Company's or related parties' shares. Krka makes this information public.

The obligations of Management Board members concerning potential conflicts of interest are regulated by the *Companies Act*, guided by the *Rules of Procedure of the Management Board*, which adhere to best practices, notably outlined in the *Corporate Governance Code for Listed Companies*. In accordance with the *Rules of Procedure of the Management Board*, members are required to demonstrate unwavering loyalty to the Company. They must disclose any conflict of interest to the Supervisory and Management Boards immediately but no later than three days after it arises. Throughout their tenure, they are obliged to adhere to regulations prohibiting anticompetitive practices. Under the *Rules of Procedure*, they can accept seats on supervisory bodies of companies outside the Krka Group only after notifying and obtaining approval from the Supervisory Board of Krka. In 2023, no member of the Management Board of Krka was a member of a supervisory body of any company outside the Krka Group. The existence of any conflict of interest is assessed prior to their nomination.

As regards the Management Board's powers, the shareholders adopted a resolution at the 29th AGM of 6 July 2023, authorising the Management Board to acquire treasury shares over a 36-month period provided that total treasury shares, including new purchases and shares already held, do not exceed 10% of total share capital. The Company informed the public about the treasury share repurchase programme on the web portal of the Ljubljana Stock Exchange SEOnet (http://seonet.ljse.si).

Management Board members

Please find below the CVs of the members of the Management Board presided over by Jože Colarič. Their six-year term of office commenced on 1 January 2016 and ended on 31 December 2021. The Supervisory Board reappointed the unchanged Management Board for another six-year term of office that commenced on 1 January 2022.

Jože Colarič
President of the Management Board and CEO

Jože Colarič (born 1955 in Brežice, Slovenia) completed his secondary education at Gimnazija Novo mesto (Slovenia), then continued his studies at the Faculty of Economics in Ljubljana graduating in 1979.

He has been employed at Krka since 1982. He started in the Finance Sector, where he initially headed Foreign Currency Payments, and then won promotion to Assistant Director. In 1989, he began managing the Exports Department within the Import-Export Sector. Two years later, he became Deputy Director of Import-Export.

Early in 1993, Colarič was appointed Deputy Chief Executive for Marketing and Finance. In September of the same year, he also assumed management of the Marketing-and-Sales Sector.

In 1997, he was appointed to the Management Board. The following year, the Supervisory Board appointed him Deputy President of the Management Board, and in 2002, endorsed him as a future president of the Management Board, making him responsible for proposing candidates for the new Management Board team.

At their meeting of 12 July 2004, the Supervisory Board appointed Colarič President of the Management Board and Chief Executive Officer. His five-year term of office began on 1 January 2005. At their meeting of 21 January 2009, the Supervisory Board appointed him for another six-year term of office commencing on 1 January 2010. Under his management, Krka has developed into one of the leading generic pharmaceutical companies in the world and built solid foundations for growth. Colarič's actions rely on Krka's in-house knowledge, new product development, annual investments, recruitment, and regular dividend payments. In 2015, the Supervisory Board unanimously appointed him President of the Management Board and CEO for a new six-year term of office commencing on 1 January 2016. When that term of office ended, the Supervisory Board appointed him President of the Management Board and CEO for another six-year term of office commencing on 1 January 2022. The Supervisory Board unanimously approved the unchanged Management Board put forward by Jože Colarič and the Worker Director proposed by the Works Council for the 2022–2027 term of office.

Dr Aleš Rotar

Member of the Management Board and Director of Pharmaceutical R&D and Production

Aleš Rotar (born 1960 in Zadar, Croatia) graduated in pharmacy from the Ljubljana Faculty of Natural Sciences and Engineering in 1984, and earned a master's degree seven years later. In 1993, he received his MBA from IEDC, Brdo. He earned his doctorate from the Faculty of Pharmacy, Ljubljana, in 2000.

He started working at Krka in the Stability Department in 1984. In 1991, he was appointed Head of Pharmaceutical Technology and two years later Head of Pharmaceutical Development within Research and Development. In 1998, he was appointed Deputy Director and in 1999, he was appointed Director of Research and Development.

He was appointed to the Management Board in 2001. He began his second term on 31 July 2002 and was reappointed from 31 July 2007 to 31 December 2009. Rotar has been Director of Research and Development since 2002. At their meeting of 29 July 2009, the Supervisory Board reappointed him to the Management Board for a further six-year term of office starting on 1 January 2010. Rotar has notably contributed to know-how and establishment of business functions for in-house research and development at Krka. Owing to his strong performance, in November 2015, the Supervisory Board unanimously appointed Rotar to the Management Board for a new term of office from 2016 to 2021 following a nomination by Colarič. Within that term, he successfully united development and production processes into Pharmaceutical R&D and Production, one of Krka's largest organisational units. Synergies between the experts from development and production helped enhance technology transfer and product life cycle management, leading to higher production output. During his terms of office, Krka almost doubled product launches.

Following his 2021 nomination by Colarič, the Supervisory Board unanimously appointed him to the Management Board for another six-year term of office commencing on 1 January 2022.

Dr Vinko Zupančič

Member of the Management Board and Director of API R&D, Production and Supply Chain

Vinko Zupančič (born 1971 in Novo mesto, Slovenia) finished his secondary education at Gimnazija Novo mesto. He graduated from the Faculty of Pharmacy in Ljubljana in 1996, earning a master's degree in pharmacy. In 1998, he passed a certification examination in pharmacy and in 2010, earned a doctorate from the Faculty of Pharmacy.

He joined Krka in 1997 as a Warehousing and Transport of Product Supply trainee. In 1998, he became a warehouse technologist and then a senior warehouse technologist. In 2000, he assumed the role of assistant to the Head of Warehouse and Transport Services. In 2002, he became Deputy Head of Supply Chain in Product Supply. Commencing on 1 February 2004, Zupančič took up his appointment as Director at Krka's representative office in Bangalore, India. He returned to Krka in Slovenia on 1 July 2005 as Head of Supply Chain in Product Supply. He was appointed Deputy Director of Product Supply on 1 December 2008, and Director of Product Supply on 1 January 2010.

On 29 July 2009, the Supervisory Board appointed him to the Management Board for a six-year term commencing on 1 January 2010. Krka's significant competitive advantage is that we manufacture most of the APIs and raw materials we require, enhancing product economics and cutting response time. Zupančič has been integral to the success of this strategy. Following his 2015 nomination by Colarič, the Supervisory Board unanimously appointed him to the Management Board for a term of office from 2016 to 2021. He successfully managed raw material development, production, and the supply chain during that term. He played a key role in supply chain management regarding finished products, from improving raw material economics to process optimisation. He is also credited with continuously streamlining warehousing capacities and optimising road and other means of transport.

Following his 2021 nomination by Colarič, the Supervisory Board unanimously appointed him to the Management Board for another six-year term of office commencing on 1 January 2022.

David Bratož

Member of the Management Board

David Bratož (born 1976 in Novo mesto, Slovenija) holds a university degree in economics. Having finished his secondary education at Gimnazija Novo mesto, he continued his studies at the Faculty of Economics in Ljubljana. He graduated in 2000, specialising in finance.

Bratož began his career at Krka in 2001 in the Finance department, where he managed several major projects. In 2003, he began working in Sales, Region Central Europe, primarily in charge of the Polish market. Owing to his strong performance, he was appointed Director of Krka - Polska in 2007, where he managed marketing, sales, production, and distribution operations. Two years later, he was appointed President of the Board of Directors.

Bratož and his team worked together to make Krka - Polska one of the largest and most successful Krka subsidiaries. Product sales and production volume doubled during his tenure in Poland, winning many awards for him and Krka - Polska.

Bratož has extensive knowledge across all business functions of a large corporation. Following his 2015 nomination by Colarič, the Supervisory Board appointed him to the Management Board for his first term of office, from 2016 to 2021. He contributed to the renewal of our development strategy. He was also accountable for managing finance, the economics of international and domestic business operations, Krka Group controlling, business intelligence, and the development of business informatics. He instigated the implementation of business compliance, corporate integrity, and personal data protection in the Company. During his term of office, Krka accelerated digitalisation and the use of cloud technologies and upgraded information security. He leads the expert team for enhancing sustainable management in the Company. As a member of the Management Board, Bratož cooperates closely with the Works Council and the two trade unions. He is also responsible for employee recreation, meals during work time, housing issues, and Krka's societies.

He sits on the supervisory board of the Chamber of Commerce and Industry of Slovenia.

Following his 2021 nomination by Colarič, the Supervisory Board unanimously appointed him to the Management Board for another six-year term of office commencing on 1 January 2022.

Milena Kastelic

Member of the Management Board, Worker Director; Deputy Director of Pharmaceutical Production

Milena Kastelic (born 1968 in Novo mesto, Slovenia) holds a degree in food technology. After finishing her secondary education at Gimnazija Novo mesto in 1986, she enrolled at the Biotechnical Faculty at the University of Ljubljana. In 1991, she won the Prešeren Award for students for her undergraduate diploma thesis, 'Evaluation of glucoamylase activity in yeast *Saccharomyces diastaticus*'. In 1993, she completed training in work design at the REFA Association in Germany.

She started her career at Krka in 1992 and has been a successful staff member ever since. Over nearly three decades, her professional career has been closely linked to herbs, the production of non-prescription products, and prescription pharmaceuticals for human use and animal health. She completed her traineeship in the Auxiliary Medicinal Products and Herbs Programme with an assignment on the technology of drying plant-based raw materials. She worked as a production technologist for five years. In 1996, she became the Head of the Plant for the Production of Herbal Medicines, today's Bršljin Department, which she successfully managed until April 2018. From January 2016 until July 2021, Kastelic also headed Semi-Solid, Liquid and Other Products. In July 2021, she took up the position of Deputy Director of Pharmaceutical Production in charge of the corresponding segment. She also delivers employee training.

As Krka's internal auditor of 15 years, she has contributed to enhancing business processes in the Company. This role enabled her to gain insights into the operations of various organisational units, the significance of close collaboration among them, and the outcomes of their collective efforts.

In 2015, the Works Council proposed her as the Worker Director. The Supervisory Board appointed her to the Management Board as Worker Director for her first term of office from 2016 to 2021. Kastelic is well-trusted by the employees, and on that account, the Works Council reappointed her Worker Director in 2021.
The Supervisory Board, therefore, unanimously appointed her to the Management Board as Worker Director for another six-year term of office commencing on 1 January 2022.

Roles and responsibilities of Management Board members

Roles and responsibilities of Management Board members are available at https://www.krka.biz/en/about-krka/whos-who-in-krka/management-board/.

In line with good practice, we hereby declare that Management Board member David Bratož acts under the board resolution as the expert team leader for enhancing sustainable management.

2023 diversity policy for Management and Supervisory Boards

In 2020, the Management and Supervisory Boards adopted the *Diversity Policy* and published the document on the corporate website https://www.krka.biz/investors/investor-information/documents/corporate-governance-documents/.

The bodies closely followed recommendations by the Slovenian Directors' Association for the voluntary pursuit of gender diversity in management and supervisory bodies. By 2026, they aim to gradually implement the 40-33-2026 model (i.e. 40% of women on the Supervisory Board, and 33% on the Management and Supervisory Boards together). In 2023, women accounted for 33% of the Supervisory Board structure, constituting 29% of the Management and Supervisory Boards.

Key areas of the *Diversity Policy* are gender, age, and qualification profile diversity. The policy pursues a balanced gender structure, suitable interdisciplinarity and age structure, allowing for the transfer of experiences and knowledge. The policy addresses the diversity of the Management and Supervisory Boards. However, the Company also applies it rationally to all other management levels.

Krka ensures equal opportunities for its employees, irrespective of gender, race, colour, age, health status or disability, religious or political beliefs, any other belief, trade union affiliation, national or social origin, family status, financial standing, sexual orientation, or any other personal particulars.

Diversity policy monitors are: (a) Human Resource Committee of the Supervisory Board; (b) Supervisory Board; (c) Management Board; (d) Works Council; (e) any committees involved in procedures for selecting members to management and supervisory bodies; and (f) Human Resources of Krka.

Governance of the Krka Group

The Krka Group comprises the controlling company Krka and subsidiaries in Slovenia and abroad. Generally, Krka is the sole owner of the subsidiaries incorporated as limited liability companies.

Uniform governance, organisation, and operation rules are applied to all companies in the Krka Group, unless otherwise required by national legislation. The controlling company sets the strategies and objectives of all individual subsidiaries in the Krka Group and monitors the implementation of their plans. To ensure cohesive management and supervision across the Group, the controlling company's Management Board also acts as the AGM of all subsidiaries.

An exception is Ningbo Krka Menovo Pharmaceutical Co. Ltd., the joint venture in China, where Krka holds 60%, and the Chinese partner, Ningbo Menovo, a 40% shareholding. Krka has two representatives on the company's three-member Board of Directors, one of whom is the President.

Corporate compliance and integrity

Values, norms, integrity [9]

Corporate integrity, compliance, and transparency of operations are important at Krka and apply to all levels of business operations, employees, and third parties. We constantly strive to enhance the ethics culture and safeguard Krka's renown and assets. When working and carrying out tasks, the benchmark for all employees is to comply with fundamental ethical principles of honesty, loyalty, professionalism, applicable regulations, and Krka's bye-laws. We continuously strive to heighten employee awareness regarding potential fraud, non-compliance, and other violations, as well as methods for managing them, fostering accountability in their identification and reporting.

[9] GRI 2-23, SDG 16

Krka's Code of Conduct (hereinafter also the *Code*), containing principles and rules of ethical conduct, good business practices, and standards of conduct, is the umbrella document for this area. The Management Board adopted the document in 2018 at the Group level. It was updated in 2020 and is to be reviewed and, if necessary, updated biennially. It was last reviewed in January 2023. It is available in 29 languages on our corporate website or websites of our subsidiaries. Subsidiaries must take national legislation into account.

The *Code* is binding on all employees.

The *Code* outlines how to act in case of conflicts of interest. A conflict of interest exists when the personal interests of an individual affect or could affect the ability of an employee to carefully and objectively make decisions and carry out work to the benefit of Krka. A conflict of interest can also arise from an individual's involvement in entrepreneurial, scientific, political, or other associations. The fundamental principle that employees must adhere to is making decisions in the best interest of Krka. Under the *Code*, employees must refrain from decision-making when a conflict-of-interest risk exists.

Education and training on corporate compliance and corporate integrity[10]

At the Krka Group level, we provide for regular education and employee awareness on the importance of corporate compliance and corporate integrity. Employees take refresher courses every two years via eCampus, while Marketing employees also attend internal professional meetings, the last time in autumn 2023. New employees are briefed about this before starting their work at Krka.

Krka's various departments screen customers, suppliers and business partners. For now, we also manage risks related to corporate compliance and corporate integrity in this manner. New employees are informed accordingly at induction seminars and receive a printed copy of the Code. Training course attendance records are kept or logged via eCampus.

Addressing purported irregularities[11]

Any breach of *Krka's Code of Conduct*, potential fraudulent, corrupt, or other non-compliant actions resulting in harm to Krka are addressed in line with Directive (EU) 2019/1937 or relevant national legislation, as well as internally, following the *Rules on Fraud Prevention, Detection, and Investigation*.

Employees can report any purported irregularities to our publicly available address at *compliance.officer@krka.biz.* Our subsidiaries have followed our example and set up their own channels where required by their respective national legislation. The list of these subsidiaries is available further on (see the 'Chief Compliance Officer' section). The compliance officer considers the reports and, in turn, appoints a working team for each case separately by including experts on relevant issues. We guarantee anonymity to reporters and safeguard them against any potential retaliatory measures. When a case is closed, we adopt corrective measures if necessary.

Krka's Code of Conduct entered into force on 1 May 2018. Since then, the compliance officer *compliance.officer@krka.biz* has received 79 reports for consideration: 7 in 2023; 8 in 2022; 15 in 2021; 25 in 2020; 10 in 2019; and 14 in 2018. We adopted relevant corrective measures to strengthen our internal controls on the back of these reports.

Chief Compliance Officer[12]

At the Krka Group level, a Chief Compliance Officer is appointed to autonomously and independently oversee corporate integrity. He liaises with Legal Affairs, employees from individual organisational units who advise on managing compliance in their respective areas, and a secretary. The Chief Compliance Officer briefs the Supervisory Board on his activities through the *Integrity Plan* discussed by the body biennially, which happened last in 2022. He reports to the Management Board on all activities once a year.

Our subsidiaries employ their own compliance officers where required by national legislation or good practice. In 2022, subsidiaries in the Russian Federation, Poland, Ukraine, Croatia, Germany, and Terme Krka (Slovenia) had their own

[10] GRI 205-2
[11] GRI 2-26, 3-3, 205-3
[12] GRI 2-16, 2-24

compliance officers. In 2023, subsidiaries in Romania, Hungary, Czechia, Lithuania, Slovakia, Spain, Italy, Bulgaria, and Portugal appointed their own compliance officers. They are also responsible for addressing the reports on any purported irregularities in subsidiaries. They report to Krka's Chief Compliance Officer every quarter.

Integrity Plan[13]

In 2020, based on good practice (*Corporate Governance Code for State-Owned Enterprises*), we drew up the *Integrity Plan* that describes risk in the areas of integrity, ethics, and compliance in business operations and proposes improvements. The plan is updated every year. The plan commits us to constant improvements in operational compliance in the following areas.

The *2023–2024 Integrity Plan* includes as follows:

- Investments, acquisition of fixed assets, and execution of major maintenance works;
- Purchase of raw materials;
- Insider trading, shareholder relations;
- Recruitment and human resource management;
- Personal data processing;
- Documentary and financial control, accounting processes, independence of internal and external auditors;
- Fraud risk or non-compliance with corporate instructions in subsidiaries;
- Marketing of prescription pharmaceuticals, non-prescription products, and animal health products;
- Product sales;
- Sponsorships and donations;
- Gift receiving and giving;
- Environmental management;
- Use of information technologies;
- Product quality;
- Risk of non-compliance related to health and safety at work;
- Systemic risk related to integrity and compliance.

The probabilities and consequences of adverse events are evaluated as low, moderate, or high. Individual risk is evaluated vis-à-vis of potential harm and the likelihood of it occurring. With respect to the risk level and established internal controls, further corrective actions are taken if necessary.

Our Russian Federation, Poland, and Ukraine subsidiaries drew up their integrity plans in 2021, while our German subsidiary and Terme Krka (Slovenia) prepared them in 2022. They are updated annually.

In 2023, no high risk was detected in connection with any area listed above.[14]

Description of *Code of Ethics* governing interactions with healthcare professionals

Our subsidiaries comply with national legislation and Krka's Code of Promotion in marketing activities. Activities pursued by employees when marketing prescription pharmaceuticals are further detailed in Krka's Code of Promotion, and operational instructions for visits to healthcare professionals and professional meetings, education and training, and company visits. Cooperation with the healthcare community relates in particular to healthcare workers, healthcare organisations, patients, and patient societies.

We regularly update all these rulebooks. They have been translated into the national languages of the countries where our marketing network operates. Marketing employees receive information through eCampus, at internal cycle meetings, and training courses for marketing employees. They learn about the rules mentioned above and commit to work in line with them.

[13] GRI 2-23, 2-24
[14] GRI 205-1

Management approach to non-discrimination[15]

Two umbrella documents set down non-discrimination principles: *Krka's Code of Conduct* and the *Integrity Plan*, which serves as an implementation document.

To date, we have not received any reports on purported discrimination based on race, skin colour, gender, religious or political conviction, nationality, or social origin.

Contributions and other spending[16]

In 2023 and over the past five years, Krka did not fund any political campaigns, political organisations, lobbyists, or lobbying organisations.

Krka Group companies are members of those advocacy groups where membership is obligatory or considered a common practice in the industry.[17]

We regularly disclose any transfers of funds to healthcare professionals, healthcare providers, associations, and patient societies. We publish disclosures on our corporate website every year by 30 June for the preceding year.

We manage sponsorships and donations in the context of Krka Group's sustainable business operations. Initiatives are carried out in accordance with The Krka Group Sponsorship Manual governing sponsorships and donations. In line with our primary mission, 'Living a healthy life.', we allocate most of our sponsorships and donations to projects related to health and quality of life. We allocate the majority of funds to support sports, culture, healthcare, science, education, and humanitarian initiatives.

Human rights in business operations[18]

On 31 May 2019, Krka signed the *Commitment to Respect Human Rights in Business Operations* instigated by the Ministry for Foreign Affairs of the Republic of Slovenia. Twenty-four major Slovenian companies signed the document. At the state level, the issue is governed by the *National Action Plan of the Republic of Slovenia on Business and Human Rights*.

Krka contracts currently do not include stipulations on human rights. However, we are committed to honouring them by *Krka's Code of Conduct*. We comply with all human rights legislation and standards in all countries where we operate.

The *Integrity Plan*, updated yearly, refers to human resources; the latest update was made in July 2023.

Internal audit

Internal auditors discharge their duties in the Krka Group based on medium-term and annual work plans per the applicable rules (*International Standards for the Professional Practice of Internal Auditing*, *Code of Ethics*).

In line with the 2023 work plan, seventeen regular internal audits were conducted using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology.

This methodology is globally recognised and serves as the basis for comprehensive monitoring of risk management and internal control systems. Internal auditors use these methods to assess the fulfilment of audit objectives in several categories: business operations, reporting, and compliance with the regulations of each audit area.

Internal auditors reviewed processes in: Pharmaceutical Development; Production Plants Abroad and Contract Manufacture; Utilities; Quality Control; Sales; Marketing Applications and Analytics; and Warehousing and Transport Service. Regular internal audits were also conducted in several subsidiaries and representative offices in Slovenia and abroad. Moreover,

[15] GRI 3-3, 406-1
[16] GRI 3-3, 415-1
[17] GRI 2-28
[18] GRI 2-23, 2-24, 3-3, 412-3

internal auditors provided consulting services in line with the aforementioned standards. In 2023, Internal Audit primarily participated in the preparation of the *ESG Policy* and strategy.

Internal auditors provided assurances that the applied systems of internal controls in the audited areas and processes had been established, operational, and effective in achieving set objectives. However, opportunities for improvement were indentified, leading to recommendations categorised by individual risk levels, coupled with regular verification of their implementation.

Internal auditors work with the Krka Supervisory Board, its Audit Committee, and external auditors. In line with the *Standards*, Internal Audit has been subject to three independent external quality assessments since its establishment. On each occasion, we received an overall opinion that Internal Audit activities generally conform with the *Standards* and the *Code of Ethics*.

Internal controls and risk management relating to financial and tax reporting[19]

The Krka Group has established internal controls, i.e. guidelines and procedures at every level of operation to manage financial and tax reporting risks. Internal controls ensure the reliability of financial reporting and compliance with applicable legislation and other internal and external regulations. Implementing standard information systems in subsidiaries and developing business information systems facilitate the exchange of accounting data between the subsidiaries and the controlling company, and therefore also control of information.

Accounting controls, including internal tax controls, are based on the principles of veracity and segregation of duties, transaction controls, updated accounting records, reconciliation of accounting balances and the actual balance, separation of record-keeping from payment transactions, professionalism of the accounting staff, and independence.

The *Krka Group Tax Strategy* and *Krka Group Tax Code of Conduct* set out the policy, objectives, guidelines, and principles of tax management, including transfer pricing, based on principles and rules of ethical conduct and good business practices and standards of conduct, which are defined in Krka's *Code of Conduct*. The *Tax Strategy* is available at www.krka.biz.

The basic guidelines and principles that the Krka Group follows in the tax field are to: comply with the legislation in the country in which we operate; settle tax liabilities voluntarily and on time; avoid risky tax decisions; consider the tax perspective when changes occur or when introducing new business models or transactions; monitor changes in tax legislation and continuously train employees involved in the tax process; work with tax authorities and ensure open, fair and constructive cooperation, and maintain a good partnership. All this should be ensured through the appropriate organisation and functioning of the Krka Group's tax function and clearly defined responsibilities.

Accounting and tax controls are closely linked to information technology controls, which, among other things, serve to restrict and control access to networks, data, and applications and the completeness and accuracy of data capture and processing. Authorised external agents also verify the compliance of operations and the existence of the requisite controls within information systems annually.

We manage risks related to the consolidated financial statements of the Krka Group by directing the accounting activities and their supervision in the subsidiaries and by auditing the annual financial statements of all Krka Group subsidiaries.

External audit

The audit firm KPMG SLOVENIJA, podjetje za revidiranje, d. o. o., audits the financial statements of the controlling company and the consolidated financial statements of the Krka Group. The shareholders appointed the audit firm as the auditor for financial years 2022, 2023, and 2024 at the 28th Annual General Meeting of Krka held on 7 July 2022. The external auditor reports audit findings to the Management Board, Supervisory Board, and the Audit Committee of the Supervisory Board.

Transactions between Krka and the audit firm KPMG SLOVENIJA, podjetje za revidiranje, d. o. o., and transactions between the Krka Group companies and individual audit firms are disclosed in the 'Notes to the financial statements' section, item 'Transactions with the audit firm'.

[19] GRI 3-3, 207-1, 207-2, 207-3

Composition of Supervisory Board of Krka as at 31 December 2023[20]

Name and surname	Jože Mermal	Luka Cerar	Matej Lahovnik	Julijana Kristl	Boris Žnidarič	Mojca Osolnik Videmšek	Franc Šašek	Mateja Vrečer	Tomaž Sever
Function	President	Member	Deputy President	Member	Member	Member	Deputy President	Member	Member
First appointed	2015	2023	2020	2010	2016	2019	2009	2005	2005
Duration of current term of office	2025	2028	2025	2025	2025	2024	2024	2024	2024
Representing	Shareholders	Shareholders	Shareholders	Shareholders	Shareholders	Shareholders	Employees	Employees	Employees
Meeting attendance record	6/7	3/3 since member	6/7	7/7	7/7	6/7	7/7	7/7	7/7
Gender	Male	Male	Male	Female	Male	Female	Male	Female	Male
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1954	1976	1971	1953	1948	1966	1967	1966	1967
Education and qualifications	University degree in economics	University degree in economics and master's degree in international finance	PhD in economics	PhD in pharmaceutical sciences	PhD in social sciences and master's degree in law	University degree in economics	University degree in organisational sciences	PhD in pharmaceutical sciences	University degree in mechanical engineering and master's degree in management and organisational sciences
Independent according to *Corporate Governance Code for Listed Companies*	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Conflict of interest in the financial year	In 2023, no permanent or relevant conflicts of interest were identified in respect of any Supervisory Board member. Statements of independence are published on the Company's website.								
Committee membership	No	No	Member of the Audit Committee	Member of the Human Resource Committee	President of the Human Resource Committee and since 19 July 2023, member of the Audit Committee	President of the Audit Committee since 19 July 2023	Member of the Audit Committee	Member of the Human Resource Committee	Member of the Human Resource Committee
Attendance record at regular committee meetings	No	No	5/6	3/3	3/3 at Human Resource Committee meetings and 2/2 at Audit Committee meetings since member	5/6	6/6	3/3	3/3
Membership of supervisory bodies of other companies	Supervisory Board members, especially shareholder representatives, have seats on supervisory or management boards of other companies, but not to the extent that would influence their work on the Supervisory Board of Krka. They comply with the provisions of the *Companies Act* (ZGD-1).								
ESG expertise	Received several awards for his visionary work in the economy and activities in culture, sports, education, and the humanitarian field	Contributed significantly to the development of expertise and practice in the financial field as an expert in international finance, analyses, and strategic planning	Authored and co-authored many scientific papers on strategic management; extensive international experience in economic policy-making and governance	Long-time professor and dean at the Faculty of Pharmacy; extraordinary achievements include developing and establishing pharmaceutical nanotechnology in Slovenia as well as researching and lecturing on accessible healthcare	University lecturer in social sciences with many years of leadership experience in an international insurance company, primarily in human resource management and talent attraction and retention	Leadership experience in banking, risk management, compliance, and corporate governance support	Long-standing work on employee inclusion and participation in management; elected employee representative on the Supervisory Board	Experience in the field of quality (Head of Quality Management at Krka); elected to the Supervisory Board as an employee representative	Leadership and organisational experience in the field of responsible sales (Deputy Director of Sales at Krka); elected to the Supervisory Board as an employee representative

[20] GRI 2-9, 2-10, 2-11, 2-15, 2-17, 405-1

External members of committees as at 31 December 2023

Audit Committee

Name and surname	Borut Šterbenc
Function	Independent external expert of the Audit Committee in accordance with Article 280 of the *Companies Act*
Meeting attendance record	5/6
Gender	Male
Citizenship	Slovenian
Year of birth	1978
Education and qualifications	Holds a university degree in economics with experience in planning, leading, and conducting complex audits; is a certified auditor registered with the Agency for Public Oversight of Auditing
Independent according to *Corporate Governance Code for Listed Companies*	Yes
Membership of supervisory bodies of other companies	Member of the hedge fund committee of Pokojninska družba A, d. d
ESG expertise	Transparency in terms of reporting and business operations; is a certified auditor

Composition of Management Board of Krka as at 31 December 2023[21]

Name and surname	Jože Colarič	Aleš Rotar	Vinko Zupančič	David Bratož	Milena Kastelic
Function	President	Member	Member	Member	Member, Worker Director
Remit on the Management Board	Marketing, sales, human resources, investments, public relations, legal affairs, new products to a certain extent, certain administrative services	Research and development of finished products, new products, quality management, health and safety at work	API R&D and production, supply chain management	Corporate performance management, finance, information technology, sustainable operations, relations with trade unions and works council, certain administrative services	Acts as a workers' representative and represents their interests in human resource and social issues
First appointment to the Management Board	1997	2001	2010	2016	2016
Duration of current term of office	By the end of 2027				
Gender	Male	Male	Male	Male	Female
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1955	1960	1971	1976	1968
Education and qualifications	University degree in economics	PhD in pharmaceutical sciences	PhD in pharmaceutical sciences	University degree in economics	University degree in food technology
Membership of supervisory bodies of non-related parties	No	No	No	No	No
SG expertise	Extensive leadership experience; numerous awards for running a large corporation; an outstanding reputation as a good businessman; under his leadership, Krka developed into one of the leading international generics	Knowledge of and extensive experience in the development and production of quality products for accessible healthcare (managing development, research, pharmaceutical production, new products)	Supply chain management, contributed to the uninterrupted supply of medicines in markets and a resilient and flexible vertically integrated business model	Responsible for sustainability improvements with regard to Krka's operations; contributed to the development of the local community (Krka's societies); contributed to tax and reporting transparency (responsible for the relevant organisational unit)	Effective representation of workers' interests concerning human resource and social issues as well as health and safety at work
Independent	Yes. Members' independence is assessed upon their appointment. Under the *Rules of Procedure of the Management Board*, members must immediately disclose any conflicts of interest. The *Rules of Procedure of the Management Board* propose measures to manage such conflicts.				

The composition and amount of the Management Board members' remuneration are disclosed under the Note entitled 'Related party transactions'. Further details are available in the Management and Supervisory Board remuneration report presented to the AGM. Since 2022, it is available as part of AGM materials.

[21] GRI 2-9, 2-10, 2-11, 2-12, 2-15, 2-17, 405-1

Corporate governance code compliance statement

In 2023, Krka's code of reference was the *Slovenian Corporate Governance Code for Listed Companies* (hereinafter: the *Code*), adopted on 9 December 2021 by the Ljubljana Stock Exchange and the Slovenian Directors' Association. The *Code* entered into force on 1 January 2022 and is published on the Ljubljana Stock Exchange website.

We, the Management and Supervisory Boards of Krka, tovarna zdravil, d. d., Novo mesto, hereby declare that in 2023, individual members of the Management and Supervisory Boards and the Management and Supervisory Boards as bodies of a listed company acted in compliance with the principles and recommendations of the *Code*. Some of the recommendations were not implemented in full. However, we have always endeavoured to carry out these recommendations and find appropriate ways of doing so. Individual derogations from the *Code* are explained below.

In the context of self-assessment, the Supervisory Board can establish an annual training plan for its members and determine indicative training costs. In 2023, no proposal for additional training was put forward, so the plan was not adopted (Item 15.1 of the *Code*).

Supervisory Board members evaluated the Board's performance by thoroughly following the methods and *Supervisory Board Assessment Manual* prepared by the Slovenian Directors' Association. The evaluation process was carried out professionally and objectively. As there was no need for external professional support in 2023, an external assessment of the Supervisory Board's performance in collaboration with a specialised institution or other experts was not conducted (Items 16.2 and 16.4 of the *Code*). The Internal Audit of Krka monitors the procedures related to corporate governance to the extent required by *International Standards for the Professional Practice of Internal Auditing*.

We use a digital application to distribute Supervisory Board materials securely. Supervisory Board members can access the archive until the end of their terms in office (Items 14.2 and 14.6 of the *Code*), which complies with our *Information Security Policy*.

According to our *Rules of Procedure of the Supervisory Board*, the President of the Supervisory Board has two deputies: a shareholder representative and an employee representative. This is necessary to ensure the inclusion of employee representatives in the key activities of the bodies. The *Rules of Procedure of the Supervisory Board* state that when the president is absent or unavailable to attend, the shareholder representative is first to assume the president's duties and only in the absence of the former does the employee representative assume this role. This ensures we do not deviate significantly from the *Code*, which stipulates that only a shareholder representative may act as Deputy President of the Supervisory Board (Item 17.4 of the *Code*).

In 2023, Krka's 'Corporate governance statement' was reviewed by an external auditor as part of the regular audit. An additional external assessment of the statement's adequacy was not performed (Item 5.6 of the *Code*).

We do not list any association of the Management and Supervisory Board members with any governance or supervisory bodies of non-related companies in the uniform tables (Attachments C1 and C2 to the *Code* in force) in the 'Corporate governance statement' section of Krka's *2023 Annual Report*. The Management Board members do not engage in corporate governance and supervisory functions outside the Krka Group, while the information about the Supervisory Board members' engagements is included in their CVs (Item 5.5 of the *Code*). Variable remuneration for the Management Board is always paid in two parts: as an advance payment based on semi-annual results; and as back pay after the Supervisory Board confirms the annual report at their meeting, always together with the monthly salary for the following month (Item 23.2 of the *Code*).

The Supervisory Board updated the Management Board variable remuneration criteria in 2012, 2014, 2016, and 2018 in consideration of additional Management Board duties related to business strategy, changes to the business environment, or remuneration trends. The Supervisory Board also made adjustments to the remuneration policy in 2022 and submitted them for AGM approval for the first time. In line with the shareholders' comments at this AGM, the Supervisory Board updated the remuneration policy again in 2023. It was approved with 97.45% of votes during consultative voting at the 29th AGM in 2023.

The Supervisory Board did not set the criteria every year in line with the recommendations under Item 14.11 of the *Code* because they are related to the Krka Group's long-term development strategy.

Under the *Rules of Procedure of the Management Board*, Management Board members may join supervisory boards of non-related companies only after they inform and obtain consent from the Company's Supervisory Board. This is a partial derogation from Article 21.6 of the *Code*, which addresses all companies, not only the non-related ones.

We publish contact details for investors and the public on our website but not the names of individuals (Item 31.2 of the *Code*) because several persons are in charge of various areas.

We also made the *Rules of Procedure of the Supervisory Board* public. In the 2023 'Corporate governance statement', we disclosed the composition, remits, and other aspects concerning the operation of our bodies, and hence all essential information on corporate governance. We did not publish any other operational documents regarding the bodies' performance in 2023 (Item 32.7 of the *Code*).

Two members of the Supervisory Board, i.e. employee representatives, could be regarded as members of the wider management team according to certain criteria (Item 13 of the *Code*). This is despite the fact that they cannot entirely independently make decisions for their respective work areas regarding financial resource allocations, employment, or strategy.

We also complied with 73% of the valid *Best Practice for GPW Listed Companies* code provisions, which applies to companies listed on the Warsaw Stock Exchange. We explain discrepancies in a separate document published in the dissemination system of the Warsaw Stock Exchange.

Novo mesto, 25 March 2024

Jože Colarič
President of the Management Board and CEO

Jože Mermal
President of the Supervisory Board

Signatories to the ‘Governance statement’ and its constituent parts

Jože Colarič
President of the Management Board and CEO

Dr Aleš Rotar
Member of the Management Board

Dr Vinko Zupančič
Member of the Management Board

David Bratož
Member of the Management Board

Milena Kastelic
Member of the Management Board – Worker Director

Non-financial statement[22]

The Management Board of Krka, tovarna zdravil, d. d., Novo mesto (hereafter the Company) hereby declares that all Krka Group subsidiaries adhere to Krka Group policies concerning the social sphere and human resources, uphold principles of human rights and diversity, anti-corruption and anti-bribery management, and the environment. The non-financial statement applies to all Krka Group constituent entities, i.e. to Krka, the controlling company, and all Krka Group subsidiaries.

The Krka Group operates under the business model presented in the 'Krka Group business model' section and also monitors its position in various environments. Further information is available in the 'Risk management' section.

We at the Company and the Krka Group are committed to high ethical standards. Krka's *Code of Conduct* includes principles and rules of ethical conduct, as well as good business practices and standards of conduct in the Krka Group, binding on all Company employees. The *Code* is the keystone for all other Company and Krka Group bye-laws. The guiding principle is to uphold the highest moral standards, encompassing honesty, loyalty, and professionalism, while consistently complying with regulations and guidelines set forth by international organisations in the pharmaceutical industry and bye-laws. The *Code* is published on the Company website. The *Code* is accessible to all business partners, and we expect them to adhere to it when doing business with any Krka Group entity.

We at the Company and the Krka Group place a strong emphasis on the social sphere and human resources. We realise that employees and their knowledge, experience, and cooperation are key to achieving the planned results. Our success depends on employees' commitment, good and constructive relationships, and contemporary and stable management methods that guide our employees towards efficiency, proactivity, improvement, and development, thus upholding the Company's values. We try to make our overall operations reflect responsibility towards employees, the environment, and stakeholders. The Company values guide us when setting objectives, achieving results, working with employees, and managing and developing employee potential. Together we encourage a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible, efficient, and sustainable work. The Company and Krka Group employees are known to be loyal, innovative, flexible, diligent, and focused on achieving business objectives and results. For further information, please see the 'Employees' and 'Corporate social responsibility' sections.

We provide a safe and healthy working environment and regularly adopt measures to reduce and eliminate potential health and safety risks. We adhere to all regulations and bye-laws related to workplace health and safety. Smoking is prohibited at all Company and Krka Group sites.

We operate in line with all regulatory requirements and standards relating to human rights in all countries where we do business. We respect the dignity, personal integrity, and privacy of each individual. We also respect the freedom of speech and expression of opinions and always treat others with respect. We communicate openly with our employees, regardless of their professional qualifications and leadership position. All forms of unfair and unauthorised work are prohibited. Any discrimination against employees is prohibited. We treat all employees equally, regardless of their nationality, race or ethnicity, national or social origin, gender, colour, medical condition, disability, religion or belief, age, sexual orientation, family status, trade union membership, financial standing, or any other personal circumstance.

Any form of harassment and ill-treatment in the workplace is prohibited. We provide adequate working conditions and an open and creative working environment. Our working environment is free from any psychological pressure, sexual or other harassment, or ill-treatment by other employees, superiors, or third parties. All employees are required to refrain from any inappropriate action that would undermine another person's dignity. Any employee may report mobbing to the relevant company officer.

The diversity policy of the Company and the Krka Group applies the principle of integration and equal opportunities, which also applies to the composition of supervisory and management bodies. In 2021, the Management and Supervisory Boards adopted the *Diversity Policy* in line with the recommendations of the Slovenian Directors' Association and made the document available to the public. Please see also the 'Corporate governance statement' section, subsection '2023 diversity policy for Management and Supervisory Boards'.

[22] GRI 2-14

The document *Rules on Fraud Prevention, Detection and Investigation* is available to the public and applies to the Company and the Krka Group. It governs the prevention of fraud and corruption, measures to combat it, and the responsibility of employees in its detection. We allow no unethical, unprofessional, or unlawful conduct on the part of employees and business partners regarding fraud and corruption prevention, and corporate compliance. We do not exploit the Company's business opportunities, its assets, and information for personal, commercial, or third-party gain. We do not promise any benefits and do not give gifts to influence the decisions of national authorities, public officials, business partners, or other entities, nor do we accept gifts or any other benefits that may influence our decisions concerning our work. We ensure that persons with access to inside information are aware of such information's confidentiality levels and sensitivity. Our bye-laws govern trading in the Company's financial instruments, and we have oversight mechanisms for employees and third parties handling such information. This gives us a platform to prevent potential abuses and insider trading. Periodic restrictions are in place for all persons with access to inside information. During this time, they are prohibited from trading in the Company's financial instruments. You can find more on this topic in the Company's *Code of Conduct* and the 'Corporate governance statement' section, subsection 'Corporate compliance and integrity'. In 2023, no cases of corruption were detected or confirmed.

We safeguard the environment and respect environmental regulations, while working in tandem with the local community and beyond. We set out our commitment to preserving the natural environment in our *Environmental Policy*, which binds us to safeguard the environment in accordance with the newly issued ISO 14001:2015 standard, and prevent or reduce our environmental impact to the largest extent possible. More information is available in the 'Natural environment' section.

Risks, policies, and due diligence reviews relating to Company and Krka Group non-financial operations are detailed in the 'Risk management' and 'Sustainable development' sections, while non-financial indicators and the ensuing policy results can be found in the 'Sustainable development' section and in the 'Krka's sustainable development indicators' chart in the introductory part of the *Annual Report*.

In 2023, we made an important step forward in integrating a sustainability perspective in our strategic planning and business operations as part of the *2024–2028 Krka Group Development Strategy* revision. For the first time, we fully integrated sustainable operations, the ESG strategy, and ESG goals into our business strategy. The sustainable operations of the Krka Group are distinctly outlined and hold equal importance within the business strategy alongside other operational areas. This underscores the significance of sustainability within the overall business operations of the Krka Group. In 2022, we outlined guidelines for sustainable business operations in the *ESG Policy of the Krka Group*, the master document for strategic sustainability governance in relation to the environmental (E), social (S), and corporate governance (G) dimensions of the Group. The *ESG Policy* was updated in 2023. It specifies management approaches to material sustainability areas. It sets down the fundamental sustainability-related principles and efforts that the Krka Group follows in its operations throughout the value chain and in relations with various stakeholder groups, from suppliers to customers and subsidiaries within the Group. The fundamental objective of integrating the Krka Group sustainability principles and sustainable management approaches into management processes and business decisions is to heighten the awareness of sustainability-related impacts, risks, and opportunities that can affect the success of our business operations and improve their management going forward. The Sustainability Committee was briefed about sustainable operations and activities at the first meeting. During the year, the Management Board member in charge of sustainability, ESG coordinator, and ESG managers were involved in various activities. The Management and Supervisory Boards were also regularly briefed about sustainable operations.

The 'Corporate governance statement', subsection 'Corporate compliance and integrity' describes our activities in the following areas: corporate compliance and integrity; corporate compliance and corporate integrity education and training; addressing purported irregularities; the role of the Chief Compliance Officer in the Company; integrity plan; management approach to non-discrimination; and human rights in business operations.

EU Taxonomy

Regulation (EU) 2020/852 of 18 June 2020 (hereinafter: Taxonomy Regulation) sets out the classification system for environmentally sustainable economic activities and is an important step towards achieving a climate-neutral Union in line with the EU climate objectives by 2050 through increased investment in the projects and activities that are necessary to achieve the objectives of the European Green Deal. The EU Taxonomy helps investors identify environmentally sustainable economic activities, promotes a transition to a zero-carbon future and guides funding towards solutions to tackle the climate crisis and prevent further environmental degradation.

An economic activity qualifies as environmentally sustainable where that economic activity contributes substantially to one or more of the environmental objectives set out in Article 9 of the Taxonomy Regulation in accordance with Articles 10 to 16 of the said Regulation; does not significantly harm any of the environmental objectives set out in Article 9 of the Taxonomy Regulation in accordance with Article 17 of the said Regulation; is carried out in compliance with the minimum safeguards laid down in Article 18 of the Taxonomy Regulation; and complies with technical screening criteria under Article 19 that have been established by the Commission in accordance with Article 10(3), 11(3), 12(2), 13(2), 14(2), or 15(2) of the Taxonomy Regulation.

Taxonomy-eligible economic activity means an economic activity that is described in the delegated acts adopted pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2), and 15(2) of the Taxonomy Regulation, irrespective of whether that economic activity meets any or all of the technical screening criteria laid down in those delegated acts. An economic activity is taxonomy-aligned if it meets the criteria for a substantial contribution to environmental objectives, complies with technical screening criteria set out in the Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021, Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022, Commission Delegated Regulation (EU) 2023/2485, and Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023, and the Annexes to the Taxonomy Regulation and to delegated regulations, if it meets the DNSH (do no significant harm) criteria, and is carried out in compliance with the minimum safeguards for human and consumer rights, anti-corruption and bribery, tax provisions, and fair competition. Taxonomy-non-eligible economic activity means any economic activity that is not described in the delegated acts adopted pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2), and 15(2) of the Taxonomy Regulation.

To monitor taxonomy-eligible and taxonomy-aligned economic activities of Krka and the Krka Group, we established a Krka Group interdisciplinary project team composed of experts in environmental protection, engineering, technical services, energy supply, transport, corporate performance management, and finance. We examined economic activities that contribute to one of the six environmental objectives: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems. We compared them against Krka's and the Krka Group's economic activities, while considering criteria for environmentally sustainable economic activities under Article 3 and Articles 10 to 18 of the Taxonomy Regulation and technical criteria.

When determining whether an economic activity is taxonomy-aligned, the activity must, first and foremost, comply with the first requirement of the Taxonomy Regulation, meaning that the activity must contribute substantially to one or more of the environmental objectives. At this point, all our identified environmentally sustainable economic activities are taxonomy eligible because we do not fully comply with all DNSH criteria and technical criteria. The Krka Group has not yet conducted a detailed climate risk and vulnerability assessment for the identified physical climate risks and assessed their impact on the performance of the economic activity in accordance with Appendix A to technical criteria. The screening revealed the following Krka's taxonomy-eligible activities falling under different environmental objectives.

Environmental objective: Climate change mitigation (1)

- Electricity generation using solar photovoltaic technology (taxonomy activity 4.1)
- District heating/cooling distribution (taxonomy activity 4.15)
- Installation and operation of electric heat pumps (taxonomy activity 4.16)
- Production of heat/cool using waste heat (taxonomy activity 4.25)
- Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system (taxonomy activity 4.31)
- Transmission and distribution of electricity (taxonomy activity 4.9)
- Construction, extension and operation of water collection, treatment and supply systems (taxonomy activity 5.1)
- Construction, extension and operation of waste water collection and treatment (taxonomy activity 5.3)
- Renewal of waste water collection and treatment (taxonomy activity 5.4)
- Collection and transport of non-hazardous waste in source-segregated fractions (taxonomy activity 5.5)
- Freight transport services by road (taxonomy activity 6.6)
- Infrastructure for personal mobility, cycle logistics (taxonomy activity 6.13)

- Construction of new buildings (taxonomy activity 7.1)
- Renovation of existing buildings (taxonomy activity 7.2)
- Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings) (taxonomy activity 7.4)
- Data processing, hosting and related activities (taxonomy activity 8.1)

Under this environmental objective, we generated turnover from electricity generation using solar photovoltaic technology (taxonomy activity 4.1) and collection and transport of non-hazardous waste in source-segregated fractions (taxonomy activity 5.5). Turnover from electricity generation using solar photovoltaic technology came from direct payments by the Energy Agency, which provides incentives for installing photovoltaic power stations. The annual support scheme for our current system expires in the first quarter of 2026. Source-segregated fractions of non-hazardous waste provide raw material for other activities and reduce the consumption of primary sources, while the photovoltaic power station contributes to greenhouse gas emission savings. The two activities are Krka's secondary business activities. No turnover increase is expected from these activities.

Construction of new buildings and energy renovation of existing ones accounted for the largest proportion of capital expenditure in 2023. These projects complied with the latest standards and requirements for energy efficiency in construction. We started rolling out our project for waste heat recovery from wastewater using a heat pump, renovated the collecting system for wastewater discharge, modernised the lighting of buildings by installing energy-efficient lamps, installed an advanced energy-efficient air conditioning system, upgraded and modernised the energy management control system by implementing an AI-driven module for targeted monitoring of energy use, upgraded the data processing system, modernised the wastewater treatment plant, set up a waste air treatment system in the pharmaceutical production, upgraded our fleet by adding an electric truck and several electric cars, modernised our internal network of charging stations, and set up new bicycle parking lots to promote sustainable mobility and commuting by bike.

Investments in building maintenance, collection and transport of non-hazardous and hazardous waste, and highly efficient wastewater treatment accounted for the largest proportion of our operating expenditure, followed by other supporting activities funded from regular system maintenance. No significant operating expenditure increase is expected because most system upgrades are posted under capital expenditure.

Environmental objective: Climate change adaptation (2)

- Residential care activities (taxonomy activity 12.1)

We provide medical rehabilitation services through outpatient clinics specialised in cardiology, physiatry, orthopaedics, neurology, rheumatology and internal medicine and outpatient clinics for physical therapy without using natural healing agents. We generated turnover from activities related to treating musculo-skeletal disorders and injuries, cardiovascular diseases and conditions after cardiovascular surgery, diseases of the respiratory system, and rheumatic disorders.

Environmental objective: Transition to a circular economy (4)

- Collection and transport of non-hazardous and hazardous waste (taxonomy activity 2.3)

Our efficient separate waste collection system that integrates collecting and handing over usable waste to waste collection and processing contractors for reuse, processing or energy recovery embodies our commitment to circular economy principles. Source-segregated fractions of non-hazardous waste provide raw material for other activities and reduce the consumption of primary sources.

Environmental objective: Pollution prevention and control (5)

- Manufacture of pharmaceutical products (taxonomy activity 1.2)

Our core business is the manufacture of high-quality innovative generic prescription pharmaceuticals, non-prescription products, and animal health products, generating the bulk of our sales revenue. Investments in new product development, building maintenance, production capacity upgrades, and highly efficient air purification constituted the major proportion of operating expenditure in pollution prevention and control. Capital expenditure covered in particular projects in upgrading production capacities, which were also aimed at pollution prevention and control.

Environmental objective: Protection and restoration of biodiversity and ecosystems (6)

- Hotels, holiday, camping grounds and similar accommodation (taxonomy activity 2.1)

Our three health resorts generated turnover from hotel and catering services.

The European Commission adopted the Commission Delegated Regulation (EU) 2021/2178 (hereinafter: the Disclosures Delegated Act) on 6 July 2021 and supplemented it with the Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022. In line with Article 8 of the Taxonomy Regulation, the Krka Group discloses key performance indicators and information on how and to what extent Krka's and Krka Group's activities are associated with economic activities that qualify as environmentally sustainable. The disclosures comply with the Disclosures Delegated Act, its supplementing acts, and technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to one of the six environmental objectives and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

We prepared the disclosures after thoroughly reviewing relevant taxonomy-related documents and based on our understanding and available data. We constantly strive to improve our reporting system to ensure disclosure integrity as per the Dislosure Delegated Act and its supplementing acts. The calculation of key performance indicators related to turnover, capital expenditure (CapEx) and operating expenditure (OpEx) factors in the definitions from Annex 1 to the Commission Delegated Regulation (EU) 2021/2178 and its supplementing acts.

In 2023, we only identified taxonomy-eligible activities, meaning that we classified the entire relevant turnover, all investments, and expenditures under taxonomy-eligible activities (A2). We allocated each activity under a single environmental objective in line with the technical criteria. To avoid double counting in calculating turnover, CapEx and OpEx key performance indicators, we calculated the numerators of each indicator by dividing the basis (denominator) between taxonomy-eligible and taxonomy-non-eligible activities. To avoid double counting again, fixed assets recognised in the financial position statement were included in the basis for capital expenditure, while costs recognised in the statement of profit or loss were included in the basis for operating expenditure. The calculations are detailed below. If a certain capital or operating expenditure is related to various taxonomy-eligible activities, the relevant expenditure is divided into proportions based on an expert assessment by certain sectors involved in the taxonomy activities. The sum of all proportions always equalled 100%, avoiding the possibility of double counting.

Our investments in taxonomy-eligible activities return energy savings in space heating, improve energy efficiency, reduce emissions from transport, channel waste into reuse, processing and energy recovery, contribute to highly efficient wastewater treatment, ensure good status of watercourses, and reduce greenhouse gas emissions, climate risks, and the impact of production on all environmental segments. Taxonomy activities indirectly or directly enhance biodiversity in the area affected by our operations.

The Krka Group's business strategy is sustainability-oriented. Sustainable operations are one of our key strategic guidelines and are detailed in the *2024–2028 Krka Group Development Strategy* and its *ESG Policy*. In November 2023, Krka's Management and Supervisory Boards adopted the revised strategy and policy. Our interpretation of sustainable operations entails the responsible management of governance, social, and environmental impacts. We strive to incorporate sustainability principles into our business operations, products and services to the greatest extent possible. We follow the sustainable development goals (SDG) of the United Nations specified in the 2030 Agenda and in compliance with the ESG guidelines provide for adequate identification and management of our sustainability-related impacts, risks, and opportunities. We adopt Krka Group strategic and operational decisions by factoring in sustainability principles, safeguarding the environment and complying with environmental regulations, while working in tandem with the local community and beyond. We outlined our commitment to the natural environment in our environmental and energy policies, which obligate us to safeguard the environment in accordance with the ISO 14001:2015 standard. The Environmental Management System (EMS) certificate obligated us to continuously reduce all environmental impacts, while the revised edition of the ISO 14001:2015 standard obligated us to integrate environmental care into the earliest development stages and projects. Successful audits validate our improvements across all environmental impact areas. Our efficient work in this domain earns us the privilege to use the responsible care logo annually. Moving forward, we aim to enhance our three key performance indicators concerning taxonomy-eligibility and taxonomy-alignment in the coming years. We meticulously plan all our activities, especially our investment projects, and assess their environmental impacts from the outset. We utilise state-of-the-art technologies and equipment to minimise our impact on the natural environment. We calculated our Scope 1 and Scope 2 carbon footprint and prepared the Krka Group's action plan for reducing GHG emissions by 2025, 2030, and 2050. This initiative aims to reduce CO_2 emissions and align with the EU's goal of becoming climate-neutral by 2050. Our objective is to reduce the Krka Group's Scope 1 and Scope 2 carbon footprint by 48% by 2030 compared to the reference year 2019 through our activities. The 2030 decarbonisation target relies on intensifying fleet electrification, optimising business processes, and improving energy efficiency. We will monitor trends and the best available techniques in supplying carbon-neutral energy sources and incorporate them in our processes whenever feasible. Carbon footprint reduction remains our goal for the 2030–2050 period. We will follow the best available techniques in decarbonisation and the supply of carbon-neutral energy sources (RES, hydrogen, etc.) and utilise them in our processes to the fullest extent possible. Our action plan for reducing our carbon footprint by 2050 will build on science-based targets (SBTi) and the Paris Agreement's decarbonisation and climate neutrality goals. Integrating newly available techniques, carbon-free energy sources, and emerging legislation will form the foundation of our efforts to implement the environmental dimension of the adopted ESG policy. Maintaining growth, development, and competitiveness in the global market is paramount for Krka.

Please see the 'Krka's sustainable development indicators' chart on pages 12 and 13 and the 'Sustainable development' section for details on sustainability of operations.

Proportion of turnover from products or services associated with taxonomy-eligible economic activities

Krka Group operating income, the basis for calculating the turnover KPI, totalled €1,808,362 thousand in 2023 and included sales revenue and gain on sale of property, plant and equipment recognised under other income. The items are posted in the statement of profit or loss and disclosed in consolidated financial statements of the Krka Group, Note 4 – 'Revenue from contracts with customers' and Note 5 – 'Other operating income'. Operating income associated with taxonomy-eligible economic activities totalled €1,802,153 thousand, or 99.66% of total operating income. Operating income from taxonomy non-eligible economic activities of €6,209 thousand accounted for 0.34% of total operating income. The manufacture of pharmaceutical products (NACE C21.20) accounted for the majority of our turnover from taxonomy-eligible economic activities, totalling €1,754,177 thousand or 97.00% of Krka Group operating income. Hotels, holiday, camping grounds and similar accommodation (NACE I55.10) followed at €29,451 thousand or 1.63% of Krka Group operating income and residential care activities (NACE Q87.10) at €18,245 thousand or 1.01% of Krka Group operating income.

Krka operating income, the basis for calculating the turnover KPI, totalled €1,675,351 thousand in 2023 and included sales revenue and gain on sale of property, plant and equipment recognised under other income. The items are posted in the statement of profit or loss and disclosed in financial statements of Krka, d. d., Novo mesto, Note 3 – 'Revenue from contracts with customers' and Note 4 – 'Other operating income'. Operating income associated with taxonomy-eligible economic activities totalled €1,675,351 thousand, or 98.18% of total operating income. Operating income from taxonomy non-eligible economic activities of €30,459 thousand accounted for 1.82% of total operating income. The manufacture of pharmaceutical products (NACE C21.20) accounted for the majority of our turnover from taxonomy-eligible economic activities, totalling €1,644,612 thousand or 98.17% of Krka operating income. Collection and transport of non-hazardous waste in source-segregated fractions (NACE E38.11) followed at €267 thousand or 0.02% of Krka operating income and electricity generation using solar photovoltaic technology (NACE D35.11, D42.22) at €13 thousand or 0.001% of Krka operating income.

Proportion of capital expenditure (CapEx) from products or services associated with taxonomy-eligible economic activities

Krka Group investments, the basis for calculating the CapEx key performance indicator, amounted to €136,433 thousand in 2023. The total included acquisition of property, plant and equipment, right-of-use assets, and acquisition of intangible assets. They are disclosed in consolidated financial statements of the Krka Group, Note 11 – 'Property, plant and equipment' and Note 12 – 'Intangible assets'. Taxonomy-eligible capital expenditure amounted to €88,399 thousand or 64.79% of Krka Group total CapEx in 2023. Taxonomy-non-eligible capital expenditure totalled €48,034 thousand or

35.21% of Krka Group total CapEx. The manufacture of pharmaceutical products (NACE C21.20) accounted for the majority of our taxonomy-eligible capital expenditure, totalling €51,884 thousand or 38.03% of Krka Group CapEx. Investments in construction of new buildings (NACE F41.10, F41.20) totalled €18,965 thousand or 13.90% of CapEx, while data processing, hosting and related activities (NACE J61.10) amounted to €9,742 thousand or 7.14% of Krka Group CapEx.

Krka investments, the basis for calculating the CapEx key performance indicator, amounted to €112,517 thousand in 2023. The total included acquisition of property, plant and equipment, right-of-use assets, and acquisition of intangible assets. They are disclosed in financial statements of Krka, d. d., Novo mesto, Note 10 – 'Property, plant and equipment' and Note 11 – 'Intangible assets'. Taxonomy-eligible capital expenditure amounted to €81,291 thousand or 72.25% of Krka total CapEx in 2023. Taxonomy-non-eligible capital expenditure totalled €31,226 thousand or 27.25% of Krka total CapEx. The manufacture of pharmaceutical products (NACE C21.20) accounted for the majority of our taxonomy-eligible capital expenditure, totalling €49,411 thousand or 43.91% of Krka CapEx. Investments in construction of new buildings (NACE F41.10, F41.20) totalled €16,495 thousand or 14.66% of CapEx, while data processing, hosting and related activities (NACE J61.10) amounted to €9,742 thousand or 8.66% of Krka CapEx.

Proportion of operating expenditure (OpEx) from products or services associated with taxonomy-eligible economic activities

Krka Group operating expenditure, which comprised research and development expenses decreased by depreciation and amortisation and maintenance expenses and lease expenses of other corporate functions, amounted to €200,860 thousand in 2023. Operating expenses are posted in the statement of profit or loss of consolidated financial statements of the Krka Group, Note 6 – 'Costs by nature'. Taxonomy-eligible operating expenditure totalled €31,334 thousand or 15.60% of Krka Group total OpEx. Taxonomy-non-eligible operating expenditure totalled €169,526 thousand or 84.40% of Krka Group total OpEx in 2023. The manufacture of pharmaceutical products (NACE C21.20) accounted for the majority of our taxonomy-eligible operating expenditure, totalling €20,266 thousand or 10.09% of Krka Group OpEx. Renovation of existing buildings (NACE F41.00, F43.00) followed at €4,590 thousand or 2.28% of OpEx and collection and transport of non-hazardous and hazardous waste (NACE E38.11, E38.12, F42.90) at €3,690 thousand or 1.84% of Krka Group OpEx.

Krka operating expenditure comprised of research and development expenses decreased by depreciation and amortisation and of maintenance expense and lease expense of other corporate functions amounted to €186,862 thousand in 2023. Operating expenses are posted in the statement of profit or loss of financial statements of Krka, d. d., Novo mesto, Note 5 – 'Costs by nature'. Taxonomy-eligible operating expenditure totalled €27,804 thousand or 14.88% of Krka total OpEx. Taxonomy-non-eligible operating expenditure totalled €159,057 thousand or 85.12% of Krka total OpEx. The manufacture of pharmaceutical products (NACE C21.20) accounted for the majority of our taxonomy-eligible operating expenditure, totalling €16,736 thousand or 8.96% of Krka OpEx. Renovation of existing buildings (NACE F41.00, F43.00) followed at €4,590 thousand or 2.46% of OpEx and collection and transport of non-hazardous and hazardous waste (NACE E38.11, E38.12, F42.90) at €3,690 thousand or 1.97% of Krka OpEx.

Amended classification of environmentally sustainable economic activities for 2022

While identifying the environmentally sustainable economic activities of Krka and the Krka Group for 2023, we re-assessed the findings of the identification for 2022. Improved understanding of the criteria for determining taxonomy-aligned economic activities saw us re-assess our classification of activities for 2022. None of the activities identified as taxonomy aligned was found to meet all necessary technical criteria. Hence, we re-classified all identified activities for 2022 under taxonomy-eligible activities as shown in column 18 of 2023 reporting tables.

In 2023, the number of identified taxonomy-eligible economic activities in the Krka Group and Krka increased compared to 2022 because the Taxonomy Climate Delegated Act included new sectors and activities. The key performance indicators for taxonomy-eligible activities improved mainly on the back of manufacturing pharmaceutical products (NACE C21.20), which was included in the Taxonomy Climate Delegated Act and qualified as contributing substantially to pollution prevention and control. We also identified several other activities as taxonomy-eligible due to a better understanding of the legislation and our continuous effort to improve the reporting system. Year on year, the proportion of taxonomy-eligible activities in revenue increased by 99.63 percentage points for the Krka Group and 98.15 percentage points for Krka. The proportion of taxonomy-eligible activities in capital expenditure increased by 63.61 percentage points for the Krka Group and 71.24 percentage points for Krka year on year. The proportion of taxonomy-eligible activities in operating expenditure increased by 14.92 percentage points for the Krka Group and 14.16 percentage points for Krka year on year.

Proportion of turnover from products or services associated with taxonomy-aligned economic activities for the Krka Group

				Substantial contribution criteria						DNSH criteria									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Economic activities	**Codes**	**Turnover**	**Proportion of turnover**	**Climate change mitigation**	**Climate change adaptation**	**Water**	**Pollution**	**Circular economy**	**Biodiversity**	**Climate change mitigation**	**Climate change adaptation**	**Water**	**Pollution**	**Circular economy**	**Biodiversity**	**Minimum safeguards**	**Proportion of taxonomy-aligned (A.1.) or -eligible (A.2.) turnover, year 2022**	**Category enabling activity**	**Category transitional activity**
		€	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (taxonomy-aligned)																			
Turnover of environmentally sustainable activities (taxonomy-aligned) (A.1)		**0.00**	**0.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	**0.00%**		
– Of which enabling		0.00	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%	-	
– Of which transitional		0.00	0.00%	0.00%						-	-	-	-	-	-	-	0.00%		-
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Electricity generation using solar photovoltaic technology	D35.11, D42.22	13,330	0.001%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction, extension and operation of waste water collection and treatment	E37.00 F42.99	0	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.01%		
Collection and transport of non-hazardous waste in source-segregated fractions	E38.11	267,000	0.01%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.02%		
Residential care activities	Q87.10	18,245,386	1.01%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Manufacture of pharmaceutical products	C21.20	1,754,177,000	97.00%	N/EL	N/EL	N/EL	EL	N/EL	N/EL								0.00%		
Hotels, holiday, camping grounds and similar accommodation	I55.10	29,450,614	1.63%	N/EL	N/EL	N/EL	N/EL	N/EL	EL								0.00%		
Turnover of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		**1,802,153,330**	**99.66%**	1.02%	0.00%	0.00%	97.00%	0.00%	1.63%								**0.03%**	-	-
A. Turnover of taxonomy-eligible activities (A.1 + A.2)		**1,802,153,330**	**99.66%**	1.02%	0.00%	0.00%	97.00%	0.00%	1.63%								**0.03%**	-	-
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of taxonomy-non-eligible activities		6,208,670	0.34%																
Total		**1,808,362,000**	**100.00%**																

Proportion of capital expenditure (CapEx) from products or services associated with taxonomy-aligned economic activities for the Krka Group

				Substantial contribution criteria						DNSH criteria									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Economic activities	Codes	Turnover	Proportion of turnover	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of taxonomy-aligned (A.1.) or -eligible (A.2.) turnover, year 2022	Category enabling activity	Category transitional activity
		€	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (taxonomy-aligned)																			
CapEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**0.00**	**0.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	**0.00%**		
– Of which enabling		0.00	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%	-	
– Of which transitional		0.00	0.00%	0.00%						-	-	-	-	-	-	-	0.00%		-
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Electricity generation using solar photovoltaic technology	D35.11, D42.22	1,500	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Transmission and distribution of electricity	D35.12, D35.13	3,000	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.32%		
District heating/cooling distribution	D.35.30	273,000	0.20%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Installation and operation of electric heat pumps	D35.30, F43.22	265,000	0.19%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	D35.30	250,000	0.18%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction, extension and operation of water collection, treatment and supply systems	E36.00 F42.99	17,000	0.01%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction, extension and operation of waste water collection and treatment	E37.00 F42.99	772,000	0.57%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.50%		
Renewal of waste water collection and treatment	E37.00	1,239,000	0.91%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Freight transport services by road	H49.4.1. H53.10 H53.20 N77.12	247,000	0.18%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Infrastructure for personal mobility, cycle logistics	F42.11 F42.12 F42.13 F43.21 M71.12 M71.20	120,000	0.09%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction of new buildings	F41.1 F41.2 F43	18,965,000	13.90%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Renovation of existing buildings	F41 F43	4,600,000	3.37%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.35%		

Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	F42 F43 M71 C16 C17 C22 C23 C25 C27 C28	20,000	0.01%	EL	N/EL	N/EL	N/EL	N/EL	N/EL		0.00%		
Data processing, hosting and related activities	J63.11	9,742,000	7.14%	EL	N/EL	N/EL	N/EL	N/EL	N/EL		0.00%		
Manufacture of pharmaceutical products	C21.20	51,884,000	38.03%	N/EL	N/EL	N/EL	EL	N/EL	N/EL		0.00%		
CapEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		**88,398,500**	**64.79%**	26.76%	0.00%	0.00%	38.03%	0.00%	0.00%		**1.18%**	**-**	**-**
A. CapEx of taxonomy-eligible activities (A.1 + A.2)		**88,398,500**	**64.79%**	26.76%	0.00%	0.00%	38.03%	0.00%	0.00%		**1.18%**	**-**	**-**
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES													
Turnover of taxonomy-non-eligible activities		48,034,500	35.21%										
Total		**136,433,000**	**100.00%**										

Proportion of operating expenditure (OpEx) from products or services associated with taxonomy-aligned economic activities for the Krka Group

				Substantial contribution criteria						DNSH criteria									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Economic activities	Codes	Turnover	Proportion of turnover	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of taxonomy-aligned (A.1.) or -eligible (A.2.) turnover, year 2022	Category enabling activity	Category transitional activity
		€	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (taxonomy-aligned)																			
OpEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**0.00**	**0.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	**0.00%**		
– Of which enabling		0.00	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%	-	
– Of which transitional		0.00	0.00%	0.00%						-	-	-	-	-	-	-	0.00%		-
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Electricity generation using solar photovoltaic technology	D35.11, D42.22	5,000	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Transmission and distribution of electricity	D35.12, D35.13	198,000	0.10%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.16%		
District heating/cooling distribution	D35.30	104,000	0.05%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.15%		
Production of heat/cool using waste heat	D35.30	52,100	0.03%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.05%		
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	D35.30	384,000	0.19%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction, extension and operation of waste water collection and treatment	E37.00 F42.99	2,045,000	1.02%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.19%		
Transport by motorbikes, passenger cars and light commercial vehicles	H49.32 H49.39 N77.11	0	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Renovation of existing buildings	F41 F43	4,589,656	2.28%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Collection and transport of non-hazardous and hazardous waste	E38.11 E38.12 F42.9	3,690,000	1.84%	N/EL	N/EL	N/EL	N/EL	EL	N/EL								0.14%		
Manufacture of pharmaceutical products	C21.20	20,266,442	10.09%	N/EL	N/EL	N/EL	EL	N/EL	N/EL								0.00%		
OpEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		**31,334,198**	**15.60%**	3.67%	0.00%	0.00%	10.09%	1.84%	0.00%								**0.68%**	-	-
A. OpEx of taxonomy-eligible activities (A.1 + A.2)		**31,334,198**	**15.60%**	3.67%	0.00%	0.00%	10.09%	1.84%	0.00%								**0.68%**	-	-
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of taxonomy-non-eligible activities		169,526,495	84.40%																
Total		**200,860,693**	**100.00%**																

Proportion of turnover from products or services associated with taxonomy-aligned economic activities for Krka (2023)

				Substantial contribution criteria						DNSH criteria									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Economic activities	**Codes**	**Turnover**	**Proportion of turnover**	**Climate change mitigation**	**Climate change adaptation**	**Water**	**Pollution**	**Circular economy**	**Biodiversity**	**Climate change mitigation**	**Climate change adaptation**	**Water**	**Pollution**	**Circular economy**	**Biodiversity**	**Minimum safeguards**	**Proportion of taxonomy-aligned (A.1.) or -eligible (A.2.) turnover, year 2022**	**Category enabling activity**	**Category transitional activity**
		€	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	**Y/N**	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (taxonomy-aligned)																			
Turnover of environmentally sustainable activities (taxonomy-aligned) (A.1)		**0.00**	**0.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	**0.00%**		
– Of which enabling		0.00	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%	-	
– Of which transitional		0.00	0.00%	0.00%						-	-	-	-	-	-	-	0.00%		-
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Electricity generation using solar photovoltaic technology	D35.11, D42.22	13,330	0.001%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction, extension and operation of waste water collection and treatment	E37.00 F42.99	0	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.01%		
Collection and transport of non-hazardous waste in source-segregated fractions	E38.11	267,000	0.02%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.02%		
Manufacture of pharmaceutical products	C21.20	1,644,611,510	98.17%	N/EL	N/EL	N/EL	EL	N/EL	N/EL								0.00%		
Turnover of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		**1,644,891,840**	**98.18%**	0.02%	0.00%	0.00%	98.1%	0.00%	0.00%								**0.03%**	-	-
A. Turnover of taxonomy-eligible activities (A.1 + A.2)		**1,644,891,840.00**	**98.18%**	0.02%	0.00%	0.00%	98.17%	0.00%	0.00%								**0.03%**	-	-
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of taxonomy-non-eligible activities		30,459,223	1.82%																
Total		**1,675,351,063**	**100.00%**																

Proportion of capital expenditure (CapEx) from products or services associated with taxonomy-aligned economic activities for Krka

				Substantial contribution criteria						DNSH criteria									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Economic activities	Codes	Turnover	Proportion of turnover	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of taxonomy-aligned (A.1.) or -eligible (A.2.) turnover, year 2022	Category enabling activity	Category transitional activity
		€	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (taxonomy-aligned)																			
CapEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**0.00**	**0.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	**0.00%**		
– Of which enabling		0.00	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%	-	
– Of which transitional		0.00	0.00%	0.00%						-	-	-	-	-	-	-	0.00%		-
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Electricity generation using solar photovoltaic technology	D35.11, D42.22	1,500	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Transmission and distribution of electricity	D35.12, D35.13	3,000	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.43%		
District heating/cooling distribution	D.35.30	273,000	0.24%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Installation and operation of electric heat pumps	D35.30, F43.22	265,000	0.24%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	D35.30	250,000	0.22%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction, extension and operation of water collection, treatment and supply systems	E36.00 F42.99	17,000	0.02%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction, extension and operation of waste water collection and treatment	E37.00 F42.99	772,000	0.69%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.11%		
Renewal of waste water collection and treatment	E37.00	1,239,000	1.10%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Freight transport services by road	H49.4.1. H53.10 H53.20 N77.12	247,000	0.22%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Infrastructure for personal mobility, cycle logistics	F42.11 F42.12 F42.13 F43.21 M71.12 M71.20	120,000	0.11%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction of new buildings	F41.1 F41.2 F43	16,495,000	14.66%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Renovation of existing buildings	F41 F43	2,435,000	2.16%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.48%		

Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	F42 F43 M71 C16 C17 C22 C23 C25 C27 C28	20,000	0.02%	EL	N/EL	N/EL	N/EL	N/EL	N/EL	0.00%		
Data processing, hosting and related activities	J63.11	9,742,000	8.66%	EL	N/EL	N/EL	N/EL	N/EL	N/EL	0.00%		
Manufacture of pharmaceutical products	C21.20	49,411,000	43.91%	N/EL	N/EL	N/EL	EL	N/EL	N/EL	0.00%		
CapEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		**81,290,500**	**72.25%**	28.33%	0.00%	0.00%	43.91%	0.00%	0.00%	**1.01%**	**-**	**-**
A. CapEx of taxonomy-eligible activities (A.1 + A.2)		**81,290,500**	**72.25%**	28.33%	0.00%	0.00%	43.91%	0.00%	0.00%	**1.01%**	**-**	**-**
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES												
Turnover of taxonomy-non-eligible activities		31,226,418	27.75%									
Total		**112,516,918**	**100.00%**									

Proportion of operating expenditure (OpEx) from products or services associated with taxonomy-aligned economic activities for Krka

				Substantial contribution criteria						DNSH criteria									
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Economic activities	Codes	Turnover	Proportion of turnover	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of taxonomy-aligned (A.1.) or -eligible (A.2.) turnover, year 2022	Category enabling activity	Category transitional activity
		€	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (taxonomy-aligned)																			
OpEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**0.00**	**0.00%**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	**0.00%**		
– Of which enabling		0.00	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	-	0.00%	-	
– Of which transitional		0.00	0.00%	0.00%						-	-	-	-	-	-	-	0.00%		-
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Electricity generation using solar photovoltaic technology	D35.11, D42.22	5,000	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Transmission and distribution of electricity	D35.12, D35.13	198,000	0.11%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.17%		
District heating/cooling distribution	D35.30	104,000	0.06%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.16%		
Production of heat/cool using waste heat	D35.30	52,100	0.03%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.05%		
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	D35.30	384,000	0.21%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Construction, extension and operation of waste water collection and treatment	E37.00 F42.99	2,045,000	1.09%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.20%		
Transport by motorbikes, passenger cars and light commercial vehicles	H49.32 H49.39 N77.11	0	0.00%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Renovation of existing buildings	F41 F43	4,589,656	2.46%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.00%		
Collection and transport of non-hazardous and hazardous waste	E38.11 E38.12 F42.9	3,690,000	1.97%	N/EL	N/EL	N/EL	N/EL	EL	N/EL								0.12%		
Manufacture of pharmaceutical products	C21.20	16,736,361	8.96%	N/EL	N/EL	N/EL	EL	N/EL	N/EL								0.00%		
OpEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		**27,804,117.00**	**14.88%**	3.95%	0.00%	0.00%	8.96%	1.97%	0.00%								**0.72%**	-	-
A. OpEx of taxonomy-eligible activities (A.1 + A.2)		**27,804,117.00**	**14.88%**	3.95%	0.00%	0.00%	8.96%	1.97%	0.00%								**0.72%**	-	-
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of taxonomy-non-eligible activities		159,057,956	85.12%																
Total		**186,862,073**	**100.00%**																

Jože Colarič
President of the Management Board and CEO

Dr Aleš Rotar
Member of the Management Board

Dr Vinko Zupančič
Member of the Management Board

David Bratož
Member of the Management Board

Milena Kastelic
Member of the Management Board – Worker Director

Krka Group development strategy[23]

The current Krka Group development strategy covering the five years from 2024 to 2028 was prepared by the Management Board and approved by the Supervisory Board of Krka in November 2023. The strategy focuses on maximising added value for the Krka Group and investors. It covers all areas of operation within the Krka Group, especially its core pharmaceutical and chemical activities. The strategy views the Krka Group as an international corporation, since it operates through subsidiaries and representative offices abroad, along with collaborative ventures with partners in all locations where it operates. It regards all business processes within the Krka Group, from development and production to marketing and sales, including all support processes. The Krka Group revises its development strategy every two years. The next update is planned for autumn 2025.

The development strategy builds on the mission, vision, and values of the Krka Group.[24]

Mission, vision, and values
MISSION Living a healthy life.
VISION We are continually consolidating our position as one of the leading generic pharmaceutical companies in the world.
VALUES Speed and flexibility Partnership and trust Creativity and efficiency

The development strategy is based on an in-depth analysis of Krka's position in the global generic pharmaceutical industry. The strategy outlines the originator and generic pharmaceutical industry characteristics, growth projections for the generic market, and Krka's position in the international generic pharmaceutical industry. These aspects were taken into account when identifying potential avenues and opportunities for further development and sustained independence going forward.

In addition to these starting points, the strategy comprises three different sections: strategy and objectives at the Krka Group level, objectives by regions and territories with a product range strategy, and strategies of individual business functions and processes. It also includes a draft development, financial, and investment business plan.

The strategy also outlines the Krka Group's focus on sustainability and reinforces our commitment to further integrate sustainability aspects into corporate governance and business decisions, thereby maintaining our economic, social and environmental responsibility to the environment in which we operate.

The strategy also considers risk management, which is an essential component of all Krka Group business processes. Risk management is based on the *Risk Register*. The *Risk Register* provides a comprehensive overview of risks at the Group level, designed to promptly identify and manage factors that may hinder the objectives defined in the development strategy. Every time the strategy is updated, the *Risk Register* is also updated. Further information on risks is available in the 'Risk Management' section.

Strategic objective success is measured against performance criteria established at three levels: the Krka Group, product and service groups, and business functions. The Management Board monitors the Group's performance criteria, while the relevant committees (Sales Committee; Development Committee; Economics and Finance Committee; Information Technology Committee; Human Resource Committee; Quality Committee; Corporate Identity Committee; and Sustainability Committee) monitor criteria at the level of product and service groups and business functions. The guiding principle in managing the criteria system is to increase the competitiveness of the Krka Group as a whole and of individual Group companies.

To maintain and improve the Krka Group's standing on the global stage, we avail of all external opportunities and, as much as possible, all internal advantages, especially the coordinated and synergistic functioning of organisational units within the Krka Group and efficient management of all partnerships in the value-added chain.

[23] GRI 3-3
[24] GRI 2-23

Key strategic objectives of the Krka Group up to 2028
To attain at least a 5% annual sales growth average in terms of volume/value, achieve above-average sales growth against market dynamics, and remain or rank among the leading generic pharmaceutical companies with our brands in individual markets and selected therapeutic classes.
To strengthen and optimise the vertically integrated business model, proven to be an effective strategic guideline and a comparative advantage. To ensure high standards of product quality, safety, and efficacy.
To keep the focus on maximising the long-term profitability of the products sold from development and production to marketing and sales, including all other functions within the Krka Group, and to achieve an average EBITDA margin of at least 25%.
To ensure that new and vertically integrated products account for the largest possible proportion in total sales in addition to the existing range of products, including core products from key therapeutic areas.
To introduce innovative products in key therapeutic areas, namely combinations, innovative delivery systems, and dosage forms, as an innovative generic pharmaceutical company. To continue developing complex products, including peptides, and enter new therapeutic areas.
To increase outsourcing pertaining to the development and production of selected APIs and finished products, while assuring an appropriate standard of quality.
To ensure growth through long-term partnerships, targeted acquisitions, and organic growth. The primary goal is to increase sales by entering new markets and adding new products.
To allocate 10% of revenue to research and development.
To pursue a stable dividend policy and consider the Krka Group's financial requirements for investments and acquisitions when determining the net profit share for dividend payment each year, and to allocate at least 50% of net profit of majority shareholders for dividends.
To upgrade the Krka Group's sustainability culture, integrate sustainability aspects into corporate governance and business decisions, and maintain our economic, social and environmental responsibility to the environments in which we operate.
To exploit digitalisation potentials in all business phases.
To maintain independence.

Key strategic guidelines of the Krka Group up to 2028
Markets
To consolidate and strengthen our presence in our traditional markets of Regions East Europe, South-East Europe, Central Europe, and Slovenia and bolster our presence in the Region West Europe and in Asian markets.
To maximise sales potential in all six sales regions and to focus primarily on key markets (the Russian Federation, Poland, Ukraine, Germany, Slovenia, Romania, Hungary, Czechia, Slovakia, and Croatia), key customers, and key products.
To strengthen our position as one of the five leading generic pharmaceutical companies in all our traditional markets, which involves increasing our sales and market shares, especially in therapeutic classes with a traditionally strong Krka's presence (cardiovascular system, central nervous system, gastrointestinal tract, and pain relief), and in classes with a high growth potential (diabetes and blood and blood-forming organs).
To enhance the visibility of Krka (Krka and TAD brands) and our market position in markets of the Region West Europe through our subsidiaries and unrelated partners and to strengthen our position as one of the ten leading generic pharmaceutical companies in all western European markets.
To market our products under our brand names in the Region Overseas Markets through partnerships with unrelated parties and through our subsidiaries. To continue product registration and sales activities and win tenders in China through direct presence in the market.
Products
To evaluate individual projects relating to biosimilars in the European markets together with strategic partners, particularly regarding Krka's role in marketing authorisations, marketing, and sales. To prioritise therapeutic areas close to Krka products, such as the treatment of diabetes.
To study new therapeutic approaches and research promising areas, especially in oligonucleotides and small interfering ribonucleic acid (siRNA).
To rationally extend the non-prescription product range with products that complement key therapeutic areas as regards prescription pharmaceuticals. To focus on Slovenia and markets of Regions East Europe and South-East Europe.
To focus on companion animal products—the most promising segment in animal health—accounting for more than 60% of animal health sales. To supplement the range of antiparasitics and pain relief medicines with dermatologicals and cardiovascular agents. To maintain the range of products for farm animals. To focus on our key markets and all markets in Region West Europe.
Development and manufacture of products and quality
To strengthen cost-effective vertical integration, from product development, through production and to sales.

To develop generic medicines, prepare relevant registration documents before data protection expires, and obtain marketing authorisations before the product patent or marketing protection expires to be one of the first generic entrants.
To ensure cost competitiveness and manage further sales growth of established products under lifecycle management principles while taking into account new regulatory requirements on the safety and quality of medicines and obtaining additional marketing authorisations for new markets.
To manage the development and production of vertically integrated active ingredients manufactured at Krka and our contractual partners using our own technological processes and provide sufficient quantities of high-quality and cost-competitive active ingredients to be incorporated in our finished products.
To strengthen all types of connections with external institutions and companies in the field of development and elsewhere.
Investments and financial stability
To invest in production, development, and infrastructure facilities in a stable and optimal manner.
To actively seek opportunities for further sales growth by entering new markets and increasing market shares in selected existing markets through acquisitions of pharmaceutical companies, products and technologies, and long-term partnerships, particularly in joint ventures, where we strive to hold more than 50% stake.
To reduce the impact of financial risks on the Krka Group operations, especially credit and currency risks.
To ensure transparent reporting and provide up-to-date information to investors and the financial community, as well as improve the visibility of our business model, strategic guidelines, and financial results to enhance the appeal of Krka share to shareholders and investors.
Digitalisation of operations
To further pursue digitalisation of business operations, manage information technology efficiently and in compliance with regulatory standards, and ensure high availability and information security of the implemented IT solutions. To develop business analytics (SAP BW/SAP Hana) in data strategy, also by using modern cloud solutions and artificial intelligence, and to monitor the effectiveness of data source implementation and use throughout the entire supply chain (key performance indicators, overall equipment effectiveness, showrooms).
International group accountable to its business environment
To strengthen professional and cost synergies within the Krka Group and maximise the utilisation of competitive advantages in the business environments of our subsidiaries abroad.
To ensure suitable talent attraction and retention strategies.
To ensure personnel are appropriately qualified by providing continuous training to employees throughout their careers at Krka.
To strengthen internationalisation within the Krka Group by managing employee potential in an international environment and ensure the activation of all human resource potentials to attain strategic and operational goals of the Group.
To effectively identify and manage sustainability risks and opportunities to strengthen Krka's competitive advantages and maintain its long-term ability to achieve strategic goals and create value for stakeholders.
To enhance the visibility and positive image of the Krka Group with all stakeholders.
To ensure high levels of business ethics, integrity, transparency, and corporate compliance.

Objectives by markets
To strengthen our position as one of the five leading generic pharmaceutical companies in our traditional markets (Regions Slovenia, South-East Europe, Central Europe, and East Europe). This involves increasing our sales and market shares, in particular in therapeutic classes and molecules with already strong Krka's presence (cardiovascular system, central nervous system, gastrointestinal tract, pain relief, cough and cold, and companion animals), and in classes with a high growth potential (diabetes, blood and blood-forming organs). To continue a proactive sales policy and maintain strong, high-quality marketing and sales teams in all markets. To consolidate Krka's reputation, high direct customer satisfaction scores, and the recognition of products marketed under Krka's brands among doctors, veterinarians, pharmacists, in pharmacies and wholesalers. To continue to optimise our product range and take advantage of business opportunities in the markets.
To enhance the visibility of Krka (Krka and TAD brands) and our market position in markets of the Region West Europe, primarily through our subsidiaries and unrelated partners, and to improve our position as one of the ten leading generic pharmaceutical companies in all western European markets. To achieve sales growth in volume and/or value exceeding the Krka Group sales growth average. To maximise the current product range potential and extend the product range in the existing therapeutic areas while entering new ones, primarily with medicines for treating diabetes and cancer. To strengthen our position and reputation with pharmacists and selected target groups of doctors. To strengthen the recognition of Krka's companion animal product range.
To market our products under our brand names in the Region Overseas Markets and through partnerships with unrelated parties. To enter new markets by acquisitions and establishing specialised local joint ventures in which Krka has the majority share (marketing authorisations, marketing, etc.). To identify a selected overseas market as a key market. To continue marketing authorisation and sales activities and win tenders in China through direct presence in the market.

Product and service portfolio
Prescription pharmaceuticals
To retain the cardiovascular system, the central nervous system, the gastrointestinal tract, and pain relief as the key therapeutic areas. To add diabetes to our key therapeutic areas. To add blood and blood-forming organs to our key therapeutic areas.
To introduce innovative products, in addition to generic products, in the market of leading medicines (innovative combination medicines, new strengths, dosage forms) in the key therapeutic areas.
To supplement the portfolio of antidiabetics, antithrombotics, and oncology medicines with new products.
To supplement the range of (double or triple) combinations for the treatment of hypertension, hyperlipidemia, heart failure, diabetes, and pain relief.
To evaluate the possibility of entering other therapeutic areas with our own products or products of unrelated partners.
To monitor and evaluate the possibility of entering the therapeutic area of complex peptides.
To provide key sales products through the vertically integrated business model.
To ensure cost competitiveness and profitability of key sales products by optimising formulations and technological procedures and manufacturing products cost-effectively. To ensure formulation and procedure optimisation and cost competitiveness of new products before and/or during the launching phase.
To launch products with higher sales potential among the first generics—right after patent expiry.
To adapt marketing authorisations for medicinal products and their names (brands and names consisting of international non-proprietary name and marketing authorisation holder, INN MAH) to market situations and regulatory requirements.
To try to launch at least one new medicine every year in most markets.
Non-prescription products
To retain pain relief, cough and cold, and gastrointestinal tract and metabolism as our key therapeutic areas.
To supplement the umbrella brands in key therapeutic areas with products with new ingredients and dosage forms.
To supplement our portfolio with products related to key therapeutic areas of prescription pharmaceuticals, with products that can be switched from prescription to non-prescription status (synergy in promotion), and products from other or new categories with marketing potential.
To search for new products of unrelated partners, which are promising and have appropriate economic value.
To focus on Slovenia and markets of Regions East Europe, Central Europe, and South-East Europe.
Animal health products
To retain products for companion animals (antiparasitics and medicines for pain relief) as our key therapeutic area.
To supplement the product range for companion animals with dermatologicals and evaluate the possibility of entering the therapeutic area of cardiovascular diseases.
To expand the product range for companion animals with new combinations, dosage forms (soft chewable tablets), and technologies.
To maintain the existing range of products for farm animals.
To focus on selected traditional markets and selected markets in Region West Europe, where we already have our own marketing and sales network for human health products.
Health resort and tourist services
To deliver at least 3% average annual revenue growth and increased profitability.
To ensure that foreign visitors account for one-third of total visitors.

Delivering on Krka Group objectives in 2023
In 2023, the Krka Group sales revenue amounted to €1,806.4 million, up 5% on 2022 and 3% more than planned. Of that, revenue from contracts with customers on sales of products and services amounted to €1,799.0 million, and revenue from contracts with customers on sales of materials and other sales revenue constituted the difference.
Regional dispersion of sales among Regions Slovenia, East Europe, West Europe, Central Europe, South-East Europe, and Overseas Markets is good. The largest sales region was Region East Europe. The Russian Federation remained the largest individual market.
The proportion of sales in markets outside Slovenia amounted to 94% as planned.
Prescription pharmaceuticals were the most important product group in terms of sales, accounting for 82% of total sales, which is in line with our plans.
Net profit of €313.7 million was higher than planned.
The number of the Krka Group employees was 1.6% higher than at the end of 2022.

Krka Group business objectives for 2024
Product and service sales are expected to reach €1.850 billion.
The proportion of sales in markets outside Slovenia is estimated at 94%.
Prescription pharmaceuticals will remain the most important product class, accounting for 81% of total sales.
Profit is planned at just over €310 million.
The total number of employees in Slovenia and abroad is expected to increase by 3%.
We plan to allocate just over €150 million to investments, primarily for expanding and modernising production facilities and infrastructure.

Krka Group sustainability management[25]

Incorporating sustainability criteria into the management of the Krka Group aims to enhance its improved business performance throughout the 2024–2028 strategic period. Our objective is to advance and enhance the value of the Krka Group as a whole by implementing a comprehensive ESG governance process.

In early 2022, David Bratož, a Member of the Management Board, was appointed as Krka Group sustainability officer. He facilitates the implementation of the ESG policy, while Finance is dedicated to integrating ESG topics into the strategy. An interdisciplinary sustainability project team has also started on its work. In 2023, the Sustainability Committee, which operates under the umbrella ESG policy, commenced its work. Management teams of all organisational units discussed the sustainable management model at strategic meetings.

We identified upgrading sustainability aspects of governance as a strategic objective, which will be considered in updated relevant policies and a more comprehensive set of performance indicators.

Materiality assessment[26]

The interdisciplinary sustainability project team undertook a comprehensive process to update the list of our key stakeholders and revise material ESG topics of the Krka Group. Subsequently, the Management Board approved the revised topics after a resolution was passed. Their boundaries were verified through structured discussions with representatives of key stakeholder groups, where we examined their understanding, assessment, and expected disclosures. These findings will guide us in enhancing the system.

Key stakeholders
Patients
Health professionals, healthcare providers and direct customers
Employees, prospective employees, and trade union organisations
Regulatory agencies/bodies and government organisations
Educational and scientific research institutions
Shareholders, financial institutions and other capital market stakeholders
Strategic partners and suppliers
Local communities and non-governmental organisations
Media
Professional associations and interest groups

Material ESG topics

We identified material ESG topics and divided them into six groups, which we will regularly verify and update. We took into account the interests and expactations of key stakeholders regarding the industry and the Krka Group, along with regulatory requirements, professional guidelines and standards, media analyses, future risks, and opportunities concerning the environment, society, and governance.

[25] GRI 2-13
[26] GRI 3-1

We utilised the collected information as the foundation for a double materiality matrix, presented in more detail in the 'Sustainable development' section.

Groups of material ESG topics of the Krka Group
Product quality and patient safety
Talent attraction and retention
Accessible healthcare
Good leadership and governance practices
Compliance, integrity and transparency
Planet and climate change

ESG goals

The Company's Supervisory Board and Management Board adopted revised strategic goals in key sustainability areas. For the first time, sustainability management and ESG goals were fully incorporated into the *2024–2028 Krka Group Development Strategy*. The adopted goals complement the Krka Group's *ESG Policy* and contribute to our long-term business success. They outline specific strategic directions, goals, and key performance indicators (KPI) in key sustainability areas. The summary of strategic ESG goals is published on Krka's corporate website.

Environmental (E)

Indicator	Objective by 2028	2023 result	Notes
Specific use of energy (TJ/billion units)	<80	73.2	Attained
Scope 1 and 2 emission reduction compared to 2019	-48%*	-4.1% compared to 2022	According to plans
Specific waste volume reduction per year	-3%	-5.4%	Attained

* Objective by 2030

Objectives of reducing the Krka Group's carbon footprint by 2050

The Krka Group intends to further reduce its carbon footprint. We will monitor trends and leverage the best available decarbonisation technologies in transport and the supply of carbon-neutral energy sources (renewables, hydrogen, etc.) and utilise them in our processes wherever feasible. We will monitor the content and requirements of the CS3D Directive regarding the preparation of decarbonisation plans aligned with the Paris Agreement and climate neutrality by 2050. Emerging technologies, carbon-free energy sources, and new legislation will have a considerable impact on the effective implementation of sustainable environmental policies in the near future. Maintaining growth, development, and competitiveness in the global market is paramount for Krka.

Social (S)

1. Product quality and patient safety

Indicator	Objective by 2028	2023 result	Notes
Critical non-compliances identified in inspections by authorised bodies or partner audits	0	0	Attained
Complaints to released batches ratio	<1%	0.68%	Attained

2. Recruitment, development and talent management; employee diversity, inclusion and participation; employee safety, health and well-being

Indicator	Objective by 2028	2023 result	Notes
Employees trained in sustainability, corporate compliance and human rights	All employees every two years	11,659 employees or 98.9%	Attained (excluding long-term absences)
Key and promising employees in the Krka Group	≥10%	14.5%	Attained
Revenue allocated to education	0.35–0.50%	0.48%	Attained
Training hours per employee	40	42	Attained
LTIFR	<5	2.46	Attained
Number of fire drills	>45	73	Attained
Hours of training in health and safety at work	>10,000	23,122	Attained

3. Patient-tailored product portfolio; expert support for health professionals; initiatives to raise awareness of healthy lifestyles and identification of widespread diseases; uninterrupted supply of medicines; affordable medicines

Indicator	Objective by 2028	2023 result	Notes
Average sales volume growth per year	5%	5%	Attained
Average increase in patients treated with Krka's cardiovascular agents – direct contribution to the relevant sustainable development goal from the 2030 Agenda for Sustainable Development	3%	3%	Attained
Position in key therapeutic areas, for example cardiovascular diseases (hypertension, hyperlipidemia), in traditional markets	Remain one of the leading manufacturers	The leading manufacturer of RAAS agents in terms of sales value, the leading manufacturer of sartans, the leading generic manufacturer of ACE inhibitors, and the leading manufacturer of hypolipemics in traditional markets	Attained
Proportion of sales generated by Region Overseas Markets in total Krka Group sales	Increase the proportion in total Krka Group sales	4.2%	Attained; 3.9% in 2022
Ready availability of medicines and direct customer satisfaction measured by customer satisfaction index (CSI)	The Krka Group's average CSI >80%	91.9%	Attained

4. R&D and culture of innovation

Indicator	Objective by 2028	2023 result	Notes
R&D intensity	10%	9.9%	An increase compared to 2022 (9.5%); revenue outpaced R&D expenses, resulting in the proportion being slightly under 10%

Governance (G)

1. Resilient and flexible vertically integrated business model

Indicator	Objective by 2028	2023 result	Notes
Investments – average annual CapEx	€140 million	€131.9 million	Growth compared to 2022 (€106.0 million)

2. Prosperous business operations and financial strength

Indicator	Objective by 2028	2023 result	Notes
EBITDA margin	>25%	27.9%	Attained
Net profit of majority shareholders for dividend pay-outs	≥50%	56.3%	Attained

3. Ethics in clinical trials and R&D

Indicator	Objective by 2028	2023 result	Notes
Corrective actions to meet ethics in clinical trials	0	0	Attained

4. Anti-corruption, human rights

Indicator	Objective by 2028	2023 result	Notes
Documented cases of fraud, corruption, non-compliance, unethical, unprofessional, or unlawful conduct by employees	0	0	Attained
Cases of human rights violations in the Krka Group	0	0	Attained

5. Fair marketing and sales practices

Indicator	Objective by 2028	2023 result	Notes
Unethical or legally inappropriate marketing activity claims	0	0	Attained
Off-label promotion claims	0	0	Attained

6. Tax policy and transparency

Indicator	Objective by 2028	2023 result	Notes
Zero tax adjustment and sanction rate in tax control or inspection procedures in compliance with Krka's tax management principles	0	0	Attained

2024 macroeconomic forecast

Dispersed international operations and the vertically integrated business model ensure the Krka Group's stable performance despite shifting states of play in key markets.

Following a robust expansion in 2022, the European economy lost momentum in 2023. Real GDP experienced minimal growth in the first three quarters of 2023 and contracted slightly in the fourth quarter of the year. A high cost of living took a heavier toll than expected. Global trade and exports provided little support. Meanwhile, the response of restrictive monetary policy to high inflation worked its way through the economy. Fiscal support for economic activity was partly phased out. Going forward, growth is expected to rebound slightly as consumption recovers, driven by rising real wages and strengthening external demand due to moderate growth of the Chinese economy and despite an expected recession in the US. In the labour market, there are some signs of cooling. A reduction in fiscal stimulus will hinder more robust economic growth.

Inflation in the EU is forecast to fall in 2024, driven by lower wage growth and higher unemployment. Inflation is set to drop below the target level of 2% in 2025. The European Central Bank raised its interest rates several times in 2023 and is likely to wait with rate cuts until a return to the target level is absolutely certain. Inflation rates listed for each country reflect the average annual growth of retail prices.

2024 macroeconomic forecast

Country	Pharmaceutical market growth (%)	Projected value of pharmaceutical market at wholesale prices (€ million)	FX rate (currency/€)	Annual change in GDP (%)	Annual inflation rate (%)
Slovenia	8	1,015	Euro area	1.9	2.9
Croatia	10	1,800	Euro area	2.6	2.5
Romania	14	6,000	5.0	2.9	5.8
Russian Federation	6–7	RUB2,220 billion	103	1.5	6.4
Ukraine	1–2	3,200	42	3.9	7.5
Poland	11	10,200	4.5	2.7	5.2
Hungary	5	2,700	380	2.4	4.5
Czechia	9	4,700	24.5	1.1	2.9
Slovakia	7	1,970	Euro area	2.3	3.5
Western Europe	3	288,218	Primarily Euro area	0.2	2.3

Pharmaceutical market forecasts are based on estimates by market data providers (e.g. IQVIA), the Evaluate® European Market Outlook database, and internal estimates. Other forecasts are based on bank reports and European Commission reports.

Slovenia

Following a downward revision of the 2022 growth rate to 2.5%, growth further decelerated to 1.3% in 2023, reflecting weaker consumption and exports. The direct economic impact of flooding appeared to have been limited. With inflation easing, growth is set to accelerate to 1.9% in 2024 thanks to strong investment activity and expected gains in real purchasing power. Limited availability of workers is expected to remain the predominant factor in the labour market. The unemployment rate is projected to decline slowly but steadily, while wage growth is expected to outpace inflation. In 2023, inflation stood at 7.2%. and is anticipated to drop to 2.9% in 2024. The general government deficit peaked at 3.7% of GDP in 2023 due to weaker growth, one-off expenditure on post-flood reconstruction, and measures to mitigate the impact of high energy prices. The deficit is projected to narrow to 3.3% of GDP in 2024 on the back of subsidy reductions and discontinuation of measures taken to alleviate the impact of high energy prices. The public debt-to-GDP ratio is expected to decline further, dropping from 69.3% in 2023 to 68.4% in 2024. This decline can be attributed to headline deficit changes and the nominal GDP increase. Fiscal projections largely depend on post-flood reconstruction expenditure and additional sources of tax revenue. The anticipated public sector wage system reform could also significantly affect public finances.

We project the sales value of pharmaceuticals in 2024 to be €1,015 million, marking an 8% increase year on year.

Croatia

In 2023, a 2.6% growth in GDP was attributed to the adoption of the euro and accession to the Schengen area. In 2024, growth is expected to remain the same. Domestic demand growth is set to accelerate as inflation abates. Net export contribution to GDP growth is expected to decrease significantly. The primary threat to the economic outlook is inflation, which has been more persistent in Croatia than in most of the euro area. Employment growth is projected to be solid, bringing the unemployment rate to new record lows. The easing of inflation can be attributed to declining energy and food prices, whereas the growth in service prices remains more persistent. Inflation averaged 8.4% in 2023 and is projected to drop to 2.5% in 2024. High one-off fiscal revenue, the continuation of GDP growth, and high inflation turned the government deficit into a small surplus of 0.1% of GDP in 2023. Looking ahead, the public surplus is expected to be adversely impacted by significant rises in public sector wages and social benefits, leading to an increase in fiscal expenditure. In 2024, general government deficit is expected to stand at 1.8% of GDP. Public debt is set to further decrease from 60.8% of GDP in 2023 to 58.8% of GDP in 2024.

We expect the value of the Croatian pharmaceutical market to grow by 10% in 2024 compared to the previous year, to approximately €1.8 billion.

Romania

Real GDP growth slowed to 1.8% in 2023 due to high inflation constraining real disposable incomes, tight financial conditions, and lower external demand. Real GDP growth is projected to gradually accelerate to 2.9% in 2024, supported by solid increases in real disposable income, credit activity, and investment. The labour market is expected to remain tight despite weaker GDP growth, keeping wage increases high. The unemployment rate declined in 2023 and is expected to remain low going forward. Inflation is protracted. The slow easing of inflation to just under 10% in 2023 can be attributed to lower energy prices and restrictive financial conditions. Inflation is projected to slow sharply in the coming years. In 2023, the general government deficit was 6.3% of GDP, and is forecast to fall to 5.3% of GDP in 2024 due to the implementation of new fiscal consolidation measures. The general government debt increased to 47.9% of GDP in 2023 and is projected to reach 48.9% of GDP in 2024.

We expect the value of the Romanian pharmaceutical market to grow by 14% year on year, reaching €6 billion in 2024.

Russian Federation

Russian economy rebounded in 2023 on the back of stronger domestic demand underpinned by fiscal stimulus. In 2023, GDP grew by 3.6%. Going forward, GDP growth is projected to slow again due to weakening household spending, production bottlenecks, and especially labour shortages. Moderation of economic growth at 1.5% in 2024 is also expected on the back of tight monetary policy. The unemployment rate dropped to a record low of 3%. Labour market conditions are expected to persist in driving up wage growth. Inflationary pressure was modest at the start of 2023 but intensified in the subsequent months. In 2023, inflation was 6.3%. Given the ongoing inflationary pressures and weakening rouble on the back of a shrinking current account surplus, the Central Bank of Russia gradually hiked its reference interest rate to 16% in the second half of 2023. In 2024, inflation is expected to reach 6.4%. The government deficit saw a slight drop to 2% of GDP in 2023 and is forecast to stabilise at 1.4% of GDP in 2024. The government partly covered its financing needs from the National Wealth Fund in 2023. With the government's intention to reintroduce the temporarily suspended fiscal rule, which requires saving a part of oil revenue in the National Wealth Fund, public debt is projected to rise, surpassing 15% of GDP in 2024.

We expect the value of the Russian pharmaceutical market to reach RUB2,220 billion in 2024 and grow by 6 to 7% in national currency year on year.

Ukraine

Economic activity in 2023 surpassed initial expectations thanks to continued grain exports, assistance from international partners, and the government's commitment to ensure macroeconomic stability. Growth reached 5.4% in 2023. The economic outlook largely depends on the scale of international assistance. Economic growth is projected to remain moderate in 2024, at around 4%. Inflation fell to 13.1% in 2023. This was driven mainly by falling food prices following a record harvest and increased supply. In 2024, inflation is expected to decline to 7.5%. A noticeable trade deficit in 2023 was attributed to increased imports and restrictions on domestic production activity limiting exports. Inflow of international assistance is key to funding government spending. Fiscal deficit should see some narrowing in 2024. Public debt decreased in 2023 and is forecast to fall further to 60% of GDP in 2024.

We expect the value of the Ukrainian pharmaceutical market to increase by 1 to 2% and total €3.2 billion in 2024.

Poland

Following a deceleration to 0.2% in 2023, economic growth is set to rebound in the upcoming years, supported by a rebound in private consumption, additional government social support, public consumption, and diminishing inflationary pressures. GDP is set to grow by 2.7% in 2024. Employment increased in 2023 despite economic growth decelerating. The unemployment rate was close to 3%, a historical low. Growth in real wages is set to accelerate. Inflation peaked in the first half of 2023 and fell to 10.9% by the end of the year. In 2024, inflation is expected to decline to 5.2%. The general government deficit increased to 5.8% of GDP in 2023. Public expenditure is forecast to remain high due to planned investments in defence and social spending, slowing down the rebalancing of the general government budget. In 2024, the general government deficit is forecast to decrease to 4.6% of GDP, helped by accelerated economic growth. The general government debt increased to 50.9% of GDP in 2023. The substantial deficits and adjustments linked to military investments are expected to elevate the public debt ratio, projected to reach 54.4% of GDP in 2024.

With expected growth of 11% in 2024, the value of the Polish pharmaceutical market is estimated at approximately €10.2 billion.

Hungary

Hungary's economy remained in recession in 2023 causing a significant slippage in the 2023 budget. Hungary's economy contracted by 0.8%. Lower commodity prices and easing financing conditions are set to support a gradual recovery in 2024, with GDP growth recovering to 2.4%. In spite of the recession, the unemployment rate remained low at 4.1%, as companies were hesitant to shed workers in an environment of persistent labour shortages. The tight labour market and nominal wage growth are expected to persist. Inflation is retreating from its high levels, bound to ease from 17% in 2023 to 4.5% in 2024. The budget deficit was substantial in 2023, reaching 5.8% of GDP, and is expected to remain elevated, reflecting the impact of lasting tax cuts adopted in recent years. The government deficit is projected at 4.3% of GDP in 2024. Debt-to-GDP ratio fell to 70% of GDP in 2023. Debt consolidation is projected to decelerate due to persistently high deficits and slower nominal GDP growth. The debt ratio is set to reach 71.7% of GDP in 2024.

We expect the Hungarian pharmaceutical market to record 5% growth, reaching €2.7 billion in 2024.

Czechia

After experiencing stagnation in 2023, economic activity in Czechia is expected to accelerate gradually, reaching 1.1% in 2024. This growth is supported by the anticipated easing of inflation, continued relaxation of financing conditions, and increasing real wages. The unemployment rate remains at a record low, but a slight increase is expected as the economy stagnates. Shortages of skilled workers are set to persist. Inflation has declined significantly since early 2023 and amounted to 12% for the year. In 2024, inflation is set to decline further and is forecast at 2.9%. In 2023, the budget deficit rose to 3.8% of GDP, primarily driven by expenditures rising faster than GDP due to the indexation to inflation. The budget deficit is forecast to drop to 2.4% of GDP in 2024 as measures to mitigate the impact of high energy prices expire and the government implements a consolidation package. Public debt is still low despite its high pace of growth in recent years. The public debt-to-GDP ratio was 44.7% of GDP in 2023 and is forecast to rise to 45.5% of GDP in 2024.

The Czech pharmaceutical market is expected to grow by 9% in 2024, and its value to reach approximately €4.7 billion.

Slovakia

Slovakia's GDP expanded by 1.1% in 2023, supported by investment growth propelled by EU structural funds, the Recovery and Resilience Facility (RRF), and government investments. Economic growth is projected at 2.3% overall in 2024 due to an expected pick-up in private consumption after the energy price shock. The unemployment rate is expected to continue decreasing to 5.4% in 2024, reflecting a tight labour market and a continuing trend of shrinking working-age population. High energy prices pushed inflation to 11% in 2023. The inflation rate is set to drop to 3.5% in 2024. The general government deficit increased to 5.7% of GDP in 2023 due to new measures to cushion the impact of high energy prices and new social expenditure. In 2024, the general government deficit is forecast to increase further to 6.5% of GDP despite easing inflationary pressures and the withdrawal of energy-related measures. The government debt-to-GDP ratio decreased slightly to 56.7% in 2023 before increasing to 59.9% in 2024. The increases are due to high deficits in previous years.

We expect the value of the Slovakian pharmaceutical market to grow by 7% to €1.97 billion in 2024.

Western Europe

Real GDP growth in 2023 stood at a modest 0.5%. Challenges in export-oriented sectors intensified. Economic activity is expected to continue to decline in 2024, mainly due to expected weak investment resulting from rising insolvencies, a contraction in credit activity, and fall in building permits. Export contributions are projected to be limited due to modest growth in China and the recession in the US. Annual GDP growth in 2024 is estimated at 0.2%, picking up in the second half of 2024 and continuing in 2025. The unemployment rate is expected to increase from 6.4% in 2023 to 6.5% in 2024. Inflation stood at 5.4% in 2023 and is expected to rapidly decline in the coming years. Weaker-than-expected domestic demand and weaker wage growth are likely to see inflation further shrink to 2.3% in 2024. The European Central Bank will probably hold off on rate cuts until a return to the 2% inflation target is absolutely certain. Budgetary plans for 2024 show that fiscal adjustment has mostly stalled. However, a sharp rise in borrowing costs and the prospect of EU Excessive Deficit Procedures could intensify the pressure to rein in spending. General government debt is projected to rise to 90.2% of GDP in 2024.

We expect the value of the western European pharmaceutical market to grow by 3% to €288.2 billion in 2024.

Risk management

In accordance with legislation and good practice, risk management comes under the remit of the Management Board, which regularly reports on risks and adopted measures to the Audit Committee and the Supervisory Board. In every evaluation of business performance, the Audit Committee and the Supervisory Board are briefed about both operational and financial risk management. The '2023 Supervisory Board Report' outlines their risk management work. The Krka Group monitors its exposure to diverse risks daily and implements measures to manage those risks.

The following committees and Management Board-authorised representatives also have certain risk management-related responsibilities:

- Quality Committee;
- Information Technology Committee;
- Development Committee;
- Sales Committee;
- Human Resource Committee;
- Sustainability Committee;
- Business Continuity Officer;
- Information Security Officer;
- Chief Compliance Officer;
- Sustainability Coordinator.

Risk management is integrated into all business processes across the Group. The controlling company manages financial risks centrally at the Group level, while subsidiaries independently manage business risks in accordance with controlling company guidelines. We apply numerous standard operating procedures relating to quality systems, other bye-laws, and instructions that set down the activities and responsibilities crucial for enabling uninterrupted operations and mitigating risks.

We use the following risk management support tools:

- The Krka Group *Risk Register*, which provides a comprehensive overview of risks at the Group level and serves to timely identify and manage factors that may derail efforts to deliver on the objectives;
- The *Integrity Plan*, which complements the *Risk Register* and addresses ethics, integrity, and compliance. The Management Board adopts the *Plan*, reviews it annually, and updates it if necessary;
- Guidelines from the *Business Continuity Strategy*;
- Guidelines from the Information Security Management System (ISO/IEC 27001);
- Principles of good manufacturing practice (GMP);
- Requirements of the ISO 14001 standard;
- Guidelines relating to the integration of quality management in all business processes; and
- *ESG Policy*.

Environment, social, and governance (ESG) risks are identified through the double materiality assessment process, managed as part of various risks, and included in the risk management processes. Governance approaches for specific material ESG topics are defined in the Krka Group *ESG Policy*, adopted by Krka Management Board and Supervisory Board. The Sustainability Committee and the Supervisory Board, Management Board, the ESG coordinator, and ESG managers responsible for specific sustainability-relevant organisational areas share the responsibility for ESG issues.

Below we outline Krka's significant operating risks and our corresponding management of these risks. Every risk assessment is based on assessing the extent of the damage and the likelihood of occurrence. The final assessment of an individual risk is made by simultaneous consideration of the potential severity of its impact and the probability of its occurrence, with due regard to the effectiveness of control measures already in place. Preliminary risk assessments in the 'Operational risks and business continuity' table were made in the previous version of the *Risk Register*.

OPERATIONAL RISKS AND BUSINESS CONTINUITY				
Risk area	**Risk description**	**Control activities**	**Preliminary risk assessment**	**Latest risk assessment**
Availability of critical resources to ensure production and sales of key products	Unplanned stoppages and unavailability of key resources for production and sales of finished products (employees, buildings, equipment, various materials, media supply, information, epidemiological situation)	Business continuity management system, business impact analysis, requirement for the availability of critical resources and services, risk analysis by area; measures to increase process resilience against disturbance and mitigate consequences of incidents, supervision of hygiene, organisational, and technical measure implementation to prevent the spread of infections, business continuity plans for critical processes, training, tests, drills	Moderate	Moderate
Supply of APIs and finished products	Delays in the supply of production materials and finished products and ineffective utilisation of means of production	Careful supply chain planning in consideration of the economic, health, and political situation around the world, pandemics, natural disasters, explosions, etc., careful planning of production material inventories, maintaining contingency stocks, ensuring several sources from various locations; providing adequate production capacities at Krka's sites and alternative sites with contract manufactures, presence of Krka experts at certain production sites of contract manufacturers, establishing remote technology transfer, fast adaptation to sudden increases in product demand by providing additional resources and adjusting priorities; setting up alternative transport routes for production materials and finished products	Moderate	Moderate
Quality management	Loss of a manufacturing authorisation, distribution permit, or marketing authorisation	Compliance with legal and regulatory requirements, and implementation of all activities in the Krka Group processes that are critical in terms of good practices	Moderate	Moderate
Technical services	Inadequate supplies of energy and industrial media to processes and substandard technical maintenance	Alternative power supply resources, robustly planned media supply systems, redundant system and equipment capacities, provision of key spare parts, and carefully planned maintenance processes	Moderate	Moderate
Information technology	Business process disruption due to a disruption in information resources	Independent security checks and preventive measures to rectify disruption; assessment of different types of risks, information technology continuity plan, recovery procedures following major incidents and disasters	Moderate	Moderate
Employees	Workplace accidents or injuries, infectious diseases (epidemic, pandemic)	Testing technological procedures, system for workplace risk assessment, preventive measures, introduction of cautionary measures – sanitary, health, and organisational actions that prevent the introduction and spread of potential infections, while also ensuring uninterrupted implementation of all work processes	Moderate	Moderate
	Issues arising from the epidemiological situation in the country, unplanned increase in absences, and shortages of personnel in the labour market	Employee interchangeability, new recruitment methods, appropriate and regular communication with employees, employee education and training, reorientation of activities to basic processes in the case of a significant loss of available personnel (e.g. pandemic, natural and other disasters)		
Protection of property	Alienation and destruction of property	Security plan, systematic threat assessment, and implementation of necessary measures	Moderate	Moderate

BUSINESS RISKS				
Risk area	**Risk description**	**Control activities**	**Preliminary risk assessment**	**Latest risk assessment**
Research and development	Ineffectiveness of development processes; inadequacy of regulatory procedures and supply of new products	Detailed planning of development projects and management of regulatory processes	Moderate	Moderate
Marketing and sales	Regulation of international business environment and sales markets and inadequacy of marketing activities	Responding to changing geopolitical situations and statutory requirements related to business operations in markets, establishing standardised, compliant, and transparent sales and marketing activities, continuously educating and testing employees' knowledge, using modern communication tools and channels	Moderate	Moderate
Intellectual property	Infringement of third-party intellectual property rights or unjustified use of Krka's intellectual property	Monitoring patent processes, consistent respect for the intellectual property rights of others, and forming provisions for potential damages when reasonable	Moderate	Moderate
	Delays in hearings and decisions in cases where we have to seek the revocation of secondary patents of third parties in order to enter the market	Additional risk assessment and formation of provisions for potential damages where possible		
Quality management	Substandard quality of development and production process, substandard quality of products, and failure to maintain the validity of manufacturing authorisations and GMP certificates	Compliance with legal and regulatory requirements, planning of control procedures and quality assurance, regular evaluation and assessment of quality risks, supervision of product and process quality assurance, implementation of improvements and new statutory requirements in routine work processes, business continuity plan	Moderate	Moderate
Environmental protection	Climate change, waste removal issues, environmental pollution due to hazardous substance spills and emissions during emergencies; deviations from statutory requirements, and loss of reputation due to excessive environmental pollution	Effective control of the environmental management process, monitoring of regulatory requirements, continuous emission monitoring; application of best available techniques to reduce environmental impact, and cooperation with several business partners in the field of waste management	Moderate	Moderate
Investment projects	Poor decisions on investing in production and other capacities, and implementation of investments	Constant supervision of all project phases, plan monitoring, systematic selection of contractors	Moderate	Moderate
Human resources	Issues with providing key and qualified personnel (recruiting and retaining) and social dialogue with employees	Systematic work with key personnel, remuneration system, employee development, continuous education and training, measuring of the organisational culture and climate	Moderate	Moderate
Legal matters	Inadequate legal regulation of business relations and non-compliance with or incorrect interpretation of legislation, issues arising from potential court and other legal proceedings, especially disputes	Involving Legal Affairs department in key areas, cooperation with external specialised legal experts	Moderate	Moderate

FINANCIAL RISKS				
Risk area	**Risk description**	**Risk management method**	**Preliminary risk assessment**	**Latest risk assessment**
Foreign exchange risk	Potential major financial losses due to unfavourable movements in foreign exchange rates	Financial market tracking; monitoring currency exposure; working with leading global financial institutions; monitoring new practices of foreign exchange risk hedging; use of financial instruments; natural hedging	High	High
Interest rate risk	Unfavourable interest rate changes	Monitoring interest rate changes; negotiations with credit institutions; hedging with appropriate financial instruments	Low	Low
Credit risk	Customers defaulting on payment prompt receivable write-off accrual	Credit rating calculations; limiting maximum exposure to individual customers; active management of receivables; utilisation of instruments for insurance of payments and receivables with a credit insurance company	Moderate	Moderate
Liquidity risk	Insufficient liquid assets for settling operating and financial liabilities	Credit lines agreed in advance and planned liquidity requirements; cash pooling	Moderate	Moderate
Risk of damage to property	Damage to property caused by natural disasters and other risk factors	Systematic risk assessment for buildings; taking measures in accordance with fire safety studies; arranging appropriate insurance	Moderate	Moderate
Risk of claims for damages and civil actions	Claims for damages by third parties due to loss events caused accidentally by Company activities, property, or products placed on the market	Insurance for civil, employer and environmental liability; product liability insurance; and clinical trials liability insurance	Moderate	Moderate
Risk of financial losses due to business interruption	Financial loss resulting from interruption of production due to property damage	Insurance of labour costs, amortisation and depreciation, other operating expenses and operating profit, and technical and organisational measures to reduce the impact of business interruption	Moderate	Moderate

Operational risks and business continuity

Availability of critical resources to ensure the production and sales of key products

Major emergencies causing prolonged interruptions in production and sales could compromise the existence of the Krka Group. We analyse their impact on operations to estimate the criticality of processes and risks to operations. As a result of these activities, the Business Continuity Officer prepares a *Business Impact Analysis*, *Risk Assessment*, and *Business Continuity Management Strategy* together with the persons involved in critical processes. The documents are discussed and adopted by Krka's Management Board. The documents are revised at intervals of no more than five years or whenever significant technological and/or organisational changes occur, new threats emerge, or existing ones intensify.

We apply effective measures to protect employees, property, and other key resources and prevent emergencies. We have designed action plans and disaster relief measures for emergencies, measures for mitigating direct damage, and emergency operations plans aimed at restoring normal operations as swiftly as possible. Based on the *Business Continuity Management Strategy*, we prepare business continuity plans for each critical process or service. In agreement with the Business Continuity Officer, we appoint persons responsible for critical processes to prepare and maintain these plans. Critical process or critical service managers and the Business Continuity Officer approve the plans.

The adequacy of plans is reviewed annually, ensuring alignment with the business continuity policy and strategy. Exercises and training play a pivotal role in evaluating the implementation of specific business continuity measures. The Quality Committee discuss the adequacy of the implementation of these plans annually. In 2021, Krka's Management Board also included pandemic-event measures in the *Business Continuity Management Strategy.* A pandemic could pose risks in various areas, resulting in, e.g. supply chain disruption, increased employee absences, and outsourcing-related issues.

By identifying and implementing appropriate preventive and other measures, we ensure that critical resources are adequately available to ensure the production and sales of key products.

Risks related to supply of APIs and finished products

We continuously monitor the supply market, suppliers, and prices of production materials to ensure the required quantities are in line with annual and monthly production plans and in accordance with the standard operating procedure (SOP). We carefully plan our inventories and maintain contingency stocks to ensure uninterrupted access to production materials required for manufacturing finished products.

We apply the adopted criteria to assess and select our suppliers and regularly audit them. Twice a year, the Quality Committee discusses the findings of past audits, indicators, supplier risk assessment, and the audit plan for the next period. A regular supplier audit is conducted every three years. In the case of emergencies and deviations, a risk assessment and an audit are conducted immediately. When selecting our contractual partners, we primarily focus on appropriate material specification, regulatory compliance, guaranteed quality and environmental protection, price competitiveness, and supply reliability. Relevant SOPs regulate the selection and evaluation of a contractual partner for the manufacture of finished products and the implementation and management of the transfer. SOPs are part of the quality system described in the 'Quality management risks' section. Further information on audits and routine controls are available in the 'Inspections and audits of the management and quality system' subsection of the 'Quality' section.

We ensure the punctual supply of finished products by managing the planning operations and monitoring the implementation of every product supply phase. Production material inventories are planned according to sales forecasts. Inventory levels are checked regularly, and we hold contingency stocks for strategically important production materials. We have several independent supply sources for APIs and production materials required for key products.

We carefully plan the optimal utilisation of production capacities and measure production efficiency. In this respect, we introduce measures for continuous process improvement. To fulfil sales demands, we procure new equipment and make new investements, expanding our production capacities and contract manufacturing cooperations.

We adhere to good manufacturing practices in production processes and verify that the production environment is suitable. We ensure that production equipment operates reliably and to a high standard through regular and preventive maintenance. In major emergencies, we can ensure that key products are manufactured on different production lines in several production plants at Krka sites and at our contract manufacturers.

We comply with good warehousing and manufacturing practices when warehousing production materials, bulk products, and finished products. Several standalone warehouses are available in the case of major emergencies. We organise the transport of production materials and products using our own vehicles and those of our selected partners. All vehicles are equipped so as to ensure appropriate transport conditions and safety. We have set up several global (maritime, air, and road) transport routes that allow us to deliver materials should any emergency occur.

Technical service risks

Technical service risks include those related to energy and industrial media supply, operation of active fire protection and property protection systems, reliability and availability of technical systems and equipment, and risk associated with the metrological control of measuring and regulation equipment and control systems.

We have two separate supply lines to provide uninterrupted electricity at the Ločna production site in Novo mesto, Slovenia. We use a diesel-powered generator for critical processes. We continuously monitor the situation on the electric power market and make partial purchases. We use natural gas to generate thermal power and extra-light fuel oil as a back-up fuel, of which we keep extra stocks.

We identified drinking and river water supply shortages for production purposes as a potential risk. At the main production site in Novo mesto, Slovenia, where most of Krka Group's products are manufactured, the short-term, medium-term, and long-term water supply is adequate, thanks to public infrastructure upgrades in 2021. In the event of a loss of water supply from the primary source due to force majeure, there is an option to connect to an alternative water source from the public infrastructure. River water is stored behind a dam, which ensures a sufficient water level for offdrawing even during extended dry periods. The Krka River flow rate is significantly higher than the minimum discharge rate required for offtaking water from a watercourse in line with the water offtake permit, even in extended dry periods. Therefore, the risk with regard to water supply is acceptable or low.

We mitigate risks related to inadequate production and distribution of power and process utilities (electricity, steam, heating water, compressed air, refrigerant water, river water, pharmaceutical and process water) by critical equipment redundancy, robust system planning, computer control, quality control of process utilities, regular preventive maintenance and system testing, and keeping critical spare parts in stock. Employees receive periodic training, and their skills and qualifications are routinely assessed.

We provide servicing and scheduled maintenance for our systems to uphold the necessary HVAC standards within our buildings. Our maintenance team is efficiently organised and trained to address operational and maintenance concerns. The team uses a central computerised control system to issue alerts rapidly and detect faults. It also keeps inventories of spare parts. Non-critical equipment is dispersed to ensure that a single breakdown does not significantly impact production capacities. Critical equipment is duplicated. All air-conditioning and power supply systems in server rooms are duplicated, have technical security systems in place, and are regularly tested for potential breakdowns.

We mitigate risks related to the reliability and availability of technical systems for active fire protection and property protection through constant computer control, regular preventive maintenance and system testing, critical equipment redundancy, robust system planning, and improvements. Employees undergo regular training, and their skills and qualifications are assessed regularly.

We mitigate risks related to the reliability and availability of technical systems and equipment by continuously monitoring performance, conducting preventive maintenance checks, servicing, improving the equipment, and introducing new maintenance approaches using modern diagnostic instruments. Failures and disruptions are rectified according to planned procedures and instructions. In order to remedy failures and disruptions promptly and effectively, we have our own qualified maintenance teams and spare parts inventories, which we regularly check and replenish. The employees who monitor, operate and maintain technical systems and equipment undergo regular training. Their qualifications and skills are assessed regularly.

Metrology is a major factor behind product and service quality, safety, and efficacy. It is closely related to measurement traceability and global comparability of measurement results. This is why we have a distinctive, stable and rational management system in place for monitoring and measuring equipment in compliance with the highest industrial standards. We regularly measure, calibrate, and maintain the monitoring and measuring equipment based on its GxP criticality assessment. We use approved procedures and apply the latest standards to minimise the risk of deviations.

We ensure the reliability and availability of technical systems and equipment with our own resources and in cooperation with external contractual partners.

Information technology risks

We manage information security risks through an ISO 27001-certified Information Security Management System (ISMS). The ISMS is a separate business process within Krka's quality system. The Company's Management Board appointed the Information Security Officer to lead the ISMS process, which includes key organisational units and business processes in the controlling company. Each quarter, the Information Security Officer reports to David Bratož, a Management Board member, on the ISMS. Further information on the ISMS is available in the 'Quality' section. A comprehensive report on the Krka Group information security is discussed annually by the Information Technology Committee.

Krka specifies the criticality of information resources (information systems and services) using annual criticality assessments of business processes and information resources to implement the business process. All information systems, including infrastructure systems, refer to the criticality level of business services. Given the criticality in planning, constructing, and using information systems, we implement all relevant information and cyber security elements.

We have identified threats and risks regarding resource availability, confidentiality, and integrity for all critical information resources (information systems, equipment, premises, and employees using the information systems). Risk assessments by individual processes are reviewed and approved by directors or heads of organisational units in which the processes are carried out. Based on the assessments, organisational units take steps to eliminate unacceptable risks. Another method of threat detection involves independent security audits of our information resources. Internal audits of information security are conducted in organisational units as well. We consistently eliminate any inconsistencies identified in external and internal audits and inspections.

In the field of information technology, we perform comprehensive security audits every two years, and partial security audits several times a year while eliminating any shortcomings. To mitigate risks during major emergencies, we introduced duplicated computer capacities for all critical information resources at two separate locations: back-up server rooms at the Krka headquarters (i.e. the Disaster Recovery Centre – DRC) and an adequate off-site location, where critical data is backed up daily.

As an international group, we are required to protect personal data in conformity with the national legislation of all countries where our subsidiaries and representative offices are located. The Management Board appointed a Data Protection Officer at the Company and Group level, who ensures that personal data are protected per EU regulations or national legislation insofar as it lays down different or stricter rules.

We invest 2% of revenue to manage IT risks, including cyber security.

Employee risks

We manage all employee-related risks, systematically identify and evaluate them, and take appropriate measures to prevent and mitigate risks based on this. The Management Board checks and confirms the effectiveness of risk management.

We use our own methods to assess workplace risks concerning health and safety at work, i.e. the probability of a specific incident and its consequences and any probable health implications for individual workplaces. Risks are assessed periodically and upon changes. Security measures are taken to keep them at acceptable levels.

In addition, authorised professionals for health and safety at work and responsible technologists assess the risks related to individual technological procedures. Risk assessments are conducted for all new technological procedures in research and development and if any changes are made to these procedures. Consent, including a risk assessment, is issued for every technological procedure carried out on a pilot or production scale. The risk assessment methodology is based on identifying different risks related to each technological procedure. We identify hazards for each technological phase. Based on the occupational exposure band (OEB), exposure time, and hazard level, we determine the safety measures strategy to prevent the exposure of employees who carry out a specific technological procedure. We continually verify the suitability and appropriateness of technical and organisational measures and personal protective equipment by conducting relevant measurements during technological operations.

We promote health among our employees and constantly raise awareness of health and safety at work.

When there is a risk of infection (epidemic, pandemic), we implement a series of sanitary, health, and organisational measures to prevent the introduction and spread of the possible infection while ensuring that no work processes are disrupted.

Identifying key and promising employees in all work processes allows us to ensure the replacement of employees in key job positions. The training and recruitment methods applied in all organisational units facilitate the quick exchange of employees posted in similar positions should a shortage of employees occur in a certain organisational unit due to largescale absences or increased workload.

Protection of property

Building and property exposure is subject to regular and systematic assessments under the *Security Plan* (18 types of threats). Based on the assessment, we prescribe physical and/or technical security measures and other security actions and guidelines to prevent emergencies or act accordingly if they occur.

Business risks

Research and development risks

Krka's products must be high-quality, safe, and effective. The required properties must be confirmed by relevant research and data, in compliance with regulatory requirements and standards. Risks to products and technologies include scientific and research risks and technological and technical risks. We mitigate these by introducing contemporary approaches and methods and exploiting in-house and acquired knowledge and experience in research, development, and technology. Business and professional risks in product and technology development are managed based on a risk matrix at various levels of monitoring and decision-making. The responsibilities of leaders, organisational units, and work processes are clearly defined.

We appoint a project team with a leader to manage, monitor, and document all crucial activities for each project. The Development Committee approves proposals for new product development based on feasibility studies, in which the proposed project is considered from regulatory, developmental, safety, cost, and other aspects. In addition to key development milestones, the Development Committee also monitors all development projects to be able to respond appropriately to any market, development, or regulatory changes that require a change or adjustment in the development scenario. The Committee meets several times a year. In between the Committee meetings, we monitor projects at several organisational levels (project, product meetings, project meetings) and thus ensure that activities are appropriately controlled and directed. Key organisational units with precisely defined individual responsibility in the product development phase are New Products, Pharmaceutical R&D, API R&D, Quality Management, API Production, Pharmaceutical Production, and Industrial Property.

We mitigate these product and technological risks at the early stages of development through process updates, the introduction of modern technologies, adjustments to regulatory requirements, and the successful work of highly educated professionals, constant broadening of knowledge, and state-of-the-art equipment. The vertically integrated development and production model is important, as it allows us to control the entire process, from raw materials to the finished products.

We maintain the vertically integrated development model with investments, annual achievements, and research-and development results related to:

- Medicines: we venture into therapeutic areas with new medicines and provide for their research, development, and evaluation, and prepare new combinations of active ingredients with patients in mind;
- Krka's active ingredients: we introduce innovative preparation procedures and new synthesis routes;
- Pharmaceutical forms: we prepare advanced pharmaceutical forms that allow for easier dosage and administration;
- Research and development: we introduce the most advanced development and technological processes, and invest in research and development capacities.

Regulatory risk management, associated with legislation changes and interpretation, starts at the early stages of developing a new product and continues throughout its life cycle. We monitor regulatory legislation, implement new requirements relating to active ingredients and finished products already in the development phase, and consider them when preparing registration documentation and registration strategies to mitigate risks. Through official consultative mechanisms, Krka verifies its development solutions for each product and the planned content of marketing authorisation documents with regulatory bodies. This reduces the risk of encountering potential issues or even failure when obtaining or extending marketing authorisations. We are also engaged in working groups of various industry associations to participate actively in drafting statutory amendments in this field.

Sales and marketing risk

The Krka Group has a broad marketing and sales network, selling its products in 73 countries worldwide. It operates in various geopolitical and macro-economic climates, as well as in legal and competitive environments, and is exposed to different sales and marketing risks of varying intensities.

Our key advantages over the competition are our quick response to altered business circumstances, especially concerning the recent events in eastern Europe, and prompt adjustment of sales and marketing activities in individual markets. We continuously monitor market conditions (especially competing generic producers and national pharmaceutical industry), the legal frameworks related to the movement of goods and services and marketing pharmaceuticals, systemic pricing arrangements, and government reimbursements for pharmaceuticals (in some countries based on statutory partial co-funding of healthcare budgets by medicine suppliers, i.e. clawback) through Krka's in-house departments and independent data sources.

We ensure that medicine advertisement is suitable and give special attention to organising and supervising employees' work in the marketing network. Our employees undergo training regularly, and we frequently test their qualifications, skills, and familiarity with work directions, legislation, and applicable regulations. When marketing our products, we consistently comply with legislation, recommendations of Medicines for Europe, and ethical norms related to advertising pharmaceuticals. In this regard, we also carry out comprehensive training and knowledge assessment for our employees. We focus on business compliance, so marketing forms a part of the Company's *Integrity Plan*, discussed by the Management Board. We also comply with the personal data protection legislation in marketing and sales.

We monitor the risks in existing markets, the risks related to entering new markets and new therapeutic areas, and risks associated with changing practices regarding prescribing and/or dispensing, and/or reimbursing medicines. We systematically discuss entering new markets at annual meetings and determine where to obtain marketing authorisations for individual products. Before concluding sales agreements, the customer must present evidence that their business establishment is duly registered. We pay special attention to risks related to individual market environments and economies, risks associated with each customer, particularly the risk of insolvency or bankruptcy, risks related to payment terms, and other risks related to compliance with contractual provisions.

We continuously monitor market conditions, analyse them, adjust payment terms if necessary, and hedge against payment defaults. We systematically monitor the satisfaction level of direct customers. Krka's Quality Committee discusses the report for each year. We monitor sales at the primary level (sales to direct customers, primarily wholesalers) and, if possible, also at the secondary level (wholesalers' sales to their customers, mainly pharmacies) and the tertiary level (sales to end-users in pharmacies). We ensure that inventories are optimised and sufficient throughout the distribution chain. We duly monitor pharmacy networks and any changes by individual market, and adjust our actions accordingly. Sales Committee meetings discuss all of the above regularly.

We regularly evaluate the market potential of individual therapeutic areas and their products. We use a range of external data sources and our own market research and analyses to monitor global, regional, and national trends as well as product supply in the market. Based on these, we define the product portfolio and our activities according to current market positions of particular active ingredients and their development path. We perform systematic analyses regarding product position and market share movements in individual therapeutic classes at least twice a year. The number of important new active ingredients available for marketing to generic manufacturers at present or in the future has been declining. Therefore, we seek opportunities in new innovative combinations of existing active ingredients and new therapeutic areas while continually striving to improve further the position of our products containing existing active ingredients. We monitor the effectiveness of our marketing strategies and tactics using performance indicators and exert systematic control over marketing activities, which we plan, implement, and analyse in cycles, including compliance in marketing and sales. Indicators at the Krka Group level are discussed once a year by the Sales Committee and by Krka's Management Board in the context of performance indicators. At their regular meetings, supervisory bodies of subsidiaries and representative offices discuss more specific indicators at the level of individual markets.

We consistently comply with the Krka Group *ESG Strategy* in our business operations. As one of the leading generic manufacturers and an important partner of local healthcare systems, we enable access to affordable, safe, and efficacious advanced medicines. The Sustainability Committee discusses indicators such as achieving sales volume growth, increasing the number of people treated with our products from key therapeutic areas, and monitoring direct customer satisfaction with our product supply.

Intellectual property risk

Respect for the intellectual property rights of third parties, especially patent-related rights, is one of the fundamental principles of the Krka Group operations. If we believe that the results of our research work are new and innovative, we apply for patent protection.

Therefore, we start the development of a new product by analysing the status and extent of applicable third-party patent rights and determining which technical solutions are patent-protected. We define and direct our development work based on these findings and assess whether the technological and technical solutions produced by our own development infringe the applicable rights of third parties. The current situation and any potential changes in patent protection are monitored throughout a product's development up to its launch.

If we believe that patents have been granted to third parties without proper grounds, which means that the subject of a patent is not actually an invention (the solution is not new or does not include an inventive step), and that such patents might hinder our work, we use the available legal remedies to cancel such patents. This prevents holders of such patents from filing actions against us for infringement. Despite these measures, if a patent holder considers that Krka has infringed its rights and takes legal action against Krka, we set aside appropriate provisions for potential damages and adopt relevant measures.

The same risk management method applies to distinctive signs, industrial designs, and other relevant intellectual property rights.

Quality management risks

The Krka Group evaluates quality management risks from the aspects of product quality and safety and Group operations. We apply well-known risk assessment methods and implement them in line with good manufacturing practice requirements (ICH Q9 Quality Risk Management).

Product quality is defined during the development stage of a product and specified in the marketing authorisation documents. We adhere to standard procedures and requirements throughout the production process. From purchasing various incoming materials, other purchases, and manufacturing processes to manufacturing finished products, quality control, warehousing, and distribution, all while ensuring the compliance of pharmaceutical products with the relevant quality standards and the product's marketing authorisation documents. When a product is already on the market, the pharmacovigilance system is used to establish, evaluate, and respond to new findings on adverse effects and other safety aspects of a medicine. We employ a special system to process customer feedback and pursue constant internal improvements according to the PDCA (plan, do, check, act) principle to upgrade and improve processes and products.

Product quality management is a primary activity that involves various quality assurance elements: we focus on the suitable quality of incoming materials (i.e. active ingredients, excipients, and packaging materials) and conduct risk assessments to classify material- and supplier-related risks. Based on the findings, we plan audits and other activities as part of the GxP partner evaluation procedure.

We ensure the compliance of our production and control equipment and production rooms by qualifications and validations of equipment, production rooms, production environment, manufacturing processes, computer systems, cleaning procedures, calibrations, qualification of instruments, as well as maintenance procedures to prevent undesirable effects on the production process and product quality. Systematic approaches, monitoring, and documentation of all processes, procedures, and controls are crucial for product quality assurance. We, therefore, regularly examine, overhaul, upgrade, and improve the quality system and ensure that any necessary changes are made correctly. Further information on the quality system is available in the 'Quality' section, subsection 'Quality system objectives'.

We prioritise maintaining data integrity in quality management, thus reducing the risk of misusing test results when assessing the suitability of raw materials, packaging, processes, and finished products.

Regular monitoring of new legislative developments and prompt implementation of updated requirements mitigate the risk of inadequacies in the quality system, thereby reducing risks associated with maintaining manufacturing and marketing authorisations as well as GMP certificates.

We regularly raise awareness and deliver employee training to ensure compliance with standard production and product control procedures. We control production processes, intermediate products, bulk products, finished products, and the production environment to ensure product compliance and conformity with national legislation and GMP principles in the EU and other countries where we market our products.

For non-compliant products (deviations, complaints), we apply control mechanisms, perform tests, investigate causes, and implement preventive and corrective actions to prevent any other non-compliance.

As a component of quality risk management, we proactively mitigate the risks associated with the potential loss of manufacturing authorisations, GMP certificates, and other management systems utilised across Krka's manufacturing and distribution units.

We regularly and systematically check the efficiency and effectiveness of the quality system in the Krka Group through external (agency and regulatory inspections, partner and certified body audits) and internal (internal self-control, internal audits, Quality Committee, quality indicators) verification. Where required, we make improvements and thus continuously upgrade the quality system and effectively manage risks associated with product and service quality.

Environmental protection risks

Krka recognises and manages any environment-related risks in line with the requirements of the ISO 14001 standard and by managing the business continuity system. Every year, we review all environmental aspects, the associated risks, and extraordinary events and evaluate their environmental impact. Risks and emergencies related to environmental protection, hazardous chemical handling, and climate change are assessed and managed at the Committee for Monitoring Environmental Aspects meetings at least twice a year and routinely by certain organisational units or business processes. All identified risks are included in the *Report on Implementing Environmental Management System*, which the Quality Committee discusses once a year. We mitigate risks and minimise our environmental impact by using the best available techniques in manufacturing, warehousing, wastewater treatment, waste air treatment, and waste management, by operating spill containment and firewater retention systems, by preventive examinations and maintenance of equipment, employee training, and by employing our own fire brigade, which is qualified to intervene in cases of emergency, and emergency event drills.

We reduce the risk of deviations from statutory requirements and loss of reputation due to excessive environmental pollution by continuously following new developments in legislation, implementing new requirements on time, and carrying out regular monitoring. We reduced the risks of heavy rainfall events caused by climate change by renovating the sewerage system for rainwater drainage. We manage waste removal risk by adding waste solvent warehousing facilities, dividing our waste streams, and engaging several contractual waste collection and removal partners. We manage the risks associated with hazardous chemical and firewater spillage by extending spill containment and firewater retention systems. We also improved the system for supervising hazardous substance management.

We identified the following relevant risks arising from climate change: the risks of water supply, floods, storms, and heavy downpours, as well as the risks of high temperatures and prolonged drought. Water supply-related risks are defined in the 'Technical service risks' segment. All Krka production sites are located in areas that are not at risk of flooding. We took into consideration prolonged, heavy downpours when renovating the rainwater drainage system. In order to reduce the impact of storms on our operations, we carry out regular maintenance of buildings and the surroundings. With powerful air conditioning systems, we ensure suitable conditions for uninterrupted production, even at extremely high temperatures. We assess that the risks arising from climate change are low or moderate.

In 2023, we recorded no extraordinary events or incidents that had adverse effects on the environment.

Investment project risks

Investment project risks primarily include risks related to planning investments and their value, the purchase of equipment, execution of works, and schedules, and risks associated with quality and changes to the original plan. We reduce these risks through document planning and preparation, the established system for selecting contractors and equipment suppliers, and their regular reviews. We supervise all execution phases. We review the compliance of project documents from the technical, technological, and regulatory points of view and the compliance of contractual documents from the legal and accounting aspects. We examine whether potential changes are justified and what impact they could have on costs and schedules. We constantly monitor costs, i.e. regular costs and those incurred by subsequent changes in a project.

Human resource risks

We devote particular focus to key personnel essential for achieving the objectives of the Krka Group, who are also coveted by our competitors.

We regularly plan and monitor our employees' training and development while assigning them new work responsibilities, encouraging them to take on new duties, and delegating them to new positions. We schedule employee training and development in our annual training plan, prepared by organisational units in collaboration with Human Resources and Training and Development. The Quality Committee discuss the plan and implementation of Krka's quality system training twice a year. Three times a year, the Human Resource Committee discuss the plan and implementation of other training and education programmes, such as part-time studies, Krka International Leadership School, and national vocational qualification programmes. We offer a range of incentives to strengthen employee loyalty to the Krka Group and minimise employee turnover.

We manage risks associated with the shortage of experts in the labour market by actively engaging with the labour market, bolstering Krka's image as a reputable employer, working with faculties and schools, and awarding scholarships. This allows us to attract new employees required to meet our strategic, development, and sales plans. We systematically educate and train our employees to acquire national vocational qualification certificates.

Financial Risks

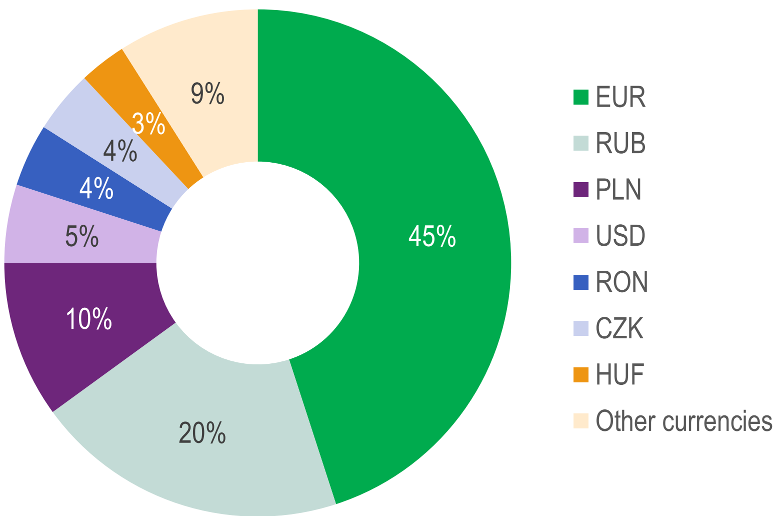
The Krka Group manages financial risks centrally in the Finance division of the controlling company in Slovenia. Subsidiaries and representative offices abroad perform risk management operational tasks in accordance with the guidelines set out by the controlling company. Key financial risks include credit, market, liquidity, and insurance-related risks.

The Krka Group's primary market risk is foreign exchange risk. We monitor interest rate risk; however, in 2023, we did not take any measures due to low interest rate exposure. The risk of market value changes in raw materials and the risk of market value changes in shares and bonds do not significantly impact the Krka Group's net financial result. This is why we monitor changes in exposure to these risks but do not implement any risk management measures.

Foreign exchange risk

The Krka Group operates in diverse international environments and is exposed to foreign exchange risks in certain sales and purchase markets.

Structure of revenue by currency



Currency exposure arises from the difference in the value of assets and liabilities in a particular currency in the financial position statement of the Group and differences between operating income and expenses generated in individual currencies.

The key accounting categories composing a currency position are trade receivables, trade payables, liquid financial assets in foreign currencies, derivatives for currency risk hedging, subsidiary funding by the controlling company, and recorded purchase orders.

Currency position structure of the Krka Group

The Russian rouble accounted for the major, 45%, share in the currency position of the Krka Group at the end of 2023. The rouble's currency position strengthened compared to the beginning of the year. The primary reason for this was a limited possibility for hedging the rouble with derivative financial instruments. The position in the rouble arises from trade receivables in the Russian market and partly from subsidiary funding in the Russian Federation by the controlling company.

The importance of the Russian market, the level of currency exposure, and the volatility of the Russian rouble are why we pay special attention to Russian rouble risk management. The availability of financial instruments was reduced and we, therefore, focused more on natural risk mitigation methods in 2023.

Unlike with other currencies, exposure to the US dollar arises from a surplus of liabilities over assets from regular business operations, or in other words, the currency position is short. Exposure to the US dollar arises primarily from purchasing raw and other materials. Considering liquid financial assets in US dollars and dollar forward contracts that together offset the short financial position from operations, the 2023 year-end exposure to US dollars accounted for 7% of total Krka Group currency exposure.

The exposure to the Romanian leu, accounting for 15% of the currency position at the end of 2023, arises from trade receivables accrued due to extended payment terms in Romania. Exposure to the Polish zloty resulted from trade receivables and manufacturing facilities held by the Group in Poland and accounted for 14% of the currency position.

Other currencies, among them the Swedish krona, North Macedonian denar, Kazakh tenge, Serbian dinar, British pound, Czech koruna, Ukrainian hryvnia, and Hungarian forint, accounted for 19% of the Krka Group currency position.

2023 currency markets

The different dynamics of consumer price index in certain important Krka's markets and various measures that monetary authorities took against the rise in prices enhanced the volatility of important currency pairs in 2023.

The European Central Bank (ECB) aggressively hiked the key interest rate in the first half of 2023, then gradually slowed the hike in the middle of the year, concluding its rate-hiking cycle at the end of the year. The US Federal Reserve adopted a similar approach. The central banks of Poland, Hungary, Czechia, and Romania, which raised their interest rates already in 2022 due to high inflation, did not implement any major changes during the year. However, except for the Romanian central bank, they gradually lowered the key interest rates towards the end of 2023.

The decline in the rouble's value started in the last quarter of 2022 already and continued until the end of the first half of 2023. The downward trend was primarily driven by a reduced trade surplus, which resulted in rising inflation on the back of relatively stable economic activity. Monetary authorities moderated the inflation and depreciation of the rouble in the second half of the year with several key interest rate hikes and other measures to protect the value of domestic currency. The value of the Russian rouble denominated in the euro dropped by 21.5% from the beginning to the end of the year and was, on average, 20.6% lower than in 2022.

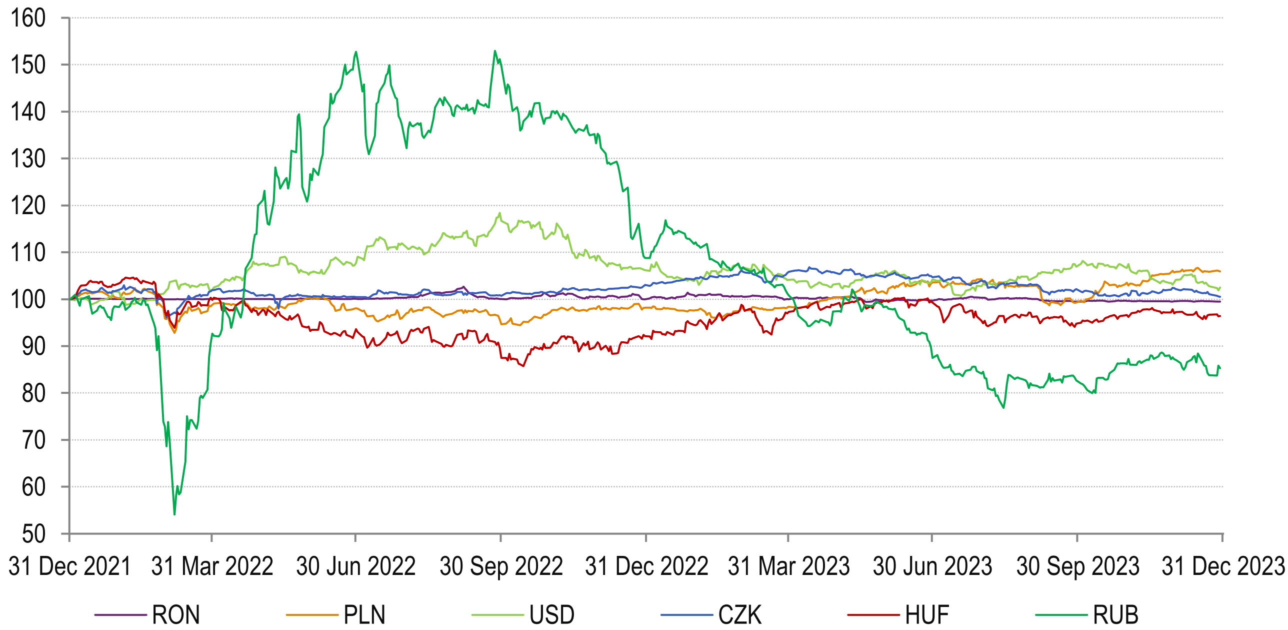
The value of the US dollar denominated in the euro declined by 3.5% over the course of 2023 and was, on average, 2.6% lower than the previous year. The euro/US dollar currency pair fluctuated between 1.05 and 1.13 in 2023. The impact of the US dollar fluctuations on the Krka Group result was offset using financial instruments.

In 2023, the value of the Ukrainian hryvnia continued to be affected by the Russian invasion and uncertainty regarding the future economic situation in the country.

For the majority of the year, the value of the Polish zloty experienced a gradual strengthening, with further increases occurring after the parliamentary elections at the end of September. Over the course of 2023, the value of the zloty increased by 7.9% and the average value was 3.2% higher than in 2022.

Throughout 2023, the Romanian leu remained highly stable. By mid-2023, the long-term trend of the Czech koruna's gradual appreciation against the euro shifted to a slow depreciation. Additionally, the Hungarian forint exhibited less volatility in 2023 compared to 2022.

2022 and 2023 movements of currencies expressed in euro (index 31 Dec 2021 = 100)



Currency risk management results

The Krka Group generally mitigates currency risks by natural hedging, primarily by increasing purchases and liabilities in currencies in which sales invoices are issued. When this is impossible, we use derivatives or do not hedge the risk. Generally, only forward contracts are used for hedging.

In 2023, we continued to hedge the US dollar with financial instruments. We used natural hedging to mitigate the risk exposure to the Russian rouble as there were no suitable financial instruments on the banking market. Due to the declining value of the Russian rouble denominated in the euro, we generated net foreign exchange losses, primarily in the first half of 2023.

The increasing US dollar exposure from operations and the interest rate difference between the euro and the US dollar that is favourable for Krka are two key reasons that contributed to hedging the exposure in the US dollar with financial instruments in 2023.

We generated net foreign exchange gains from other currencies, primarily owing to the strengthening of the Polish zloty in the last quarter of 2023. Exposure to other currencies was not hedged.

The Krka Group's currency exposure to the Ukrainian hryvnia, Kazakh tenge, Serbian dinar, and certain other currencies is less significant, and no hedging instruments are available.

In 2023, currency risk resulted in a loss of €38.8 million. The Krka Group recorded net financial loss of €32.5 million, which includes currency risk result, interest income and expenses, and other financial income and expenses.

2024 objectives

We intend to remain focused on activities to offset currency exposure using natural hedging methods. We intend to utilise financial instruments as a partial hedging strategy to mitigate risks associated with volatile currencies, which account for a substantial portion of Krka's currency exposure.

2023 foreign exchange rates

	31 Dec 2023	31 Dec 2022	Low	High	Average	Standard deviation	Coefficient of variation*
RUB	99.97	78.43	73.00	111.02	92.44	10.01	10.8%
RON	4.98	4.95	4.88	4.98	4.95	0.02	0.4%
PLN	4.34	4.68	4.31	4.79	4.54	0.13	2.8%
CZK	24.72	24.12	23.27	24.72	24.00	0.39	1.6%
HUF	382.80	400.87	368.15	403.33	381.85	7.66	2.0%
UAH	41.99	39.49	38.21	41.99	39.74	0.77	1.9%
RSD	117.08	117.22	116.60	117.70	117.12	0.12	0.1%
USD	1.11	1.07	1.05	1.13	1.08	0.02	1.5%
GBP	0.87	0.89	0.85	0.89	0.87	0.01	1.2%

* Standard deviation to mean value ratio

Interest rate risk

Interest rate risk is the risk of losses that result from a change in interest rates and is related to Krka's non-current borrowings and investments.

The interest rate risk with current borrowings and current investments is managed as part of the Group's liquidity risk.

The Krka Group had no non-current borrowings in 2023.

2024 objectives

If we obtain non-current borrowings or make non-current investments resulting in interest rate risk exposure, we will consider all options to mitigate the risk using relevant financial instruments.

Credit risk

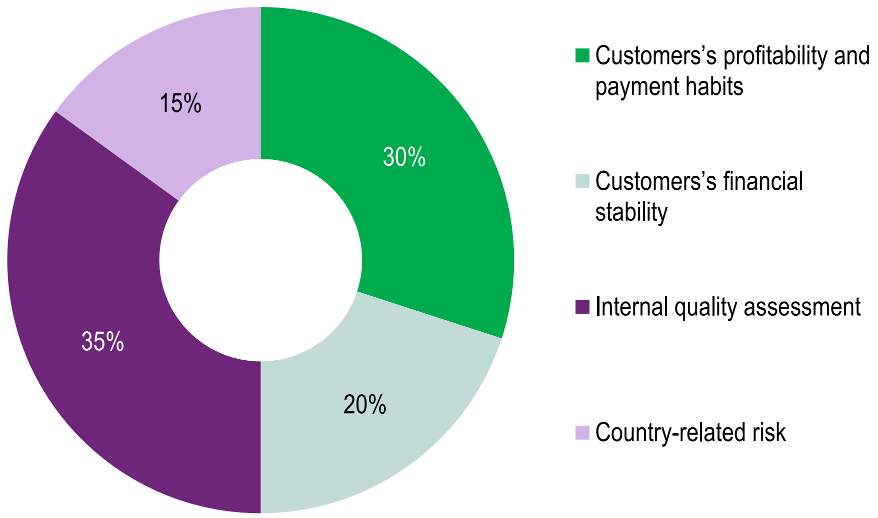
The key credit risk for the Krka Group arises from trade receivables. This is the risk of customers failing to settle their liabilities by maturity dates.

Credit risk management process

The Krka Group introduced a centralised credit control process in 2004. The system includes all customers with credit limits exceeding €20,000. Numbering over 700 at the end of 2023, they accounted for more than 95% of total trade receivables. Receivables due from small customers accounted for less than 5% of total trade receivables. Control over small customers is decentralised in the sales network and under the constant supervision of the controlling company.

Credit control is a two-step process. The first step involves assessing the credit risk for each customer, determining hedging instruments, and assigning relevant credit limits. We assess each new customer and review the credit ratings of all customers twice a year. A customer's credit rating includes many different financial and non-financial indicators, which fall into four categories; each has a different weight in the final assessment.

Credit risk assessment indicator categories



Each customer is assigned a customised credit limit according to the credit rating, expected shipment, and payment dynamics.

The second stage of the credit-control process entails ongoing dynamic monitoring of a customer's payment history. All Krka Group companies engaged in sales employ information systems to manage available limits and track overdue receivables each time a product is shipped. A shipment is automatically blocked if a customer is in arrears or if receivables together with the new shipment exceed the approved credit limit. Sales personnel are required to initiate a payment collection procedure or arrange hedging for the outstanding settlements.

Krka's internal rules determine the process of credit control and authorisations for granting credit limits to customers. Credit control also avails of a system of regular reporting on trade receivables and the customer's payment discipline. The reporting system aids the early detection of customers at increased risk of defaulting on payments and facilitates effective credit risk management.

The credit control process employs uniform rules which apply to all customers. Due to the specifics of sales markets, additional national controls have been introduced in individual subsidiaries. Credit control processes are regularly adjusted to changes in the sales markets.

Credit risk management results

Credit control guarantees permanent control over the quality of the trade receivables portfolio. The result is a low proportion of receivable write-offs and impairments in total Krka Group sales.

The amount of receivable write-offs and impairments is also low because receivables are dispersed across many customers and sales markets, with the majority of outstanding receivables due from customers with whom Krka has been doing business for several years.

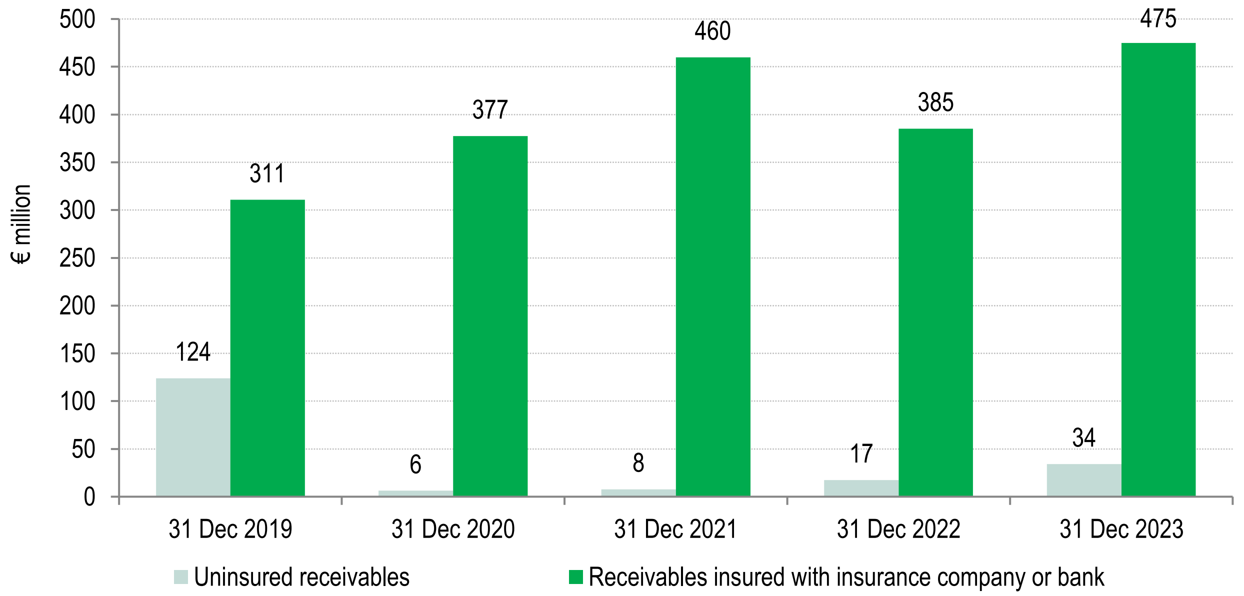
A complex credit risk situation in 2023 derived from the tense situation in Ukraine, the Russian Federation, and Belarus. These markets were at our focal point. We continued with our trade receivable management activities. The credit risk management balance was favourable in 2023. At the end of 2023, the value of trade receivables increased by 26% compared to the beginning of the year. The amount of overdue and outstanding receivables remained within limits acceptable for Krka.

The amount of the newly established valuation allowance for receivables was lower than the amount of the reversed allowance. Therefore, net impairments and write-offs of receivables had a positive impact on the Krka Group's bottom line in 2023.

Trade receivable insurance

Since 2009, the Krka Group has insured part of its trade receivables with a credit insurance company. In the second quarter of 2020, we extended and supplemented trade receivable insurance. At the end of 2023, more than 95% of trade receivables were insured. After deductibles, more than 80% of trade receivables were insured. Bank guarantees and letters of credit are used only exceptionally to secure payments.

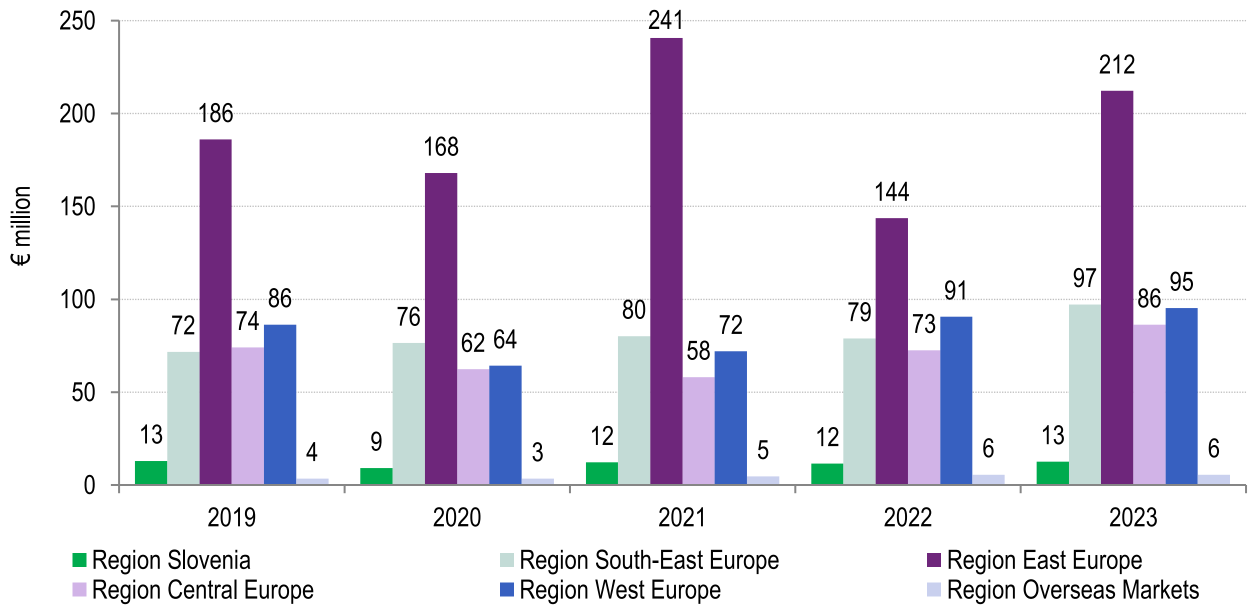
Insured and uninsured receivables



Trade receivables by region

The structure of receivables by sales region is stable and conforms to the structure of sales and payment terms in individual countries.

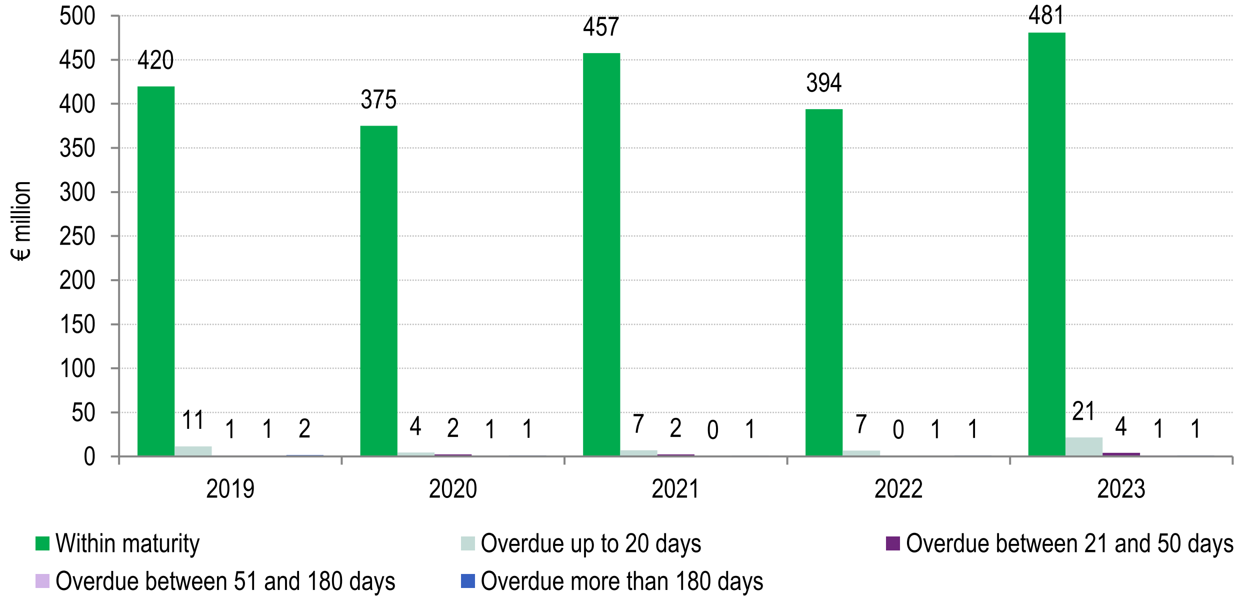
Trade receivables by region



Maturity structure of trade receivables

The maturity structure of receivables remained stable. The percentage of overdue receivables remained low at the end of 2023 compared to total trade receivables.

Receivables by maturity



2024 objectives

We intend to continue standard credit risk management activities in 2024. The insurance contract for our trade receivables expires in the second half of 2024. Before contract renewal, we intend to examine options for further optimisation of receivable insurance. As before, we plan to redouble our monitoring of customers from markets with less favourable macroeconomic environments and markets where we have identified increased risks in the wholesale distribution of medicines. If we determine that individual customer exposure exceeds acceptable levels, we will implement tailored measures to gradually decrease this exposure.

Our goal is to maintain a low total for receivable impairments and write-offs at the Krka Group level.

Liquidity risk

Business partners value Krka for its excellent financial discipline and stable cash flows. In 2023, we settled all financial liabilities regularly. Krka Group exposure to liquidity risk was low last year.

We did not use any new short-term funding from banks or draw funds from existing credit lines in 2023.

At the end of 2023, the Krka Group recorded cash and cash equivalents primarily as cash at bank or short-term deposits with first-class commercial banks. Other current liquid assets were held in short-term treasury bills of western European countries with first-class credit ratings.

The world's most important central banks raised the key interest rates in 2023. The Krka Group recorded favourable returns on cash, cash equivalents, and low-risk liquid investments, leading to higher interest income and income from other financial instruments.

The Krka Group oversees liquid assets in line with internal investment diversification rules, taking into account factors such as interest rate, liquidity, credit, and currency risks.

The controlling company manages liquidity risk centrally for the entire Krka Group. The controlling company finances subsidiaries through intra-group loans. Any potential excess cash is deposited with the controlling company. Excess cash from all Group companies is transferred to the controlling company's master account either automatically daily (cash pooling) or manually through individual bank transfers. This allows for cash management optimisation, currency risk mitigation, an overview of liquidity of all Group companies, and enhanced security of money transactions.

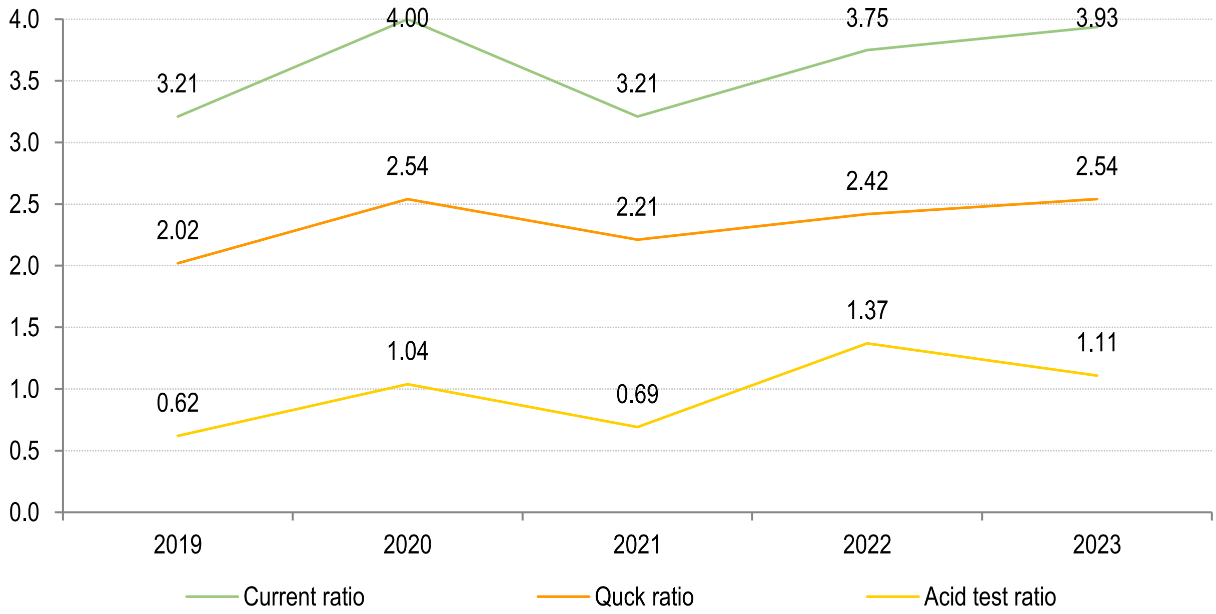
The Krka Group also reported favourable and stable liquidity ratios at the end of 2023.

Krka Group liquidity ratios

	2023	2022	2021	2020	2019	5-year average
Current ratio	3.93	3.75	3.21	4.00	3.21	3.62
Quick ratio	2.54	2.42	2.21	2.54	2.02	2.35
Acid test ratio	1.11	1.37	0.69	1.04	0.62	0.97
Receivables turnover ratio	3.65	3.70	3.45	3.50	3.21	3.50

Current ratio = Current assets/Current liabilities
Quick ratio = (Current assets – Inventories)/Current liabilities
Acid test ratio = (Investments + Cash and cash equivalents)/Current liabilities

Changes in Krka Group liquidity ratios



2024 objectives

We plan to carefully manage cash flows and excess liquidity within the Krka Group in 2024 to ensure proper liquidity of all Group companies.

Property, liability, and business interruption insurance

The Krka Group holds insurance policies with insurance companies to insure property, liabilities, and financial losses in the event of a business interruption. Insurance is only one of the risk management tools. Our internal *Insurance Policy* defines types of insurance and their characteristics.

Decisions on insurance type and scope of coverage are made based on the materiality of risks and the insurance price. The materiality of risks is determined based on estimates concerning the probability of occurrence, the extent of potential damages, and the impact on operations. The Krka Group primarily invests in prevention because its effect on risk management is more optimal than taking out insurance policies. One of the reasons for taking out insurance could be legislation requiring specific types of insurance.

The Krka Group adjusts the insurance scope and coverage to business growth, property value, and conditions in the international insurance markets. We also consider the wider community's interests and those of our stakeholders, for example, concerning environmental liability insurance or product liability insurance.

Key insurance policies taken out by the Krka Group to manage risks include insurance for property, general civil liability, manufacturer's liability, clinical trials, product recalls, freight-in-transit, and business interruption. Insurance policies also indicate the main risks, including property protection, especially against disasters (fire, earthquake, flood, storm, explosion), business interruption at manufacturing plants, and product and other liabilities.

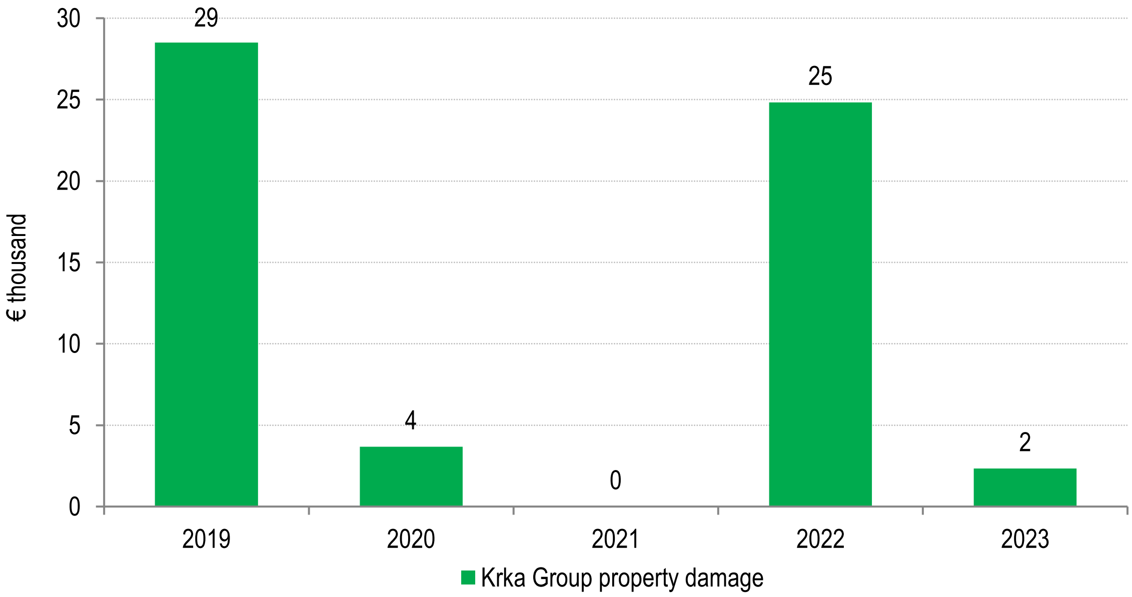
The controlling company manages the insurance policies of all Krka Group companies, except local car insurance policies, but still provides guidelines and monitors car insurance. The entire Krka Group is insured in compliance with uniform principles. The competitiveness and safety of individual insurance companies is reviewed every year. When selecting insurance companies, we consider the quality of coverage, premium rates, references, financial security (credit ratings and capital adequacy) and national legal requirements. Key performance evaluation criterion is the proportion of paid insurance premiums as a total of Krka Group revenue. We also attempt to keep premium rates as low as possible and ensure that premium growth falls behind the increases in the bases used to calculate premiums.

We continued the analysis of the international insurance market in 2023 to improve our insurance programme. Krka makes gradual improvements every year and simultaneously assumes part of the risk through insurance deductibles or by cancelling low-risk insurance policies. Five insurance audits were conducted in the Krka Group last year, with no critical recommendations made.

Krka has been investing systematically in damage prevention. Our buildings are designed to minimise their hazard exposure is as low as possible. They are equipped with active fire protection systems, such as fire and smoke alarms, sprinkler systems, fire flaps, and emergency lighting. Preventive inspections and fire drills are arranged regularly. Employees receive theoretical and practical emergency response training.

Planned preventive measures and appropriate insurance policies have effectively minimised property damage in recent years, and it remains low.

Extent of property damage



The graph does not include car or personal insurance.

Investor and share information

Shareholder return

Krka share price on the Ljubljana Stock Exchange

€	2023	2022	2021	2020	2019
Year high	118.50	120.00	120.00	92.60	74.60
Year low	91.60	80.80	91.20	54.00	56.80
31 December	110.00	92.00	118.00	91.40	73.20
Annual change (%)	19.6	-22.0	29.1	24.9	26.6

In 2023, the Krka share price increased by almost 20%.

Krka share price performance compared to selected share indices over the last five years

Reference: The Ljubljana Stock Exchange and S&P Dow Jones Indices LLC

Dividend policy

The Annual General Meeting (AGM) decides on the proposed dividend amount. In 2023, we allocated 56.3% of the consolidated net profit attributable to equity holders of the controlling company generated in 2022 for the dividend payout. Gross dividend per share increased by 17.2%. The Company's long-term dividend policy is respected when determining the net profit share for dividend payout each year. At least 50% of the net profit of the controlling company's majority equity holders is allocated for dividends. The Group's financial requirements for investments and potential acquisitions are also considered.

Dividends and dividend yield

	2023	2022	2021	2020	2019
Earnings per share[1] (€)	10.14	11.69	9.92	9.27	7.73
Gross dividend per share[2] (€)	6.60	5.63	5.00	4.25	3.20
Dividend payout ratio[3] (%)	56.3	56.6	53.6	54.3	58.2
Dividend yield[4] (%)	6.0	6.1	4.2	4.6	4.4

[1] Net profit for the year attributable to majority equity holders of the controlling company/Average number of shares issued in the period, excluding treasury shares

[2] Dividends paid for the previous period per the AGM resolution

[3] Total dividends paid/Consolidated net profit attributable to majority equity holders of the controlling company

[4] Gross dividend per share/Share price as at 31 December

Share trading and shareholding[27]

Krka shares are listed on the prime market of the Ljubljana Stock Exchange. Since April 2012, they have been dual-listed on the Warsaw Stock Exchange. All Krka shares traded on the Ljubljana and Warsaw stock exchanges are of the same class: ordinary and freely transferable. Each share, except treasury shares, carries one vote at the AGM. Krka shares are traded freely through brokerage houses and banks that are members of the Ljubljana or Warsaw stock exchanges.

Krka share trading

Reference: The Ljubljana Stock Exchange and the Warsaw Stock Exchange

Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2023, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.52 million or 4,800 shares, including blocks.

[27] GRI 2-1, 2-6

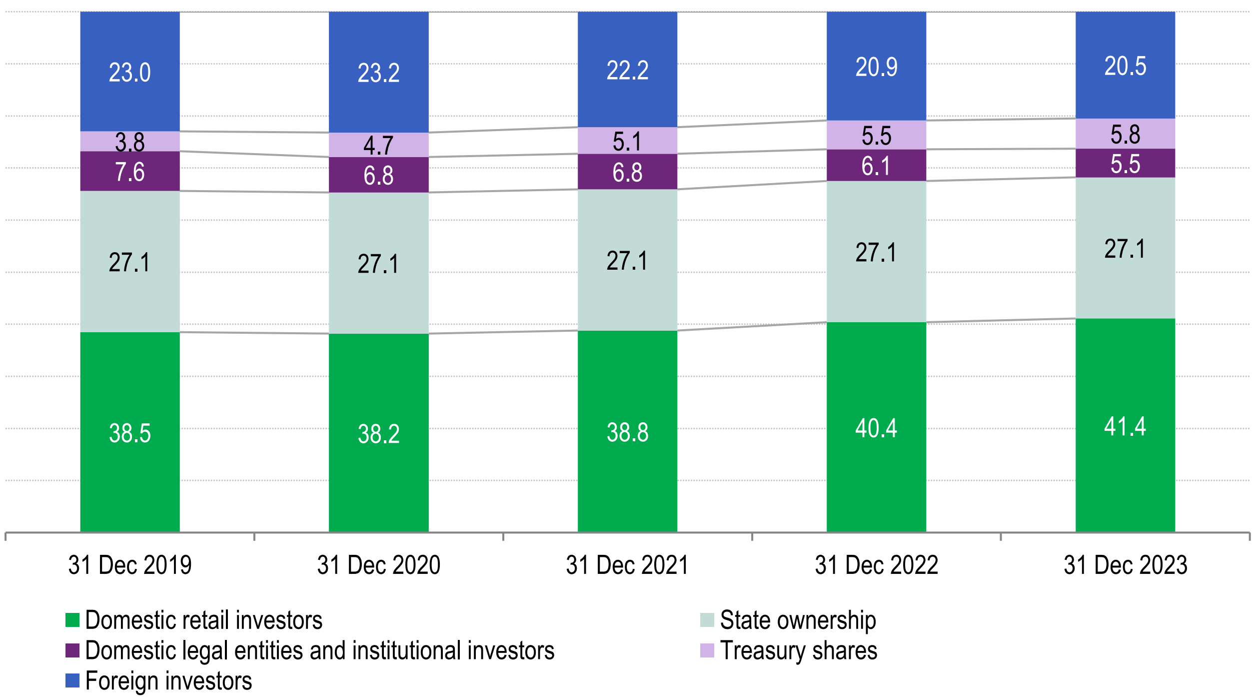
Ten largest shareholders as at 31 December 2023

	Shares owned	Stake (%)
Kapitalska družba, d. d.	3,493,030	10.65
Slovenski državni holding, d. d. (SDH)	2,949,876	9.00
Republic of Slovenia	2,366,121	7.22
OTP banka, d.d.[1]	1,555,561	4.74
Erste Group Bank AG - PBZ Croatia Osiguranje[1]	1,331,938	4.06
Clearstream Banking SA[1]	1,028,314	3.14
Luka Koper, d. d.	433,970	1.32
State Street Bank and Trust[1]	350,672	1.07
KDPW[1]	346,318	1.06
Privredna banka Zagreb d. d.[1]	318,434	0.97
Total	**14,174,234**	**43.22**

[1] The shares are held in custody accounts with the above-listed banks and are owned by their clients.

At the end of 2023, Krka had 47,172 shareholders.

Shareholder structure (%)



Reference: KDD

In 2023, the Company acquired 130,117 treasury shares valued at €13,899 thousand on the regulated market and held 1,915,966 treasury shares as at 31 December 2023.

Communication with investors[28]

We adhere to the highest standards in conducting our business, which also extends to investor relations. We pursue corporate integrity, high levels of transparency in reporting, and engagement of shareholders, analysts, and financial professionals. We regularly informed the financial and general public about our business achievements throughout the year in compliance with valid regulations and stock exchange reporting rules. We provided them with information mainly related to our business results and the Krka Group's strategy, complying with the information disclosure policy. Investors and financial analysts gave us feedback, which we carefully examined and presented to our Management Board.

[28] GRI 2-29

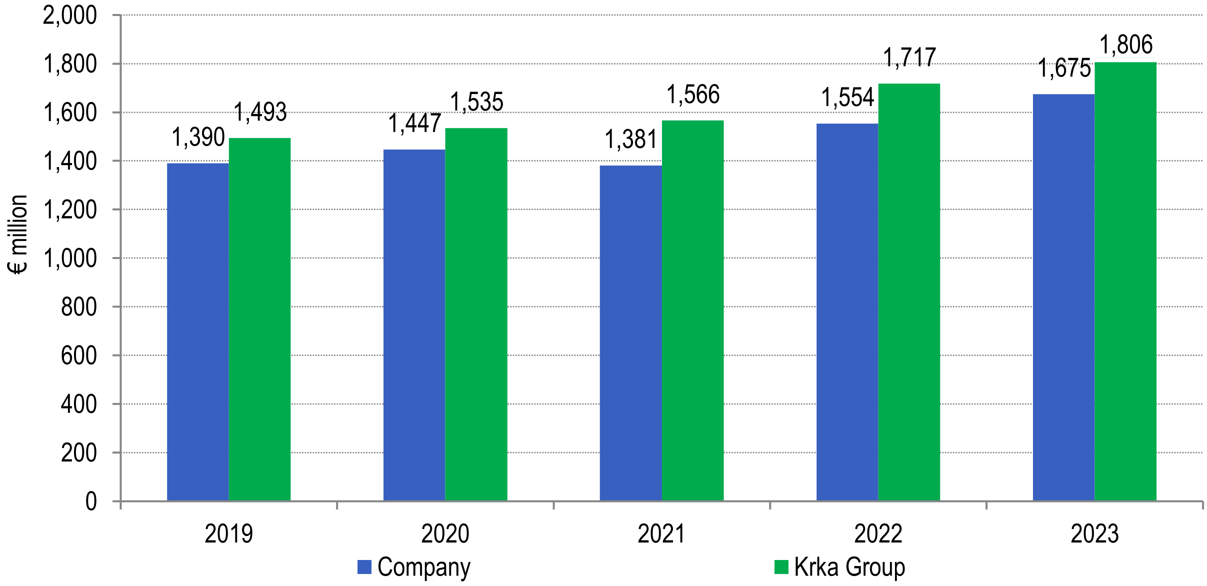
In 2023, we participated in 13 investment conferences with investors from more than 15 countries. We organised three webcasts to present our quarterly business reports. We also hosted Krka Investor Day, where we presented our nine-month business results and the revised business strategy and highlighted our professional expertise in strategic marketing and sales at Krka. The event also provided an excellent opportunity for participants to tour Krka's development and production facilities. We also held conference calls with more than 100 investors. The Ljubljana Stock Exchange presented Krka with the Best Investor Relations Award for 2023.

Krka's business results are available in Slovenian and English on SEOnet (http://seonet.ljse.si) of the Ljubljana Stock Exchange, ESPI of the Warsaw Stock Exchange, and Krka's webpages.

Performance analysis

Operating income

Revenue



In 2023, the Krka Group generated revenue of €1,806.4 million, an €88.9 million or 5% increase on 2022, of which revenue from contracts with customers on sales of products and services reached €1,799.0 million and revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Over the past five years, average annual revenue grew by 4.2% in volume and 6.3% in value.

In 2023, Krka (in this section referred to as 'the Company' for clarity reasons) generated revenue of €1,674.6 million, of which revenue from contracts with customers on sales of products and services amounted to €1,449.7 million, revenue from contracts with customers on sales of materials totalled €214.9 million, and other revenue from sales reached €10.0 million), a €121.1 million or 8% increase on 2022.

Operating expenses

The Krka Group posted operating expenses of €1,412.9 million, up €67.5 million or 5% on 2022. The Company accrued operating expenses totalling €1,353.9 million, up 13% on 2022.

Krka Group operating expenses comprised: cost of goods sold of €779.7 million; selling and distribution expenses of €347.9 million; R&D expenses of €178.6 million; and general and administrative expenses of €106.8 million. Operating expenses accounted for 78% of total revenue and, over the past five years, ranged between 75% in 2020 and 83% in 2019.

Costs of goods sold, up 5% on 2022, accounted for the largest Krka Group operating expense item. They accounted for 43.2% of total revenue in 2023, and 43.3% in 2022. Selling and distribution expenses remained at the 2022 level and accounted for 19.3% of total revenue, down 1.0 percentage point on 2022. R&D expenses constituted 9.9% of total revenue (up 0.4 percentage points on 2022) and increased by 10%. General and administrative expenses amounted to 5.9% of total revenue, up 18%, while their proportion in revenue increased by 0.6 percentage points.

Company operating expenses comprised: costs of goods sold of €786.1 million; selling and distribution expenses of €300.9 million; R&D expenses of €173.8 million; and general and administrative expenses of €93.1 million. Costs of goods sold, up 19%, accounted for the largest Company operating expense item. They accounted for 46.9% of total revenue, up 4.2 percentage points on 2022. Selling and distribution expenses remained at the 2022 level and accounted for 18.0% of total revenue, down 1.4 percentage points on 2022. R&D expenses constituted 10.4% of total revenue (up 0.2 percentage points on 2022) and increased by 10%. General and administrative expenses accounted for 5.6% of total revenue, a 20% increase, while their proportion in total revenue increased by 0.6 percentage points on 2022.

Financial income and expenses

	Krka Group					Company				
€ thousand	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
Financial income	23,567	57,668	19,711	23,259	24,987	60,964	57,744	24,714	31,786	34,410
Financial expenses	-56,062	-5,806	-12,082	-75,011	-14,814	-54,223	-3,356	-12,083	-72,837	-14,751
Net financial result	**-32,495**	**51,862**	**7,629**	**-51,752**	**10,173**	**6,741**	**54,388**	**12,631**	**-41,051**	**19,659**

In 2023, the Krka Group recorded a net financial loss of €32.5 million, while the Company recorded a net financial gain of €6.7 million.

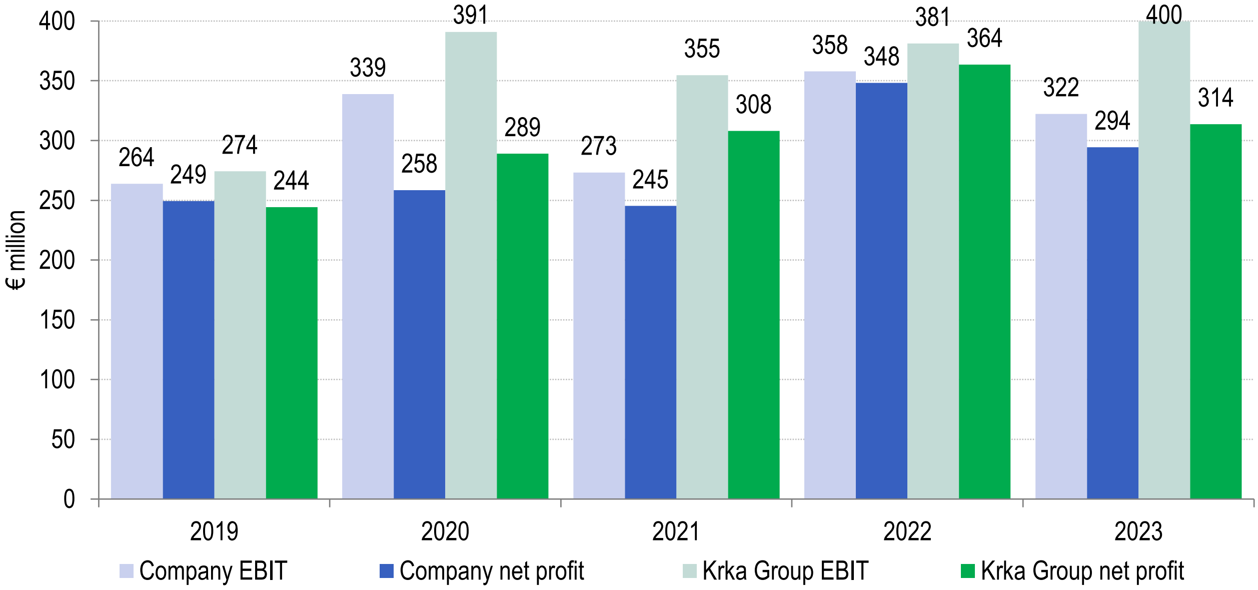
Operating in diverse international environments, the Krka Group is subject to foreign exchange risks in specific sales and procurement markets. The Krka Group currency risk generated a loss of €38.8 million in 2023. Please see pages 83-86 for details about foreign exchange risks.

Krka Group financial income comprised: interest income of €11.2 million; derivative income of €4.3 million; income from other financial instruments of €7.2 million; and dividend income of €0.8 million. Financial expenses comprised: net foreign exchange differences of €38.3 million; derivative expenses of €4.8 million; interest expense of €0.5 million; and other financial expenses of €12.5 million.

Company financial income comprised: interest income of €9.1 million; derivative income of €4.3 million; income from other financial instruments of €7.2 million; income from dividends and other profit shares of €40.4 million. Financial expenses comprised: net foreign exchange differences of €42.1 million; derivative expenses of €4.8 million; interest expense of €3.8 million; and other financial expenses of €3.6 million.

Operating results

Operating profit (EBIT) and net profit for the year



The Krka Group recorded EBIT totalling €399.6 million, up €18.4 million or 5% on 2022. The Krka Group posted EBITDA totalling €504.2 million, up €15.3 million or 3%.

The Company generated EBIT of €322.3 million, while its EBITDA reached €402.5 million.

In 2023, Krka Group profit before tax decreased by €65.9 million or 15% to €367.1 million. Its effective tax rate was 14.5%. Company profit before tax amounted to €329.0 million.[29]

The Krka Group recorded net profit of €313.7 million, down €49.9 million or 14% on 2022. Profit before tax and net profit decreased year on year primarily owing to the depreciation of the rouble against the euro in 2023 and strong rouble appreciation in the year before. Company net profit totalled €294.5 million.

Assets

	Krka Group					Company				
€ thousand	2023	%	2022	%	Index 2023/22	2023	%	2022	%	Index 2023/22
Non-current assets	**1,059,267**	**38.3**	**1,125,025**	**41.9**	**94**	**1,076,235**	**41.2**	**1,123,594**	**44.6**	**96**
Property, plant and equipment	790,345	28.6	779,336	29.0	101	595,525	22.8	566,780	22.5	105
Intangible assets	102,348	3.7	102,550	3.8	100	26,043	1.0	24,960	1.0	104
Investments and loans	117,772	4.2	188,309	7.0	63	446,181	17.1	522,545	20.7	85
Other	48,802	1.8	54,830	2.1	89	8,486	0.3	9,309	0.4	91
Current assets	**1,705,024**	**61.7**	**1,562,475**	**58.1**	**109**	**1,537,636**	**58.8**	**1,392,950**	**55.4**	**110**
Inventories	604,621	21.9	553,332	20.6	109	513,892	19.7	492,978	19.6	104
Trade receivables	509,070	18.4	402,730	15.0	126	463,126	17.7	357,889	14.2	129
Other	591,333	21.4	606,413	22.5	98	560,618	21.4	542,083	21.6	103
Total assets	**2,764,291**	**100.0**	**2,687,500**	**100.0**	**103**	**2,613,871**	**100.0**	**2,516,544**	**100.0**	**104**

[29] GRI 207-4

At the end of 2023, Krka Group assets were valued at €2,764.3 million, a €76.8 million or 3% increase on year-end 2022. The ratio of non-current to current assets in the overall asset structure differed from that recorded at year-end 2022, as non-current assets decreased by 3.6 percentage points and totalled 38.3%.

At the end of 2023, Company assets were valued at €2,613.9 million, an €97.3 million or 4% increase on year-end 2022. The ratio of non-current to current assets in the overall asset structure differed from that recorded at year-end 2022, as non-current assets decreased by 3.4 percentage points and totalled 41.2%.

Krka Group non-current assets were valued at €1,059.3 million, a €65.8 million or 6% decrease on year-end 2022. The most significant item in the Krka Group asset structure was property, plant and equipment (PP&E). It was valued at €790.3 million and accounted for 28.6% of total Krka Group assets (of which Company PP&E accounted for €595.5 million or 75% of total Krka Group PP&E). Intangible assets totalled €102.3 million and accounted for 3.7% of total assets (of which Company assets accounted for €26.0 million or 25% of total Krka Group intangible assets). The Krka Group non-current loans totalled €70.1 million or 2.5% of total Krka Group assets and included a €30.0 million deposit with maturity over one year at a Slovenian bank with a high credit rating.

Krka Group current assets were valued at €1,705.0 million and increased by €142.5 million or 9% on year-end 2022. Inventories amounted to €604.6 million or 21.9% of total Krka Group assets. Trade receivables totalled €509.1 million, accounting for 18.4% of total Krka Group assets. Inventories increased by €51.3 million or 9% and trade receivables increased by €106.3 million or 26%, primarily due to foreign exchange losses accrued from the translation of Russian rouble-denominated receivables into euro. Krka Group current loans amounted to €58.7 million or 2.1% of its total assets, and included a €50.0 million deposit of the controlling company with maturity of more than 90 days and less than one year at a foreign bank with high credit ratings. Investments at fair value through profit or loss of €236.8 million represented investments in treasury bills of western EU states with high credit ratings. Cash and cash equivalents were valued at €174.0 million, down €344.9 million on year-end 2022, accounting for 6.3% of total Krka Group assets. A decrease in cash and cash equivalents from the beginning to year-end 2023 resulted primarily from transfers of invested surplus cash. A portion of cash and cash equivalents was transferred to current loans, while the majority was transferred to investments at fair value through profit or loss. We transferred the investments in order to disperse credit risk and maturity of individual investments.

Company non-current assets were valued at €1,076.2 million, a €47.4 million or 4% decrease on year-end 2022. The most significant item worth €595.5 million or 22.8% of total Company assets was PP&E. Investments in subsidiaries totalled €357.3 million or 13.7% of total Company assets. Intangible assets of €26.0 million accounted for 1% of total assets. Company non-current loans totalled €41.2 million or 1.6% of its total assets and included a €30.0 million deposit with maturity over one year at a Slovenian bank with a high credit rating.

Company current assets were valued at €1,537.6 million and increased by €144.7 million or 10% on year-end 2022. Inventories totalled €513.9 million, accounting for 19.7% of total Company assets, and trade receivables amounted to €463.1 million or 17.7% of total Company assets (of which trade receivables due by customers outside the Krka Group reached €194.7 million). Inventories increased by 4% and trade receivables by 29%. Company current loans totalled €65.7 million or 2.5% of its total assets and included a €50.0 million deposit with a maturity of more than 90 days and less than one year at a foreign bank with a high credit rating. Investments at fair value through profit or loss totalled €236.8 million and represented investments into treasury bills of western European EU countries with a high credit rating. Cash and cash equivalents were valued at €141.0 million, down €329.3 million on year-end 2022, accounting for 5.4% of total Company assets. A decrease in cash and cash equivalents from the beginning to year-end 2023 resulted primarily from transfers of invested surplus cash. A portion of cash and cash equivalents was transferred to current loans, while the majority was transferred to investments at fair value through profit or loss. We transferred the investments in order to disperse credit risk and the maturity of individual investments.

Equity and liabilities

€ thousand	Krka Group					Company				
	2023	%	**2022**	%	**Index 2023/22**	**2023**	%	**2022**	%	**Index 2023/22**
Equity	2,181,766	78.9	2,138,509	79.6	102	2,133,258	81.6	2,060,792	81.9	104
Non-current liabilities	149,218	5.4	132,130	4.9	113	118,930	4.6	102,333	4.1	116
Current liabilities	433,307	15.7	416,861	15.5	104	361,683	13.8	353,419	14.0	102
Total equity and liabilities	**2,764,291**	**100.0**	**2,687,500**	**100.0**	**103**	**2,613,871**	**100.0**	**2,516,544**	**100.0**	**104**

As at 31 December 2023, the Krka Group posted €43.3 million or 2% higher equity than at year-end 2022. The rise was attributable to Krka Group net profit of €313.7 million and acquisition of non-controlling interests of €1.3 million. Equity was reduced by other comprehensive income net of tax of €53.5 million, dividends paid of €204.4 million, and repurchase of treasury shares in total of €13.9 million.

The Krka Group recorded provisions of €124.4 million (of which post-employment and other non-current employee benefits accounted for €113.3 million; provisions for lawsuits €10.6 million; and other provisions €0.5 million), a €17.2 million or 16% increase on year-end 2022. Provisions for post-employment and other non-current employee benefits increased by €17.3 million, other provisions declined by €0.1 million, while provisions for lawsuits remained unchanged.

Of Krka Group current liability items, trade payables increased by €12.9 million (of which payables to domestic suppliers increased by €1.7 million and payables to suppliers abroad by €11.3 million). Current liabilities from contracts with customers increased by €4.5 million (of which bonuses and volume rebates increased by €6.4 million and right of return by €0.8 million, while contract liabilities decreased by €2.7 million). Other current liabilities increased by €18.6 million, (of which payables to employees increased by €19.0 million; derivative liabilities by €2.7 million; while other liabilities decreased by €3.1 million).

As at 31 December 2023, Company equity increased by €72.5 million or 4% on year-end 2022. The increase was attributable to Company net profit in total of €294.5 million. Equity was reduced by dividends paid in total of €204.4 million, a repurchase of treasury shares in total of €13.9 million, and other comprehensive income net of tax in total of €3.7 million.

Company provisions amounted to €114.0 million (of which post-employment and other non-current employee benefits totalled €103.5 million and provisions for lawsuits €10.5 million). In comparison to the end of 2022, they increased by €17.4 million or 18%, primarily due to an increase in provisions for post-employment and other non-current employee benefits. Provisions for lawsuits were brought forward unchanged.

Of Company current liability items, trade payables decreased by €18.3 million. Current liabilities from contracts with customers decreased by €2.7 million, while other current liabilities increased by €20.4 million. At the end of 2023, the Company recorded current borrowings from subsidiaries totalling €87.7 million.

Cash flow statement

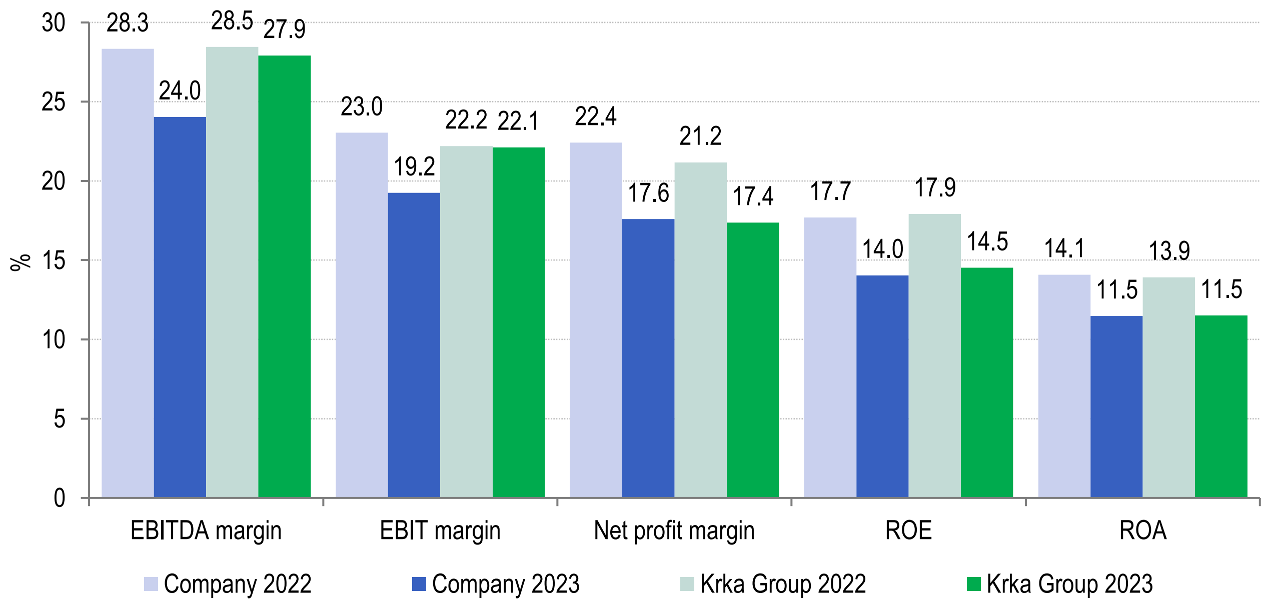
€ thousand	Krka Group		Company	
	2023	**2022**	**2023**	**2022**
Net cash from operating activities	227,254	467,651	155,399	407,733
Net cash from investing activities	-343,235	76,414	-296,529	105,073
Net cash from financing activities	-229,822	-187,022	-188,159	-189,807
Net change in cash and cash equivalents	**-345,803**	**357,043**	**–329,289**	**322,999**

Net change in Krka Group cash and cash equivalents (exclusive of exchange rate fluctuations) yielded a loss of €345.8 million in 2023, because the positive cash flow from operating activities was lower than the negative cash flow from investing and financing activities.

The Krka Group generated profit from operating activities before changes in net current assets totalling €446.5 million. Changes in current assets that had a positive impact on cash flow consisted of changes in trade payables, provisions, and other current liabilities, while changes in trade receivables, inventories, and deferred income had a negative impact. The decrease in net cash flow from operating activities was further accrued by income tax paid.

Negative cash flows from investing activities in total of €343.2 million primarily resulted from net investment expenses for current investments in total of €209.5 million and purchase of property, plant and equipment in total of €130.0 million. Payments of dividends and other profit shares totalling €204.4 million and treasury share repurchases of €13.9 million contributed the most to negative cash flows from financing activities in total of €229.8 million.

Performance ratios



Krka Group and Company operating figures for the past five years

€ thousand	Krka Group 2023	Krka Group 2022	Krka Group 2021	Krka Group 2020	Krka Group 2019	Company 2023	Company 2022	Company 2021	Company 2020	Company 2019
Revenue	1,806,391	1,717,453	1,565,802	1,534,941	1,493,409	1,674,572	1,553,514	1,381,367	1,447,112	1,390,248
EBITDA[1]	504,215	488,895	463,625	502,432	385,437	402,547	440,086	358,188	424,028	345,929
– EBITDA margin	27.9%	28.5%	29.6%	32.7%	25.8%	24.0%	28.3%	25.9%	29.3%	24.9%
EBIT[2]	399,621	381,211	354,788	390,744	274,195	322,308	357,870	273,325	338,882	263,852
– EBIT margin	22.1%	22.2%	22.7%	25.5%	18.4%	19.2%	23.0%	19.8%	23.4%	19.0%
Net profit	313,732	363,662	308,150	288,949	244,272	294,481	348,215	245,216	258,474	249,411
– Net profit margin	17.4%	21.2%	19.7%	18.8%	16.4%	17.6%	22.4%	17.8%	17.9%	17.9%
Assets	2,764,291	2,687,500	2,536,988	2,235,542	2,184,618	2,613,871	2,516,544	2,427,245	2,208,379	2,129,960
ROA[3]	11.5%	13.9%	12.9%	13.1%	11.7%	11.5%	14.1%	10.6%	11.9%	12.3%
Equity	2,181,766	2,138,509	1,919,085	1,751,812	1,667,516	2,133,258	2,060,792	1,876,142	1,791,850	1,664,178
ROE[4]	14.5%	17.9%	16.8%	16.9%	15.2%	14.0%	17.7%	13.4%	15.0%	15.5%

[1] The difference between operating income and expenses increased by accumulated depreciation and amortisation
[2] The difference between operating income and expenses
[3] Net profit/Average total asset balance in the year
[4] Net profit/Average shareholders' equity in the year

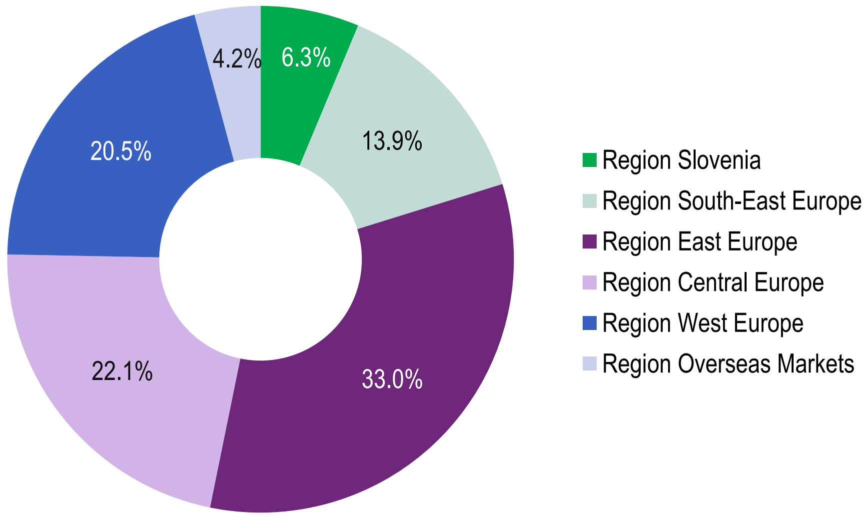
Marketing and sales

In 2023, the Krka Group generated €1,806.4 million from sales of products and services, a 5% year-on-year rise. Of that, revenue from contracts with customers for sales of products and services amounted to €1,799.0 million, while other revenue from contracts with customers for sales of material and other sales revenue constituted the difference. Sales in markets outside Slovenia were €1,685.2 million, accounting for 94% of overall Krka Group sales. Product sales volume increased by 5%.

Sales by region[30]

Region East Europe recorded the highest sales, €594 million or 33% of total Krka Group sales. Region Central Europe achieved the second highest sales, €397.1 million, or 22.1% of total Krka Group sales. Region West Europe ranked third in sales with €369.6 million, or 20.5% of total Krka Group sales. Sales generated by Region South-East Europe totalled €249.3 million or 13.9% of total sales, and by Region Overseas Markets €75.2 million or 4.2% of total sales. Region Slovenia generated sales of €113.8 million, accounting for 6.3% of total Krka Group sales.

2023 Krka Group sales by region



Krka Group and Krka sales by region

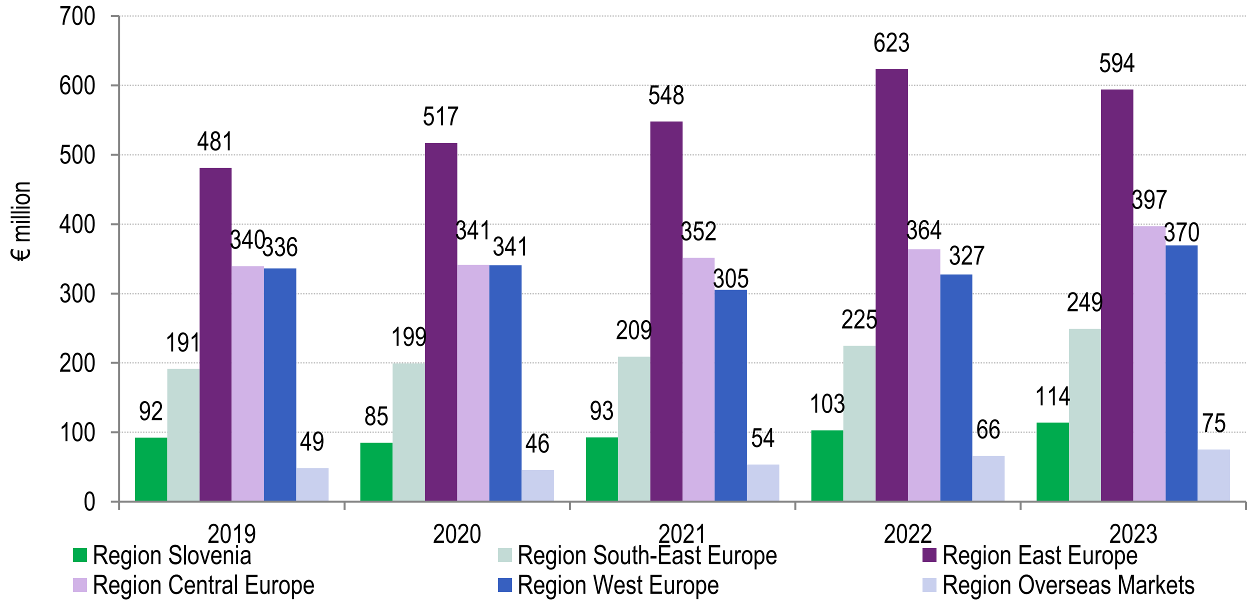
	Krka Group			Company		
€ thousand	2023	2022	Index 2023/22	2023	2022	Index 2023/22
Region Slovenia	113,777	103,047	110	66,087	60,503	109
Region South-East Europe	249,330	224,523	111	246,512	220,624	112
Region East Europe	593,951	623,377	95	376,988	387,489	97
Region Central Europe	397,079	364,154	109	380,775	351,191	108
Region West Europe	369,624	327,343	113	319,539	284,593	112
Region Overseas Markets	75,208	66,098	114	59,838	51,675	116
Total	**1,798,969**	**1,708,542**	**105**	**1,449,739**	**1,356,075**	**107**

[30] GRI 2-6

Krka Group quarterly sales by region

€ thousand	2023				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Region Slovenia	28,077	28,558	30,043	27,099	23,432	25,988	27,780	25,847
Region South-East Europe	63,526	63,923	59,747	62,134	60,310	58,951	53,575	51,687
Region East Europe	143,493	156,984	133,606	159,868	146,700	140,983	126,464	209,230
Region Central Europe	110,262	102,646	92,105	92,066	99,620	96,443	84,824	83,267
Region West Europe	91,744	89,616	85,039	103,225	84,595	83,941	73,837	84,970
Region Overseas Markets	19,151	18,491	17,870	19,696	15,991	16,486	16,611	17,010
Total	**456,253**	**460,218**	**418,410**	**464,088**	**430,648**	**422,792**	**383,091**	**472,011**

Krka Group sales by region over the past five years



Region Slovenia

Sales of products and services in Slovenia, one of Krka's key markets, amounted to €113.8 million in 2023. Product sales reached €66.1 million, accounting for 9% growth in value. Prescription pharmaceuticals accounted for the majority or 73%. Non-prescription products accounted for 23%, and sales of animal health products accounted for the remaining 4%. Holding a 7.3% market share, we maintained the leading position among providers of generic medicines in Slovenia in terms of sales value. Health resort and tourist services generated €47.7 million, up 12% on the year before, contributing 10% to sales growth in the domestic market.

Prescription pharmaceutical sales were predominantly driven by medicines for cardiovascular diseases, the central nervous system, gastrointestinal tract issues, and pain relief. Market shares of all key therapeutic classes of prescription medicines increased.

Cardiovascular agents recorded the strongest sales, most notably Prenewel (perindopril/indapamide), Amlessa (perindopril/amlodipine), Prenessa (perindopril), and Amlewel (perindopril/amlodipine/indapamide). Of our cholesterol-lowering agents, Sorvasta (rosuvastatin) recorded the most significant sales figures. We bolstered the recognition of two agents, Sovitimb rosuvastatin/ezetimibe single-pill combinations, and Roxiper perindopril/indapamide/rosuvastatin single-pill combinations.

Our leading pain relievers included Nalgesin Forte (naproxen) and Doreta (tramadol/paracetamol), including prolonged-release tablets Doreta SR (tramadol/paracetamol). We also increased the visibility of our non-opioid analgesic Algominal (metamizole). Nolpaza (pantoprazole) and Emozul (esomeprazole) were our best-selling medicines for gastrointestinal diseases. From our range of medicines for the central nervous system, our leading products included Asentra (sertraline), Mirzaten (mirtazapine), Dulsevia (duloxetine), Kventiax (quetiapine), Parnido (paliperidone), and Memaxa (memantine). We extended our antihyperglycemic product range of the dipeptidyl-peptidase 4 (DPP-4) inhibitors with a mono-component agent Maysiglu (metformin) and a single-pill combination Maymetsi (sitagliptin/metformin). We extended our range of cardiovascular agents with Tezulix (ranolazine), indicated for the symptomatic treatment of patients with stable angina pectoris. We added Vitamin D3 Krka 7000 IU (cholecalciferol) to our product portfolio, which is taken once per week.

Sales of non-prescription products were driven by Magnezij Krka, followed by Nalgesin S (naproxen), and Septabene (benzydamine/cetylpyridinium chloride). We broadened our antihistamine product portfolio with Daselta Control (desloratadine).

Sales of animal health products were driven by vitamins and minerals Grovit, followed by a fixed-dose combination Fypryst Combo (fipronil/S-methoprene) used for protection against fleas and ticks. We added a non-steroid anti-inflammatory and anti-rheumatic chewable tablets Robexera (robenacoxib) to our animal health range.

Krka Group market position in Slovenia
With a 7.3% market share, we ranked first among all generic medicine providers. Krka produced one in five of all medicines sold in Slovenia.
We were the leading provider of: • Proton pump inhibitors, accounting for more than a 65% market share; • Mono-component non-steroidal anti-inflammatory and antirheumatic medicines, accounting for more than a 60% market share; • Statins, accounting for approximately a 60% market share; • Products with effect on the pharynx, accounting for approximately a 45% market share; • Agents acting on the renin-angiotensin system, accounting for approximately a 45% market share; • Antipsychotics, anxiolytics, antidementia medicines, and antidepressants, accounting for approximately a 35% market share.
We were the leading provider of medicines containing alprazolam; atorvastatin; ciprofloxacin; doxazosin; donepezil; enalapril; esomeprazole; gliclazide; indapamide; carvedilol; quetiapine; losartan, including losartan in combination with hydrochlorothiazide; memantine; metronidazole; naproxen; omeprazole; pantoprazole; perindopril, including perindopril in combinations with amlodipine and indapamide; ramipril; rosuvastatin, including rosuvastatin in combination with ezetimibe; sertraline; simvastatin; tramadol in combination with paracetamol; telmisartan, including telmisartan in combination with hydrochlorothiazide; valsartan, including valsartan in combination with hydrochlorothiazide; and venlafaxine. We were the leading provider of generic varieties of aripiprazole; dexamethasone; duloxetine; etoricoxib; olanzapine; and tamsulosin. We were the leading provider of non-prescription products as follows: products with effect on the pharynx; non-steroidal anti-inflammatory drugs (NSAIDs); group B vitamins, proton pump inhibitors; magnesium-containing products; and vitamin D.
Nalgesin (naproxen), Nolpaza (pantoprazole), Sorvasta (rosuvastatin), Prenewel (perindopril/indapamide), Prenessa (perindopril), Doreta (paracetamol/tramadol), and Amlessa (perindopril/amlodipine) were among medicines that generated strongest sales.

Region South-East Europe

Region South-East Europe generated product sales of €249.3 million, up 11% on 2022. We recorded growth in all regional markets. Absolute growth, however, was the highest in Romania, where our sales increased by €9.2 million year on year. Serbia saw sales grow by €5.3 million, and Croatia, where sales grew by €5 million, followed in terms of absolute year-on-year sales growth.

Prescription pharmaceuticals accounted for just under 87%, and non-prescription products accounted for over 10% of regional sales. Animal health products constituted slightly more than 3% of total regional sales. Our prescription pharmaceuticals recorded 13% year-on-year growth. Non-prescription product sales levelled with 2022 sales figure, while animal health products increased by almost 6% on 2022.

In **Romania**, one of our key markets and the largest regional one, year-on-year sales increased by 15% to €72.4 million. Our market share reached 1.7% and market share volume 5.1%, respectively, ranking us the country's fourth largest foreign provider of generic prescription pharmaceuticals. The leading medicines in terms of sales were Atoris (atorvastatin), Co-Prenessa (perindopril/indapamide), Nolpaza (pantoprazole), Roswera (rosuvastatin), and Doreta (tramadol/paracetamol). Our best-selling non-prescription products were Bilobil (ginkgo leaf extract) and Nalgesin brand products. Companion animal products accounted for the majority of animal health product sales, most notably the Fypryst brand products, Milprazon (milbemycin/praziquantel), and Selehold (selamectin).

Krka Group market position in Romania
With a 1.7% market share, we ranked fourth among foreign providers of generic medicines. In 2023, we outperformed the entire market in terms of sales growth.
We were among the leading providers of: • SNRI antidepressants, accounting for more than a 60% market share; • Statins, accounting for more than a 25% market share; • Antimicrobials (fluoroquinolones), accounting for approximately a 20% market share; • Prescription analgesics and antipyretics, accounting for approximately a 20% market share; • Angiotensin II receptor blockers, also in combination with diuretics, accounting for more than a 15% market share; • ACE inhibitors and ACE-based combinations, accounting for more than a 10% market share.
We were the leading provider of medicines containing ciprofloxacin; duloxetine; enalapril; lansoprazole; losartan; mirtazapine; naproxen; norfloxacin; perindopril in combination with amlodipine; pramipexole; ropinirole; sulfasalazine; telmisartan; tramadol, including tramadol in combination with paracetamol; and venlafaxine. We were the leading provider of generic varieties of aripiprazole; dasatinib; ivabradine; ginkgo leaf extract; pantoprazole; single-pill combinations of perindopril and indapamide; and single-pill combinations of perindopril, indapamide, and amlodipine; and single-pill combinations of rosuvastatin and ezetimibe.

Croatia, another key market, ranked second in the region for sales. Croatian sales totalled €46 million, up 12% on 2022. We ranked fourth among all generic medicine providers and second among animal health product manufacturers. We recorded double-digit growth in year-on-year sales of prescription pharmaceuticals and non-prescription products, while sales of animal health products increased by almost 5%.

Per our plans, prescription pharmaceuticals generated the highest sales value, above all: Emanera (esomeprazole), Atoris (atorvastatin), Co-Perineva (perindopril/indapamide), Co-Dalneva (perindopril/amlodipine/indapamide), Roswera (rosuvastatin), Helex (alprazolam), Valsacombi (valsartan/hydrochlorothiazide), Dalneva (perindopril/amlodipine), and Doreta (tramadol/paracetamol). Of non-prescription products, Nalgesin (naproxen) and Septolete Duo (benzydamine/cetylpyridinium chloride) recorded the strongest sales. Fypryst brand products and Enroxil (enrofloxacin) generated the highest sales of our animal health products.

Krka Group market position in Croatia
With a market share of 3.5%, we ranked second among foreign providers of generic medicines.
In 2023, we outperformed the entire market in terms of sales growth.
We were the leading provider of: • Angiotensin II receptor blockers, also in combination with diuretics, accounting for more than a 65% market share; • Antimicrobials (fluoroquinolones), accounting for approximately a 60% market share; • Antitussives, accounting for approximately a 55% market share; • ACE inhibitor combinations with diuretics, accounting for approximately a 35% market share; • Statins, including ezetimibe, accounting for approximately a 30% market share. We were among the leading providers of: • Mono-component corticosteroids for systemic treatment, accounting for more than a 30% market share; • Typical antipsychotics, accounting for more than a 30% market share; • Sulphonamide antidiabetics, accounting for approximately a 30% market share; • Proton pump inhibitors, accounting for more than a 25% market share; • ACE inhibitors and ACE-based combinations with calcium channel blockers, accounting for approximately a 25% market share; • Angiotensin II receptor blockers, also in combination with calcium channel blockers, accounting for approximately a 20% market share; • Anxiolytics, accounting for approximately a 20% market share; • Antidepressants, accounting for more than a 15% market share; • Mono-component non-steroidal anti-inflammatory and antirheumatic medicines, accounting for more than a 15% market share.
We were the leading provider of abiraterone; alprazolam; atorvastatin; butamirate; ciprofloxacin; dexamethasone; diosmin; escitalopram; esomeprazole; gentamicin; clarithromycin; lansoprazole; levofloxacine; losartan; norfloxacin; perindopril, including perindopril in combination with indapamide; rosuvastatin, including rosuvastatin in combination with ezetimibe; telmisartan in combination with hydrochlorothiazide; tramadol in combination with paracetamol; and valsartan, including valsartan in combination with hydrochlorothiazide. We were the leading provider of generic varieties of desloratadine; duloxetine; gliclazide; perindopril in combination with amlodipine; perindopril in combination with amlodipine and indapamide; sitagliptin, including sitagliptin in combination with metformin; valsartan in combination with amlodipine; valsartan in combination with amlodipine and hydrochlorothiazide; and simvastatin.

Serbia generated €37.5 million in sales and recorded 16% growth, ranking it third among regional markets. Rapid market share growth continued due to strong prescription pharmaceutical sales in pharmacies. Prescription pharmaceuticals accounted for 87% of overall country sales. Sales were driven by Nolpaza (pantoprazole), Co-Amlessa (perindopril/amlodipine/indapamide), Roxera (rosuvastatin), Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), and Valsacor (valsartan). Non-prescription product sales amounted to €3.3 million, up 2% on 2022. Nalgesin (naproxen), Septolete Total (benzydamine/cetylpyridinium chloride), and Bilobil (ginkgo leaf extract) were the leading products. Sales value of animal health products increased by 8% on 2022. Fypryst and Dehinel brand products and Enroxil (enrofloxacin) were at the forefront.

Sales in **Bulgaria** totalled €26.8 million in 2023, a 5% year-on-year increase. Prescription pharmaceuticals accounted for 94% of total country sales, and Co-Valsacor (valsartan/hydrochlorothiazide), Roswera (rosuvastatin), Valsacor (valsartan), Flosteron (betamethasone), Co-Amlessa (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), Co-Roswera (rosuvastatin/ezetimibe), and Co-Prenessa (perindopril/indapamide) recorded strongest sales. Non-prescription products saw a 15% year-on-year drop. Solvolan (ambroxol), Septolete Total (benzydamine/cetylpyridinium chloride), and Flebaven generated the strongest sales. Sales of animal health products generated €1.2 million, 6% down on 2022. Key animal health products in terms of sales were Fypryst brand products, Milprazon (milbemycin/praziquantel), and Floron (florfenicol).

We have recorded sales growth in **North Macedonia** for nineteen successive years. Sales totalled €26.9 million, up 5% on 2022. Krka remained the leading foreign provider of generic medicines in the country. Sales of prescription pharmaceuticals were pivotal, in particular of Roswera (rosuvastatin), Nolpaza (pantoprazole), Co-Prenessa (perindopril/indapamide), Enap (enalapril), Tanyz (tamsulosin), Atoris (atorvastatin), and Lorista (losartan). Our non-prescription product sales recorded a 4% year-on-year increase, with leading products including Septanazal (xylometazoline/dexpanthenol), Daleron (paracetamol), Bilobil (ginkgo leaf extract), Septolete Total (benzydamine/cetylpyridinium chloride), Flebaven (diosmin), and Herbion brand products. Sales of animal health products increased by almost 7%, owing primarily to strong sales of Fypryst brand products and Ecocid.

We recorded sales totalling €21.5 million, up 4%, and remained the leading foreign provider of generic medicines in **Bosnia and Herzegovina**. Prescription pharmaceuticals accounted for the majority of total sales. Roswera (rosuvastatin), Lexaurin (bromazepam), Amlewel (perindopril/amlodipine/indapamide), Enap-H and Enap-HL (enalapril/hydrochlorothiazide), and Nolpaza (pantoprazole) generated the strongest sales. Nalgesin (naproxen), Panatus (butamirate), Septolete Total (benzydamine/cetylpyridinium chloride), Bilobil (ginkgo leaf extract), and B-Complex were the leading non-prescription products. Fypryst brand products and Rycarfa (carprofen) remained key animal health products. Most notable of our new product launches in 2023 were Roswera Combi (rosuvastatin/ezetimibe) and Dulsevia (duloxetine). While restrictions for foreign manufacturers persisted on specific reimbursement lists, they did not undermine our stable position in the market.

In **Kosovo**, we recorded sales growth of just over 6%, placing us among the country's leading medicine providers. Sales value reached €9.1 million. Prescription pharmaceuticals accounted for the majority of sales, with Lorista H (losartan/hydrochlorothiazide), Atoris (atorvastatin), and Roswera (rosuvastatin) the leading products. Year-on-year sales in **Albania** increased slightly and totalled €3.8 million. As expected, prescription pharmaceuticals accounted for the majority of total sales. Ultop (omeprazole), Atoris (atorvastatin), Nolpaza (pantoprazole), and Lorista (losartan) generated the strongest sales. We recorded sales totalling €2.5 million in **Montenegro**, up slightly more than 10%. Sales were driven in particular by prescription pharmaceuticals, most notably Nolpaza (pantoprazole), Atoris (atorvastatin), Roswera (rosuvastatin), and Lorista H and Lorista HD (losartan/hydrochlorothiazide). This marked our third year of independently marketing products in **Greece**, with our total product sales reaching €2.8 million. Sales were driven by prescription pharmaceuticals, most notably Pitavador (pitavastatin), Parnido (paliperidone), Zalasta (olanzapine), Marixino (memantine), Rosuvador (rosuvastatin), and Esolib (esomeprazole).

Region East Europe

Region East Europe generated sales totalling €594 million, a 5% year-on-year drop, and remained the leading area by sales. Sales increased in all markets except the Russian Federation, Ukraine, and Turkmenistan. Uzbekistan recorded the highest absolute sales growth, increasing product sales by €9.3 million on 2022. We recorded the highest relative sales growth in Tajikistan.

The **Russian Federation** remained our largest individual market. Product sales generated €346.8 million, 90% of 2022 sales. We make sales in the Russian Federation in the national currency. Sales denominated in Russian roubles reached 31.1 billion, marking a 15% increase, with a 7% rise in year-on-year sales volume. The difference between the euro and the rouble sales indices resulted from the depreciation of the rouble.

Prescription pharmaceuticals were the leading product group, generating €270.8 million or 78% of overall sales. Medicines that recorded strongest sales were Lorista H and Lorista HD (losartan/hydrochlorothiazide), Co-Perineva (perindopril/indapamide), Lorista (losartan), Valsacor (valsartan), Nolpaza (pantoprazole), Co-Dalneva (perindopril/amlodipine/indapamide), Vamloset (valsartan/amlodipine), Roxera (rosuvastatin), Valsacor H and Valsacor HD (valsartan/hydrochlorothiazide), and Co-Vamloset (valsartan/amlodipine/hydrochlorothiazide). Dabexom (dabigatran), Roxera Plus (rosuvastatin/ezetimibe), two antidiabetic agents Asiglia (sitagliptin), Asiglia Met (sitagliptin/metformin), and Flosteron (betamethasone) recorded the highest absolute growth.

Sales of non-prescription products generated €44.4 million in 2023. Septolete Total (benzydamine/cetylpyridinium chloride), products sold under the Herbion brand, and Nalgesin (naproxen) were at the forefront. We successfully marketed Flebaven (diosmin/hesperidin) as well.

Sales of animal health products recorded high growth, generating €31.5 million. Selafort (selamectin), Milprazon (milbemycin/praziquantel), and Enroxil (enrofloxacin) generated the strongest sales. Tuloxxin (tulathromycin) and Fyprist (fipronil) recorded the most impressive absolute growth.

Krka Group market position in the Russian Federation
With a 2% market share, we ranked second among foreign providers of generic medicines. Krka's sales dynamics essentially surpassed the average in the Russian pharmaceutical market.
We were the leading provider of prescription pharmaceuticals for the treatment of cardiovascular diseases. We were the leading provider of generic prescription pharmaceuticals in the pharmacy segment.
We were the leading provider of: • Angiotensin II receptor blockers, also in combinations, accounting for approximately a 35% market share; • Statins, accounting for approximately a 20% market share. We were among the leading providers of: • ACE inhibitors and ACE-based combinations, accounting for more than a 20% market share; • Proton pump inhibitors, accounting for more than a 15% market share; • SSRI and SNRI antidepressants, accounting for a 15% market share; • Parenteral corticosteroids, accounting for approximately a 15% market share; • Atypical antipsychotics, accounting for approximately a 15% market share.
We were the leading provider of medicines containing aripiprazole; atorvastatin; duloxetine; enalapril, including enalapril in combination with hydrochlorothiazide; losartan, including the losartan-based single-pill combinations with amlodipine and hydrochlorothiazide; naproxen; norfloxacin; olanzapine; pantoprazole; ramipril; telmisartan in combination with hydrochlorothiazide; and valsartan, including all valsartan-based single-pill combinations with amlodipine and hydrochlorothiazide. We were the leading provider of generic varieties of escitalopram; esomeprazole; ivabradine; clopidogrel; perindopril, including all perindopril-based single-pill combinations with amlodipine and indapamide; rosuvastatin; and telmisartan.

In **Ukraine**, another of our key markets, pharmaceutical sales have stagnated over the past few years and decreased in 2023 due to the state of emergency in the country. Sales amounted to €83.4, or 88% of the 2022 sales total. We maintained our market position and ranked second among foreign providers of generic pharmaceuticals, holding a 2.9% market share. Prescription pharmaceuticals, the leading product group, accounted for 80% of total 2022 sales, with Co-Prenessa (perindopril/indapamide), Co-Amlessa (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), and Roxera (rosuvastatin) at the forefront. Sales of non-prescription products increased by 2%. Herbion brand products, Nalgesin (naproxen), and Septolete Total (benzydamine/cetylpyridinium chloride) generated the highest sales. Sales of animal health products increased by 25% on 2022. The leading animal health products were Milprazon (milbemycin/praziquantel), Selafort (selamectin), and Prinocate (imidacloprid/moxidectin).

Krka Group market position in Ukraine
With a market share of 2.9%, we ranked second among foreign providers of generic medicines.
We were the leading provider of: • Parenteral corticosteroids, accounting for approximately a 45% market share; • Angiotensin II receptor blockers, also in combinations, accounting for approximately a 35% market share; • Statins, accounting for more than a 35% market share; • Antitussives, accounting for more than a 30% market share; • ACE inhibitors and ACE-based combinations with diuretics, accounting for approximately a 25% market share. We were among the leading providers of: • Proton pump inhibitors, accounting for approximately a 15% market share; • Macrolide and pyranoside antibiotics, accounting for approximately a 10% market share.
We were the leading provider of atorvastatin; betamethasone; dexamethasone; enalapril in combination with hydrochlorothiazide; ginkgo leaf extract; carvedilol; clarithromycin; losartan in combination with hydrochlorothiazide; naproxen; pantoprazole; perindopril, including perindopril in combination with indapamide; rosuvastatin; simvastatin; and valsartan. We were the leading provider of generic varieties of enalapril; perindopril in combination with amlodipine; and perindopril in combination with amlodipine and indapamide.

Subregion East Europe B

In Subregion East Europe B, which includes Belarus, Mongolia, Armenia, and Azerbaijan, our product sales totalled €57.2 million, up 17%. We recorded double-digit sales growth in Belarus, Azerbaijan, and Armenia.

Sales in **Belarus** totalled €24.4 million, up 16% on 2022. We increased our market share by above-average growth dynamics in terms of value and volume, and retained our second place ranking among foreign providers of generic medicines. Co-Amlessa (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), and Co-Prenessa (perindopril/indapamide) accounted for the mass of prescription pharmaceuticals, our key product group. Septolete Total (benzydamine/cetylpyridinium chloride) and products marketed under the Herbion brand recorded the strongest sales among non-prescription products. Sales of our animal health products generated €1.2 million, with Trisulfon (sulfamonomethoxine/trimethoprim) recording the strongest sales.

In **Mongolia**, product sales totalled €15.9 million, up 8%, maintaining our position as the country's leading foreign provider of medicines. A sharp rise in sales of cardiovascular agents and antibiotics significantly drove the growth of prescription pharmaceuticals. Nolpaza (pantoprazole), Zyllt (clopidogrel), Amlessa (perindopril/amlodipine), Fromilid (clarithromycin), and Betaklav (amoxicillin/clavulanic acid) each recorded sales of over €1 million. Sales of non-prescription products were driven above all by Septolete Total (benzydamine/cetylpyridinium chloride), products sold under the Herbion brand, Bilobil (ginkgo leaf extract), and Nalgesin (naproxen).

In **Azerbaijan**, product sales totalled €9.6 million or a 27% increase on 2022. Holding slightly more than a 3-percent market share, we ranked first among providers of generic pharmaceuticals in the country. The leading product group of prescription pharmaceuticals recorded a 26% increase, while non-prescription products grew by 3%. Animal health product sales significantly increased due to companion animal product launches. Animal health products generated €0.5 million, accounting for 5% of overall country sales.

Product sales in **Armenia** totalled €7.3 million, a 25% year-on-year increase. Holding a 3.5% market share, we ranked third among providers of generic medicines in the country. Prescription pharmaceuticals accounted for 90% of sales, with Co-Amlessa (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), and Atoris (atorvastatin) at the forefront. We recorded a 22% drop in sales of non-prescription products. Herbion brand products and Septonazal (xylometazoline/dexpanthenol) generated the strongest sales.

Subregion East Europe K

Product sales in Kazakhstan, Moldova, and Kyrgyzstan were valued at €42 million, up 8% on 2022. All markets in this subregion recorded growth.

Product sales in **Kazakhstan** totalled €21.9 million, up 9% year on year. Sales of prescription pharmaceuticals accounted for 66% of sales, up 10%. Nolpaza (pantoprazole), Valodip (valsartan/amlodipine), Ulcavis (bismuth), and Valsacor (valsartan) generated the majority of overall prescription product sales. Non-prescription product sales amounted to €6.3 million. Products sold under the Herbion and Duovit brands and Septolete Total (benzydamine/cetylpyridinium chloride) recorded the strongest sales. Sales of animal health products totalled €1.1 million. Trisulfon (sulfamonomethoxine/trimethoprim) and Ecocid were bestsellers.

Product sales in **Moldova** generated €13.7 million, up 3% on 2022. We maintained a high market share and remained the leading provider of prescription pharmaceuticals, accounting for 78% of overall country sales, up 11%. Valsacor (valsartan), Roswera (rosuvastatin), and Lorista (losartan) generated the majority of prescription pharmaceutical sales. We started marketing Doreta (tramadol/paracetamol) and Tolura (telmisartan). Non-prescription product sales amounted to €2.8 million. The leading non-prescription products were Septanazal (xylometazoline/dexpanthenol), Septolete Total (benzydamine/cetylpyridinium chloride), and Nalgesin (naproxen). Sales of our animal health products generated €0.3 million.

We generated €6.4 million in product sales, reflecting a 21% increase, securing a 4% market share in **Kyrgyzstan**, positioning us third among providers of generic pharmaceuticals in the country. Prescription pharmaceuticals accounted for 75% of total country sales. Lorista (losartan), Atoris (atorvastatin), and Nolpaza (pantoprazole) generated the strongest sales. Sales of our non-prescription products were driven by Septolete Total (benzydamine/cetylpyridinium chloride), and products sold under the Herbion and Duovit brands.

Subregion East Europe U

Our Subregion East Europe U, composed of Uzbekistan, Georgia, Tajikistan, and Turkmenistan, generated €64.6 million in product sales, up 21%. Turkmenistan was the only market where we did not record a year-on-year sales increase.

Product sales in **Uzbekistan** totalled €48.8 million, up 24% on 2022. We ranked first among all providers of prescription pharmaceuticals in the country and were the leading provider of cardiovascular agents. Of our prescription pharmaceuticals, Amlessa (perindopril/amlodipine), Lorista (losartan), Valodip (valsartan/amlodipine), and Nolpaza (pantoprazole) generated the strongest sales. Of our non-prescription products, Septolete Total (benzydamine/cetylpyridinium chloride) and products marketed under the Pikovit brand were bestsellers.

Our product sales totalled €9.5 million in **Georgia**, a 19% year-on-year increase. Our 4.8% market share ranked us fourth among all medicine providers in the country. Our most important medicines in terms of sales were Lorista H and Lorista HD (losartan/hydrochlorothiazide), Amlessa (perindopril/amlodipine), and Atoris (atorvastatin). The best-selling non-prescription product was Nalgesin (naproxen).

In **Tajikistan**, sales reached €3.7 million, a 28% year-on-year increase. Pikovit, a non-prescription product, remained one of our best-selling product brands in the country. Nolpaza (pantoprazole) and Co-Amlessa (perindopril/amlodipine/indapamide) were our new products that drove sales growth the most.

Product sales in **Turkmenistan** totalled €2.5 million, down 15% on 2022. Amlessa (perindopril/amlodipine) and Nolpaza (pantoprazole) from our leading product group of prescription pharmaceuticals, while non-prescription products sold under the Pikovit and Herbion brands generated the strongest sales.

Region Central Europe

Region Central Europe product sales totalled €397.1 million, up 9%. We recorded growth in all subregional markets. Poland saw the highest sales value increase of €12.7 million, while Lithuania experienced the highest relative sales growth of 20%.

In **Poland**, the largest regional market and our key market, product sales reached €180.8 million, up 8% on 2022. We secured a 1.9% market share and ranked third among foreign providers of generic medicines in the country.

Sales were driven by prescription pharmaceuticals, most notably pharmaceuticals from the reimbursement list. Our new medicines introduced to the market in recent years also significantly contributed to our sales.

We focused on medicines for the treatment of cardiovascular diseases, managed to retain sales at the same level as in 2022 despite great market pressures, and remained the leading provider. Coroswera (rosuvastatin/ezetimibe) was most notable of our new medicines launched in recent years and accounted for a 28% market share. Sales increased by 69% on 2022. Our other notable products were antidiabetic agents Maymetsi (sitagliptin/metformin), accounting for a 14% market share, Maysiglu (sitagliptin) with a 10% market share, and Vimetso (vildagliptin/metformin), sales of which more than quadrupled year on year. We also successfully launched Vitamin D3 Krka. We were the provider with the most pharmaceuticals for patients aged 65 years and older on the new reimbursement list.

Sales of non-prescription medicines rose by 10% on 2022. Septolete brand products were our leading non-prescription products. Septanazal (xylometazoline/dexpanthenol) followed, whose sales increased by 57% year on year.

Animal health products generated €7.5 million in sales, up 23%. Milprazon (milbemycin/praziquantel), up 4%, and Floron (florfenicol), up 28%, remained best-selling animal health products.

Krka Group market position in Poland
With a 1.9% market share, we ranked third among foreign providers of generic medicines.
We were the leading provider of: • Angiotensin II receptor blockers, also in combination with diuretics, accounting for more than a 40% market share; • Statins, including ezetimibe, accounting for more than a 35% market share; • SSRI and SNRI antidepressants, accounting for approximately a 15% market share. We were among the leading providers of: • Sulphonamide antidiabetics, accounting for more than a 20% market share; • Oral corticosteroids, accounting for more than a 15% market share; • Aminosalicylates for bowel disease, accounting for approximately a 15% market share; • Antimicrobials (fluoroquinolones), accounting for approximately a 15% market share; • Proton pump inhibitors, accounting for approximately a 15% market share; • ACE inhibitors and all ACE-based combinations, accounting for more than a 10% market share; • Antiparkinsonians, accounting for approximately a 10% market share.
We were the leading provider of atorvastatin; celecoxib; duloxetine; candesartan, including candesartan in combination with hydrochlorothiazide; lansoprazole; losartan, including losartan in combination with hydrochlorothiazide; norfloxacin; rabeprazole; rosuvastatin; sulfasalazine; tramadol in combination with paracetamol; telmisartan in combination with amlodipine; and valsartan, including valsartan in combination with hydrochlorothiazide; and valsartan in combination with amlodipine and hydrochlorothiazide. We were the leading provider of generic varieties of gentamicin; gliclazide; ivabradine; and perindopril, including all perindopril-based combinations with amlodipine and indapamide.

In **Czechia**, another of our key markets, year-on-year sales increased by 9% to €60.9 million. We ranked fourth among foreign providers of generic medicines, holding a 1.4% market share. Prescription pharmaceuticals maintained the leading position, above all Atoris (atorvastatin), Sorvasta (rosuvastatin), Lexaurin (bromazepam), Pragiola (pregabalin), Doreta (tramadol/paracetamol), Asentra (sertraline), Nolpaza (pantoprazole), Elicea (escitalopram), Kventiax (quetiapine), Tonarssa (perindopril/amlodipine), and Tonanda (perindopril/amlodipine/indapamide).

Sales of non-prescription products increased by 28%. Septolete brand products, Nalgesin S (naproxen), and Bisacodyl (bisacodyl) generated the strongest sales. Animal health product sales increased by 7%, and Dehinel and Fypryst brand products remained our key products.

Krka Group market position in Czechia
With a 1.4% market share, we ranked fourth among foreign providers of generic medicines.
We were among the leading providers of: • Sulphonamide antidiabetics, accounting for approximately a 35% market share; • Fluoroquinolones, accounting for approximately a 30% market share; • Anxiolytics, accounting for more than a 25% market share; • Angiotensin II receptor blockers, also in combination with diuretics, accounting for more than a 20% market share; • SSRI and SNRI antidepressants, accounting for more than a 20% market share; • Statins, accounting for more than a 20% market share; • Proton pump inhibitors, accounting for approximately a 20% market share; • ACE inhibitors, also in combinations with diuretics, accounting for approximately a 15% market share.
We were the leading provider of medicines containing esomeprazole; gliclazide; carvedilol; lansoprazole; losartan in combination with hydrochlorothiazide; valsartan, including valsartan in combination with hydrochlorothiazide; and ziprasidone. We were the leading provider of generic varieties of aripiprazole; atorvastatin; escitalopram; levocetirizine; olanzapine, pantoprazole; perindopril, including all perindopril-based combinations with amlodipine and indapamide.

Hungary, another key market, generated sales of €52.3 million, up 11% year on year, placing the country third among our regional markets. We ranked second among primarily foreign providers of generic medicines in the country, holding a 1.7% market share. Prescription pharmaceuticals generated the highest sales, in particular Co-Prenessa (perindopril/indapamide), Roxera (rosuvastatin), Emozul (esomeprazole), Valsacor (valsartan), Zyllt (clopidogrel), and Co-Dalnessa (perindopril/amlodipine/indapamide).

Sales of non-prescription products generated €4.2 million, up 16% on 2022. Septolete Extra (benzydamine/cetylpyridinium chloride), Bilobil (ginkgo leaf extract), and Septanazal (xylometazoline/dexpanthenol) were key non-prescription products.

Sales of our animal health products jumped by 59%. Milprazon (milbemycin/praziquantel) and Fypryst brand products were bestsellers.

Krka Group market position in Hungary
With a 1.7% market share, we ranked second among primarily foreign providers of generic medicines.
We were the leading provider of: • SNRI antidepressants, accounting for approximately a 40% market share; • Angiotensin II receptor blockers, also in combination with diuretics, accounting for approximately a 35% market share; • Platelet aggregation inhibitors (ADP receptor antagonists), accounting for approximately a 35% market share; • Antimicrobials (oral fluoroquinolones), accounting for more than a 25% market share; • Mono-component thiazide diuretics and analogues, accounting for more than a 25% market share; • Antiparkinsonians, accounting for more than a 15% market share. We were among the leading providers of: • Statins, accounting for more than a 15% market share; • ACE inhibitors and ACE-based combinations with diuretics, with a market share of more than 15%; • Macrolide and pyranoside antibiotics, accounting for approximately a 15% market share; • Proton pump inhibitors, accounting for more than a 15% market share; • Sulphonamide antidiabetics, accounting for more than a 10% market share; • Cerebral and peripheral vasotherapeutics, accounting for more than a 10% market share.
We were the leading provider of amlodipine in combination with telmisartan; indapamide; ginkgo leaf extract; clarithromycin; clopidogrel; mirtazapine; pramipexole; rasagiline; tramadol in combination with paracetamol; and valsartan, including valsartan in combination with hydrochlorothiazide. We were the leading provider of generic varieties of aripiprazole, gliclazide, and zolpidem.

Product sales in **Slovakia**, another key market, and the fourth regional market in size, generated €42.8 million, up 6% on 2022. Prescription pharmaceuticals were the leading product group in terms of sales, most notably Nolpaza (pantoprazole), Atoris (atorvastatin), Co-Prenessa (perindopril/indapamide), Co-Amlessa (perindopril/amlodipine/indapamide), Amlessa (perindopril/amlodipine), and Prenessa (perindopril). Non-prescription product sales saw a 1% rise. Best-selling products were Nalgesin S (naproxen) and Septolete brand products. Animal health products saw 10% growth, and Enroxil (enrofloxacin) and Dehinel recorded the strongest sales.

Krka Group market position in Slovakia
With a 2.3% market share, we ranked fourth among all providers of generic pharmaceuticals in the country.
We were the leading provider of: • Proton pump inhibitors, accounting for approximately a 45% market share; • Angiotensin II receptor blockers, also in combination with diuretics, accounting for approximately a 40% market share; • Antimicrobials (fluoroquinolones), accounting for more than a 35% market share; • Statins, accounting for more than a 30% market share; • Antidementives, accounting for approximately a 30% market share. We were among the leading providers of: • ACE inhibitors and ACE-based combinations, accounting for approximately a 25% market share; • Sulphonamide antidiabetics, accounting for more than a 20% market share; • Anxiolytics, accounting for approximately a 20% market share; • Antidepressants and mood stabilizers, accounting for approximately a 20% market share.
We were the leading provider of atorvastatin; duloxetine; escitalopram; esomeprazole; ezetimibe in combination with rosuvastatin; indapamide; carvedilol; quetiapine; paliperidone; pantoprazole; pramipexole; tramadol in combination with paracetamol; venlafaxine; valsartan, including valsartan in combination with hydrochlorothiazide. We were the leading provider of generic varieties of dexamethasone; gliclazide; and perindopril, including all perindopril-based combinations with amlodipine and indapamide.

Sales in **Lithuania** totalled €29.8 million, up 20% on 2022. Prescription pharmaceuticals accounted for the majority of overall sales, primarily Nolpaza (pantoprazole), Atoris (atorvastatin), Ravalsyo (rosuvastatin/valsartan), Escadra (esomeprazole), Roswera (rosuvastatin), and Captopril Krka (captopril). Sales of non-prescription products grew by 17%. Septabene (benzydamine/cetylpyridinium chloride) and Nalgesin S (naproxen) were key products. We grew sales of animal health products by 5%, with products sold under the Fypryst brand and Milprazon (milbemycin/praziquantel) at the forefront.

In **Latvia**, sales totalled €18.3 million in 2023, a 7% year-on-year increase. This solidified our position as the leading provider of generic medicines in the country. As expected, prescription pharmaceuticals accounted for the majority of sales, primarily Nolpaza (pantoprazole), Co-Amlessa (perindopril/amlodipine/indapamide), Sorvasta (rosuvastatin), Atoris (atorvastatin), and Prenewel (perindopril/indapamide). Sales of non-prescription products generated €2.8 million, up 3% on 2022. Septanazal (xylometazoline/dexpanthenol) and Septabene (benzydamine/cetylpyridinium chloride) were the leading products in this segment. Animal health product sales dropped by 3%.

In **Estonia**, sales totalled €12.2 million, up 16% on 2022. Prescription pharmaceuticals again accounted for the majority of overall sales, above all Roswera (rosuvastatin), Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), Prenessa (perindopril), and Nolpaza (pantoprazole). Year-on-year sales of non-prescription products increased by 30%. Septolete Omni (benzydamine/cetylpyridinium chloride) and products sold under the Herbion brand remained the leading medicines in this product group. Animal health product sales grew by 9%.

Region West Europe

The markets of Region West Europe are collectively regarded as one of our key markets. Regional sales totalled €369.6 million in 2023, a 13% year-on-year increase. Germany, Scandinavia, Portugal, Italy, and France recorded the highest sales. Sales through subsidiaries totalled €300 million, a 16% year-on-year increase. We generated 19% of regional sales through unrelated parties.

Prescription pharmaceuticals were the leading product group, recording sales of €318.9 million, up 14% on 2022, and 86% of overall regional sales. Medicines containing esomeprazole, candesartan, sitagliptin, pantoprazole, and venlafaxine were at the forefront. We remained one of the leading sartan and gliptin providers in the markets of Region West Europe.

Animal health products recorded a 6% increase, accounting for 11% of overall regional sales. Sales through related parties grew by 3% in 2023, accounting for 57% of total sales of animal health products in Region West Europe. Antiparasitic products for companion animals drove sales, most notably a single-pill combination of milbemycin and praziquantel in flavoured tablets, and fipronil. Medicines containing flubendazole and toltrazuril were our bestselling farm animal products.

Sales of non-prescription products grew by 11%, accounting for 3% of regional sales. The Septolete brand, paracetamol-based, and diosmin-based products recorded the strongest sales.

We pursue sales and activities in the region via our key market, Germany, and four subregional units: Europe – South; Europe – Continental West; Scandinavia; Europe – West. We sell our products to **other European countries** that do not fall in any of our categories through unrelated parties. Our sales in these markets totalled €12.6 million.

Germany remained our most important regional and key individual market. Country sales reached €105.9 million, up 20% on 2022. Our most important products in terms of sales were cardiovascular agents and medicines for the treatment of the gastrointestinal tract and metabolism, followed by central nervous system agents. We remained one of the leading sartan providers in Germany also in 2023. We recorded strong sales of the gliptin product family used in diabetes therapy and emerged as the leading provider in the country by volume. Candesartan, sitagliptin, valsartan, ramipril, and pantoprazole generated the highest sales.

Krka Group market position in Germany (pharmacy segment)
With a 1.6% generic market share, we ranked eighth among all foreign providers of generic medicines in the country.
We outperformed the entire market in terms of sales growth in Krka's respective therapeutic categories.
We were among the leading providers of: • Calcium channel blockers in combinations with adrenergic receptor beta blockers, accounting for approximately a 35% market share; • Angiotensin II receptor blockers, also in combination with calcium channel blockers, accounting for approximately a 20% market share; • platelet aggregation inhibitors (ADP receptor antagonists), accounting for approximately a 15% market share; • Angiotensin II receptor blockers, also in combination with diuretics, accounting for approximately a 15% market share; • ACE inhibitors and ACE-based combinations with calcium channel blockers, accounting for more than a 10% market share; • Coronary therapy, excluding calcium channel blockers and nitrites, accounting for more than a 5% market share.
We were the leading provider of gliptin products, accounting for more than a 25% market share in terms of volume.
We were the leading provider of products containing cyproterone; ivabradine; candesartan in combination with hydrochlorothiazide; losartan in combination with hydrochlorothiazide; prasugrel; valsartan in combination with amlodipine and hydrochlorothiazide; tramadol in combination with paracetamol; and ziprasidone. We were one of the leading providers of products containing bisoprolol in combination with amlodipine; esomeprazole; candesartan in combination with amlodipine; carvedilol; olmesartan in combination with amlodipine and hydrochlorothiazide; pramipexole; ramipril in combination with amlodipine; sitagliptin, including sitagliptin in combination with metformin; and valsartan in combination with hydrochlorothiazide.

Subregion Europe – South

Subregion Europe – South comprises Italy, Portugal, and Spain. Subregional product sales amounted to €88.7 million, up 11% on 2022. Products marketed under our own brand names accounted for 74% of overall subregional sales.

In **Portugal**, sales totalled €33.8 million, a 22% year-on-year increase. All product groups contributed to the growth. Prescription pharmaceuticals recorded the highest absolute growth, increasing our share to 7.7% of the generic market. The single-pill combination of rosuvastatin and ezetimibe, tapentadol, esomeprazole, and olanzapine were among our leading prescription pharmaceuticals. We added a single-pill combination of sitagliptin and metformin to successfully launch products from the gliptin family, immediately placing them among the five leading prescription pharmaceuticals in our portfolio.

In **Italy**, year-on-year sales increased by 4% to €32.3 million. We primarily increased sales of non-prescription and animal-health products. Medicines containing pantoprazole, clopidogrel, atorvastatin, quetiapine, and gliclazide were among our leading prescription pharmaceuticals.

In **Spain**, year-on-year sales increased by 8% to €22.7 million. All product groups recorded growth, with non-prescription products recording the highest. Medicines containing donepezil, pramipexole, galantamine, naproxen, and memantine generated the strongest sales.

Subregion Scandinavia

In Scandinavia, sales climbed to €62.9 million. **Sweden** remained the leading subregional market, followed by **Finland**, **Norway**, **Denmark**, and **Iceland**. Sales were driven by medicines containing esomeprazole, sertraline, atorvastatin, venlafaxine, and candesartan. In Norway, we remained the leading provider of many medicines, primarily those containing esomeprazole, pantoprazole, and losartan. We were one of the leading generic manufacturers of medicines containing venlafaxine, duloxetine, and valsartan in Finland, paracetamol and mirtazapine in Sweden, and atorvastatin and sertraline in Denmark. Our product sales in Iceland generated €2.1 million, where esomeprazole and pregabalin recorded the strongest sales.

Subregion Europe – Continental West

France and the Benelux constitute our Subregion Europe – Continental West. The subregion recorded €53.1 million in sales, a 4% drop year on year. Sales through our subsidiaries reached 52%, up 2%.

Sales in **France** totalled €31.5 million, a 9% decline on 2022. Best-selling medicines contained esomeprazole, gliclazide, and a combination of milbemycin and praziquantel – an animal health product. Sales through our subsidiary Krka France declined by 14% on 2022, primarily because of a medical representative shortage that dampened marketing and sales activities. Most sales were generated by prescription pharmaceuticals, above all those containing tadalafil, abiraterone, and amoxicillin. Of our non-prescription products, medicines containing paracetamol stood out. They were the third best-selling product of the subsidiary in 2023. Antiparasitics for companion animals generated the strongest sales of our animal health product range, notably fipronil-based products and the combination of milbemycin and praziquantel.

In the **Benelux**, sales increased by 3% to €21.6 million. Prescription pharmaceuticals generated the strongest sales, primarily emtricitabine in combination with tenofovir, valsartan, esomeprazole, and abiraterone. The milbemycin/praziquantel combination was the best-selling product in 2023.

Subregion Europe – West

The United Kingdom, Ireland, and Austria constitute our Subregion Europe – West. The subregion recorded €46.4 million in sales, a 21% year-on-year increase. Sub-sales through our subsidiaries increased by 19%, reaching 93%.

Sales in the **United Kingdom** grew by 31% year on year, totalling €19.4 million. Milbemycin/praziquantel and fipronil/S-methoprene combinations and ranolazine were among our best-selling products.

In **Ireland**, we generated €15.1 million in product sales, outperforming 2022 sales by 19%. We were the leading provider of medicines containing esomeprazolet, ezetimibe, donepezil, venlafaxine, candesartan, valsartan, indapamide, and duloxetine in the country.

In **Austria**, our sales grew by 11% to €12 million. Sales were driven by pharmaceuticals containing pregabalin, valsartan, and duloxetine.

Region Overseas Markets

Region Overseas Markets generated €75.2 million in sales, a 14% year-on-year rise. All four sales offices recorded sales growth. Prescription pharmaceuticals contributed to the growth the most. We primarily marketed them under our own brands, accounting for over 90% of overall regional sales.

Product sales in the markets of the **Middle East** totalled €29.2 million, an 8% year-on-year increase. **Iran** remained our largest regional market. We recorded the highest relative growth in **Saudi Arabia**, where we expect high sales growth rates in the future as well. In the Middle East, our best-selling products were Asentra (sertraline), Nolpaza (pantoprazole), Letizen (cetirizine), Emanera (esomeprazole), and Yasnal (donepezil).

Product sales in the **Far East** and **Africa** reached €30.6 million, up 24% on 2022. We recorded the highest absolute growth in **Vietnam**, our largest individual market in the area, and our second-largest regional market. Product sales increased by 55%. We recorded high relative sales growth in the **Philippines** and **Australia**, where we started marketing our products at the end of 2022. Medicines containing esomeprazole, gliclazide, tramadol in combination with paracetamol, lansoprazole, and etoricoxib were our best-selling products.

Our sales office in **China** generated €13.6 million, or 6% more than in 2022. Strong sales of Palprostes (saw palmetto extract), the medicine made by our subsidiary TAD Pharma, continued. We also increased sales through our joint venture, Ningbo Krka Menovo, which successfully marketed products containing pregabalin, losartan, atorvastatin, and rosuvastatin.

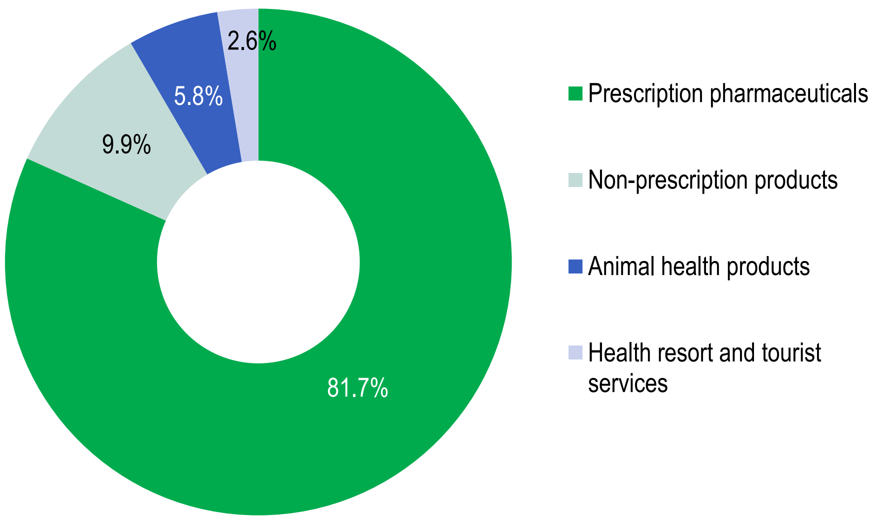
Our **Americas** sales office remained focused on the countries of Central America, where overall product sales reached €1.8 million, up 11% on 2022. Valsacor (valsartan), Valsaden (valsartan/hydrochlorothiazide), Nolpaza (pantoprazole), and Vasilip (simvastatin) were our best-selling products.

Product and service groups[31]

In 2023, sales of prescription pharmaceuticals accounted for 81.7% of total sales, followed by non-prescription products at 9.9%, animal health products at 5.8%, and health resort and tourist services at 2.6%.

Krka Group sales revenue increased by 5% in 2023. Sales of prescription pharmaceuticals increased by 6%, non-prescription products saw a 3% decrease in sales, animal health products sales grew by 12%, and health resort and tourist services by 12%.

2023 Krka Group sales by product group



Krka Group and Krka sales by product and service group

v tisoč EUR	Krka Group			Company		
	2023	**2022**	**Index 2023/22**	**2023**	**2022**	**Index 2023/22**
Human health products	1,646,633	1,572,949	105	1,350,438	1,267,805	107
– Prescription pharmaceuticals	1,469,381	1,390,972	106	1,181,580	1,104,323	107
– Non-prescription products	177,252	181,977	97	168,858	163,482	103
Animal health products	104,640	93,041	112	99,301	88,270	112
Health resort and tourist services	47,696	42,552	112			
Total	**1,798,969**	**1,708,542**	**105**	**1,449,739**	**1,356,075**	**107**

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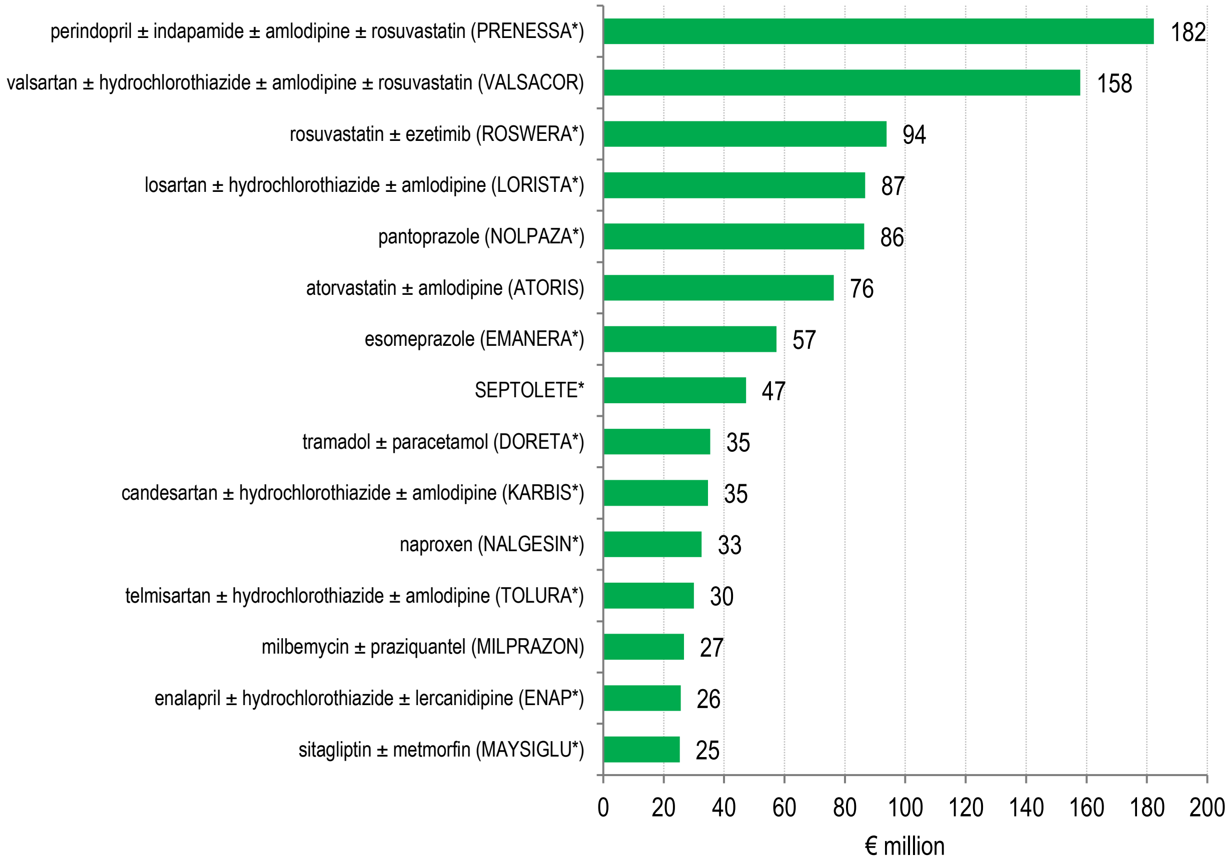
Krka Group quarterly sales by product and service group

v tisoč EUR	2023				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Human health products	417,457	418,146	379,484	431,546	400,342	386,472	348,348	437,787
– Prescription pharmaceuticals	370,309	383,380	340,650	375,042	353,099	356,073	303,471	378,329
– Non-prescription products	47,148	34,766	38,834	56,504	47,243	30,399	44,877	59,458
Animal health products	28,402	29,621	24,850	21,767	21,930	25,278	22,174	23,659
Health resort and tourist services	10,394	12,451	14,076	10,775	8,376	11,042	12,569	10,565
Total	**456,253**	**460,218**	**418,410**	**464,088**	**430,648**	**422,792**	**383,091**	**472,011**

2023 sales of leading products**



** Sales of leading products are presented by main active ingredient. Combination medicines that incorporate this active ingredient are also included.

New products

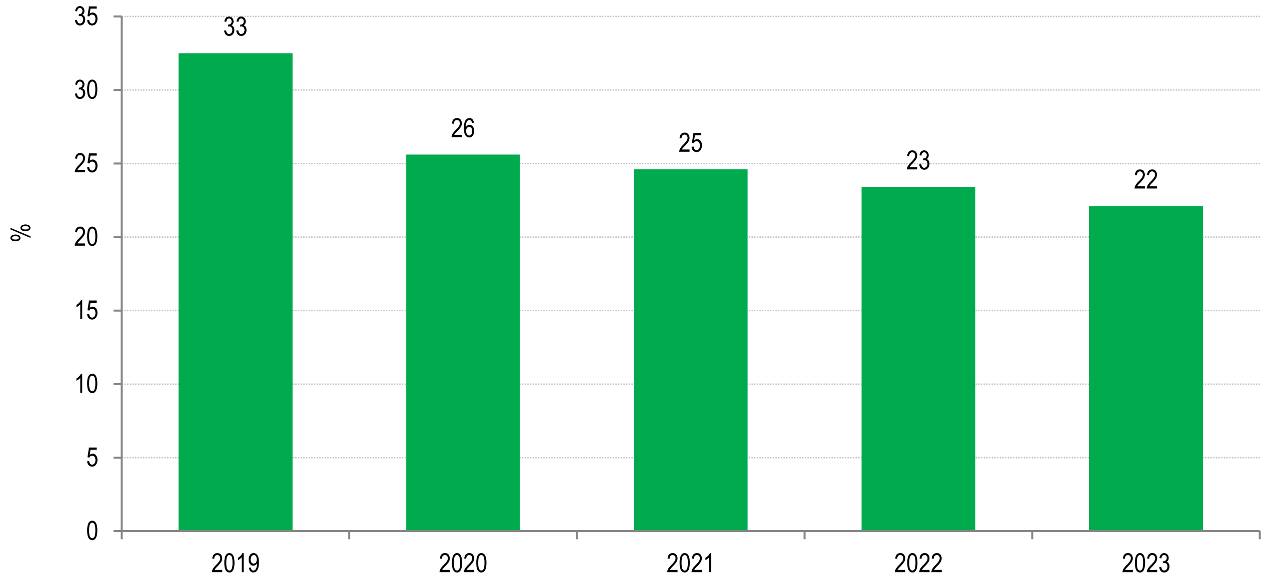
In 2023, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 22% of Krka Group overall sales, or 1 percentage point down on the year before.

In 2023, the following new products were most important in terms of absolute sales growth: Maymetsi* (sitagliptin/metformin) and Maysiglu (sitagliptin), first marketed in 2022; Co-Roswera* (rosuvastatin/ezetimibe), first marketed in 2019; Dabixom (dabigatran); and Tezulix* (ranolazine), first marketed in 2023.

In 2023, we launched several new products containing new generic active ingredients, also in combinations, and added new pharmaceutical forms or pack sizes to the existing range and placed them on new markets.

* Products marketed under different product brand names or the Krka trademark in individual markets are marked with an asterisk. Brand names are listed at the end of this section.

Percentage of sales generated by new products*** within the Krka Group



***Includes products launched on individual markets within the past five years.

New products in 2023

Prescription pharmaceuticals	
Cardiovascular agents	Prenessa Neo* (perindopril arginine) Co-Prenessa Neo* (perindopril arginine/indapamide) Amlessa Neo* (perindopril arginine/amlodipine) Tezulix* (ranolazine)
Pain relief	Tapendolor* (tapentadol)
Blood and blood-forming organs	Dabixom (dabigatran)
Animal health products	
Analgesics for companion animals	Robexera (robenacoxib)
Antimicrobials for farm animals	FlorFlu* (florfenicol/flunixin)

Prescription pharmaceuticals

In 2023, Krka Group sales of prescription pharmaceuticals amounted to €1,469.4 million, up 5.6% year on year. Germany, Poland, and Romania contributed most to sales growth.

Top-ranking 2023 therapeutic classes of prescription pharmaceuticals included cardiovascular agents, central nervous system agents, gastrointestinal tract medicines, and pain relievers.

We market our prescription pharmaceuticals under our brands in most European countries through our marketing and sales network. We boast one of the most robust marketing and sales networks of all pharmaceutical companies in countries where we maintain a long-standing presence. We have been managing sales in most markets of western Europe through our network. We use it to engage with the expert community, especially physicians and pharmacists.

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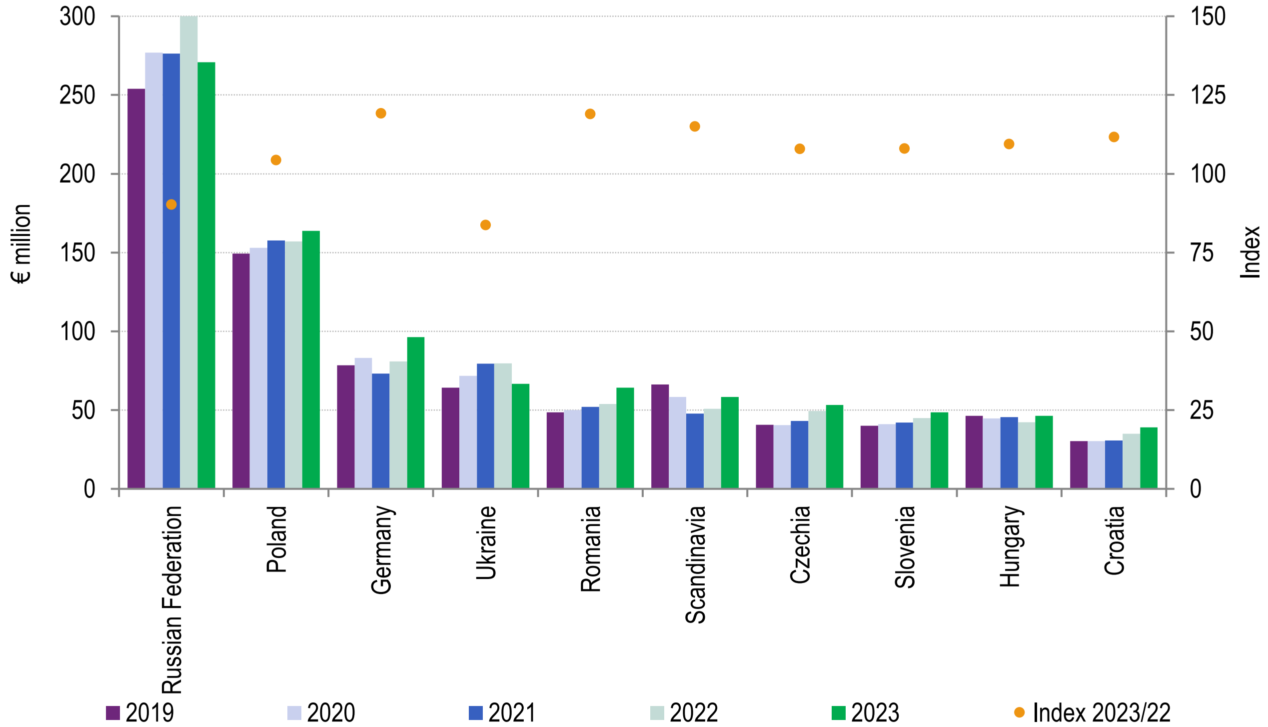
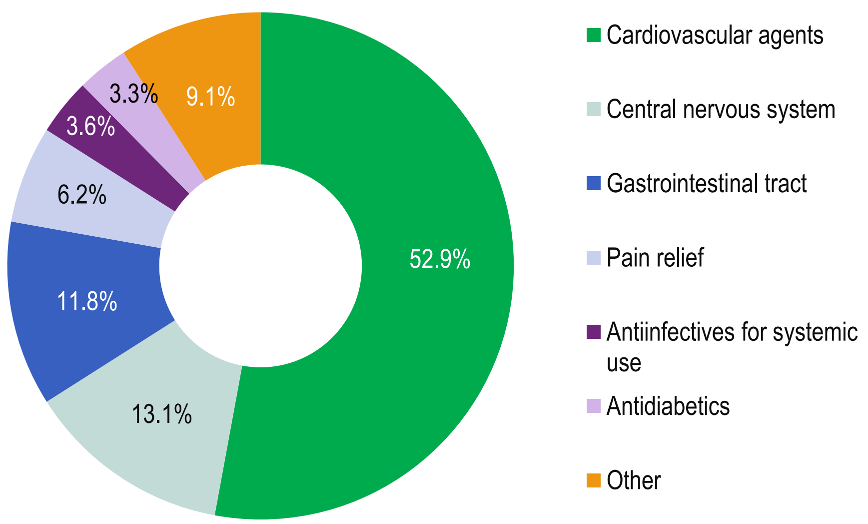
Prescription pharmaceutical sales by ten major markets



Prescription pharmaceutical sales by therapeutic classes



Cardiovascular agents

Sartans (angiotensin II receptor blockers)

Highlights
• We are the leading generic manufacturer of sartans in Europe. • The majority of patients undergoing sartan therapy in Europe are prescribed our sartans. • We are the leading manufacturer of generic varieties of valsartan, telmisartan, and candesartan, as well as the leading manufacturer of all losartan products in Europe.

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Sartans and sartan-based combinations				
• We market 20 sartan-based products. The range comprises six sartan varieties. • Our product portfolio includes single-pill sartan-based combinations with a diuretic, a calcium channel blocker, and a statin. • We are the only pharmaceutical provider in Europe that markets a single-pill combination of a sartan and a statin.				
Sartans	**Combinations containing a diuretic**	**Combinations containing a calcium channel blocker**	**Combinations containing a calcium channel blocker and a diuretic**	**Combinations containing a statin**
valsartan (Valsacor*)	valsartan/ hydrochlorothiazide (Valsacombi*)	valsartan/ amlodipine (Wamlox*)	valsartan/ amlodipine/ hydrochlorothiazide (Valtricom*)	valsartan/ rosuvastatin (Valarox*)
losartan (Lorista*)	losartan/ hydrochlorothiazide (Lorista H*)	losartan/ amlodipine (Tenloris*)		
telmisartan (Tolura*)	telmisartan/ hydrochlorothiazide (Tolucombi*)	telmisartan/ amlodipine (Teldipin*)		
candesartan (Karbis*)	candesartan/ hydrochlorothiazide (Karbicombi*)	candesartan/ amlodipine (Camlocor*)		
olmesartan (Olimestra*)	olmesartan/ hydrochlorothiazide (Co-Olimestra*)	olmesartan/ amlodipine (Olssa*)	olmesartan/ amlodipine/ hydrochlorothiazide (Olsitri*)	
irbesartan (Ifirmasta*)	irbesartan/ hydrochlorothiazide (Ifirmacombi*)			

Valsartan is our primary sartan. Valsartan-based products placed second among all our products in 2023 sales. We sold more than 1.3 billion valsartan-based tablets. This product group comprised five medicinal products. **Valarox*** is indicated for the treatment of lipitension and remained the sole single-pill combination of a sartan and a statin in Europe in 2023. **Valtricom*** was the only single-pill combination of this type in Czechia, Belarus, and certain other markets of Region East Europe. In 2023, we were the leading producer of generic valsartan varieties in Europe, providing for a patient base of four million. Capturing a market share of over 45%, we were the leading producer of valsartan-based medicines in the Russian Federation, Poland, Ukraine, and other countries. We extended the marketing reach of our valsartan products. We started marketing Valtricom* in Poland, **Wamlox*** in Vietnam, and both medicines in Greece, the Netherlands, and as the first generic manufacturer in Montenegro.

Losartan is our second most important sartan. Losartan products placed third of all our products in terms of 2023 sales. We sold more than 1.4 billion tablets containing losartan. **Lorista*** and losartan single-pill combinations were the leading sartan-based medicines in Georgia, Kyrgyzstan, Moldova, and Uzbekistan. Our losartan/amlodipine single-pill combination **Tenloris*** was the only medicine of this type in Germany and several other markets. We were Europe's leading manufacturer of losartan products last year, capturing a market share of over 20%. We started marketing Lorista* and **Lorista H*** in Iceland.

Another two sartans, candesartan and telmisartan, were also among the top fifteen Krka products in terms of sales in 2023. We were the leading manufacturer of generic telmisartan varieties in Europe, capturing a market share of almost 10%. We outperformed all telmisartan producers in Croatia, Slovenia, Latvia, and Ukraine, capturing a market share of over 45%. We started marketing **Tolura*** in Moldova and **Teldipin*** in the United Arab Emirates. We were the leading manufacturer of generic candesartan varieties in Europe, capturing a market share of over 10%.

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Angiotensin-converting enzyme (ACE) inhibitors

Highlights
• We are the leading generic manufacturer of angiotensin-converting enzyme inhibitors in Europe.
• We are the leading generic manufacturer of perindopril-based products in Europe.
• We sold more than 1.7 billion perindopril tablets in 2023.

Angiotensin-converting enzyme inhibitors and ACE combinations

- We market 14 medicines from the ACE-inhibitor class based on five different angiotensin-converting enzyme inhibitors.
- We started marketing three new products containing a new perindopril salt in 2023.
- We are a generic pharmaceutical company with the most comprehensive perindopril-based product range in Europe.

ACE Inhibitors	Combinations containing a diuretic	Combinations containing a calcium channel blocker	Combinations containing a calcium channel blocker and a diuretic	Combinations containing a statin
perindopril (Prenessa*, Prenessa Neo*)	perindopril/ indapamide (Co-Prenessa*, Co-Prenessa Neo*)	perindopril/ amlodipine (Amlessa*, Amlessa Neo*)	perindopril/ amlodipine/ indapamide (Co-Amlessa*)	perindopril/ indapamide/ rosuvastatin (Roxiper*) perindopril/ amlodipine/ rosuvastatin (Roxampex*)
enalapril (Enap*)	enalapril/ hydrochlorothiazide (Enap-H*)	enalapril/ lercanidipine (Elernap*)		
ramipril (Ampril*)	ramipril/ hydrochlorothiazide (Ampril HL*)	ramipril/ amlodipine (Rameam*)		
cilazapril (Cazaprol)				
captopril (Blocordil*)				

Perindopril-based products were our best-selling pharmaceuticals in 2023. We sold more than 1.7 billion tablets, or over 100 million more than a year ago. We are a generic pharmaceutical company with the most comprehensive perindopril-based product range in Europe. We started marketing three new products that contain a new perindopril salt, perindopril arginine: **Prenessa Neo*** (perindopril arginine), **Co-Prenessa Neo*** (perindopril arginine/indapamide), and **Amlessa Neo*** (perindopril arginine/amlodipine). We launched all three medicines as the first generic manufacturer in Czechia and Slovakia, and at the same time as other generic producers in France, Belgium and other markets. We also market **Roxiper*** and **Roxampex*** for treating lipitension, i.e. coexisting hypertension and hyperlipidemia. The two triple combinations contain three active ingredients in a single pill, two antihypertensives and a statin. In 2023, we placed Roxampex* on the market in Belarus, Hungary, and Portugal. We remained the only manufacturer of the two single-pill combinations in Europe. We consolidated our position as the leading generic manufacturer of perindopril and perindopril-based combinations in Europe. Sales of our products saw the steepest increase of all generic varieties in 2023, and we increased our market share to almost 14%.

Even though promotion focused primarily on our new angiotensin-converting enzyme inhibitors, **Enap*** and single-pill combinations of enalapril, hydrochlorothiazide, and lercanidipine remained among our top fifteen products in terms of 2023 sales. We ranked among the leading generic manufacturers of enalapril-based products in Europe, capturing a market share of almost 10%.

Other antihypertensives

Angiotensin-converting enzyme inhibitors and sartans are our two most important classes of antihypertensives. Our product portfolio also includes a calcium channel blocker **Tenox*** (amlodipine), a diuretic **Rawel SR** (indapamide), adrenergic receptor blockers **Coryol** (carvedilol), **Bloxazoc*** (metoprolol), **Niperten*** (bisoprolol), and a single-pill combination **Sobycombi*** (bisoprolol/amlodipine). Altogether, we market more than 40 antihypertensives in more than 150 strengths.

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Statins and other hypolipemics

Highlights
• We remain the leading producer of hypolipemics in Regions Slovenia, Central, East, and South-East Europe. • We recorded the highest sales increase of all competitors in those regions. • The leading statins in the regions were Atoris* and Roswera*.

Hypolipemics and single-pill combinations			
• We market 11 medicines based on four different statins and ezetimibe. • The portfolio consists of single-pill combinations of statins and ezetimibe and single-pill combinations of a statin and an antihypertensive.			
Statins and other hypolipemics	**Combinations of hypolipemics**	**Combinations containing a calcium channel blocker**	**Combinations containing other antihypertensives**
rosuvastatin (Roswera*)	rosuvastatin/ ezetimibe (Co-Roswera*)		perindopril/ indapamide/ rosuvastatin (Roxiper*) perindopril/ amlodipine/ rosuvastatin (Roxampex*) rosuvastatin/ valsartan (Valarox*)
atorvastatin (Atoris*)		atorvastatin/ amlodipine (Atordapin*)	
simvastatin (Vasilip)	ezetimibe/ simvastatin (Ezesimin*)		
pitavastatin (Pitavador*)			
ezetimibe (Ezoleta*)	rosuvastatin/ ezetimibe (Co-Roswera*) ezetimibe/ simvastatin (Ezesimin*)		

Rosuvastatin, which ranked among our top five products in terms of sales, was our primary statin in 2023, leading in absolute sales growth as well. We increased its sales by more than 20% in 2023. In Regions Slovenia, Central, East, and South-East Europe, **Roswera*** captured a market share of over 25% and remained the leading rosuvastatin product. Of all statins, only our Atoris* placed higher. Roswera* recorded the highest absolute sales growth in the regions. The single-pill combination **Co-Roswera*** supplements our statin product range. We started marketing it in nine new markets, including Spain, Ukraine, and Uzbekistan. It remained the leading single-pill combination of this type in Croatia, Slovakia, Slovenia, Bulgaria, and Estonia. In 2023, we started marketing new strengths. As the only generic manufacturer, we started marketing the single-pill combination containing 15 mg of rosuvastatin in Poland, Hungary, Czechia, and several other markets, and the single-pill combination containing 40 mg of rosuvastatin in the Russian Federation and Georgia. We ranked among the leading manufacturers of generic rosuvastatin varieties in Europe.

Our second most important statin-based product is **Atoris***, available in six strengths. We are the only provider of 30 mg and 60 mg atorvastatin tablets in many markets. Atoris* was one of Krka's ten leading products in terms of sales and among top five Krka products that surpassed the milestone of 1 billion tablets sold in 2023. The agent remained the leading statin in Regions Slovenia, Central, East, and South-East Europe for the tenth consecutive year. In 2023, its sales increased to more than 30% of the market, placing us among Europe's leading providers of generic atorvastatin varieties.

Ezoleta* supplements our range of hypolipemics with a different mechanism of action. It was the leading ezetimibe-based product in Slovenia and the Baltic states in 2023.

Statins are also incorporated in our single-pill combinations. In addition to the single-pill hypolipemics Co-Roswera* and **Ezesimin***, we also market several combinations for lipitension. They combine antihyperlipidemic and antihypertensive agents. Our portfolio comprises three such agents, **Valarox*** is a single-pill combination of a statin and a sartan, while two single-pill combinations, **Roxiper*** and **Roxampex***, contain combinations of statins with an angiotensin-converting enzyme inhibitor.

* Products marketed under different product brand names or the Krka trademark in individual markets are marked with an asterisk. Brand names are listed at the end of this section.

Other cardiovascular agents

In addition to antihypertensives and hypolipemics, we also market **Bravadin*** (ivabradine) indicated for treating stable angina pectoris and chronic heart failure, and a diuretic **Apleria*** (eplerenone), which is also indicated for the treatment of chronic heart failure. Bravadin* captured a market share of over 20% last year and was the leading generic variety of ivabradine in Regions Slovenia, Central, East, and South-East Europe. It outperformed all ivabradine products in Germany. Apleria* was the leading eplerenone-based product in Hungary, Lithuania, and Estonia.

In 2023, we added a new product to our portfolio for the treatment of stable angina pectoris and started marketing **Tezulix*** (ranolazine) prolonged-release tablets. Ranolazine is used with other medicines for treating stable angina pectoris in patients whose condition is not adequately managed or in those who are unable to tolerate the first-choice therapy. We made Tezulix* available as one of the first generic providers in seven markets of Regions West and Central Europe, Germany and Spain among them.

Central nervous system

Antidepressants

Highlights
• We are the leading generic manufacturer of antidepressants in Regions Slovenia, Central, East, and South-East Europe. • Our antidepressants are the most frequently prescribed by physicians compared to competing products in the specified area.

Antidepressants	
• We market six state-of-the-art antidepressants from different classes. • We are the only provider of 90 mg duloxetine tablets in several markets.	
duloxetine (Dulsevia*)	agomelatine (Lamegom)
escitalopram (Elicea*)	venlafaxine (Alventa*)
sertraline (Asentra*)	mirtazapine (Mirzaten*)

We were the leading generic manufacturer of antidepressants in Czechia, Slovakia, and Croatia, outperforming all competitors in Slovenia and Estonia.

Dulsevia* is our primary antidepressant. This leading duloxetine product captured a market share of over 40% in Regions Slovenia, Central, East, and South-East Europe. Last year, it ranked first in numerous markets within the regions and surpassed all competitors in both the Russian Federation and Hungary. It remained one of the leading generic varieties in Germany. We remained the only provider of 90 mg duloxetine tablets in Hungary, Czechia, and Slovenia. We started marketing Dulsevia* in Bosnia and Herzegovina last year.

Elicea*, **Asentra***, and **Lamegom** remained the leading generic varieties in Regions Slovenia, Central, East, and South-East Europe in 2023. The market share of Elicea and Asentra exceeded 15%. Elicea remained the leading generic variety in Slovenia, the Russian Federation, Czechia, and Lithuania, and exceeded all escitalopram products in Serbia, Slovakia, and Croatia. Also last year, Asentra was the leading sertraline product in Slovenia and Estonia, and one of the leading sertraline products in Germany.

Alventa* and **Mirzaten*** supplement our antidepressant range. Once again, Mirzaten was the leading mirtazapine-based antidepressant in Regions Slovenia, Central, East, and South-East Europe, capturing a market share of over 25%. Alventa ranked first in Romania, Ireland, and several other countries.

Antipsychotics

Highlights
• We are the leading generic manufacturer of antipsychotics in Regions Slovenia, Central, East, and South-East Europe. • We are the leading generic manufacturer of paliperidone and ziprasidone in Europe.

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Atypical antipsychotics	
• We market six atypical antipsychotics, including all five top-selling medicines from this class.	
aripiprazole (Aryzalera*)	paliperidone (Parnido*)
olanzapine (Zalasta*)	risperidone (Torendo*)
quetiapine (Kventiax*)	ziprasidone (Zypsilan*)

Kventiax*, our flagship antipsychotic, is available in tablets and prolonged-release tablets. Its market share increased to more than 15% and remained the leading quetiapine product in Regions Slovenia, Central, East, and South-East Europe in 2023. It captured a market share of over 35% in Slovenia, Latvia, Estonia, and Slovakia. **Aryzalera*** was the leading generic variety of aripiprazole, while **Zalasta*** ranked among the leading olanzapine products in that area. Zalasta* and Aryzalera* captured a market share of over 35% in the Russian Federation and were the leading of all olanzapine and aripiprazole products, while Kventiax* in prolonged-release tablets was the leading quetiapine product. Zalasta* was the leading olanzapine product in Portugal last year.

One of our new antipsychotics, **Parnido***, was the only generic variety of paliperidone in tablets in Region West Europe and several other markets. We remained the leading generic manufacturer of paliperidone in that pharmaceutical form, while our antipsychotic **Zypsilan*** was the leading generic variety of ziprasidone in Europe.

Anti-Parkinson agents

We market three medicines for the treatment of Parkinson's disease: **Oprymea** (pramipexole), **Rolpryna SR*** (ropinirole), and **Ralago*** (rasagiline). For years, we have been one of the leading generic producers of those pharmaceuticals in Regions Slovenia, Central, East, and South-East Europe, further improving our position in 2023. We remained the leading generic manufacturer in Poland, and in Hungary, we achieved a market share of over 15%, making us the leading producer of anti-Parkinson agents.

We were the leading generic manufacturer of pramipexole in Europe. Our flagship anti-Parkinson agent is Oprymea*, outperforming all competing products in Poland, Czechia, Portugal, and several other countries, capturing a market share of over 40% in 2023.

Rolpryna SR*, one of the leading generic ropinirole varieties in Europe, outperformed all competing products in Romania, Slovenia, and several other markets.

Anti-Alzheimer agents

Four oral agents are used to treat Alzheimer's disease, and all four are part of our product portfolio. We market **Yasnal*** (donepezil), **Marixino*** (memantine), **Galsya*** (galantamine), and **Nimvastid** (rivastigmine). They are available in tablets and capsules. Yasnal* and Nimvastid* are also available in orodispersible tablets. We are the only producer of rivastigmine in that pharmaceutical form in Europe.

We rank among the leading generic producers of anti-Alzheimer agents in Europe. We are the leading generic producer in Slovenia and the foremost producer of anti-Alzheimer agents in Italy, Lithuania, and Slovakia.

Other central nervous system agents

We market **Lacosabil*** (lacosamide) indicated for various types of epilepsy in Region West Europe. We were among the leading generic manufacturers of lacosamide in Germany and the only generic producer in Ireland in 2023. **Pragiola*** (pregabalin), also from the group of antiepileptics, is indicated primarily for neuropathic pain therapy.

Gastrointestinal tract

Proton pump inhibitors

Highlights
• We are one of the leading producers of proton pump inhibitors in Europe. • We have been the leading proton pump inhibitor producer for over a decade in Regions Slovenia, Central, East, and South-East Europe. • We recorded the sharpest sales increase among all competitors, with our market share now exceeding 18%.

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• We are one of the leading generic producers of pantoprazole and esomeprazole in Europe.	
Proton pump inhibitors	
• We have been marketing proton pump inhibitors for more than 30 years. • Our proton pump inhibitors are available in more than 60 countries worldwide.	
pantoprazole (Nolpaza*)	rabeprazole (Gelbra*)
esomeprazole (Emanera*)	omeprazole (Ultop*)
lansoprazole (Lanzul*)	

Nolpaza* is our flagship medicine of this class, ranking among the five best-selling Krka products. In 2023, we sold more than 1.2 billion tablets of Nolpaza*, 60 million more than the year before. Nolpaza remained among our five medicines exceeding 1 billion tablets sold. It was the leading proton pump inhibitor in Regions Slovenia, Central, East, and South-East Europe, capturing a market share of over 13%. Nolpaza* was the leading pantoprazole product in 15 countries, while in the Russian Federation, Lithuania, Slovakia, and several other countries, it captured a market share of over 60%. Nolpaza* placed us among the leading manufacturers of generic pantoprazole varieties in Europe. We also market it as a non-prescription product.

Emanera* (esomeprazole) is our second most important proton pump inhibitor and one of our top ten products in terms of sales. In 2023, it again ranked fifth among proton pump inhibitors in Regions Slovenia, Central, East, and South-East Europe. We were the leading generic manufacturer of esomeprazole in the aforementioned regions, capturing a market share of over 25%. Emanera* saw the sharpest increase of all esomeprazole products in year-on-year sales. Emanera* generated strong sales in Region West Europe. It was one of the leading generic esomeprazole varieties in Germany and Portugal, outperforming all competing products in Ireland. Last year, we ranked among the leading generic manufacturers of esomeprazole in Europe. We also market it as a non-prescription product in certain markets.

Other medicines for acid-related disorders

We market **Ulcavis*** (bismuth), which is indicated for the treatment of gastritis. Combined with antibiotics and proton pump inhibitors, it is also indicated for removing *Helicobacter pylori* bacteria. It is the leading generic variety in Europe and the only bismuth-based medicine in many markets of Regions Central and South-East Europe. We also market it as a non-prescription product.

Pain relief

Highlights
• We are the leading generic manufacturer of the tramadol/paracetamol combination in Europe. • Nalgesin* is the leading naproxen-based medicine in Europe.

Pain relief			
• We have a broad range of medications for relieving various types and intensities of pain. • We started marketing opioid analgesic Tapendolor* (tapentadol) in 2023. • Our non-prescription products complement the range of prescription analgesics.			
NSAIDs	**Opioids and opioid-based combinations**	**Other analgesics**	**Other agents for treating neuropathic pain**
naproxen (Nalgesin*)	tramadol (Tadol*) tramadol/ paracetamol (Doreta*, Doreta* SR)	metamizole (Algominal)	pregabalin (Pragiola*)
diclofenac (Naklofen Duo*)	oxycodone/ naloxone (Adolax*)		duloxetine (Dulsevia*)
dexketoprofen (Dekenor*)	tapentadol (Tapendolor*)		
etoricoxib (Roticox*)			
celecoxib (Aclexa*)			

Doreta* (tramadol/paracetamol) is our flagship prescription analgesic. It ranked among the top ten Krka products in terms of sales in 2023. We market tablets in two strengths. As the only producer in Europe, we made available prolonged-release tablets in 2021 and dispersible tablets in 2022. We further strengthened Doreta's* position as the leading

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tramadol/paracetamol single-pill combination in 2023 and increased its market share to over 50% in Regions Slovenia, Central, East, and South-East Europe. We started marketing Doreta* in Moldova. We were the leading generic producer of the tramadol/paracetamol combination in Europe.

Nalgesin* (naproxen) is a non-steroidal anti-inflammatory and antirheumatic medicine (NSAID). It is the leading naproxen product in Europe, capturing a market share of over 20%. Nalgesin* recorded the strongest sales growth of all competing products in 2023, and its market share further increased. It remained the only naproxen-based analgesic in Slovenia, Czechia, and other countries. Nalgesin* was the leading NSAID in Slovenia and ranked among the leading medicines of this type in Croatia, Slovakia, and certain other countries. We also market it as a non-prescription product.

Naklofen Duo* and two analgesics from the coxib sub-class, **Roticox*** and **Aclexa***, are also our NSAIDs. Roticox* and Aclexa* were once again the leading generic varieties of etoricoxib and celecoxib in Regions Slovenia, Central, East, and South-East Europe. Roticox* outperformed all competing products in Hungary, Lithuania, and certain other markets last year. We remained the leading celecoxib provider in Poland, Czechia, and Slovakia. We started marketing Roticox* in Kyrgyzstan in 2023 as well.

We also started marketing our new opioid analgesic. We launched **Tapendolor*** in Germany, Spain, Czechia, and Portugal, and as the first generic manufacturer in Ireland and Slovakia.

Our two agents, an antidepressant **Dulsevia*** and an antiepileptic **Pragiola***, are often used in neuropathic pain therapy. Pragiola* was the main generic variety of pregabalin in Slovenia, Austria, and Slovakia. It outperformed all pregabalin products in Estonia. **Algominal** supplements our analgesic range.

Blood and blood-forming organs

We market antiaggregant and anticoagulant medicines. **Zyllt*** (clopidogrel), an antiaggregant, is our primary medicine from this product group. We market it in more than 40 countries. Zyllt* was the leading generic variety of clopidogrel in the Russian Federation, Uzbekistan, and several other countries, and one of the leading clopidogrel products in Portugal and Hungary. Surpassing a 35% market share, it outstripped all competing products in Georgia. It is the leading generic variety of clopidogrel in Regions Slovenia, Central, East, and South-East Europe.

Our two new antiaggregant medicines are **Eliskardia*** (prasugrel) and the even newer **Atixarso** (ticagrelor), first launched in 2021. Eliskardia* was the leading generic variety of prasugrel in Czechia, Slovakia, and Slovenia, and outperformed all competing products in Germany.

Xerdoxo*(rivaroxaban) is one of the most advanced anticoagulants, which we launched in 2020 as one of the first generic manufacturers in Europe. We launched it in Azerbaijan in 2023. Last year, we also started marketing our new anticoagulant **Dabixom** (dabigatran), which we launched in the Russian Federation as the first generic manufacturer. Dabigatran in hard capsules is indicated for the treatment and prevention of venous thromboembolic events.

Antidiabetics

Our primary antidiabetic agent is sitagliptin, a dipeptidyl peptidase-4 inhibitor. This state-of-the-art agent has a very good safety profile and can be used already at the earliest stages of diabetes, either independently or in combination with other agents. We market **Maysiglu*** (sitagliptin) and the single-pill combination **Maymetsi*** (sitagliptin/metformin). We first launched them in 2022, and rolled them out in new markets in 2023. We started marketing Maysiglu* in Austria and France, and Maymetsi* in Italy, Spain, Czechia, and nine other markets. In 2023, we gained the leading position among manufacturers of generic varieties in the Russian Federation, Romania, Germany, Croatia, and several other markets, and in turn, ranked as the leading generic manufacturer of sitagliptin in Europe. Our agent was the most frequently prescribed sitagliptin-based product in Germany last year.

Vildagliptin is another agent in this class. We market two vildagliptin-based medicines, **Glypvilo*** (vildagliptin) and, since 2022, also the single-pill combination **Vimetso*** (vildagliptin/metformin). In 2023, we put this single-pill combination on the market in Italy and as the first generic manufacturer in Czechia. We were one of the leading generic manufacturers in Germany, Czechia, and Portugal, and the leading manufacturer in Poland, capturing an almost 30% market share. Our

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sitagliptin and vildagliptin placed us among the leading generic manufacturers of dipeptidyl peptidase-4 inhibitors in Germany, Romania, Poland, and several other markets.
The antidiabetic agent **Gliclada*** (gliclazide) is a sulphonylurea. It is the only gliclazide in prolonged-release tablets in Europe, and is available in three strengths. We were among the leading generic manufacturers of gliclazide in Europe in 2023. We were the leading generic manufacturer in Poland, Slovakia, and certain other markets, while Gliclada* outperformed all competing products in Czechia, Slovenia and Latvia. We also started marketing gliclazide through our subsidiary in China in 2023.

Antiinfectives for systemic use

Our portfolio of antibiotics comprises medicines from various classes: macrolides, β-lactam antibiotics, fluoroquinolones, and other antibiotics. In 2023, as in previous years, we remained the leading manufacturer of fluoroquinolone products and ranked first among generic manufacturers of macrolide antibiotics in Regions Slovenia, Central, East, and South-East Europe.

Fromilid* (clarithromycin), our flagship macrolide, has been the leading generic variety of clarithromycin in the aforementioned regions for years. Fluoroquinolone antibiotics **Moloxin*** (moxifloxacin), **Ciprinol*** (ciprofloxacin), and **Nolicin** (norfloxacin) outperformed all competing products in the area. We also market a fluoroquinolone **Levalox*** (levofloxacine) and **Azibiot** (azithromycin) from the macrolide class. Our primary β-lactam antibiotic is **Betaklav*** (amoxicillin/clavulanic acid).

We market medicines for the treatment of HIV infection, with **Emtenovo*** (emtricitabine/tenofovir) and **Efavemten*** (efavirenz/emtricitabine/tenofovir) as our flagship products. In 2023, we placed among Germany's leading generic producers of the two single-pill combinations.

Oncology

We market fourteen oncology agents. **Abiratel*** (abiraterone), indicated for treating metastatic prostate cancer, is the most important of them. Last year, we launched Abiratel* in Austria, Hungary, Portugal, Poland, and Croatia. In Croatia and Sweden, we ranked among the leading generic providers of abiraterone.

Lenabdor* (lenalidomide) is indicated for multiple myeloma and is our second most important oncology agent. It was one of the leading generic varieties of lenalidomide in 2023 in Germany, Austria, Finland, and several other countries. We also launched it in Romania and Hungary.

Meaxin* (imatinib) was the leading generic variety of imatinib in Slovenia last year and among the leading imatinib products in Poland, Ireland and certain other countries. **Dasatinib Krka*** (dasatinib) was the leading generic dasatinib variety in Romania, the leading of all dasatinib products in Slovenia, and among the leading products in Slovakia. **Ecansya*** (capecitabine) was one of the leading generic varieties of capecitabine in Ireland, Poland, Finland, and other countries, while we are the only provider of capecitabine in Bosnia and Herzegovina. We started marketing **Bortezomib Krka** (bortezomib) in Croatia in 2023 and emerged as the leading bortezomib producer in the market.

Everofin* (everolimus), **Lortanda*** (letrozole), and other medicines supplement our range of oncology agents.

In addition to oncology agents acting directly on cancer cells, we also market certain complementary medicines. **Orlixon*** (dexamethasone) is used in oncology, haematology, and other therapeutic areas. It is available as a solution for injection and tablets of several strengths. We were the only manufacturer of 40 mg tablets in Germany, Spain, and throughout Regions Slovenia, Central, East, and South-East Europe last year. We were the only provider of 4 mg, 8 mg, and 20 mg tablets in many countries, and started marketing 8 mg dexamethasone tablets in Kosovo. We also became the leading manufacturer of dexamethasone for oral use in Europe.

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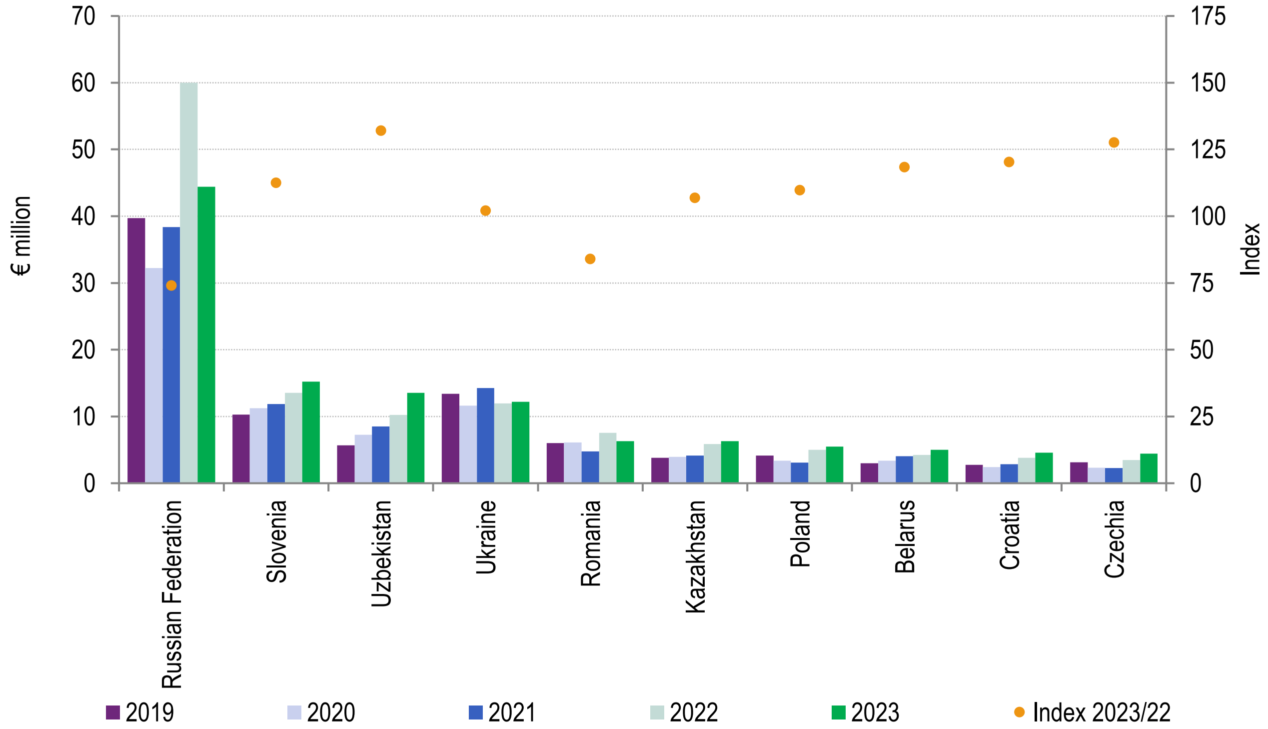
Non-prescription products

In 2023, the Krka Group sales of non-prescription products totalled €177.3 million, a 2.6% year-on-year drop. Changing rates of the Russian rouble caused the drop in value. However, sales volume of non-prescription products in the Russian Federation saw a 5% increase. We recorded the highest absolute sales increases in Uzbekistan, Slovenia, and Czechia.

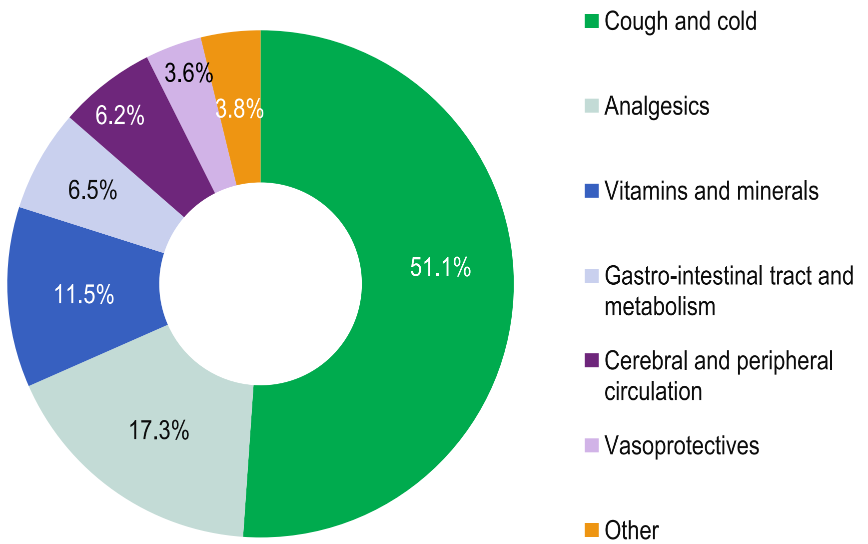
We market non-prescription products through our marketing and sales network in most countries of Regions Central, East, and South-East Europe.

Septolete*, Nalgesin*, Herbion*, and Septanazal* were our primary non-prescription product brands in terms of sales.

Non-prescription product sales by ten major markets



2023 non-prescription product sales by therapeutic class



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Septolete remained our leading non-prescription product brand in 2023 and one of the ten leading products in terms of sales. **Septolete Total*** (benzydamine/cetylpyridinium chloride) is available in spray and lozenges. We market three lozenge flavours: eucalyptus, elder-and-lemon, and honey-and-lemon. We started marketing Septolete Total* honey-and-lemon flavoured lozenges in Montenegro, Kosovo, and Tajikistan, and Septolete Total* elder-and-lemon flavoured lozenges in Turkmenistan. Septolete Total* ranked first among products targeting the oral cavity and pharynx in Lithuania, Slovenia, Belarus, and certain other markets of Region East Europe. At the Smartpharma awards ceremony, it won second place in the category of sore throat products recommended by pharmacists in the Russian Federation.

Herbion, our third most important non-prescription product brand, also belongs to the cough-and-cold product group. It comprises herbal syrups for various types of cough. **Herbion Cowslip Syrup** and **Herbion Ivy Syrup** facilitate expectoration, while **Herbion Plantain Syrup** relieves dry, irritating coughs. **Herbion* Iceland Moss Syrup** also relieves sore throat, hoarseness, and dry, irritating cough. **Herbion Ivy Lozenges** act much like the syrup and help expectoration. This pharmaceutical form is especially suitable for adults. The brand remained one of the three leading cough-and-cold product brands in Regions Slovenia, Central, East, and South-East Europe, remaining the leading syrup in 2023. We started marketing Herbion* Iceland Moss syrup in the Russian Federation and Herbion Ivy lozenges in Tajikistan and Mongolia.

Nalgesin* (naproxen), an analgesic, is our second most important non-prescription product. It was the leading naproxen-based medicine in Europe in 2023. It was one of the leading analgesics of the NSAID product group in Regions Slovenia, Central, East, and South-East Europe in terms of absolute sales growth. Nalgesin* remained the leading analgesic of this product group in Slovenia last year and was one of the leading varieties in Lithuania, Croatia, Slovakia, and several other markets. It is also marketed as a prescription pharmaceutical.

Septanazal* (xylometazoline/dexpanthenol) is a nasal decongestant available in spray for adults and spray for children. Its 2023 sales significantly increased, ranking it fourth among our non-prescription products. It was one of the leading sprays in its category by sales in Slovenia and Lithuania, and first in Latvia and Moldova, where its market share increased to over 20%.

Bilobil*, which contains the ginkgo leaf extract, belongs to the peripheral vasodilator product group and is indicated for slowing the progression of cognitive decline. We market it in 26 markets in Europe and the Middle East. Bilobil* was among the leading ginkgo-based products, capturing a market share of almost 20% in Regions Slovenia, Central, East and South-East Europe. In Slovenia, Belarus, Bosnia and Herzegovina, and Ukraine, it ranked first among products in its class.

Pikovit and **Duovit** are our brands of vitamins and minerals. Duovit products are intended for adults, while Pikovit products are for children. We recorded strong sales of Pikovit, especially in Region East Europe, where it was one of the leading brands of vitamins and minerals for children. Pikovit again ranked first of all competing products in several markets of Region East Europe, capturing a market share of over 60% in Uzbekistan and Kazakhstan. We started marketing it in Slovakia.

Flebaven* (diosmin) belongs to the group of vasoprotectives. It is used to treat chronic venous insufficiency and acute haemorrhoidal syndrome. Flebaven was among the leading diosmin varieties in Slovakia, Croatia, Slovenia, and Estonia. In certain countries, it is available on prescription as well.

Our food supplement **Magnezij Krka** (magnesium) is available in water-soluble granules. Last year, we added a new 400 mg strength to the existing 300 mg strength. The new strength was the primary driver of the product brand sales. Capturing a 50% market share, Magnezij Krka solidified its position as the leading magnesium product in Slovenian pharmacies.

Vitamin D3 Krka (cholecalciferol) is indicated for the treatment and prevention of vitamin D deficiency and as adjunctive therapy in the specific treatment of osteoporosis. In Slovenia, it remained the leading cholecalciferol-based product in pharmacies, capturing a market share of over 30%. We started marketing a new strength, cholecalciferol 7000 IU tablets as a prescription pharmaceutical in Slovenia, Latvia, and Poland.

Nolpaza Control* (pantoprazole) and **Emozul Control*** (esomeprazole) are two proton pump inhibitors from the product group for the gastrointestinal tract and metabolism. We also market the two products as prescription pharmaceuticals.

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Nolpaza Control* remained one of the leading non-prescription products for the gastrointestinal tract, capturing a 30% market share and ranking first in that category in Slovakia and Lithuania. We also started marketing it in Finland and Armenia. Emozul Control remained one of the leading products of this category in Hungary.

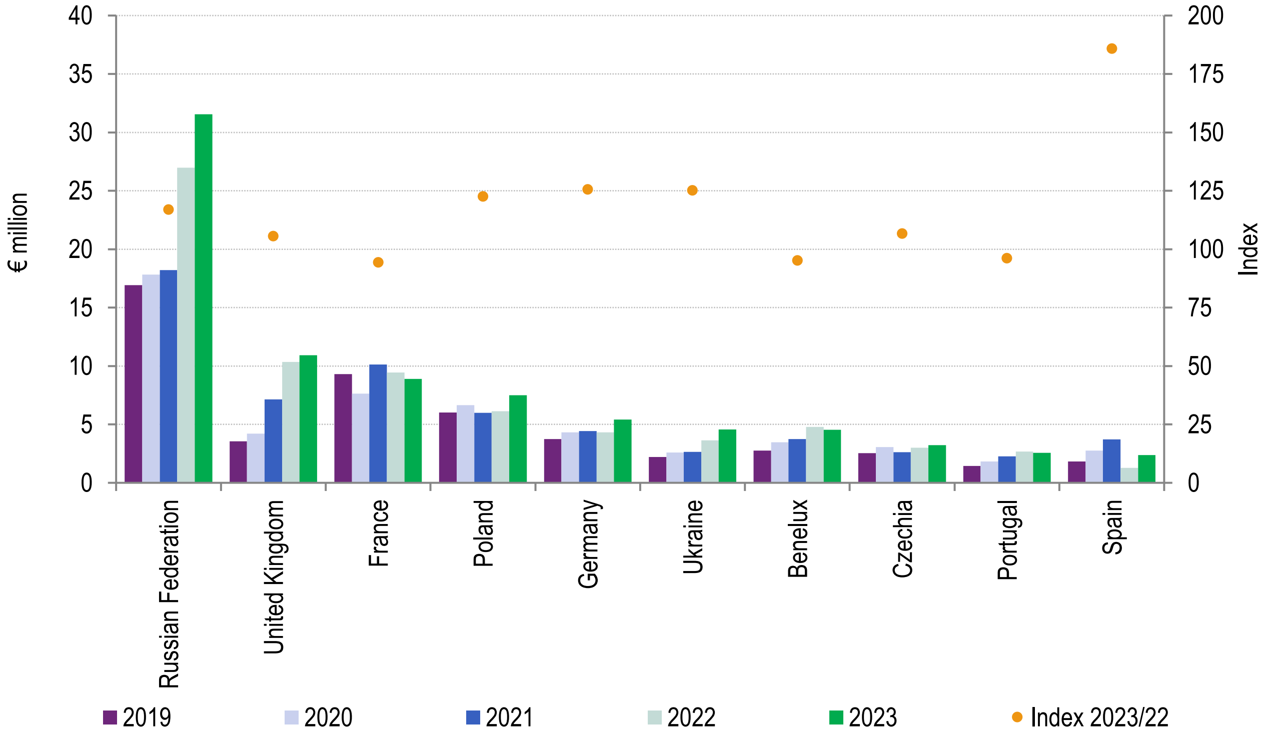
Animal health products

In 2023, the Krka Group sales of animal health products amounted to €104.6 million, a 12.5% year-on-year climb. Sales generated in the Russian Federation, Poland, and Germany were the primary drivers of growth.

In Regions Slovenia, Central, East, and South-East Europe and most markets of Region West Europe, we use our own marketing and sales network for selling our animal health products. On other markets of Region West Europe and Overseas Markets, we market them through our partners.

In 2023, the combination of milbemycin and praziquantel (Milprazon*) emerged as the best-selling animal health product. It was followed by products containing fipronil (Fypryst*, Fypryst* Combo), selamectin (Selehold*), enrofloxacin (Enroxil*), and products combining pyrantel and praziquantel (Dehinel*, Dehinel* Plus).

Animal health product sales by ten major markets



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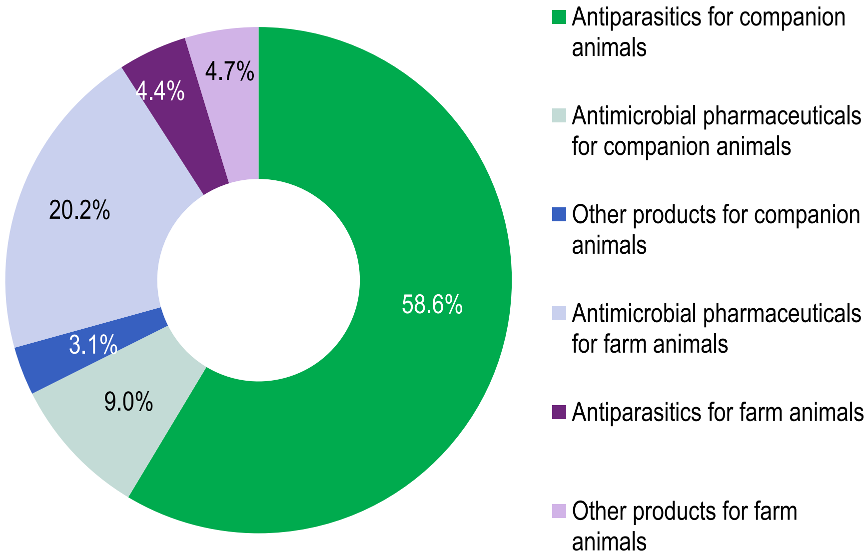
2023 animal health product sales by therapeutic class



We produce animal health products for farm animals and companion animals. Products for companion animals, which accounted for over 70% of animal health sales last year, were the primary drivers of sales growth.

Our primary companion animal product is the antiparasitic **Milprazon*** (milbemycin/praziquantel), which is also our leading animal health product in terms of sales. It is available in tablets and **Milprazon Chewable*** flavoured tablets for dogs and cats, first launched in 2022. We started marketing it in new markets, including the Russian Federation, Serbia, Spain, Belarus, and Sweden. Flavoured tablets contributed most to the growth of the Milprazon* product brand, which ranked among our leading animal health products in terms of absolute sales growth.

Spot-on solutions accounted for the majority of our companion animal product range. **Fypryst*** is the primary spot-on and our second most important animal health product brand. Fypryst* is also available as a cutaneous spray. **Fypryst* Combo** (fipronil/S-methoprene) complements the range. Region West Europe recorded the strongest fipronil sales, particularly the United Kingdom, where absolute sales growth was the highest. Fypryst* contributed most to our animal health product growth in 2023.

Another spot-on solution from the antiparasitic class for the treatment of ectoparasite infestations in dogs is **Ataxxa*** (imidacloprid/permethrin). We recorded the strongest sales in the Russian Federation, Poland, France, and Finland.

Another antiparasitic for companion animals, the endectocide **Selehold*** (selamectin), is available as a spot-on solution. It is used for treating and preventing infestations with endo- and ectoparasites. Last year, it was our third most important animal health product in terms of sales and also ranked among our leading products in terms of absolute sales growth.

Prinocate* (imidacloprid/moxidectin) spot-on solution is also our endectocide for companion animals. This is our latest spot-on, which we launched in 2020. This double fixed-dose combination is indicated for treating endo- and ecto-parasites parasites in dogs and cats. It generated the strongest sales in the United Kingdom, Ukraine, and Poland.

Our portfolio of antiparasitic agents for companion animals includes the **Dehinel*** brand products. This is one of our five leading animal health brands in terms of sales. We market **Dehinel Plus*** (febantel/pyrantel/praziquantel) for small dogs and **Dehinel Plus* XL** for large dogs. Our range also includes flavoured tablets **Dehinel Plus* Flavour** (febantel/pyrantel/praziquantel) for dogs and **Dehinel*** (pyrantel/praziquantel) for cats.

Our animal health product range also comprises two antimicrobial agents, **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone) ear drops and **Marfloxin*** (marbofloxacin). Tablets are used for treating companion animals and a solution for injection for farm animals.

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The most recent addition to our range of antimicrobial agents for companion animals is a fixed-dose combination **Cladaxxa** (amoxicillin/clavulanic acid) from our antibiotic range. Chewable tablets, available in three strengths, are indicated for the treatment of bacterial infections of the skin, gums, respiratory tract, urinary tract, and intestines in cats and dogs. We started marketing Cladaxxa in 2022, and last year made it available in ten new markets, including Romania, Italy, and the Baltic states. It is one of our animal health products that contributed the most to absolute sales growth.

Rycarfa* (carprofen), available in tablets and as a solution for injection, is an analgesic from our companion animal product range. We launched our new and contemporary analgesic **Robexera** (robenacoxib) chewable tablets for dogs in 2023. It is available in four strengths. This nonsteroidal anti-inflammatory agent from the coxcib class is indicated for relieving pain and treating inflammation associated with chronic osteoarthritis and soft tissue surgeries. We started marketing it as the first generic manufacturer in Germany, the United Kingdom, Poland, and other countries, eleven all together.

The leading farm animal product is an antibiotic, **Enroxil*** (enrofloxacin), which is also one of our leading animal health products. The antibiotic **Floron*** (florfenicol) also ranked among the leading animal health products in terms of sales. We added a fixed-dose combination **FlorFlu*** (florfenicol/flunixin) solution for injection to the range. Administered by a single injection, it has an antimicrobial, analgesic, and anti-inflammatory effect. Our new medicine is indicated for treating respiratory tract infections in cattle. We started marketing FlorFlu* in the United Kingdom and Spain.

Our range of antimicrobials also included **Doxatib** (doxycycline), **Amatib***(amoxicillin), **Trisulfon** (sulfamonomethoxine/trimethoprim), and **Tuloxxin** (tulathromycin) – one of our leading animal health products in terms of absolute sales growth in 2023.

Our primary antiparasitic products for farm animals were **Toltarox*** (toltrazuril) and **Flimabend** (flubendazole).

Ecocid* **S** ranks among our top ten animal health products. In 2023, we continued to market it successfully as a preventative against African swine fever. This disinfectant is also gaining popularity among owners of companion animals.

Health resort and tourist services

Terme Krka sales revenue totalled €47.7 million at the end of 2023, up 12% year on year. We recorded 336,174 overnight stays, a 4% year-on-year increase. Overnight stays of foreign guests increased by 8%. The majority of foreign guests were from Italy, Austria, and Germany. While individual guests favoured wellness programmes, our group guests primarily participated in medical wellness programmes and business events. Referral-based medical care accounted for 35% of total revenue.

Products marketed under different brand names in individual markets

Prescription pharmaceuticals	
API	**Brands**
amlodipine	Alneta, Amlobe, Amlober, Amlodinova, Hipres, Tenox
amlodipine/atorvastatin	Amaloris, Atordapin
amlodipine/valsartan	Valodip, Vamloset, Wamlox
amoxicillin/clavulanic acid	Betaklav, Hiconcil Combi
aripiprazole	Arisppa, Aryzalera, Zylaxera
atorvastatin	Astator, Atoridor, Atoris
bismuth	Ulcamed, Ulcavis
bisoprolol	Niperten, Sobyc, Sobycor, Zonsiloc
bisoprolol/amlodipine	Bisodipin, Niperten Combi, Sobycombi, Sobycor Combi
candesartan	Candecor, Canocord, Karbis
candesartan/amlodipine	Camdero, Camlocor, Candecam, Kandoset
candesartan/hydrochlorothiazide	Cancombino, Candecor Comp, Canocombi, Karbicombi
celecoxib	Aclexa, Dilaxa
dexketoprofen	Dekendol, Dekenor, Dexfenia
diclofenac	Naklofen, Naklofen Duo

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donepezil	Yasnal, Yasnal Q-Tab, Yasnoro
duloxetine	Duloxalta, Duloxenta, Dulsevia, Dulvas, Loxentia
dutasteride	Dortilla, Dutascar, Dutrys
dutasteride/tamsulosin	Dutamyz, Dutastam, Tadusta, Tadustix
enalapril	Corvo, Enap
enalapril/hydrochlorothiazide	Corvo HCT, Enap-H, Enap-HL
enalapril/lercanidipine	Elernap, Elyrno, EnaCanpin
eplerenone	Apleria, Enplerasa, Riolma
escitalopram	Ecytara, Elicea, Elicea Q-Tab, Escitalex
esomeprazole	Emanera, Emozul, Escadra, Esolib, Esozoll
etoricoxib	Bericox, Etoriax, Etoxib, Roticox
ezetimibe	Ezetad, Ezoleta
ezetimibe/simvastatin	Ezesimin, Vasitimb
finasteride	Finascar, Finpros
galantamine	Galnora, Galsya, Galsya SR
gliclazide	Diacronal MR, Gliclada, Gliclada SR, Glyclada
imatinib	Imanivec, Itivas, Meaxin, Neopax
indapamide	Icorvida SR, Rawel SR
irbesartan	Ifirmasta, Irabel
irbesartan/hydrochlorothiazide	Co-Irabel, Ifirmacombi, Irbecor Comp
ivabradine	Bixebra, Bravadin, Brivecor, Ivabalan
lacosamide	Lacosabil, Lydraso
lansoprazole	Lansoptol, Lanzul, Zoletad
letrozole	Likarda, Lortanda
levofloxacin	Levalox, Levaxela, Levnibiot
losartan	Lavestra, Lorista
losartan/amlodipine	Alortia, Lortenza, Tenloris
losartan/hydrochlorothiazide	Lavestra H, Lavestra HCT, Lorista H, Lorista HD, Lorista HL
memantine	Marixino, Maruxa, Maryzola, Memando, Memaxa, Mentixa
metoprolol	Bloxan, Bloxazoc, Metazero, Metazero XR
mirtazapine	Mirtin, Mirzasna, Mirzaten, Mirzaten Q-Tab, Mirzaten Oro-Tab
moxifloxacin	Moflaxa, Moflaxya, Moloxin, Moxibiot
naproxen	Analgesin, Analgesin Forte, Ilgesin, Naldorex, Nalgesin, Nalgesin F, Nalgesin Forte, Naprosyn
olanzapine	Zalasta, Zalasta Q-Tab, Zolrix
olmesartan	Olimestra, Olmecor
olmesartan/amlodipine	Olmeamlo, Olssa, Polaplom
olmesartan/amlodipine/hydrochlorothiazide	OlmeAmlo HCT, Olsitri, Polaplom HCT
olmesartan/hydrochlorothiazide	Co-Olimestra, Olmecor HCT
oxycodone/naloxone	Adolax, Oxycaloxon, Oxynador
pantoprazole	Nolpaza, Sedipanto
perindopril	Perineva, Prenessa, Prenessaneo, Prenessa Neo
perindopril/amlodipine	Amlessa, Amlessa Neo, Amlessini, Dalnessa, Dalneva, Predalneva, Tonarssa, Tonarssa Neo
perindopril/amlodipine/indapamide	Amlewel, Co-Amlessa, Co-Dalnessa, Co-Dalneva, Tonanda
perindopril/amlodipine/rosuvastatin	Rosamera, Roxampex, Roxatenz-Amlo
perindopril/indapamide	Comaranil, Co-Perineva, Coprenessa, Co-Prenessa, Co-Prenessa Neo, Co-Prenessaneo, Prenewel, Prenewel Neo
perindopril/indapamide/rosuvastatin	Roxatenz-Inda, Roxiper, Triemma
prasugrel	Eliskardia, Prasillt, Sigrada
pregabalin	Apregia, Pragiola, Pregabador, Pregabio, Rewisca
quetiapine	Kventiax, Kventiax Prolong, Kventiax SR, Quentiax, Quentiax SR
rabeprazole	Gelbra, Zulbex

ramipril	Ampril, Amprilan
ramipril/amlodipine	Rameam, Ramidipin, Ramladio
ramipril/hydrochlorothiazide	Ampril HL, Ampril HD, Amprilan H, Amprilan HD, Amprilan HL, Marilamed
rasagiline	Raglysa, Ralago
risperidone	Rorendo, Rorendo Oro-Tab, Torendo, Torendo Q-Tab
rivaroxaban	Rivarolto, Rivaroxia, Xerdoxo
ropinirole	Ralnea, Rolpryna, Rolpryna SR
rosuvastatin	Rosuvador, Roswera, Roxera, Sorvasta
rosuvastatin/ezetimibe	Coroswera, Co-Roswera, Co-Roxera, Rosazimib, Roswera Combi, Roxera Plus, Sorvasta Plus, Sorvitimb
sertraline	Asentra, Sertrone
sildenafil	Sildegra, Vizarsin
silodosin	Sidarso, Silbesan
simvastatin	Sivales, Vasilip
sitagliptin	Asiglia, Maysiglu, Sitagavia
sitagliptin/metformin	Asigefort, Asiglia Met, Maymetsi, Sitagavia Met
solifenacin	Asolfena, Solifemin
tadalafil	Tadagis, Tadilas, Tadilecto
tamsulosin	Tadin, Tamzeltos, Tanyz, Tanyz ERAS
tapentadol	Apeneta, Tapendolor
telmisartan	Telmista, Tolura
telmisartan/amlodipine	Tamloset, Telassmo, Teldipin, Telmista AM
telmisartan/hydrochlorothiazide	Tolucombi, Telmista H, Telmista HD
tramadol/paracetamol	Doreta, Doreta Prolong, Doreta SR, Ramlepsa, Tramabian
valsartan	Valsacor, Valsareta
valsartan/amlodipine/indapamide	Co-Valodip, Co-Vamloset, Valsamtrio, Valtricom
valsartan/hydrochlorothiazide	Co-Valsacor, Co-Valsareta, Valsacombi, Valsacor H, Valsacor HD, Valsaden
valsartan/rosuvastatin	Ravalsyo, Valarox
vardenafil	Vardegin, Viavardis
venlafaxine	Alventa, Olwexya, Venlafex XL
vildagliptin	Glypvilo, Vildabetes
vildagliptin/metformin	Vildakombi, Vimetso
ziprasidone	Ypsila, Zipsilan, Zypsila, Zypsilan

Non-prescription products	
API	**Brands**
benzydamine/cetylpyridinium chloride	Septabene, Septolete Total, Septolete Duo, Septolete Extra, Septolete Omni, Septolete Ultra, Septafar
diosmin; diosmin/hesperidin	Flebaven, Flebazol, Flabien
esomeprazole	Emozul Control, Esozoll
ginkgo leaf extract	Bilobil, Gingonin
Iceland moss extract	Herbion Iceland Moss, Herbisland
ivy leaf extract	Herbion Ivy Syrup, Herbihelix
magnesium citrate	Magnezij Krka 300, Magnezij Krka 400, Magnesol B2
naproxen	Nalgesin S, Analgesin, Nalgedol, Ilgesin, Nalgesin Dolo, Nalgesin Mini, Nalgesin Relief
pantoprazole	Nolpaza Control, Sedipanto, Panto TAD
vitamins for children	Pikovit, Divakid
xylometazoline/dexpanthenol	Septanazal, Septanasal

Animal healt products	
API	**Brands**
amoxicillin	Amatib, Awazom
carprofen	Karprovet, Rycarfa
enrofloxacin	Enrox, Enroxal, Enroxil
febantel/pyrantel/praziquantel	Anthelmin Plus, Dehinel Plus, Wormscreen Plus
fipronil	Amflee, Fyperix, Fypryst
fipronil/S-methoprene	Amflee Combo, Fleascreen Combo, Fyperix Combo, Fypryst Combo
florfenicol	Fenflor, Floron
florfenicol/flunixin	FlorFlu, Flovuxin
imidacloprid/moxidectin	Imoxicate, Prinocate
imidacloprid/permethrin	Ataxa, Ataxxa
marbofloxacin	Marfloxin, Quiflor, Quiflox
milbemycin/praziquantel	Milprazin, Milprazon, Milprazon Chewable, Milprazon Plus, Milquantel
pyrantel/praziquantel	Anthelmin, Dehinel, Wormscreen
selamectin	Selafort, Selehold
toltrazuril	Toltracol, Toltarox, Tolzesya
biocide	Ecocid, Oxicid

Research and development[32]

Krka's competitive product range arises from our development strategy, which capitalises on the benefits of vertical integration and synergies between our development and production expertise. Because we manage the entire process, we can timely introduce high-quality, safe, and effective medicines into over 70 markets.

By the end of 2023, our portfolio comprised approximately 500 authorised products in various pharmaceutical forms. There are about 170 projects at different development stages aiming to extend our range of medicines in key therapeutic categories, such as medicines for the treatment of high blood pressure, diabetes, blood and blood-forming organs, and cancer. This enables us to contribute to making quality medicines widely available, aligning with one of the primary United Nations Sustainable Development Goals (SDG).[33]

We have adopted a development strategy and project management approach for products in all life-cycle phases and for all our markets. Research-and-development productivity and hands-on understanding of regional and national legislative requirements enable us to draft and manage complex registration documentation and regulatory procedures efficiently and thus obtain timely product marketing authorisations. We consider the market-specific target properties of a product and tailor our development efforts and studies from its earliest stages accordingly. Through this approach, we prioritise our social responsibility, guaranteeing a modernised portfolio of medicines across all our markets, even in financially disadvantaged regions or countries (low- or medium-income), within the shortest timeframe achievable. We currently market over 40 medicines from the *WHO Essential medicine list 2021* in middle- and low-income countries.

By monitoring trends and scientific advancements in various areas of expertise, particularly medicine, the pharmaceutical industry, and chemistry, we can respond quickly and appropriately to development challenges and patients' needs. We introduce new and improved development approaches, where we also cooperate with external partners. Our emphasis lies in collaborating with educational and R&D institutions, fostering a continuous exchange of expertise between academia and industry. Through this partnership, we facilitate the professional development of our employees and drive innovation forward. This leads to development and quality improvement in both segments. As a responsible pharmaceutical company, our products and technologies are the culmination of top-notch expertise and scientific endeavours. We actively collaborate with EDQM (European Directorate for Quality of Medicines and Healthcare), especially by establishing quality standards of active pharmaceutical ingredients (APIs) in Europe and globally. Some Krka's APIs are certified according to European reference standards, and analytical methods for several crucial APIs are outlined in monographs.

[32] SDG 3, SDG 12
[33] GRI 2-6

Research-and-development processes that involve comprehensive and complex technological, analytical, preclinical, and clinical studies enable us to develop complex products in innovative pharmaceutical forms with added value for patients. We focus on medicines containing two or more active substances that provide double or triple therapy to our patients in a single pill. We use less excipients, packaging material, and energy to produce these single-pill combinations, reducing our environmental footprint. In addition to generic combinations, we also develop novel innovative single-pill combinations of established active substances. The development of these products is complex, as they require state-of-the-art technological solutions at the production scale and complex analytical evaluations, including clinical studies.

New products are supported with safety and efficacy studies. We conduct clinical trials in line with the applicable legal requirements, good practice guidelines, the *Helsinki Declaration*, and Regulation (EU) 2016/679 (*General Data Protection Regulation*). Routine inspections carried out by regulatory authorities validate the assurance of participant safety, transparency, ethical standards, and high-quality research.

Quality is paramount for our products, starting from the early development stages and remaining integral throughout each product's lifecycle. We ensure all development activities adhere to established quality systems, which we consistently update and enhance.

Bearing in mind the environment, we strive for simple and energy-efficient technological solutions that also make our products affordable. We develop our products in compliance with our environmental policy and the ISO 14001 standard. We ensure that our technological procedures have a minimal environmental impact by implementing measures to reduce our carbon footprint, water consumption, and organic solvent volumes. In doing so, we align with circular economy objectives.

We allocate approximately 10% of our annual revenue to research and development, support innovations, and respond quickly to patients' needs.

We also invest a substantial amount in data science and technology. In 2023, we continued with the digitisation of R&D data. The start of implementation of the uniform Laboratory information management system (LIMS) was of paramount importance. For the first time, we conducted a computer simulation project of technological processes that further increased the efficiency of processes and the top quality of our products. We continued with the robotisation of analytical processes in labs. By implementing analytical procedures supported by automated sample preparation, we expedited analyses and minimised the likelihood of errors.

Also, in 2023, we invested in physico-chemical analytics, cell test know-how, and laboratory equipment to develop in-house analytical methods and other complex product projects, including peptides. Through collaboration with diverse partners, we enhanced our expertise and capabilities in transferring production procedures of complex products to an industrial scale.

We utilised our comprehensive development studies on established products, adjusted development activities accordingly, integrated our development and manufacturing operations, and gathered information about regulatory and marketing requirements to successfully enter the new strategic market of China. In 2023, approvals were granted for our three new products in this region.

Again, in 2023, the wider community recognised our researchers' achievements. At the state level, we received two awards for best innovations from the Slovenian Chamber of Commerce and Industry. The gold award was awarded for a group of medicines used to manage type 2 diabetes, and a silver award for an integrated reference substance management system.

Protecting our know-how and industrial property

In 2023, we filed eleven patent applications for new technological solutions we evaluated as innovations at the global ranking level. Based on priority applications from 2022, we filed seven international and one regional patent application. We were granted six patents in various countries. Overall, more than 200 valid patents protect Krka's technological solutions.

We filed 72 applications for Krka trademarks in Slovenia. We also filed 48 international and 17 national trademark applications. In total, we have registered more than 1,100 trademarks in various countries.

In 2023, Krka earned the WIPO IP Enterprise Trophy. The World Intellectual Property Organization (WIPO) grants awards to companies to stimulate innovation within their business environment and beyond, foster collaboration with public research institutions and underscore the significance of intellectual property rights.

Latest Krka Group products and marketing authorisations

In 2023, we expanded our product range with fourteen new products, including ten new prescription pharmaceuticals, two veterinary medicines, and two additions to our portfolio of non-prescription products.

We finalised 698 marketing authorisation procedures, including 497 prescription pharmaceuticals and nine non-prescription products, thereby making medications more accessible to patients across various markets. In the animal health segment, we finalised 192 procedures, primarily expanding our product portfolio for companion animals.

We manage a wide range of medicinal products from several therapeutic categories. We optimise our processes and products in line with new regulatory guidelines and scientific findings. Furthermore, in 2023, our meticulously planned variation strategies facilitated the rapid implementation of significant enhancements to several products. In total, over 23,000 regulatory variations were granted in the past year.

Prescription pharmaceuticals

We concluded marketing authorisations for ten new products and secured additional authorisations for our established products in additional markets.

Last year, we again focused on developing and registering single-pill products that combine two or several active substances in a single dosage form.

Single-pill combinations of angiotensin II receptor blockers and a diuretic are the drugs of choice in the treatment of patients with high blood pressure. In 2023, we concluded marketing authorisation procedures for three new single-pill combinations: **Valsacor-inda** (valsartan/indapamide) modified-release tablets, **Telmista-amlo H** (telmisartan/amlodipine/hydrochlorothiazide) tablets – also approved as **Tolutris**, **Tolvecamo**, and **Tolvecom**, and **Telinstar** (telmisartan/indapamide) modified-release tablets. The three medicinal products are innovative single-pill combinations based on Krka's know-how that will bring patients with high blood pressure an optimised way of treatment.

In European markets, we added two new medicinal products for the treatment of diabetes to our portfolio. Marketing authorisations were granted for **Dagrafors** (dapagliflozin) film-coated tablets and **Empagliflozin Krka** (empagliflozin) film-coated tablets. Both are from the cutting-edge group of medicinal products, effectively reducing glycated haemoglobin levels while also exhibiting positive effects on the cardiovascular system and kidney function.

Marketing authorisations were granted for our new antithrombotic agent **Daxanlo** (dabigatran), on certain markets also approved under the brand name **Danengo**, used for the prevention of atherothrombotic and thromboembolic events in adults with various cardiovascular diseases. Dabigatran is the drug of choice for preventing venous thromboembolism after hip or knee replacement and is available in hard capsules in three different strengths.

We obtained marketing authorisations for new medicines in China. Approval was obtained for **rivaroxaban** film-coated tablets. The medicine has a broad range of therapeutic uses in preventing atherothrombotic events in adults with cardiovascular diseases. It is an advanced anticoagulant, providing an effective and safe therapy for cardiovascular patients and improving their quality of life. In the group of agents for the treatment cardiovascular diseases, an approval was granted for a medicine containing **perindopril tert-butylamine**. Perindopril is one of the most widely researched ACE inhibitors in terms of clinical trials and is the drug of choice for the treatment of hypertension, heart failure and coronary heart disease.

We also obtained our first approval for an antidiabetic agent in the Chinese market. The medicine containing **gliclazide** in the form of modified-release tablets was approved. It effectively reduces blood glucose levels in diabetes 2 patients.
In the countries of the European Union, additional marketing authorisations were obtained for products from established and new therapeutic categories.

Marketing authorisations were granted for **sitagliptin** film-coated tablets and the single-pill combination of **sitagliptin/metformin** film-coated tablets used to treat diabetes. In the group of pain relief products, marketing authorisations were granted for **tapentadol** prolonged-release tablets and **tramadol/paracetamol** prolonged-release tablets. Oncology medication **abirateron** film-coated tablets used to treat prostate cancer was granted an additional marketing authorisation. The accessibility of cardiovascular treatments was enhanced with marketing authorisations for **amlodipine** tablets, **losartan** and **losartan/hydrochlorothiazide** film-coated tablets. Additional marketing authorisations were also granted for the single-pill combination of **rosuvastatin/ezetimib** film-coated tablets. In the group of medicines for the treatment of central nervous system disorders, we obtained marketing authorisations for **lacosamide** film-coated tablets, an epilepsy treatment. Marketing authorisations were granted via the decentralised procedure for **Vitamin D3 Krka** (cholecalciferol) 7000 IU tablets, and additional authorisations were obtained for the advanced anticoagulants **rivaroxaban** film-coated tablets and **apixaban** film-coated tablets.

We obtained marketing authorisations in the UK for **amlodipine** tablets and **ranolazine** prolonged-release tablets. Marketing authorisation was also granted for **teriflunomide** film-coated tablets, a medicine to treat patients with multiple sclerosis.

In Eastern Europe, we obtained marketing authorisations for important products from our key therapeutic categories. We obtained approvals in additional markets of the Region East Europe according to the Mutual Recognition Procedure (MRP) in the Eurasian Economic Union (EAEU) for the analgesic **Etoriax** (etoricoxib) film-coated tablets. We obtained a marketing authorisation for **Tigalant** (ticagrelor) film-coated tablets and marketing authorisations in additional markets for **Rivaroxia** (rivaroxaban) film-coated tablets, also approved as **Rozarya** in certain countries. Both are antithrombotics, i. e. medicines that prevent blood clotting. In the group of cardiovascular agents, approvals were granted for the single-pill combination **Roxatenz-Inda** (perindopril/indapamide/rosuvastatin) film-coated tablets, and for **Co-Prenessa Neo** (perindopril/indapamide) tablets. We supplemented our range of antidiabetics with the modern agent **Glypvilo** (**Glipvilo**) (vildagliptin), a single-pill combination **Glypvilo Met** (**Glipvilo Met**) (vildagliptin/metformin) film-coated tablets, and **Asiglia** (sitagliptin) film-coated tablets.

In the markets of Region South-East Europe, we obtained additional marketing authorisations for our cardiovascular agents. The single-pill combination **Co-Roswera** (rosuvastatin/ezetimibe) film-coated tablets were also granted a marketing authorisation. It is used to treat resistant hyperlipidemias. Approvals were granted to Krka for the marketing of a new peridopril salt, incorporated into our products **Arprenessa** (perindopril) tablets, **Aramlessa** (perindopril/amlodipine) tablets, and **CoArprenessa** (perindopril/indapamide) tablets. Marketing authorisation was also granted for our advanced reversible platelet aggregation inhibitor **Atixarso** (ticagrelor) film-coated tablets. The group of antidiabetic agents expanded after we obtained marketing authorisation for **Maysiglu** (sitagliptin) and **Maymetsi** (sitagliptin/metformin) film-coated tablets. Also, our oncological medicine **Everolimus Krka** (everolimus) tablets were granted a marketing authorisation.

In the Overseas Markets, we supplemented our portfolio of cardiovascular agents with **Sobycor** (bisoprolol), **Elernap** (enalapril/lercanidipine), **Wamlox** (amlodipine/valsartan), **Telorssa** (losartan/amlodipine), **Olmira** (olmesartan/amlodipine), and **Amaloris** (amlodipine/atorvastatin), all film-coated tablets; **Rameam** (ramipril/amlodipine) capsules, and **Tolura** (telmisartan), **Telassmo** (telmisartan/amlodipine), **Amlessa** (perindopril/amlodipine), **Enap H** (enalapril/hydrochlorothiazide) and **Vasitimb** (ezetimibe/simvastatin) tablets. Approvals were granted for **Bravacor** (ivabradin), **Lorista** (losartan), and **Roswera** (rosuvastatin) film-coated tablets, and **Nolpaza** (pantoprazole) gastro-resistant tablets. In these markets, we obtained approvals for the pain relief medicine **Aclexa** (celecoxib) hard capsules, medicines to treat psychoses **Parnido** (paliperidone) and **Quentiax SR** (quetiapine) prolonged-release tablets, **Tadilas** (tadalafil) film-coated tablets to treat erectile dysfunction, and **Monkasta** (montelukast) film-coated tablets for the prevention and treatment of chronic bronchial asthma and seasonal allergic rhinitis symptoms.

We obtained a Certificate of Suitability to the monograph of the *European Pharmacopoeia* (CEP) issued by the European Directorate for the Quality of Medicines & Health Care (EDQM) for a new synthesis route for **norfloxacin**, the active substance incorporated in Krka Nolicin film-coated tablets.

Non-prescription products

In 2023, we added two new products to our portfolio of non-prescription medicinal products and food supplements.

Magnezij Krka DIREKT powder, intended for direct use, is a food supplement containing 250 mg of magnesium and group B vitamins that contribute to reducing tiredness and exhaustion and normal nervous system functioning. Our product does not contain preservatives, artificial colouring agents, flavours, sweeteners, gluten, or lactose. The novel formulation allows easy intake without water.

Harntee TAD is a food supplement containing dry extracts of birch leaf, golden rod, and Java tea. The product does not contain preservatives, artificial colouring agents, flavours, sweeteners, gluten, or lactose and supports normal urinary tract function. It is available as a powder for solution, allowing for quick beverage preparation.

We obtained additional marketing authorisations for established products, among them **Septanazal** (xylometazoline/dexpanthenol) nasal spray and **Septolete Total** (benzidamine/cetylpiridinium chloride) lozenges and spray. Approval was also granted for **Herbion Iceland Moss** syrup.

Animal health products

In 2023, two new animal health products were granted marketing authorisations.

Our portfolio of companion animal health products was expanded by **Arocenia** (maropitant) solution for injection for cats and dogs. The agent acts on the central nervous system, reducing nausea and preventing vomiting after surgery and chemotherapy, thus improving post-operative recovery.

We concluded the first generic decentralised procedure (DCP) for **Robexera** (robenacoxib) chewable tablets for dogs, available in four strengths, and approved as **Rogiola** in certain countries. The product contains robenacoxib, a nonsteroidal anti-inflammatory active substance from the coxib class. It is used in veterinary medicine to relieve pain and treat chronic osteoarthritis inflammation and to control inflammation and pain after soft tissue surgical procedures.

We obtained marketing authorisations for several established products in additional markets. We obtained marketing authorisations for antibiotic **Cladaxxa** (amoxicillin/clavulanic acid) chewable tablets available in three strengths, a single pill combination product used to treat bacterial infections in cats and dogs, and for two products for treating and preventing worm infestations: **Milprazon Chewable** (milbemycin/praziquantel) flavoured film-coated tablets for dogs, and **Milprazon Chewable** (milbemycin/praziquantel) film-coated tablets for cats. Additional marketing authorisations were granted for **Prinocate** (**Prinocat**) (imidacloprid/moxidectin) spot-on solution and **Dehinel Plus Flavour** (febantel/pyrantel/praziquantel) flavoured tablets. Both medicinal products are used to treat and prevent infections with internal parasites in companion animals.

Health resort and tourist services

In 2023, we continued to implement systematic improvements across our comprehensive portfolio. Our guests welcomed the renovated upper floor of Villa Park at Talaso Strunjan Health Resort, as well as the outdoor swimming pool. In addition, we started work on an extensive reconstruction project for the third-floor rooms at the Svoboda hotel, including renovations for the hotel restaurant, kitchen, reception hall, and lobby. We expect to complete the reconstruction by mid-2024.

Production and supply chain

The key objective of the production and supply chain is to satisfy market demand by providing sufficient quantities of quality products in a timely and cost-effective manner. To meet this objective, we promptly address shifting market demands, continuously enhance processes to minimise lead times throughout the supply chain, and integrate supply processes across all Krka Group subsidiaries and other contractual production sites.

We comply with new product manufacturing requirements and relevant laws by promptly introducing advanced technological processes in producing active pharmaceutical ingredients and finished products. We have been increasing production capacities and improving the cost-effectiveness of processes in Slovenia and at our subsidiaries abroad. Controlling all product life cycle stages allows us to adapt to market challenges more readily and effectively.

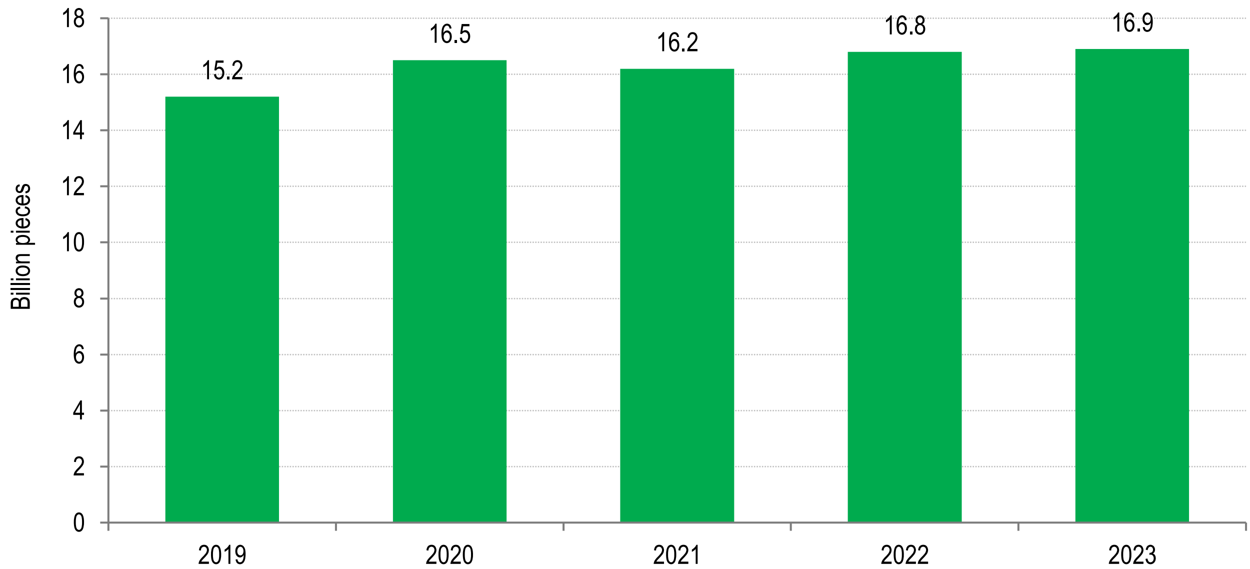
We effectively integrate research and development with API and pharmaceutical production, enabling us to swiftly and smoothly transfer new products from development to regular production. In 2023, we accelerated technological problem-solving, optimised technological processes, and introduced many alternative sources of materials to ensure uninterrupted production and long-term volume growth.

Planning

Through implementation of continuous process enhancements, we significantly cut the average lead time from order to delivery. This, in turn, boosted our responsiveness and process flexibility across the entire supply chain. We continued to optimise inventories of raw materials and finished products.

By optimising available resources in the controlling company and subsidiaries and through cooperation with contractors, we manufactured and packed 16.9 billion tablets and other pharmaceutical forms in 2023. By achieving 1% annual growth compared to 2022, we sustained our long-term trend and advanced toward our strategic objective of volume growth. Actual product manufacturing was in line with planned market needs.

Finished product manufacturing



Bulk and finished product numbers rose on the back of: the increasing number of products and production sites; shifting market requirements; requirements for package labelling in national languages; and other demands. Careful planning and efficient production allowed us to meet diverse customer demands.

We continuously improved post-registration procedures for preparing packaging materials and technological documents for production in Slovenia, at our subsidiaries abroad and at contract manufacturers to ensure the timely provision of products and prompt response to sales demands.

We continued to upgrade the IT support for process management, monitoring and control, standardisation of production processes, and optimisation of the production documentation system and process controls. In 2023, we increased the use of production documentation in e-format and improved process digitalisation.

Supply process[34]

We mainly use self-produced raw materials for our products but also buy some on the market. In 2023, the number of raw material manufacturers continued to decline, mainly driven by factors related to environmental, financial, and good manufacturing practices. Raw material shortages and transport route disruptions also affected our business. Despite the ongoing unstable situation, shortages of incoming materials, lower manufacturing output at our partners due to soaring energy prices, and transport issues, we provided enough raw materials for uninterrupted manufacturing of finished products. We improved the transparency of purchasing raw and packaging materials and upgraded the system for managing purchase agreements and coordinating raw material specifications with suppliers.

We successfully managed prices in the market for purchasing raw materials. We continued introducing alternative sources of active pharmaceutical ingredients, excipients, and packaging materials of equal quality at better prices. This helped mitigate risks posed by changing circumstances that affect supply.

We improved the integration of our subsidiaries and optimised purchasing processes. We also strengthened established supplier partnerships. The situation in the Russian Federation and Ukraine had no siginiticant impact on the Krka Group's supply chains and the smooth supply to production units of Krka and its subsidiaries.

Purchase and transport agreements concluded with our suppliers and contractors require them to comply with national and international laws and regulations. In 2023, we worked with 123 suppliers with an ISO 45001 certification and 294 suppliers certified to ISO 14001 and regularly audited them. We conduct approximately 148 audits a year.

Production of active pharmaceutical ingredients

A high level of vertical integration in the production process generates high-added value. Vertical integration means that we produce and technologically control a large proportion of the active ingredients that we incorporate into our products at various production sites in Slovenia and abroad. Doing so reduces our dependency on external suppliers in this key supply chain segment.

We improve the cost-effectiveness of producing key intermediates and raw materials by optimising production processes at all production sites. We transferred additional technologies (products) to increase capacity at our Sinteza 1 plant in Krško, Slovenia. In turn, we considerably expanded active ingredient production capacity for our vertically integrated products. We plan to expand our capacities even further. Intensive production of active ingredients and intermediates continued at our production sites in Novo mesto and Krško, both in Slovenia. Production plans for 2023 were implemented.

Production of pharmaceutical products

We have been integrating additional equipment and advanced high-tech solutions into pharmaceutical production.

Upgrades and refurbishments result in adequate production process effectiveness, augmented digitalisation, and utilisation of production documentation in e-format, adding to automation and paperless operation. Through optimisation, we improved production effectiveness and, in turn, achieved strong growth in product segments that saw a considerable rise in market demand.

Production at our production sites abroad continued, further consolidating our position as a local manufacturer and allowing us to supply all necessary products to key markets to benefit local stakeholders.

To ensure continuous training and uphold work quality standards, we upgraded the Pharmaceutical Production training centre, where our employees receive hands-on training on equipment used in all key production processes. Participants

[34] GRI 2-6, 3-3, 308-1, 414-1, SDG 3

learn through the experience and expertise of their mentors, selected from Krka's top-performing employees, and modern methods for knowledge transfer.

Warehousing and transport

We improved warehouse capacity utilisation through process optimisation, new computer system options, and inventory optimisation in conjunction with other organisational units. The new multipurpose warehouse served its purpose well.

We increased the number of environmentally friendly cargo vehicles to distribute our products and reduced average fuel consumption. We were the first end user in Slovenia to register and utilise a heavy-duty electric truck for product transportation. We augmented temperature-controlled sea transport. Due to the challenging operating climate in 2023, we looked for new transport options and efficiently transported products by road. Road transport is an alternative to established transport routes. We effectively arranged all necessary means of transport to accommodate increasing sales volumes.

We are approved as an authorised economic operator (AEO) in customs clearance procedures. This allows for a faster flow of goods and facilitates simplified declaration authorisation procedures.

Suppliers [35]

Our long-standing relations with business partners, including suppliers of equipment, raw and base materials, contractors, and partners, are forged through mutual respect, trust, honesty, integrity, and fairness.

Employees must comply with the procedures defined in internal guidelines, international agreements, and local regulations at all stages of the purchasing process. Purchasing roles and responsibilities are precisely specified, from identifying user needs, preparing tenders, and selecting suppliers, to contracting and placing orders.

In line with our long-term objectives, sustainability goals, and main principles, we select potential suppliers by considering their:

- Adherence to relevant standards and regulations;
- References in implementing similar projects with other clients;
- Development capabilities and technical facilities;
- Number of key employees and their respective qualifications;
- Financial stability and relation to sub-suppliers or sub-contractors; and
- Previous track record when doing business with Krka.

We conduct supplier audits in accordance with quality standards and Krka guidelines and take account of suppliers' quality, responsiveness, delivery terms, reliability, prices, regulatory compliance, compliance with our guidelines, and their social responsibility. In 2023, we rolled out the process of assessing and evaluating some of our key suppliers against ESG criteria. We are also conducting activities to set up an appropriate due diligence process, which we will upgrade in compliance with international guidelines and European legislation.

We pursue a policy and practice of engaging local suppliers and contractors, especially when – besides acceptable prices – responsiveness, flexibility, and the frequent or constant involvement of suppliers and contractors in investment and service processes also matter. In 2023, spending on suppliers of goods and services in Slovenia accounted for 15% of the total Krka procurement budget.[36]

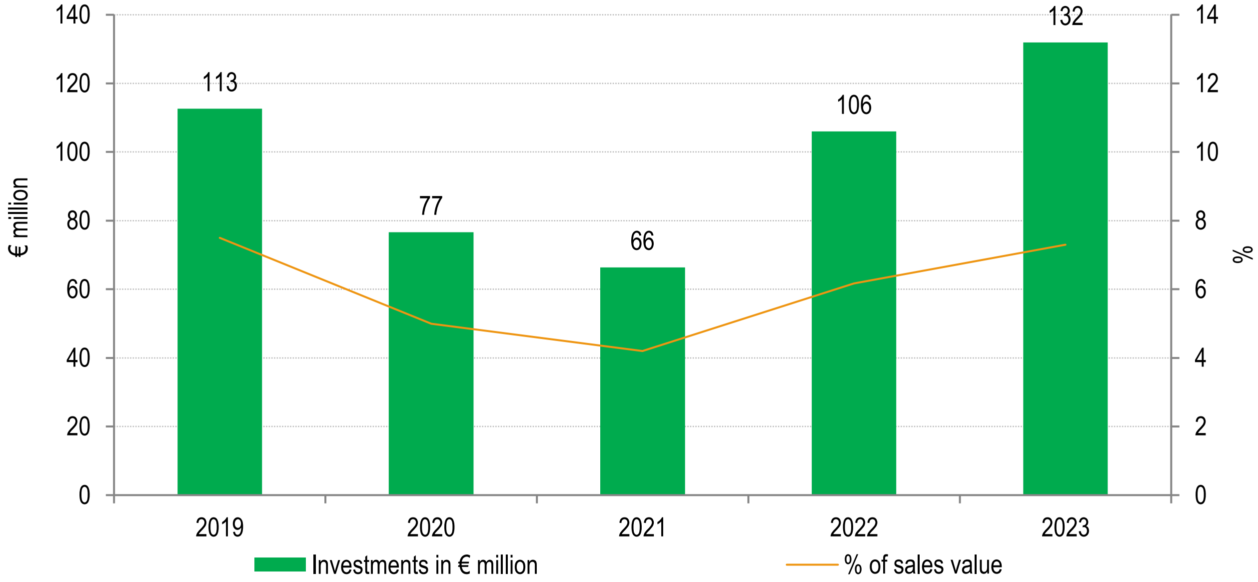
[35] GRI 2-6, 3-3
[36] GRI 204-1, SDG 8

Investments[37]

In 2023, the Krka Group allocated €131.9 million to investments, of that €111.8 million to the controlling company, and €20.1 million to subsidiaries. We primarily invested in expanding and technological upgrades to our production and development facilities, improving quality management, and our production and distribution centres worldwide.

We prioritise sustainable development values, carefully evaluating environmental standards and both direct and indirect environmental impacts in all our investment projects. The selected equipment embodies the best available technology for environmental protection and energy efficiency, ensuring safe and efficient operations.

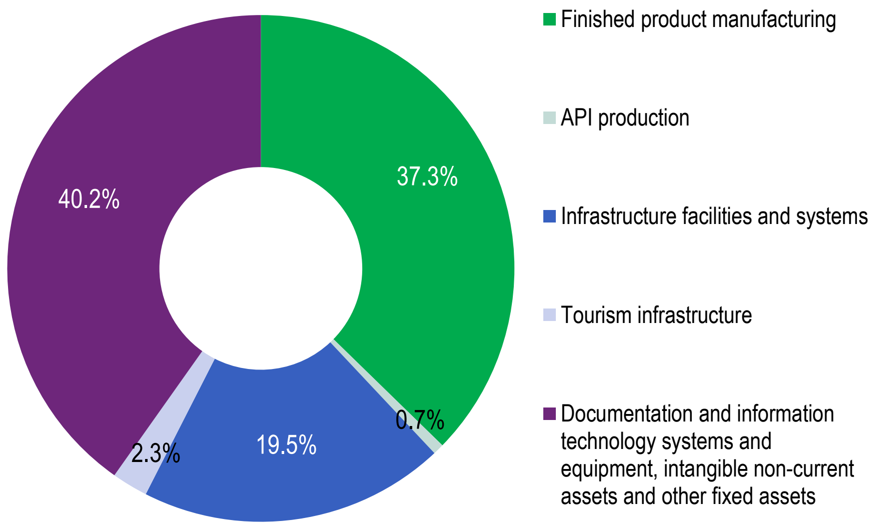
2019–2023 Krka Group investments



In Slovenia and abroad, we made multiple investments in new production equipment and upgrades to systems and instruments, further increasing our production capacities and product quality. In 2023, we invested primarily in the production of finished products, information and documentation management systems, intangible assets, and infrastructure. The investments play a crucial role in aligning our research and development, production, and control processes, showcasing the advantages of our vertically integrated business model. Investments accounted for 7.3% of sales revenue generated in 2023.

[37] GRI 2-6, SDG 9

Structure of 2023 Krka Group investments



Production and capacity upgrades

After more than 20 years of continued operations, we upgraded water supply systems and automated washing systems in Notol, our solid dosage forms production plant in Novo mesto, Slovenia. This year, we are finishing the replacement of packaging lines. We also plan to increase tablet compression capacities at Notol and Notol 2 and upgrade and increase granulation capacities.

The investment in additional capacities for compression mixture preparation and granulation in the tablet compression process and in logistic capacities at the Solid Dosage Products plant (Slovene: OTO) in Novo mesto, Slovenia, is drawing to a close.

We completed the investment in room refurbishment in our development-and-control laboratories in Novo mesto (Slovenia). We acquired extra space for laboratories and for managing samples and packaging materials.

We increased production capacities for granulation and packaging at the Ljutomer plant in Slovenia.

We installed a new filling line for animal health products in the Powders and Solutions at the Bršljin Department in Novo mesto, Slovenia.

At the Beta Šentjernej plant in Slovenia, we upgraded systems and equipment and increased the production capacity.

In Novo mesto, Slovenia, the construction of a new multi-purpose building called Paviljon 3 is drawing to a close. The building design incorporates our microbiology laboratory extension and additional rooms for Supply Chain Management and other organisational units.

Increasing API development and production capacities

We obtained the integral building permit for our plant in Krško, Slovenia, comprising the Sinteza 2 API production plant, laboratories for chemical analyses (Slovene: Kemijsko-analitski center), the liquid raw materials warehouse, and the wastewater treatment plant, based on project documentation and an environmental impact assessment. We are still in the process of obtaining the environmental protection and chemical safety (SEVESO) permit. At the end of 2023, we started constructing a technologically advanced wastewater treatment plant. However, we intend to postpone the construction of other buildings for a few years.

Infrastructure

We built a fire-water retention basin (ZD4) at the Ločna site in Novo mesto, Slovenia. As part of the same project, we implemented controlled access to car parks located in front of the office building, at the northern gate, and behind the Notol plant. We also arranged additional parking in the multi-storey car park and on the motorcyclists' platform.

We intend to capture the excess effluent temperature and using it for heat generation, increasing energy use efficiency at our wastewater treatment plant in Ločna, Novo mesto, Slovenia. This investment supports the responsible management of natural resources in line with the strategic environmental goals of our *ESG Policy*.

We aim to expand the capacity for pharmaceutical water production through enhanced drinking water treatment in our Vodarna 2 water plant. This upgrade is intended to ensure redundancy and reliability across all stages of the treatment process and pharmaceutical water production from drinking water.

We purchased several properties in the Cikava industrial zone in Novo mesto, Slovenia, for our long-term development on 23 hectares.

Investments outside Slovenia

We refurbished and upgraded business offices at our Serbian subsidiary Krka-Farma Beograd.

In the production and distribution centre in Jastrebarsko, Croatia, we are set to increase production capacities for solid forms of animal health products.

At TAD Pharma, Germany, we plan to refurbish the old section of the office building to increase its energy efficiency and revamp the conference hall and the reception room.

New projects

Construction of an extension to the Sterile Products plant is to start in early 2024. We expect this new production line for sterile solutions to increase animal health product production capacity and ensure long-term production of high-volume sterile products.

We intend to ensure uninterrupted production of liquid animal health products.

We plan to build a new building for Powders and Solutions at the Bršljin Department in Novo mesto, Slovenia, to increase production capacities for animal health product. With the installation of new packaging lines, production capacities for animal health tablets and liquid products will enjoy a boost.

We plan to start construction on a multi-purpose building. This new construction design also features a canopied cargo bay and cargo vehicle inspection point.

Terme Krka

We rearranged the rooms on the ground floor at Villa Park and completely renovated the indoor aquatic therapy pool, the outdoor pool, and the terrace at Hotel Svoboda. We are also refurbishing the hotel restaurant and rooms on the third floor.

We plan a comprehensive reconstruction of Hotel Vital at the Dolenjske Toplice health resort and an investment in the new Vitarium hotel and refurbishment of pools at the Šmarješke Toplice health resort.

Quality[38]

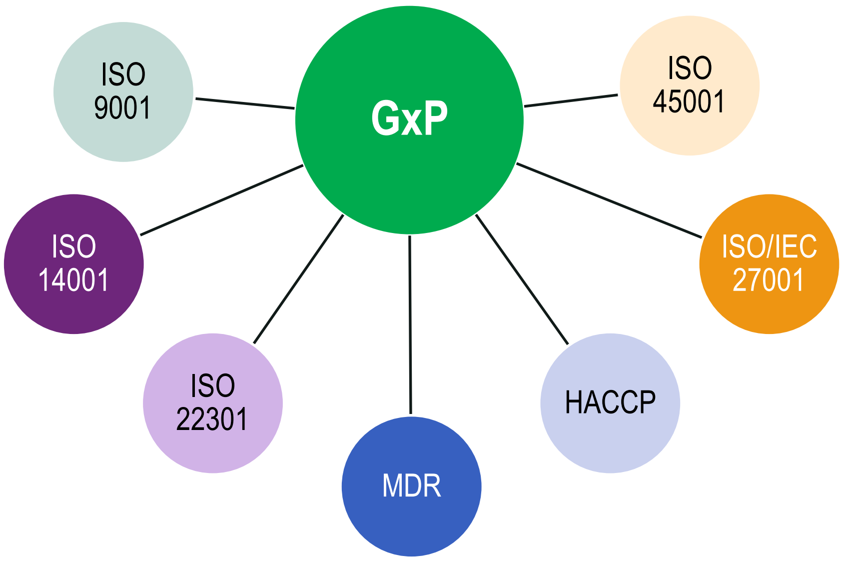
Our fundamental strategic orientation in terms of quality is to ensure quality of our products, processes and services. To this end, we pursue effective quality system performance, which requires compliance with requirements in the pharmaceutical industry, good practices, responsible management of safety, health and the environment, information security and personal data protection, data integrity, and business continuity. We maintain flexibility, react quickly to new developments, market needs and legal requirements, make investments, and roll out advanced work systems and suitable control methods to meet various client requirements. In addition, we demonstrate the continued suitability of products, processes, and services. We systematically address quality-related risks and opportunities to achieve sustainable development. Meticulous planning, employee quality culture and continuous development pave the way for further improvements.

Various requirements and standards are managed uniformly to achieve optimal business targets and implement services effectively. This demonstrates our attitude to quality, environment, safety and health, information security, personal data protection, and business continuity.

Regulatory inspections, partner audits and regular certification of our systems by SIQ (Slovenian Institute of Quality and Metrology) lend corporate credibility and strengthen and maintain customer trust. In 2023, we again upgraded the system in line with the relevant legislation and guidelines. Testament to the system's compliance is the renewal of relevant certificates.

The quality system is supported by a centralised information and document management system, which we regularly upgrade through digitalisation and other measures to ensure that data in documents and electronic records are credible, easily accessible and protected and to provide for transparency as regards our processes and products. We use this approach to conduct analyses and observe trends to ensure sound support for improving process and service efficiency and product quality. Our data management system embodies the ethical principles of personal integrity and staff responsibility to perform their work diligently and builds on framework quality guidelines, operating procedures and controls integrated into IT systems and organisational processes.

Quality management system

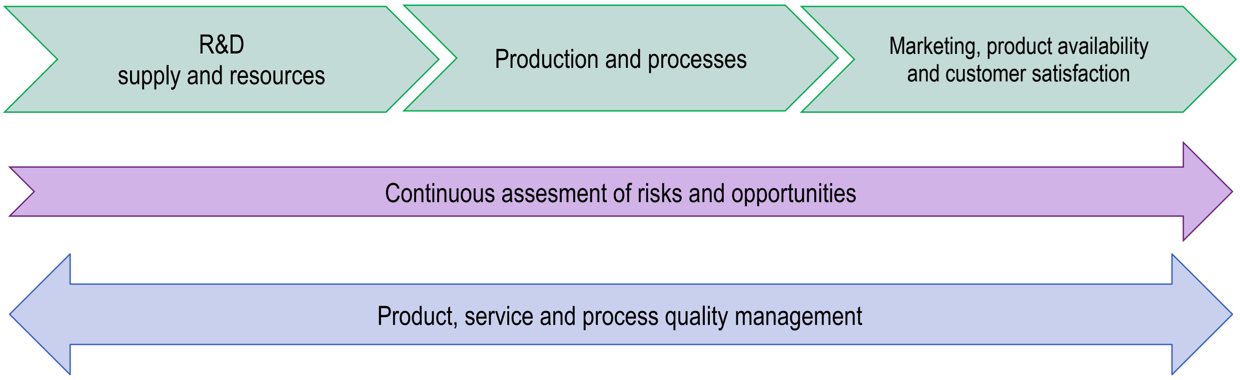


Continuous improvements dictated by principles, standards, quality guidelines, and the PDCA (plan, do, check, act) approach drive progress and upgrades in all areas of the company's operations. We systematically manage processes from purchasing, research and development, production of active ingredients and finished products, distribution, marketing and sales to monitoring customer satisfaction by employing the vertical integration business model. Customer satisfaction and sustained business success remain our key objectives going forward. Quality is a cornerstone of all our products and

[38] GRI 3-3, 416-2

services throughout their life cycles and all Krka employees' work attitude. This is our key advantage and the foundation for ensuring product quality, safety and efficacy.

Product and process quality management



Quality management

The baselines for establishing and developing the quality system are defined in *Krka Group's Quality Policy*, our framework document on quality, and Krka Group's guidelines and instructions in line with legislation, good practices and standards. We regularly monitor all related developments and systematically roll them out across our processes. We are committed to continuously upgrading the quality system to enhance process and service efficiency.

The established key processes with suitable resources help us deliver on our quality objectives. Our most important resources are our employees, who understand the importance of quality. They undergo continuous training and constantly upgrade their qualifications in quality management. This fosters a strong awareness of the importance of quality in all processes. We cooperate with experts from various fields to identify improvement opportunities, develop innovative approaches, and introduce new developments.

Processes can only be implemented correctly in buildings and with equipment and systems fit for purpose. Before a new or a reconstructed building with its built-in equipment and systems is made operational, Quality Assurance checks its compliance with all applicable good practice requirements. The vast number of projects demonstrates large-scale investment in new plants and departments, new or reconstructed rooms, new production, laboratory and development equipment, etc. Major projects in 2023 included setting up a system intended for use in potentially explosive atmospheres at the Beta Šentjernej plant (Slovenia), replacing two coating pans, renovating the packaging room and refurbishing two R&D laboratories at the Notol plant (Slovenia), installing a new filling line at the Bršljin production site (Slovenia), and increasing granulation and packaging capacities at our production site in Ljutomer (Slovenia). Construction of new buildings for our microbiological laboratory started in 2023 and is planned to end in the first quarter of 2024.

We ensure suitable conditions in all processes by qualifications and validations of investment and computer projects, technological and laboratory equipment, utilities, air-conditioning systems, technological procedures, cleaning procedures, and transport conditions and by equipment calibrations and maintenance.

We maintain data integrity, especially regarding completeness, persistence, availability, legibility, accuracy, origin, contemporaneity, consistency, security and descriptiveness, and ensure regulatory compliance. Considerable attention is given to the development and implementation of information systems and introduction and management of laboratory and production equipment. We ensure source data integrity through validations and qualifications of equipment, change control and deviation management.

Quality is integrated at the early stages of research and development to produce a quality, safe and effective product. We promptly incorporate legislative amendments in our work processes to follow good practices from the product development phase onwards. When producing medicines for clinical research, we use new approaches and apply expertise to ensure the level of patient and volunteer safety required by law.

We set up a system for ensuring the quality of clinical research and the safety of patients and volunteers participating in research. We ensure quality through: highly qualified personnel, use of adequate equipment and computer systems, risk management, careful screening of partners involved in the entire product manufacturing process, clinical research performance monitoring, reporting on patient safety and safety of all other participants in clinical research, and the deviation investigation system.

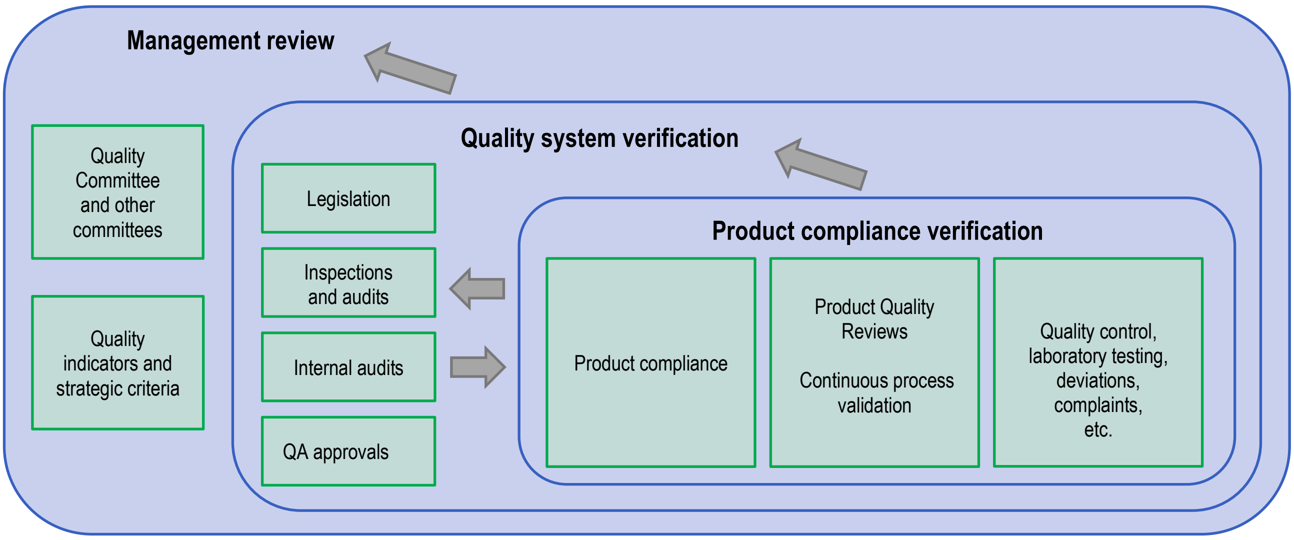
The pharmacovigilance system ensures the safety of medicinal products for use in human and veterinary medicine by complying with the requirements of the EU and third countries, and the quality system requirements. We carefully record and medically review all adverse events claimed to be related to our medicines in all countries where we hold marketing authorisations and where our investigational medicinal products are used. We incorporate new findings important for the safe administration of medicines in product information leaflets or take other risk mitigation steps. We present data and findings to regulatory authorities. We also have a medical device monitoring system in place, which helps us to systematically gather and analyse data on the quality, performance and safety of medical devices throughout their life cycles.

Our quality system for active ingredients and other incoming materials complies with good practice standards. We ensure compliance of incoming materials through registration documents, internal regulations, and chemical production procedures. Our systematic approach to quality management at our suppliers contributes to the marginal number of incoming material batches with complaints.

Pharmaceutical quality system oversight[39]

Our finished product and API production builds on in-house technology. We control the critical stages of the production process, and examine and assess documents for every product batch separately to confirm our medicines are manufactured in compliance with the marketing authorisation requirements, prescribed procedures, and good manufacturing practice guidelines. Process, packaging and cleaning validations ensure the compliance of technological procedures applied in bulk product manufacturing, finished product packaging, and production equipment cleaning. We develop product control strategies that include quality attributes to ensure the adequate and reproducible quality of our products. We closely follow and assess the quality attributes to identify any risks. Assessments of production processes and quality attributes are the basis for preparing annual Product Quality Reviews (PQR) and reports on continuous process verification. We prepare them in compliance with the latest standards and guidelines on pharmaceutical production using advanced statistical tools and report systems.

Product and process quality control



[39] GRI 2-27, SDG 16

Safety of medicinal products is a key feature, which we deliver by ensuring quality of active pharmaceutical ingredients and finished products. Regulatory bodies, particularly those in the EU, closely examine safety issues. They have recently been focusing on impurities with carcinogenic potential. They also issue guidelines and gradually adopt measures related to certain active pharmaceutical ingredients and products. We apply all their guidelines and measures to ensure compliance of our products.

By February 2019, we had implemented measures to prevent falsified medicinal products from entering the legal supply chain. Our medicines have safety features placed on their packaging. They consist of a unique identifier (serialisation), which prevents a falsified medicinal product from being dispensed, and an anti-tampering device, which allows the verification of whether the product's packaging has been tampered with. In addition to serialisation, products intended for certain countries must be shipped in labelled transport boxes and pallets (aggregation) for improved medicinal product traceability and control from the producer to the user.

In 2023, we introduced a safety feature system for finished products to be sold in China and Kyrgyzstan and active pharmaceutical ingredients intended for the market of India. Kazakhstan, the Russian Federation (for animal health products) and Kuwait have also announced requirements to introduce the system in the year ahead. In 2023, there were no reports from the markets about falsification or safety feature non-compliance.

Before an incoming material or finished product batch can be certified and/or released to production or the market, a batch sample undergoes laboratory quality control. Our qualified personnel conducts the control using validated and verified analytical methods and calibrated or qualified laboratory equipment. We confirm the quality and compliance of the processes through internal verification procedures, ensuring the integrity and completeness of analytical results. The number of samples analysed depends on production plans. We continuously plan and coordinate activities that ensure the timely implementation of production and sales plans and regularly improve the process. Due diligence, continuous progress, improvement and optimisation underpin our work processes. Quality culture guides our work and paves the way for success and achievement of the set goals.

Regarding sales and production requirements, we carefully plan and coordinate activities for the timely certification of materials and finished products. The person responsible for releasing medicinal products authorised by the competent medicines agency certifies each batch before its market release. We also continually monitor the stability of APIs and marketed products and guarantee their compliance with the specifications throughout their shelf lives.

We measure our work performance by regularly monitoring quality indicators. Feedback from our customers and users is a critical indicator. We track and thoroughly investigate their complaints, opinions and suggestions and respond to them as soon as possible. The ratio of batches with complaints lodged over the last five years to the total number of released finished product batches is marginal, showing no significant upward trend despite rising production volumes. There has been no upward trend in recalls over the past five years. In 2023, we made three recalls. Even where the impact of defects on product quality, safety, and efficacy was minimal, we implemented the recalls in line with our responsibility to deliver high-quality medicinal products to our users consistently. Recalls are made in collaboration with marketing authorisation holders (MAHs) and the competent authorities responsible for medicinal products in individual countries. We test the effectiveness of the recall procedure in mock recalls.

We constantly monitor the quality of our products on the market, collecting and evaluating data on a medicine's safety throughout its life cycle, before and after obtaining marketing authorisation, and during its daily use. We continuously manage risks and provide the correct information to healthcare providers and users of our medicines.

Competent regulatory bodies and our partners supervise the quality system. We also conduct internal system audits.

We manufacture and market products in various countries, meaning we are subject to inspections by different regulatory authorities and inspection bodies. In Slovenia, JAZMP supervises medicinal products and medical devices intended for the EU, whereas the Health Inspectorate of the Republic of Slovenia (ZIRS) monitors cosmetic products, foodstuffs, and food supplements. The Chemicals Office of the Republic of Slovenia controls biocidal products and compliance with good laboratory practice principles, while the Administration of the Republic of Slovenia for Food Safety, Veterinary Sector and Plant Protection (UVHVVR) controls feed additives and distribution of veterinary medicinal products. The Metrology

Institute of the Republic of Slovenia (MIRS) conducts inspections of measuring devices in use and available on the market and prepacked products.

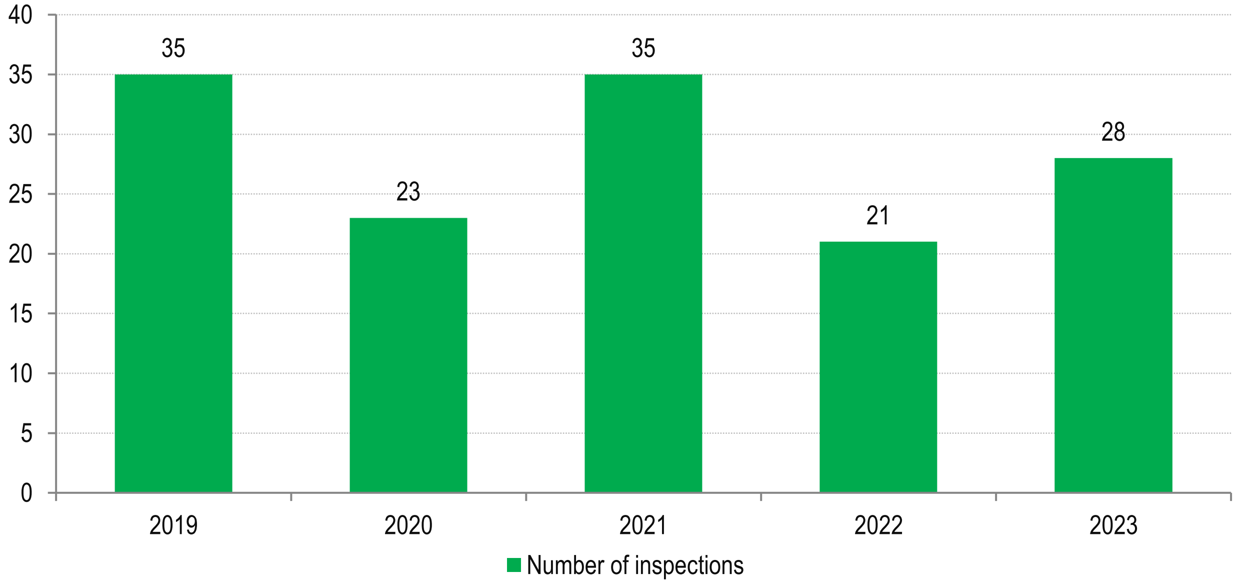
In 2023, the number of inspections and audits on the Krka Group level remained roughly the same as the year before. JAZMP, which regularly inspects medicinal product and API manufacturing processes, medicinal product distribution, clinical trials, and pharmacovigilance, conducted two verifications of new API manufacturing processes and regular inspections of the production of sterile, semi-liquid, solid, and liquid dosage forms, and laboratories for quality control and development of analytical procedures. Regular inspections facilitate renewals of good manufacturing practice (GMP) and good distribution practice (GDP) certificates, which confirm that the manufacture and distribution of medicines and APIs comply with good practice principles and guidelines. Regular supervision by the Chemicals Office of the Republic of Slovenia confirms our compliance with good laboratory practice (GLP) principles.

Our medicines are also marketed in non-EU states where national requirements apply. Certain countries do not recognise European GMP certificates, meaning competent national regulatory bodies conduct national inspections. In 2023, we passed a pharmacovigilance inspection by the regulatory body of Kazakhstan. We were not required to undergo an inspection by regulatory bodies of the Russian Federation when applying for state authorisation of new medicinal products for human and veterinary uses. We were granted renewed GMP certificates after submitting applications for authorisation of new products in the Russian Federation. The certificates extend to the entire Eurasian Economic Union (EAEU). The certificates issued by the EAEU apply to the manufacture of medicinal products and APIs, and allow us to apply for marketing authorisations and market medicinal products in the EAEU member states.

Our experts took part in the preparation for European, EAEU, and Chinese inspections conducted at our subsidiaries and main contractual partners. The control over operations and quality management in product manufacture and distribution, clinical research monitoring, and pharmacovigilance inspections contribute significantly to integrated quality management, product safety and efficacy, and risk management in all areas.

Our partners conduct audits in the Krka Group companies annually to verify good practice compliance, pharmacovigilance system suitability, and contract compliance.

Inspections



In 2023, the Krka Group passed all inspections and audits and obtained all relevant authorisations and certificates.

Competent authorities for medicinal products also conduct quality control of marketed products. Every year, several products undergo their control procedures to verify product quality. The results of all controls in 2023 were compliant and confirmed the efficiency of internal controls within the quality system.

Information security and personal data protection

Our Information Security Management System (ISMS) holds ISO/IEC 27001 certification and undergoes regular review through self-inspections, audits, and inspections. In 2023, we passed a regular system audit. We regularly assess risks related to information sources and employ state-of-the-art technologies to safeguard our systems from external attacks. Krka subsidiaries actively pursue the guidelines of the controlling company set out in the *Information Security Policy* and *Rules on Personal Data Protection*. This ensures a uniform ISMS across all Krka Group companies.

We implemented or launched personal data protection activities to comply with the revised Slovenian Personal Data Protection Act (ZVOP-2). We established and rolled out an internal General Data Protection Regulation (GDPR) compliance system. We regularly monitor specific personal data processing procedures and align them with the latest practices of supervisory bodies in Slovenia, other EU member states, and non-EU states. For example, regular personal data updates in databases maintained by all Krka subsidiaries in the EU, processing geolocation data for specific employee groups, and using cookies on websites. We aim to minimise the risk of violations and ensure compliance with applicable legislation and practice.

Key elements for successfully implementing the ISMS include regular and continuous employee training and awareness campaigns. In 2023, we focused on raising awareness among all Krka Group employees about phishing attacks through simulated attack demonstrations mimicking real-life scenarios. We ensure high uptime for critical systems, including the business, production, documentation, e-mail, and control systems. The expected minimum availability of critical (production, documentation, business, and e-mail) systems is 99.5%. Krka has duplicated its data centre and implemented various measures to bolster system availability and data safety. Together with the main data centre, they guarantee a high level of redundancy, meeting the requirements for high-level availability and data safety. Real-time backups are performed for all computer systems, applications, and databases at a remote location outside Novo mesto.

Business continuity

The business continuity management system (BCMS) complies with the ISO 22301 standard. Its purpose is to prepare and implement measures and procedures for uninterrupted production and sales of our flagship products in the event of major incidents and disasters. The BCMS operates according to the adopted strategy and policy and is regularly updated. Key features of the BCMS include procedures for optimising our resilience to incidents, incident management procedures, and business continuity plans for crisis management. The BCMS is integral to the Krka Group’s comprehensive risk management. We regularly control it through internal audits and inspections.

In 2023, we evaluated the implementation of the BCMS strategy, focusing on the reliable supply of heating, cooling and power sources and other key sources. We arranged regular drills and intensive training courses to verify the feasibility and efficiency of planned business continuity measures across all nine critical processes identified in the Business Impact Analysis. This initiative fostered awareness and refined the skills of employees tasked with managing emergencies, directing damage limitation activities, and rapidly getting processes back online. Following training analysis, we made the requisite improvements to business continuity plans or validated the adequacy of planned measures.

SUSTAINABLE DEVELOPMENT

Environmental, social, and corporate governance (ESG) is a crucial component of Krka's capacity for long-term value creation and efficient delivery of the business strategy. Sustainability risk management, the attainment of sustainability goals, and transparent reporting are growing in importance for Krka Group stakeholders. Therefore, they are being thoroughly integrated into our strategy and business operations.

We carefully plan the development of our products and all processes that impact lives and the environment in which we operate. We establish trust with our patients and partners through our expertise, professional and ethical conduct, and adherence to high-quality standards across all aspects of our operations. Guided by sustainable development principles, we aim to enhance our performance regarding nature conservation, health and safety, and to co-design our social environment.

We actively engage in activities to implement the EU Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) to ensure compliance with the current and forthcoming legislation on sustainable operations and reporting. This includes drawing up new business policies, updating existing ones and undertaking various activities to ensure effective management of sustainability risks and opportunities and minimise the adverse impacts of our operations on the natural and social environment. We are also preparing for the adoption of the Corporate Sustainability Due Diligence Directive (CS3D) and regulations associated with the European Green Deal.

Materiality assessment process

We foster trust among stakeholders by engaging with them, understanding their viewpoints, addressing their expectations, and acting on their feedback and initiatives. We incorporate these considerations into our strategic directions and day-to-day business operations, geared towards creating enduring value for our stakeholders and the community while minimising the impacts of our operations on the natural environment.

Management approach

We assess materiality by employing an integrated approach to risk management and strategic planning within the Krka Group. Many experts in finance, investor relations, compliance, quality management, health and safety at work, environmental protection, public relations, human resources, marketing, sales, pharmaceutical R&D, corporate performance management, purchasing, information technology, internal audit, and electric power supply are involved in the process.

In 2021, we conducted a comprehensive materiality assessment for the first time to identify topics particularly relevant for Krka, its stakeholders, and the wider community. In 2022, the assessment was updated through a process led by an interdisciplinary sustainability project team. We updated the list of our key stakeholders and revised material ESG topics relevant to the Krka Group. Their boundaries and stakeholders' expectations were confirmed through in-depth discussions with 17 experts representing our stakeholder groups. This brought a new dimension to the systematic consideration of their interests, enabling us to anticipate future trends and topics from the perspective of external stakeholders. We conducted analyses and identified six groups comprising 33 material ESG topics. The Management Board of Krka considered and approved all the above-mentioned aspects. The results are presented in the Krka Group materiality matrix below.

We intend to revise the process of identifying the impacts, risks and opportunities and assessing double materiality as per the European Sustainability Reporting Standards and requirements set out by the European Financial Reporting Advisory Group (EFRAG).

Policy, strategic objective and indicator compliance

In 2022, we took a significant step forward in integrating ESG perspectives into our strategic planning and business operations, aligning with Krka Group key strategic objectives up to 2026. We used the materiality assessment findings to revise policies in key areas and adopt strategic objectives in sustainability-relevant domains. The fundamental objective of integrating the Krka Group sustainability principles and ESG governance approaches into management processes and business decisions is to raise awareness of sustainability-related risks and opportunities. This, in turn, can enhance their management and contribute to the success of our business operations in the future. We integrated the entire sustainability management topic into the revised *2024–2028 Krka Group Development Strategy* and updated the set strategic ESG objectives.

The adopted *ESG Policy* of the Krka Group applies to the controlling company and all our subsidiaries, outlining our priority areas and management approaches. It demonstrates our commitment to applying sustainability principles and encouraging their integration into business processes across Krka's value chain. In 2023, the revised *Policy* was discussed and adopted by Krka's Supervisory Board and Management Board and published on SEOnet of the Ljubljana Stock Exchange, ESPI of the Warsaw Stock Exchange, and Krka's website.

Materiality assessment[40]

In the latter half of 2022, changes in our environment and our commitment to fostering a culture of sustainability prompted us to revise the assessment of key environmental, social, and governance impacts that Krka has on its stakeholders, as well as the evaluation of external impacts on Krka's business operations. We conducted a qualitative survey among financial analysts and a quantitative survey within the Krka Group, which involved more than 1,200 employees. The assessment also took into account the results of regular satisfaction surveys among end users and interactions with key stakeholders. Our sustainability project team collaborated with 20 experts in our key business areas to assess external impacts internally. On the initiative of the Management Board member overseeing sustainability matters, the Management Board deliberated and endorsed the process and the updated materiality assessment concerning external impacts on our business operations and our impacts on key stakeholders, following approval from the interdisciplinary sustainability project team.

We identified two new material topics and repositioned certain ESG perspectives in response to changes in the environment. The materiality matrix presents impact assessments in terms of double materiality and the position of material ESG topics. We also considered material topics when aligning the scope and content of disclosures.

Disclosures in the *Annual Report* fully incorporate indicators from the GRI (Global Reporting Initiative) Standards and select indicators from the SASB (Sustainability Accounting Standards Board) Standards for the pharmaceutical industry. They are disclosed in relevant sections of the *Annual Report*, as indicated in the footnotes and the GRI content index. We also pinpointed the significant sustainable development goals of the United Nations that our operations contribute to achieving. Goal 3 'Good health and well-being' is the most important because our core business can contribute to it significantly.

Main sustainable development goals from the Krka Group perspective

[40] GRI 3-1, 3-2

ESG score

On 24 November 2023, Krka scored 50 (out of 100) in the 2023 S&P Global Corporate Sustainability Assessment, with a score of 60 (out of 100) in the governance dimension, 42 (out of 100) in the environmental dimension, and 41 (out of 100) in the social dimension. Krka also received a modelled S&P Global ESG Score of 52 (out of 100). As of 24 November 2023, Krka's S&P Global CSA Score ranked among the top 10% in the pharmaceutical industry.

The received ESG score validates the outlined direction of the Krka Group's sustainable management practices and ESG governance, prioritising corporate social responsibility and care for the health and well-being of patients. We provide them with access to high-quality, safe, and effective medicines produced to the highest standards of good manufacturing practice. Throughout this process, we place considerable emphasis on environmental protection and minimising our environmental impact. Furthermore, we uphold the highest standards of business ethics, integrity, and transparent operations in the governance of the Krka Group.

The score encourages and commits us to improve the sustainability practices of the Krka Group going forward.

About the Report

Relevant departments prepare the contents of the comprehensive *Annual Report*, while Finance, Corporate Performance Management and Public Relations are responsible for preparing the Report. The business report covers the operations of the Krka Group as a whole, indicating any significant distinctions between Krka, d. d., Novo mesto and its subsidiaries. Generally, no reference is made to the value chain's sales and purchasing segments beyond the Krka Group.

GRI sustainability indicators generally apply to Krka d. d., Novo mesto (also referred to as Krka or the Company). If they apply to all Krka Group subsidiaries, reference to the Group is made in the text. The indicators will be upgraded and further applied to other Group subsidiaries. The reporting period covers one calendar year. There have been no significant changes in data from the previous reports, and any specific changes and deviations are clarified in relevant sections of the *Annual Report*.[41]

Any questions regarding the *Annual Report* can be sent to letno.porocilo@krka.biz.[42]

[41] GRI 2-2, 2-3, 2-4, 3-2
[42] GRI 2-3

Key stakeholder groups and approach to stakeholder engagement[43]

Stakeholder groups	Engagement modality
Patients	• Responsible, professional communication about products through various media, including social networks and digital channels
Health professionals, healthcare providers and direct customers	• Long-term partnerships • Annual online survey on satisfaction with core aspects of business operations (general satisfaction, satisfaction with products, sales personnel, order processing and fulfilment, and complaint procedures) • Suggestions for improvement • Regular information on products provided in print and electronic forms • Direct contacts through medical representatives in 40 countries • Organisation and support for professional and educational meetings • Advanced digital content for the professional community • Feedback and opinions obtained through daily contact and market research
Employees, prospective employees, and trade union organisations	• International conferences for employees (on various topics) • Measuring organisational climate • Works Council • Worker assemblies
Regulatory agencies/bodies and government organisations	• Long-term cooperation and provision of reliable documents
Educational and scientific research institutions	• Cooperation with secondary schools, universities and scientific institutes • Cooperation under the Krka Prizes Fund for young researchers
Shareholders, financial institutions and other capital market stakeholders	• Meetings with investors at the Krka headquarters • Meetings between financial analysts and Krka management • Participation in investor conferences • Roadshows in financial centres around the world • Conference calls with financial analysts after releasing business results • Regular annual general meetings • Communication with financial media
Strategic partners and suppliers	• Participation in tenders and competitions • Working meetings • Auditing
Local communities and non-governmental organisations	• Identification of needs of local and social environments through various activities related to donations and sponsorships, annual meeting for clubs and associations, and Krka's Week of Charity and Volunteering • Open dialogue and exchange of views with residents (inclusion of environmental goal planning and sustainable environmental protection) • Cooperation with environmental organisations
Media	• Transparent information on business operations and events in press releases and responses to media inquiries • Press conferences and meetings with media representatives • Information on websites
Professional associations and interest groups	• Work with specialised development institutions and companies • Involvement in the development of professional, scientific and regulatory environments by participating in various professional and industry associations in Slovenia, the European Union, and other markets

[43] GRI 2-29

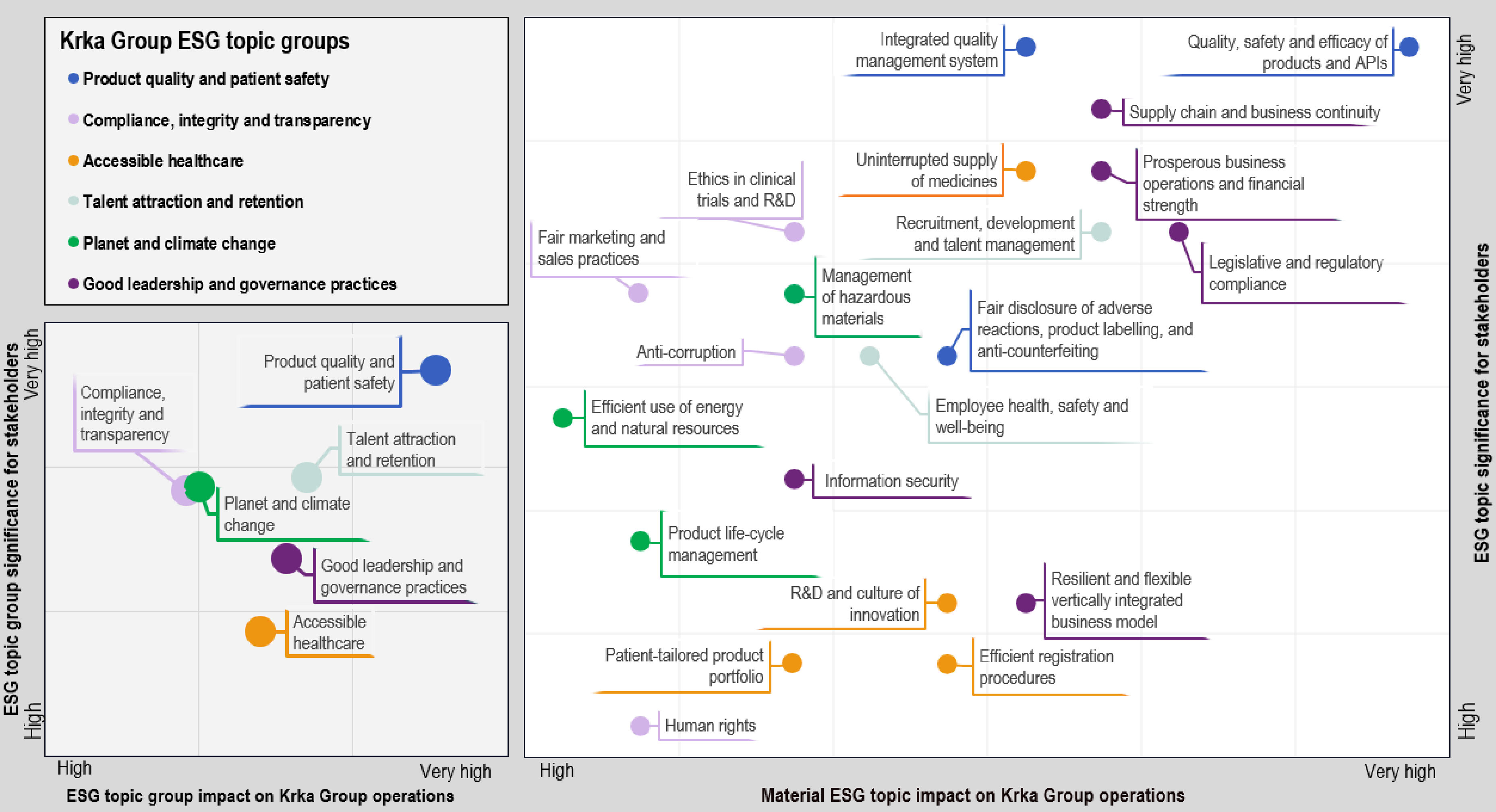
Material ESG topics and their six groups[44]

Topic groups	Topics
Product quality and patient safety	• Quality, safety and efficacy of products and APIs • Integrated quality management system • Fair disclosure of adverse reactions, product labelling, and anti-counterfeiting • Animal welfare
Talent attraction and retention	• Recruitment, development and talent management • Employee diversity, inclusion and participation • Employee health, safety and well-being
Good leadership and governance practices	• Resilient and flexible vertically integrated business model • Legislative and regulatory compliance • Management diversity, independence and competence • Sustainability linked remuneration • Information security • Prosperous business operations and financial strength • Supply chain and business continuity • Contribution to local community development
Accessible healthcare	• Patient-tailored product portfolio • Affordable medicines • R&D and culture of innovation • Efficient registration procedures • Expert support for health professionals • Initiatives to raise awareness of healthy lifestyles and identification of widespread diseases • Uninterrupted supply of medicines
Planet and climate change	• Management of carbon emissions • Waste management • Efficient use of energy and natural resources • Management of hazardous materials • Product life-cycle management
Compliance, integrity and transparency	• Ethics in clinical trials and R&D • Anti-corruption • Comprehensive and accessible reporting • Fair marketing and sales practices • Human rights • Tax policy and transparency

[44] GRI 3-2

Materiality matrix of the Krka Group

ESG topics are divided into six groups. Their significance for stakeholders and impact on the Krka Group operations are presented on the left. Individual ESG topics most relevant for stakeholders or deemed as having a major impact on Krka Group operations are presented on the right.



Employees

A responsible approach to employees involves maintaining robust and professional employee management practices throughout their employment at the Krka Group. We cultivate an engaging work environment where the goals and aspirations of individuals are aligned with the objectives of the Group, fostering the development of our employees' skills, competencies and careers. There is special emphasis on attracting and retaining talent to ensure the company remains successful.

Planet GV and the Slovenian Institute for Knowledge Management and Talent Development Sofos presented us with the TOP Education Management certificate acknowledging our above-average investment in employee education and development for the second consecutive year.

New hires continued, as we recruited over 1,800 new employees.

The Krka Group operates in more than 70 countries with diverse cultural settings. We ensure equal opportunities for our employees regardless of gender, race, religion, sexual orientation, nationality or other cultural differences. We build our common culture on the principles of diversity, inclusion and participation. We respect human rights as enshrined in internationally recognised principles and guidelines, including the United Nations' *Universal Declaration of Human Rights*. We abide by statutory regulations and standards related to human rights wherever we operate. We are committed to high ethical standards, hence all employees receive training on Krka's *Code of Conduct*. *The Code* defines the principles and rules governing ethical behaviour, good business practices and standards of conduct, which are binding for all employees of the Company and its subsidiaries. Clear rules and procedures ensure a quick response to any identified inappropriate conduct in interpersonal relations and prevent any forms of mobbing.[45]

The progress reported below mainly refers to the Company. Standard guidelines, management approach and policies, and good practices are integrated into the work processes at Krka Group subsidiaries. This expansion enhances the breadth of compiled data and is poised for further growth in the future.

Organisational climate

Highly dedicated and engaged employees shape a positive working environment and organisational climate and thus contribute to business results. We regularly gauge the organisational climate to learn how our employees feel about their work at the Company. Analyses of the findings are helpful in preparing improvements, which contribute to an efficient and creative environment. The latest organisational climate survey reaffirmed that our employees have a sense of loyalty to the Company and are motivated to accomplish set objectives. Furthermore, it confirmed the Krka Group's commitment to corporate social responsibility and adherence to high ethical standards. Employees recognised the company as a reliable employer and a successful player in a creative and dynamic market. We use regular surveys and active employer branding to identify our strengths, improve our weaknesses and design sustainable strategies for attracting and retaining high-performing employees.

Key data about employees[46]

	31 Dec 2023
Number of regular employees	11,780 of which 55.5% in Slovenia
Number of agency workers	973 (7.6% of total personnel)
Employees covered by collective bargaining agreements	64.6%
Average age	39.4 years
Female employees	60.6%
Female employees in management positions	50.0%
Permanent employees	87.3% (women 86.3% and men 88.8%)

[45] GRI 3-3

[46] GRI 2-7, 2-8, 2-30, 405-1, SDG 5

2023 employment index

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Krka in Slovenia	103
Krka's representative offices abroad	108
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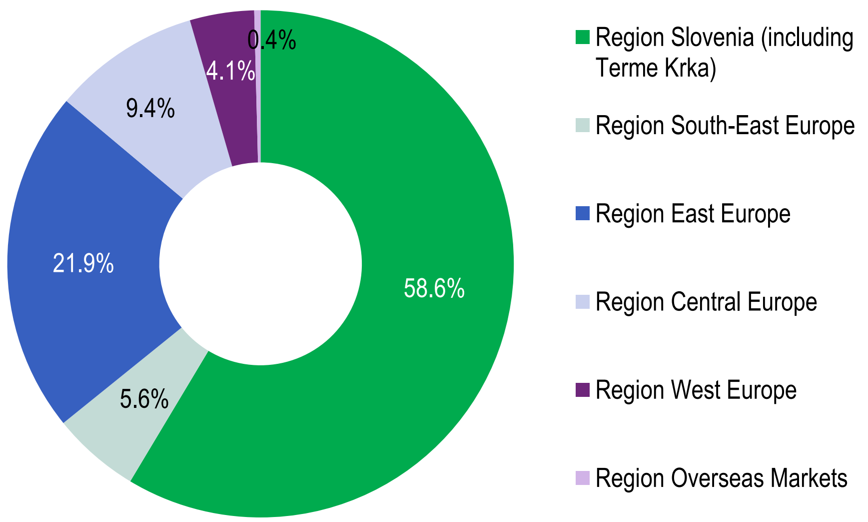
Terme Krka	106
Krka Group	**102**
Agency workers	98

We hired 1,827 new employees, accounting for 14% of the total Krka Group headcount. Employee turnover of the Krka Group was 11.6%.

2023 new employee hires by age group, gender and region[47]

	Rate of new employee hires
Age groups	
Under 30 years old	47.4%
30–50 years old	48.9%
Over 50 years old	3.7%
Gender	
Male	35%
Female	65%
Region	
Region Slovenia (including Terme Krka)	29.0%
Region South-East Europe	9.4%
Region East Europe	38.6%
Region Central Europe	16.0%
Region West Europe	6.5%
Region Overseas Markets	0.5%

Employee structure by region (including agency workers) as at 31 December 2023[48]



47 GRI 401-1
48 GRI 2-7

Educational structure

The Krka Group employs 204 persons holding a doctoral degree and 400 persons holding a master's degree or specialisation. In total, 5,978 employees, or 51% of Krka employees, have at least university-level qualifications. One of the pillars of Krka's human resource policy is continuous work to improve the educational structure. We are aware that only our experts' high level of qualification allows us to respond to the demands of a highly competitive market quickly and effectively.

Krka Group employees by education level at the end of 2023

	31 Dec 2023
Higher professional, university degree or higher (level VII or higher)	67.0%
Vocational college degree (level VI)	2.6%
Secondary school education (level V)	22.4%
Other (less than level V)	8.1%

Employee education and development[49]

Development requirements inform our know-how development and upskilling programmes. We identify them through our competency-based system for various work areas. Competencies are a good starting point for recruiting new employees, designing training and skills development programmes, and evaluating them. We provide our employees with various opportunities to participate in continuing educational and training programmes in various specialised fields such as management, quality management, modern information technologies, personal growth, and foreign languages, especially English and Russian. We advocate for lifelong learning, recognising its role in fostering successful work, advancing careers, nurturing professional growth, and facilitating personal development. We plan our educational and training programmes and deliver them systematically.

We prioritise creating training programmes focused on people management, conflict resolution, and fostering effective and respectful communication. Given Krka's widely dispersed international organisation, combining traditional training, e-learning, and e-testing has played a crucial role.

Quality comprised a significant proportion of our educational activities in 2023. We recorded 100,491 hours of training on quality. Our employees also learn about the most recent and significant developments at higher-education institutions, institutes and other educational organisations in Slovenia and abroad. As many as 271 Krka employees were part-time students, of whom 27 were pursuing postgraduate studies to obtain a specialisation, master's, or doctoral degree.

We are the only company in Slovenia to offer six national vocational qualification programmes for the pharmaceutical industry. These programmes are also available to employees of pharmacies and other pharmaceutical companies. In 2023, as many as 69 Krka employees completed the training programme (level IV). In total, 1,954 certificates have been awarded since 2004: 1,812 to Krka employees and 142 to employees of other companies and pharmacies.[50]

The Krka appraisal interview is an important tool enabling effective leadership, identification of potentials, motivation and development of employees. Managers and employees use it to exchange information and share knowledge, review goals, openly discuss the main tasks and expectations relating to work and career development, and plan future work and professional development.[51]

Krka has more than 60 in-house trainers in its marketing and sales network. Their task is to implement Krka strategy and ensure that good practices are transferred in the market. Trainers support employees and managers at regular training sessions and one-on-one in the field.

[49] GRI 3-3, SDG 8
[50] GRI 404-2
[51] GRI 404-3

2023 key data on employee education in the Krka Group[52]

	2023
Average training hours per employee	42
Share of revenue allocated for education	0.48%
Average cost of training per employee (€)	731
Hours of human rights training	7,655
Share of employees trained in human rights	98%

We offer scholarships to students who demonstrate interest, talent, and high competence in working in the Krka Group. We systematically collaborate with them, offering opportunities to gain experience. During their internship, they can learn about Krka and its working processes and demonstrate and develop their skills and competencies. We assist students and junior researchers with their theses. Our employees run courses in undergraduate and master's study programmes and help design their content. At the end of 2023, Krka had 70 scholarship students, 14 of whom graduated in 2023 and started working at Krka. We collaborate with secondary schools and faculties to facilitate mandatory work placements. Through partnerships with faculties and schools and the provision of scholarships, we can identify potential new hires and talents, making it easier to mitigate risks associated with the shortage of experts in the labour market.

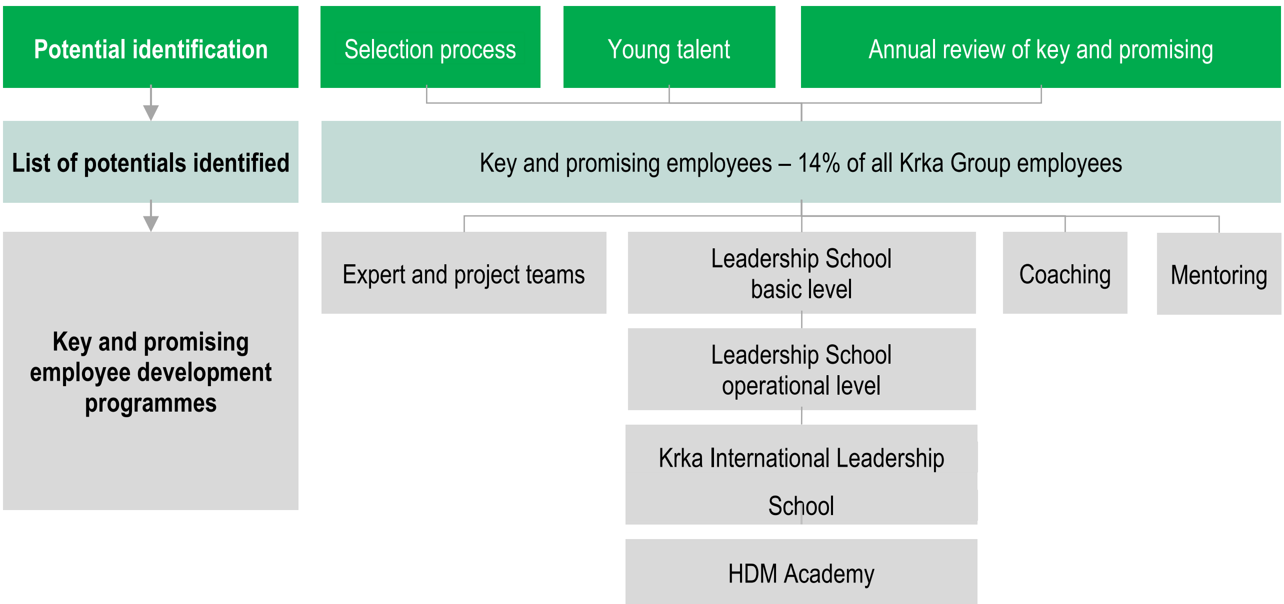
Key and promising employees

We systematically train key and promising employees, aiming to identify them early in their careers. We prepare them for the most demanding and pivotal roles through a combination of training, mentoring and coaching.

Highly promising employees with less than one year of service at Krka are invited to a workshop, where we test their abilities through a series of individual and group tasks. We also use this method when selecting candidates for challenging roles and for internal transfers of employees to other roles to ascertain their motivation, insight and capacity to cooperate.

We offer identified key and promising employees and young talents several programmes to support their individual development. The programmes of Krka Leadership School are complemented by coaching and action learning.

Key and promising employees



At the Group level, we also run a programme for expert and project teams focused on communication skills, teamwork and project work, learning about and exchanging Krka's good practices, networking between employees from various

52 GRI 404-1

backgrounds, and employees' personal development. New employees and employees who take on roles carrying greater responsibility learn about their tasks through mentoring. We employ a unique form of international mentorship to develop promising employees systematically.

Rewarding and motivation

All employees of the Krka Group are enrolled in reward and recognition systems, enabling us to acknowledge exemplary work and strong performance systematically. They encourage dedication and motivation and praise excellence and loyalty.

We host the Krka Awards Day, a long-standing tradition where we honour our best employees with awards and recognitions. Additionally, we present long-service awards and special recognition awards to our most loyal employees. In 2023, the ceremony encompassed the entire Krka Group, during which we recognised the outstanding achievements of both employees and managers within organisational units and the Krka Group as a whole. Additionally, we honoured the best employees in the sales and marketing network, regulatory affairs, and other fields.

Encouraging innovation

In 2023, a total of 362 useful proposals and improvements were submitted, resulting in the recognition of 353 proposals contributed by 351 employees.

Useful proposals and improvements lead to continuous improvement of the quality system and, hence the integrated management system, generating savings and improving efficiency. We endeavour to motivate our employees to address a wide range of issues encompassing economy, production, logistics, technology, engineering, administration, environment, business, information science, quality, and health and safety at work. Both easily implementable useful proposals and intricate improvements yielding significant effects are valued.

We encourage inventive work through campaigns, meetings, recognitions, and awards. Additionally, the most useful proposals and improvements are recognised at the Krka Awards Day.

Digitalisation in human resources

We upgrade our human resource information system by introducing new solutions. In 2023, we continued to optimise and digitalise processes that are standardised across the entire Krka Group.

We rolled out digitalised time management at our subsidiaries in Ukraine and Bulgaria. We have also continued to digitalise the Krka appraisal interview process and the employee education and development system. We introduced a new platform for conducting organisational climate surveys. The platform simplified data collection, reporting, and action planning. The key and promising employee screening and monitoring system is currently being upgraded. We aim to further advance and digitalise employee development, training and monitoring systems to meet the needs of various organisational units in implementing our common corporate strategy.

Communicating with employees

Inclusive communication leads to regular information exchange and contributes to a productive business environment, a strong organisational culture, and employee loyalty.

The members of the Works Council, who represent all organisational units, are a link between employees and the management team. Employees can put their initiatives and questions forward through their Council representatives, the President of the Works Council, or the Worker Director. At annual worker assemblies, the President of the Management Board, Management Board members and Works Council representatives brief employees about the past year's operating results, plans for the current year, development strategy, and other news. Employees can ask questions and give proposals.

If employees wish to speak with the President of the Management Board, they can do so by sending an e-mail or making an appointment to see him in person.

Internal corporate communication takes place simultaneously through various internal media and tools.

Corporate communication media and tools in the Krka Group

The *Bilten* weekly bulletin	The Krkanet intranet portal	The *Utrip* internal magazine	E-mails sent from the Krkaš.si e-mail address	Information screens
Notice boards at manufacturing and other sites	Internal campaigns	Online events	Initiatives (Your Effectiveness Counts, Krka's Mobility Plan)	Official Krka profiles on social media (Instagram, LinkedIn, and YouTube)

Employees learn about important corporate guidelines at internal events and via communication campaigns. The Your Effectiveness Counts campaign encourages employees to find ways to be more effective at work, and Krka's Mobility Plan promotes the use of alternative and less environmentally harmful means of transport. We have recently added Krka's official social media profiles to our corporate communication tools. We use them to post key information and details about our operations' societal impacts.

Internal communication tools abroad include local issues of the *Utrip* (*Puls*) and *Bilten* (*Bulletin*) in national languages and the *KRKA Bulletin*, our quarterly e-newsletter in English and Russian for our markets without local publications in national languages. We inform our employees about local and important corporate news and campaigns via e-mail and Krkanet. Employees in key markets use intranet portals (Krkanet) in their national languages. Communication with employees in minor markets is the responsibility of directors of subsidiaries and representative offices abroad while marketing communication managers are responsible for good communication practices in key markets.

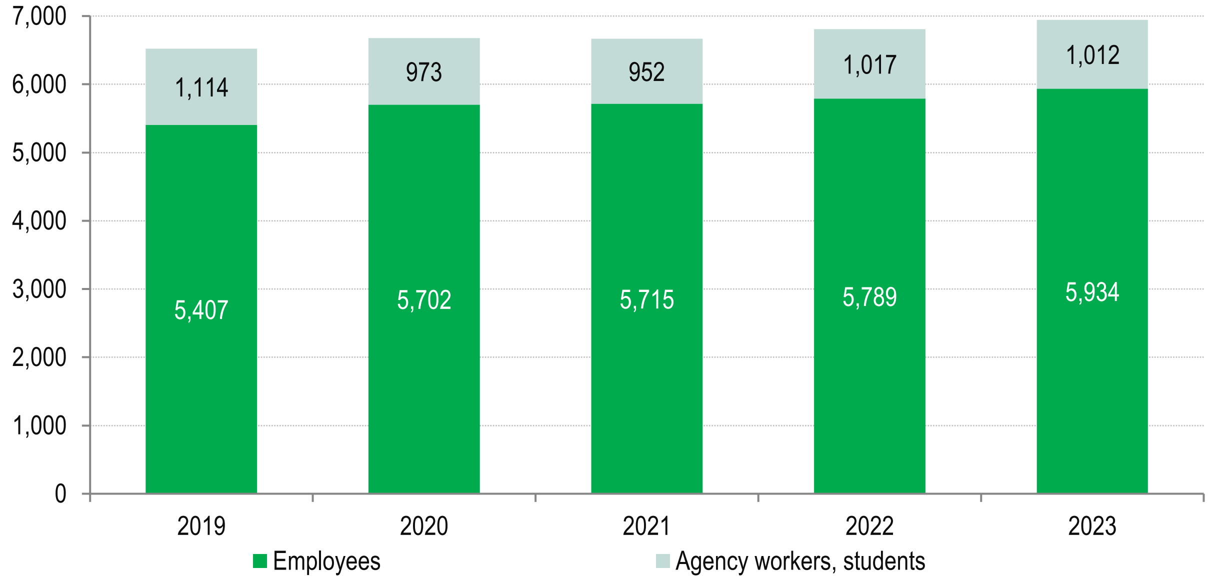
Health and safety at work[53]

We ensure a safe and healthy work environment for all our employees and Krka Group contractors. Every new project and technological solution incorporates the latest health and safety at work and fire prevention developments.

The Management Board adopted the health and safety at work policy in line with Krka's strategic goals. The health and safety at work system that has been implemented adheres to the ISO 45001 standard and is seamlessly integrated into Krka's quality management system. External auditors verify its performance every year, and we regularly conduct internal audits of the system. At the Company level, we have a dedicated health and safety team tasked with formulating and executing key goals and programmes approved by the Management Board, and ensuring regular reporting to the Management Board. Safety and Health workgroups operate in organisational units and production sites, facilitated by an authorised certified HSW officer from Safety and Health.

[53] GRI 3-3, 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7

Workers covered by ISO 45001 system[54]



We continuously adopt safety measures to manage workplace risks and improve the working environment. We prepare risk assessments for all new or modified technological procedures. More information about risks related to health and safety at work is available in 'Risk management', subsection 'Employee risks'.

We organise regular health and safety training, which is mandatory for all employees. The training takes place during working hours, and Krka fully compensates for it. Related information is published in internal media and accessible to all employees. The programme and duration of training depend on risk assessments and identification of hazards that employees are or might be exposed to. We provide training for high-risk positions at least every two years. It is delivered by internal authorised certified health and safety officers and mentors responsible for introducing employees to correct and safe working practices. We conduct written and/or oral exams to verify the level of acquired knowledge and skills. All training courses are delivered in languages that employees easily understand.

The effectiveness of training is evaluated through regular safety audits conducted across all organisational units and production sites. We also gather information by managing safety incidents, near misses and accidents, and we take corrective and preventive actions if any deviations are identified.

Workplace accident and safety incident management complies with internal instructions for handling dangerous events and workplace accidents. All employees, agency workers, and student workers are informed of the instructions. Contractors at Krka receive a summary of key information from internal safety documents. External service providers also receive the summary and necessary personal protective equipment before they enter Krka premises.

Care for health is a common task of all employees, managers, professional services, and occupational medicine doctors. The Works Council and both trade unions are also incorporated into the system. We update our *Health Promotion Plan* every year in a dynamic process, considering proposals and initiatives put forward by all employees, agency and student workers. They can also voluntarily participate in sporting activities organised by Trim Klub Krka, healthy diet campaigns, satisfaction surveys, and other activities. Certain Krka departments or external providers conduct them during or outside regular work hours.

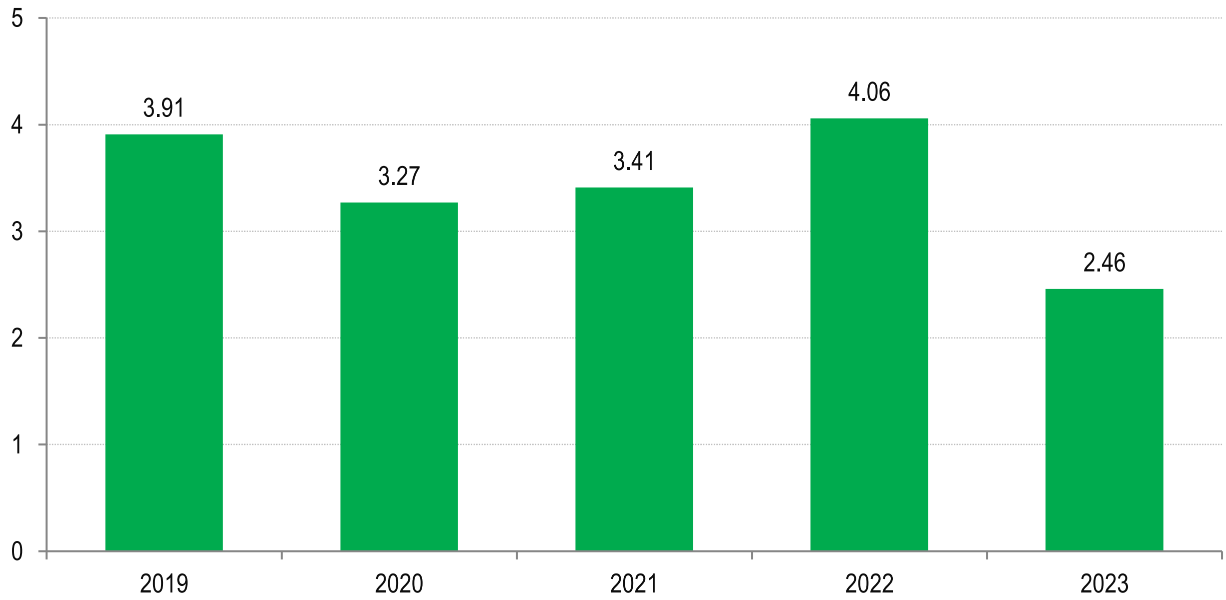
The Krka Group has implemented various activities to help reduce sick leave. We adopted many sanitary, health and organisational measures to prevent the introduction and spread of viral infections and ensure uninterrupted work processes. In 2023, the sick leave rate was 6.7%, down 1.1 percentage points on 2022. 4.9% of Krka employees were on parental leave, which they can take in compliance with their national legislation.[55]

[54] GRI 403-8
[55] GRI 401-3

At the Company, 5.2% of employees have a registered work-related disability. We adjust their workplaces to facilitate their jobs in compliance with laws and regulations governing persons with disabilities. We apply various preventive measures to reduce the risk of additional health issues and disabilities. Employees who can no longer work in their current positions are enrolled in appropriate re-qualification programmes.[56]

We use the LTIFR (Lost Time Injury Frequency Rate) indicator to measure the incidence rate of workplace accidents, which refers to the number of workplace accidents resulting in three or more days' absence from work per one million hours worked. In 2023, there were no fatalities as a result of work-related injury or cases of work-related ill-health. The LTIFR reached 2.46, down 39% on the previous year. Injuries were mainly minor and involved knocks, cuts and slips. There were no injuries requiring an absence of more than six months. 56% of accidents involved men, and 44% involved women, with no significant age group representation.[57]

LTIFR by year for Krka employees and agency workers[58]



We constantly raise employee awareness of the importance of process safety. We support processes and procedures in key areas by adhering to good planning and engineering principles and good operational practices. In doing so, we assess specific risks, train employees, and conduct safety controls and audits. This includes upgrading fire and explosion protection systems, overseeing logistical procedures and handling hazardous substances, managing and maintaining technological equipment, overseeing our contractors, and other activities. Our employees collaborate with external experts in these processes.

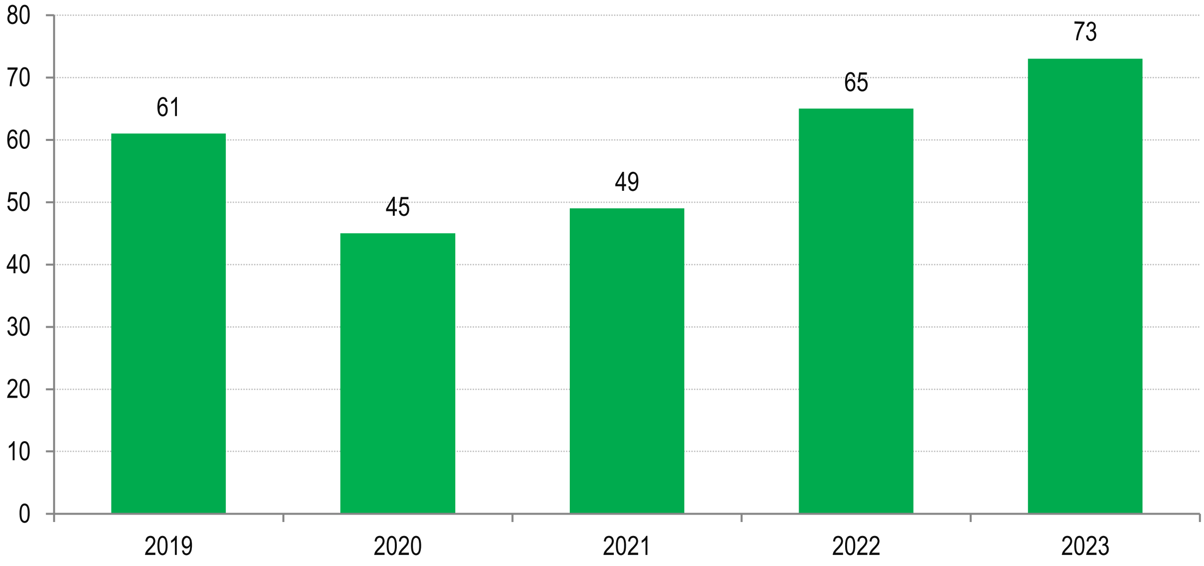
In 2023, we recorded no major safety incidents that might cause a fire or a major spillage of hazardous chemicals or impact manufacturing processes.

Our employees undergo regular fire protection training. We conducted 73 fire drills in total. At four full-scale fire drills, we worked hand-in-hand with professional fire and rescue brigades, local external fire services, and emergency medical service teams. We assessed and presented the risks and realistic emergency scenarios and their impact on the stability and continuity of our business operations. We also tested the coordination and efficiency of internal and external intervention, medical, and Krka first aid teams.

The Fire Safety Unit and the Industrial Fire Brigade will mobilise in the event of any incident.

[56] GRI 405-1
[57] GRI 403-9, 403-10
[58] GRI 403-9

Number of drills and emergency exercises



Health and safety system in our subsidiaries abroad complies with relevant national laws and regulations. Nevertheless, we have progressively implemented uniform guidelines that consider safety documents and health and safety policies.

Patients and other customers

The quality of active ingredients, excipients, incoming materials and finished products is laboratory tested using state-of-the-art and validated analytical methods, devices and procedures. All our prescription pharmaceuticals and non-prescription products are tested and compliant with all regulations. We market only products that have been approved and comply with relevant requirements and regulations.

We implement health protection, safety, and patient and other end-user protection systems according to clear guidelines incorporated into our operations. Our risk management system related to these aspects complies with legal requirements and regulations.

Our system for collecting information about risks to the health of patients or public health related to prescription pharmaceuticals and non-prescription products, scientific data evaluation, assessment of potentials for risk reduction and prevention, and the adoption of appropriate measures for the safe use of medicines comply with European legislation and regulations in other countries where Krka holds marketing authorisations.

We recognise the major importance of clinically proven medicines and monitor their efficacy, safety, and quality during registration procedures and subsequent to obtaining relevant marketing authorisations. We conduct bioequivalence studies, research in pre-authorisation phases, and support many post-authorisation clinical research projects. Clinical research with Krka medicines helps health professionals make the right and reliable decisions and contributes to treatment success and medical advances. We ensure high quality, transparency and ethics in clinical research by complying with laws, guidelines by the International Council for Harmonisation (ICH) and other bodies, and the *Helsinki Declaration*.

We differentiate two groups of users of our products: patients and other end users; and health professionals, healthcare providers and direct customers. Their trust is built on responsible and professional communication and providing all necessary information about our products in compliance with the relevant legislation.[59]

[59] GRI 3-3

Patients

We align with the vision of the World Health Organization outlined in the United Nation's 2030 Agenda for Sustainable Development, especially the Agenda's target to reduce deaths caused by noncommunicable diseases by one-third by 2030, through our product portfolio. More than half of our portfolio consists of medicines for treating cardiovascular diseases, the leading cause of death from noncommunicable diseases. We contribute to the target by providing agents for treating high blood pressure, high cholesterol, and diabetes, and by organising educational programmes for health professionals, giving them access to the latest medical developments and information for everyday practice. Through this approach, we strive to achieve our goal of providing optimal treatment options for patients.

Our wide range of products for treating most common diseases of civilisation ensures affordable and the best possible therapies for patients. Doctors can choose from many generic medicines that combine several active ingredients and prescribe the most suitable therapy for each patient for the best treatment outcome. We plan to expand our portfolio of medicines for treating common chronic noncommunicable diseases and supplement it, especially with medicines for treating high blood pressure in innovative combinations and agents for treating blood-clotting disorders, diabetes and cancer. This will further contribute to attaining the relevant target under the United Nations' sustainable development goals (SDG).

Detailed information about Krka products is regularly published on our product, corporate, and thematic websites, available in over 30 languages. We are developing digital media and tools in certain therapeutic areas to help users alleviate symptoms. We are optimising digital communication channels and improving information to address the concerns and needs of our end users. We also create digital content to promote healthy lifestyles. All our product information complies with relevant regulations and is pre-approved by the competent regulatory body in each country, e.g. in Slovenia, the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia. No instances of non-compliance concerning product information were identified in 2023.[60]

After redesigning and updating the Slovene corporate website in 2022, we published our global corporate website in English and its Russian, Polish, Croatian, Romanian and Czech versions in 2023. They feature a new section 'Health Matters' and additional information on our products, their development and production, and quality assurance. Our standalone *eZdravje* portal is an important source of diverse and credible information on health in Slovenia. We also support certain web portals set up by professional associations to provide health-related information to the general public.

In 2023, we launched *Flebi*, our AI-powered mobile application that helps patients recognise symptoms of chronic venous disease. The general public recognised its benefits and innovative approach, while the Chamber of Commerce of Dolenjska and Bela Krajina awarded it for its innovative value. The application was also awarded the digital achievement prize at WEBSI, Slovenia's largest competition for digital projects.

Successfully conducted clinical research in our medicines translates into clinically proven use of the medicines to provide daily therapies for the increased number of patients. Patients can only be included in clinical research after expressing their willingness to participate voluntarily. Investigators inform them about the course of the research and any risks involved. Our main concerns are patient safety, privacy, and data confidentiality. We pursue them in line with Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and the free movement of such data. We identified no personal data breaches in 2023.[61] We apply good pharmacovigilance practices in monitoring and reporting adverse events. Results of clinical trials are published in the EU Clinical Trials Register to support their transparency. Over 350,000 patients from 27 countries have participated in over 150 post-authorisation clinical studies with our key medicinal products from the main therapeutic classes.

[60] GRI 417-1, 417-2, SDG 3
[61] GRI 418-1

Health professionals, healthcare providers and direct customers

We cooperate with various institutions, health insurance companies and other bodies dealing with medicinal and other Krka products in product development, production, sales and marketing. We adhere to all prescribed procedures and ensure our documents are up-to-date and reliable. To this end, we carry out our procedures properly and make sure our documentation is systematically organised, transparent and complete. Advertising of pharmaceutical products is subject to strict regulation and control. No complaints about non-compliance of marketing activities with regulations and ethical standards were received in 2023.[62] We foster transparent and traceable relationships with medical professionals.

Direct customers include distributors, pharmacy chains, hospitals, and pharmaceutical companies. We regularly conduct online satisfaction surveys among our direct customers to determine their general satisfaction level, their satisfaction with our products, sales personnel, order processing and fulfilment, and complaint procedures. After thoroughly analysing their reviews and proposals, we set measurable goals, take relevant steps, and monitor their performance in the subsequent survey.

In 2023, the response rate was 93%, up 10 percentage points compared to the year before. The satisfaction index of 92% was among the highest over the last five years. The respondents attached the highest importance to building strong business relationships with Krka, sales team response, and order fulfilment. Average scores surpassed 9 in the above-mentioned aspects and were high for the remaining aspects of customer satisfaction.[63]

Indirect customers or health professionals, i.e. doctors, veterinarians and pharmacists, prescribe, recommend, and dispense our products, representing a crucial link with patients and other end users. We regularly inform them about our products, enabling them to make informed decisions about which product is most suitable for their patients and users. We maintain direct contact with them in 42 countries and provide them with information in printed or electronic form. Whenever we communicate with health professionals, we act responsibly and in accordance with the applicable laws and other regulations on business operations, including regulations on product marketing and personal data protection. We comply with good business practices, recommendations of the Medicines for Europe, and an ethical code of promotion.

We contribute to the professional development of doctors, pharmacists and veterinarians by organising and supporting professional and educational meetings where they can build on their know-how, learn about new guidelines, exchange opinions and experiences, and network. Meetings take place in various countries where Krka's products are available and are organised as in-person, online, or hybrid events.

Physicians and pharmacists can access educational information on our thematic websites, which we constantly upgrade. In 2023, we launched Croatian, Polish, Slovak and Lithuanian web portals for healthcare professionals to complement the existing Slovenian version.

Our medical representatives regularly undergo professional training so they can inform health professionals about the latest treatment guidelines and provide accurate and current information about medicines from different therapeutic classes and other Krka products. We prioritise their comprehension and adherence to ethical standards, standards of work, legal requirements, and other regulations, alongside ensuring their proficiency in effective communication skills.

Feedback and opinions obtained through daily interaction and independent market research are important in providing high-quality, safe and effective medicines. IQVIA data for Poland, our second-largest market, showed that cardiologists ranked us the most visible company, with medical specialists from 18 specialist areas of medicine and general practitioners placing us among the most visible. Ipsos Comcon data for the Russian Federation, our major market, indicated that general practitioners and cardiologists ranked us first for prescriptions.

We actively engage in evolving the professional, scientific and regulatory landscape by participating in various professional and industry associations in Slovenia, the European Union, and other countries.

[62] GRI 417-3
[63] GRI 2-29

Corporate social responsibility

We are aware of the impact of our operations on society as we are an international pharmaceutical group and one of the largest companies in Slovenia. We manage them responsibly, adhering to our strategic guidelines and policies. We foster integrated and responsible social development, scientific research, intergenerational and interdisciplinary cooperation, adherence to diversity principles, and healthy lifestyles. We support projects related to health and quality of life. We maintain long-term partnerships through sports, culture, healthcare, science, education, and humanitarian initiatives. [64]

We identify the community's needs through regular contacts, long-term partnerships, annual meetings with our partners, and the process of preparing new sponsorship and donation contracts. Our sponsorship and donation committee screens sponsorship and donation applications.

We allocated 0.29% of our sales revenue to sponsorships and donations and helped more than 550 institutions, associations, and organisations achieve their goals.[65]

As many as 17 sports and cultural clubs and associations appeared under the Krka banner, and Krka supported another seven clubs and associations as their main sponsor. At the 17th meeting with Krka's sponsorship recipients, four outstanding youths were honoured with the Talent-of-the-Year Award, while 13 were acknowledged for their accomplishments. Notably, two individuals were awarded the Krka Supergirl and Superboy Award for the first time, in recognition of their multitude of talents, diverse achievements, and exemplary virtues. We extended our gratitude to nine representatives from various clubs, associations and institutions for their invaluable contributions.

Encouraging new scientific discoveries[66]

We endorse projects that advance the work of various educational and scientific institutions and deepen the expertise of highly skilled professionals. They are designed to upgrade infrastructure, offer scholarships, facilitate above-standard educational activities, promote research work, and enable participation in national and international competitions.

We attract young talent in research through Krka Prizes. Over the past 53 years, we have awarded 3,110 Krka Prizes. The Krka Prizes Council has played a prominent role in making research work popular among students, pupils and mentors in educational institutions. In the call for secondary school research papers, pupils handed in 49 research papers. We awarded 20 Krka Prizes and 29 recognitions for their research work. In the call for graduate and post-graduate research papers, we received 107 research papers and awarded Krka Prizes to 33 young researchers. Five of them received Krka Grand Prizes for their research work. We also presented the students with 29 special commendations and 46 recognitions. Among the recipients, 35 held doctoral degrees. The research papers covering theoretical and experimental issues and employing a multidisciplinary approach have been constantly improving in terms of quality and variety.

In 2023, we partnered with more than 50 primary and secondary schools, supported major projects at three primary schools and kindergartens, and donated to school funds for talented pupils. We also supported several end-of-year celebrations at primary and secondary schools. For the sixth consecutive year, our support for the Janez Drnovšek Scholarship Fund underscores our commitment to its endeavours.

The Slovene Science Foundation, our long-time sponsorship recipient, organised the 29th Slovene Science Festival in 2023, attracting participants from around the world.

Charity and volunteering

Volunteering and charity have become inseparable parts of our organisational culture. In 2012, we consolidated all our charitable and volunteering initiatives under Krka's Week of Charity and Volunteering. This campaign is organised in all countries where Krka has its subsidiaries and representative offices. In 2023, the number of Krka employees who volunteered to participate in the campaign was close to 1,000.

[64] GRI 3-3
[65] GRI 201-1
[66] GRI 203-1, 203-2, SDG 4, SDG 8

Our charity impact over the decade of Krka's Week of Charity and Volunteering

The campaign united over 10,000 Krka volunteers in acts of kindness.
We collected 31.9 tonnes of clothes, food, books, toys, personal hygiene products and other necessities for the Red Cross and the Slovenian Karitas charity.
We donated 1,095 litres of blood.
We spent time with the residents of 12 various institutions, associations and primary schools for children with special needs.
We socialised with the residents of 37 retirement homes, and organised workshops and cultural events for them.
We helped prepare more than 8,295 food packages and sort clothes and other necessities at the Red Cross and the Karitas charity.
We collected almost 4.2 tonnes of pet food and helped at pet shelters and the Ljubljana ZOO.
We hosted almost 21,000 visitors and Krka employees at Krka.

We encourage our employees to volunteer by participating on sponsorship boards of non-profit institutions and providing supplies. In 2023, as we have done every year since its establishment, we supported the retirement home in Novo mesto by donating three adaptive bicycles for their elderly daycare centre to celebrate the 43rd anniversary of the retirement home. Furthermore, we reiterated our commitment to the Novo mesto Dragotin Kette Primary School for children with special needs. Alongside our 46-year-long support through the Krka sponsorship board, we arranged a trip to Planica for the pupils and their mentors in 2023.

In 2023, we presented the 12th consecutive Volunteer of the Year Award and thanked 166 Krka employees who donated blood between 10 and 100 times.

Support for healthcare institutions[67]

Providing medicines to treat modern-day common diseases is one of our top goals. We continuously complement and upgrade our product range to respond to the evolving needs of patients and effectively address challenges in their treatment.

In line with our goal to provide affordable treatment, we donate to healthcare institutions while complying with applicable laws. Our donations towards acquiring state-of-the-art medical devices aid in improving the quality of health care services, diagnostics, and patient treatment.

We have been pursuing our mission to help people live a healthy and satisfying life for 70 years. To mark our anniversary, we once again supported several healthcare institutions. We donated to the Division of Paediatrics at the University Medical Centre Maribor, the Division of Paediatrics at the University Medical Centre Ljubljana, and departments of paediatrics at another ten general Slovenian hospitals because the youngest are at the heart of our patient care.

Support for patient associations and societies[68]

We work with patient associations and societies because we appreciate their contribution to the quality of treatment and patient safety. Among others, we supported two projects: What Does Your Heart Beat for?, a campaign run by the Slovenian Hypertension Society and the Slovenian Society of Cardiology, and Neuropathic Pain, a project managed by the Slovenian Association for Pain Management.

Partnership in sports

We promote many sporting activities to foster healthy lifestyles. Our focus lies in supporting local clubs and associations that encourage youth involvement in recreational or professional sports. We donate funds to purchase sports equipment for schools and other organisations that promote a healthy lifestyle.

[67] SDG 3, SDG 5
[68] SDG 4

Our long-term sports partners are Krka Athletic Club Novo mesto, Gymnastics Society Novo mesto, Golf Club Grad Otočec, Krka Bowling Society Novo mesto, Adria Mobil Cycling Club Novo mesto, Krka Equestrian Club - Grm Novo mesto, Krka Basketball Club, Krka Men's Volleyball Club Novo mesto, Krka Men's Handball Club, Krka Table Tennis Club Novo mesto, Krka Football Club, TPV Volley Club Novo mesto, Krka Mountaineering Society Novo mesto, Krka Rog Ski Society, Krka Chess Society Novo mesto, Krka Otočec Tennis Club, Krka Women's Basketball Club Novo mesto, and Krka Women's Handball Club. We have also supported recreational and sporting activities under Krka Retirees Society since its establishment in 2000.

Through our campaign Caring for Your Health – Together We Scale the Heights, we carried out maintenance work on 17 signposted Krka hiking trails and contributed to safety in the Slovenian mountains together with the Alpine Association of Slovenia.

Our exclusive sponsorship of the Ski Flying World Championship in Planica was an acknowledgement of a 38-year-long collaboration. We arranged a trip to Planica for 383 children and their mentors from eight primary special education schools to see the qualifications for the ski jumping competition.

We also supported the Women FIS Ski Jumping World Cup in Ljubno in Slovenia, events organised by the Slovenian Tennis Association and the Slovenian Gymnastics Federation, and the biggest amateur cycling event in Slovenia, Maraton Franja BTC City.

Dedicated to culture

We strive to bring culture closer to our employees and the local and wider community.

We have hosted cultural evenings since 2008 to show our appreciation for artistic work, offering people the opportunity to experience enriching and captivating cultural events. The inaugural cultural evening took place at the church housing the Galerija Božidar Jakac gallery in Kostanjevica na Krki, featuring the members of the Russian chamber choir of the Smolni Cathedral from St. Petersburg. In the years that followed, many distinguished Slovenian and foreign musicians and artists gave impressive performances at what became a traditional cultural event in the Dolenjska region. We hosted two cultural evenings in 2023. In July, the chamber ensemble Dissonance, comprising established Slovenian musicians, performed in Kostanjevica na Krki. The December cultural evening at the Krka Hall in Novo mesto featured the Slovenian pianist Meta Fajdiga and the Brazilian pianist Richard Octavian Kogima.

We celebrated the Slovenian National day of Culture by staging a music performance by male and female vocal ensembles. Our long-lasting partnership with the Cankarjev dom cultural and congress centre in Ljubljana led to the 1st international ballet festival at the centre. The five-day event hosted four remarkable ballet performances by Slovenian and international ballet companies, alongside a talk and an exhibition dedicated to the renowned artist Rudolf Nureyev.

We supported the publication of ten books and many cultural societies, institutions and events, among them the Galerija Božidar Jakac gallery in Kostanjevica na Krki, Pihalni orkester Krka brass band, the Novo mesto Anton Podbevšek Teater theatre, Festival Ljubljana cultural and art institution, the Slovenian Reading Badge Society, the Slavic Society of Dolenjska and Bela krajina, the 55th international PEN Writers' Meeting organised by the Slovene PEN Centre, and the Cankar Award for the best original literary work. Krka's Culture and Arts Society plays a prominent role in fostering culture. In 2023, the Society arranged the 44th Dolenjska Book Fair, 18 art exhibitions, eight Theatre Club meetings, various art workshops, and performances by Krka's mixed choir and Krka Octet.

Support for non-governmental and humanitarian organisations[69]

Every year, we support several non-profit, non-governmental, and non-political organisations and their initiatives, particularly those of the Red Cross and the Slovenian Karitas charity.

In August 2023, extreme weather with heavy rain caused severe flooding in a large part of Slovenia. Many lost their homes and belongings. We stepped in with our know-how and equipment to help some companies and communities that were hit

[69] GRI 201-1, 203-1

hardest by the floods. Our technical team provided assistance to the Slovenian company KLS Ljubno in restarting their production capacities, and members of Krka Fire Brigade helped in recovery efforts in the Slovenian town of Luče. Many employees volunteered in various flood relief campaigns during their annual leave. We paid one-time solidarity aid to employees most severely hit by the floods in line with the adopted emergency legislation to help them repair damage that poses a threat to life and seriously affects housing conditions. We contributed €1 million to the government's flood relief fund.

Krka has been the main sponsor of the People in Need Fund of the Regional Branch of the Red Cross in Novo mesto for several years. We worked with humanitarian organisations and made several substantial donations to help three families and individuals in need. Our executive managers also made a contribution to the Regional Branch of the Red Cross in Novo mesto to help a young family renovate a part of their house to accommodate a mobility-impaired family member.

In collaboration with the local Association of Friends of Youth Mojca in Novo mesto, we distributed gifts to over 2,500 children residing in three municipalities within the Dolenjska region, including the children of Krka employees.

We maintained our association with the Chain of Good People project launched by the Association of Friends of Youth Ljubljana Moste-Polje. The association helps families in need in Slovenia. We have been working together with the Novo mesto Occupational Activity Centre for many years. The centre's residents once again prepared New Year gifts for our company.

We provided material and financial support to firefighting departments. We contributed towards the purchase of new fire engines and equipment, as well as the refurbishment of fire stations for 14 fire departments and firefighting agencies across Slovenia. We also helped 50 fire departments to raise funds by preparing promotional material.

Social responsibility projects

If you need further information on social responsibility projects, please e-mail us at druzbena.odgovornost@krka.biz or contact us by regular post at Krka, tovarna zdravil, d. d., Novo mesto, Public Relations, Šmarješka cesta 6, 8501 Novo mesto, Slovenia.

Natural environment

We reduce the environmental impacts of our operations by introducing sustainable solutions, something we factor in throughout the product life cycle. We are committed to climate change mitigation and adaptation, rational use of energy and all natural resources, transition to the circular economy, emission and waste reduction, and biodiversity conservation. Bearing this in mind, we ensure a healthy living environment for our employees and the wider community. In 2023, we made significant progress in enhancing the environmental dimension of sustainability. We continued our efforts to operate predominantly on zero-carbon electricity, rolled out energy efficiency improvement projects and campaigns, improved the separate waste collection system, reduced deposited waste, and set up a returnable packaging system in partnership with our major supplier. We adhere to environmentally sound management guidelines across the Krka Group.

2023 environmental milestones

We cut the specific energy use measured in TJ per billion product units by 5.4% compared to 2022.
We reduced the Krka Group's carbon footprint by 4.1% compared to 2022 (Scope 1 and Scope 2 under the GHG Protocol).
All our energy efficiency improvement projects returned emission savings of 160 t CO_2-eq per year.
We purchased an all-electric truck, which will reduce our fuel consumption by over 15,000 litres annually.
We reduced total waste by 3.6% on 2022.
We reduced total water consumption by 11% on 2022.
We reduced the volume of sludge produced at the wastewater treatment plant in Ločna (Slovenia) by 17.4%.
We substituted 5.6% of river water used to supply cooling towers with rainwater.
We reduced disposable waste by 10%.
We reduced waste packaging by 43 tonnes through our returnable packaging system and solvent supply system employing reusable intermediate bulk containers. This translated into emission savings of 115 t CO_2-eq.
We handed over a total of 567 tonnes of waste composites for processing, from which the contractor recovered 187 tonnes of aluminium and 332 tonnes of plastic.
We set strategic ESG goals, which commit us to reducing our carbon footprint, increasing renewable energy, cutting specific waste, and ensuring efficient use of energy, water and other natural resources.

In 2023, total waste decreased by 3.6%, notwithstanding the increase in production. Recycling waste separation increased by 10%, and disposable waste decreased by 10%. A total of 22.5 tonnes of reusable plastic packaging were returned to suppliers through our returnable packaging system. Metal packaging waste decreased by 20.5 tonnes after introducing the system for supplying dichloromethane in reusable intermediate bulk containers. This returned emission savings of 115 t CO_2-eq. By processing waste composites, the contractor recovered 519 tonnes of reusable materials. By doing so, we contributed to the circular economy.

We reduced total water consumption by 11% on 2022. Year on year, drinking water consumption decreased by 2.9% to 656,773 m^3 and river water consumption by 17.9% to 644,103 m^3. Total environmental load units (ELUs) for wastewater treatment saw a 22% drop on 2022.

Environmental management system and policies[70]

The *2022–2028 Krka Group Development Strategy* and *ESG Policy* of the Krka Group adopted in 2022 restated the close connection between our operations and sustainable development. Responsible environmental management adds to our long-term competitiveness and aids us in meeting stringent environmental standards. Our stakeholders also rely on us to mitigate environmental risks. We set up our comprehensive environmental management system in compliance with the ISO 14001 standard 22 years ago. The Environmental Management System (EMS) certificate obligated us to minimise all our environmental impacts, while the revised edition of the ISO 14001:2015 standard compelled us to incorporate environmental considerations from the outset of development stages and projects. Successful audits validate our progress in enhancing all areas affecting the environment.

All employees are included in the comprehensive environmental management system, which is specified in the internal document *Environmental Management System*. Environmental Protection employees carry out tasks at the operational level. The system's goals are: a high level of environmental protection throughout the product life cycle; constant reduction of our environmental impact; compliance; and attainment of corporate environmental objectives. We handle waste that remains after certain processes and cannot be reused according to stringent requirements specific to the pharmaceutical industry using the best available techniques (BAT). We adhere to the precautionary principle whenever a risk assessment, hazard assessment for the water environment, or feasibility study indicates that a new technology, production process or a product may result in a significant environmental burden. If such a risk is identified in the pre-development phase of a product, the product is discontinued. For products in the development phase, we explore alternatives to replace substances that pose major environmental hazards. We implement additional measures for products in the production phase to mitigate their environmental impacts.

[70] GRI 2-23, 2-24, 2-25, 3-3

We collect and analyse data about the environmental management system through a range of methodological tools. We leverage all available resources, including monitoring outcomes for our processes or activities with significant environmental impact, findings of self-inspections and audits, internal audits, security checks, inspections, customer claims, and risk analyses. They confirm the system's suitability and efficiency and highlight improvement opportunities.

We report environmental data to our management, national authorities (reports on environmental emissions monitoring submitted to the Slovenian Environment Agency (ARSO)), the Association of Chemical Industries at the Chamber of Commerce and Industry of Slovenia (Responsible Care Reports – RC), and other stakeholders. Environmental data in the *Annual Report* are compiled according to GRI Standards and will be progressively harmonised with these Standards in the future.

The environmental policy and *ESG Policy* of the Krka Group also commit us to responsible environmental operations. To monitor progress, we have set measurable strategic goals. The two policies and strategic ESG goals, which include environmental goals, are available at www.krka.biz.

All our activities comply with the requirements of the Environmental Protection Act and implementing regulations. They serve as the basis for environmental protection permits issued for individual production sites. We regularly account for environmental taxes and submit them to competent institutions in conformity with relevant legislation. Environmental legislation forms a substantial component of the European acquis. For our internal reference, we maintain a compendium encompassing 20 legal areas, which undergoes biannual review. These lists are made available on our internal web pages. The Committee for Monitoring Environmental Aspects periodically reviews compliance with legal and other requirements applicable to Krka. It appoints responsible persons and sets deadlines to implement any additional measures necessitated by legislative amendments. A management review assesses progress towards goals and the implementation of programmes. The Committee is tasked with periodically identifying environmental aspects, encompassing the impacts of our products and services across their life cycles. Environmental Protection and the Committee assess identified environmental risks within environmental planning, which are also integrated into business continuity, quality, and risk assessments of contractual partners.

We control compliance with legislative and regulatory requirements and environmental protection permits by regularly monitoring air, water, soil, noise emissions, and electromagnetic radiation, as well as waste assessments, and regular checks of reservoirs, equipment, and transport of hazardous substances. We manage any deviations in compliance with internal standards and introduce necessary corrective measures.

Local community members and other stakeholders can use the complaint system to file a complaint, a question, or put forward a suggestion relating to environmental protection. Publicly available information on environmental protection and contact details are published on *www.krka.biz*, which was completely updated and extended with ESG topics in 2022.

Environmental compliance[71]

All our activities comply with environmental laws, permits, ISO 14001, guidelines and EU directives. We control environmental compliance by regularly monitoring all environmental impacts. All results of environmental impact monitoring in 2023 complied with legal requirements.

Inspections by the Environment and Energy Inspectorate of the Republic of Slovenia reaffirmed our compliance with environmental legislation. No irregularities were established in inspections in 2023. We received a decision to implement wastewater treatment measures at our Krško plant (Slovenia).

In 2019, the Inspectorate of the Republic of Slovenia for the Environment and Spatial Planning issued a decision on the construction of a wastewater treatment plant at the Krško production site. Construction was delayed due to a lengthy environmental protection permit modification procedure. Therefore, the Environment and Energy Inspectorate of the Republic of Slovenia issued an enforcement order fining us and extended the period for fulfilling the imposed obligation. Construction on the wastewater treatment plant commenced in October 2023. The plant is to be operational in 2025.

[71] GRI 2-27, 413-1

We filed an application with the Slovenian Ministry of the Environment, Climate and Energy to amend the environmental protection permit for our Ločna (Slovenia) production site and for an environmental protection permit for a low environmental risk facility at the same production site.

We received no complaints related to environmental protection from our stakeholders in 2023.

Environmental protection costs

Over the last five years, we have allocated more than €50 million to environmental protection, of that €10.9 million in 2023. Direct costs amounted to €8.1 million and included costs of wastewater discharge and treatment, waste management, waste air treatment, noise reduction, monitoring costs, environmental levies and other direct environmental protection costs. We invested €2.8 million in environmental protection programmes to further minimise environmental impacts.

Water[72]

Clean drinking water that meets rigorous chemical and microbiological quality requirements is indispensable for the pharmaceutical industry. We devote considerable effort to safeguarding the quality of water bodies at our production sites. Drinking water quality also depends on seasonal fluctuations and precipitation. We closely monitor gauge height to guarantee optimal performance of pharmaceutical water preparation machines and to maintain drinking water quality within threshold values. All Krka water systems are managed in compliance with Good Manufacturing Practice (GMP) and the HACCP system. We minimise system failures through planned preventive maintenance in line with equipment manufacturers' recommendations, our experience, legislative requirements, and standards.

Wastewater resulting from rinsing the machines for preparation of pharmaceutical water is chemical-free and is reused to prepare water for energy supply. Two separate supply systems deliver water to the central distribution system, guaranteeing a continuous and uninterrupted flow of pharmaceutical water to the production facilities. In the event of a water supply interruption, the system decreases the volume of water drawn from the public supply network. Any deficit is then compensated for by utilising pharmaceutical water stored for this purpose in reservoirs.

Drinking and river water use

Our main water sources are:
- Drinking water from the municipal utility services; and
- River water.

Drinking water consumption is monitored by a computerised control system, which records the flow rate total and consumption total at the plant input and main user points. We can immediately identify any increase or deviation in drinking water consumption, investigate the underlying reasons, and take all necessary measures. We draw up monthly drinking water consumption reports. We encourage our employees to drink tap water or from drinking fountains that dispense water from the public water supply network. We save on average 10% of drinking water by utilising tap jet regulators.

We comply with stringent requirements set down by pharmacopoeias regarding water preparation in the pharmaceutical industry. Our practice entails utilising only drinking water of officially controlled quality from the water supply utility. Water undergoes additional purification depending on its intended use, most commonly using sophisticated membrane technologies. Preventive maintenance, machine operation monitoring, and technological improvements ensure consistent water quality, prolong the useful life of the equipment, decrease water and chemical consumption, and reduce waste generation.

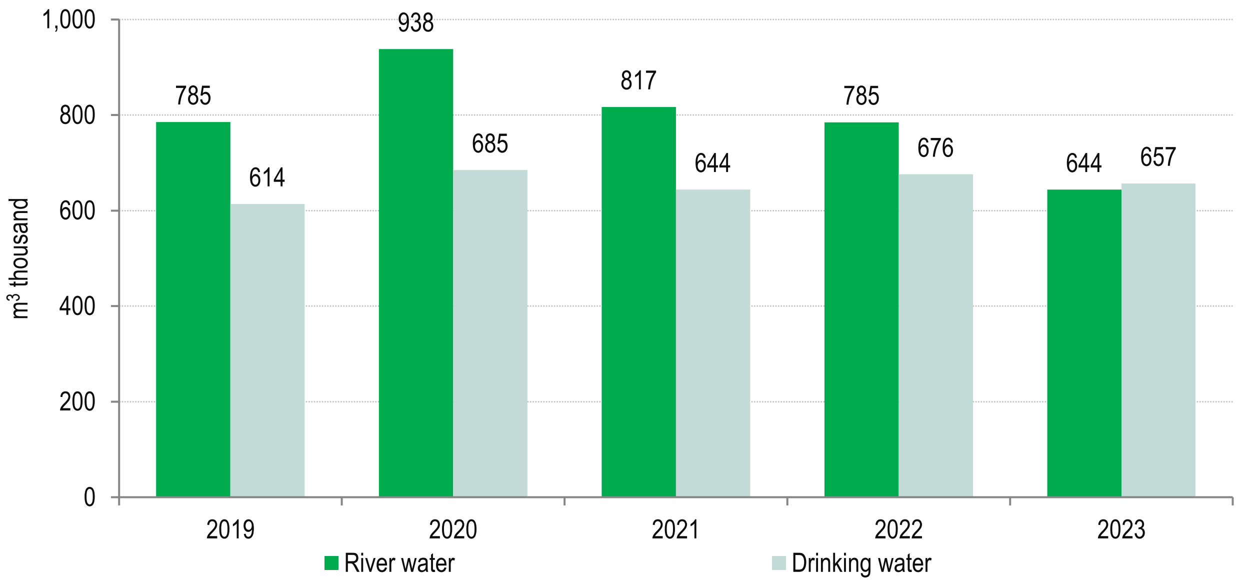
At Krka, total water consumption in 2023 decreased by 11% year on year. River water use declined by 17.9% and drinking water use by 2.9%.

Approximately 50% of river water is used for cooling through various heat exchangers, especially in API production, while the rest is used for preparing technological waters to meet the demands of energy supply and production. We markedly

[72] GRI 3-3, 303-1, 303-2

reduced river water use by withdrawing a major river water consumer and upgrading technological processes. We replaced 7,380 m^3 or 5.6% of river water for cooling systems with rainwater, a 1.3% year-on-year increase.

Drinking and river water use[73]



Energy

Our main energy sources are:

- Natural gas;
- Electric power; and
- Fuel oil as back-up fuel.

The electric supply is sourced from the public utility electricity grid, in-house generators powered by renewable sources like the solar power station, and the natural gas-fired cogeneration plant.

Energy management system[74]

Energy management strategy is incorporated into Krka's integrated management system and drafted in accordance with the principles of ISO 50001 *Energy Management System*. It is integrated into the corporate strategy and comprises various activities and actions for achieving cost-related and environmental objectives. The Committee for Monitoring Environmental Aspects is tasked with periodically identifying energy-related aspects in alignment with ISO 14001, bye-laws and policies. Through this approach, we manage and enhance our processes with a focus on sustainable development and circular economy principles, ensuring a high level of environmental protection is maintained.

Energy management system incorporates:

- A corporate energy manager, who supervises and coordinates the work of energy operators;
- Energy operators in production plants in Slovenia and abroad; and
- All employees, committed to efficient and rational energy use in line with the environmental policy.

The energy management control system serves as the primary information tool to support the energy management system, complementing the computer system for monitoring and control. In 2023, we upgraded it to the latest version, which includes machine learning. Please see the 'Energy efficiency projects' section for more information.

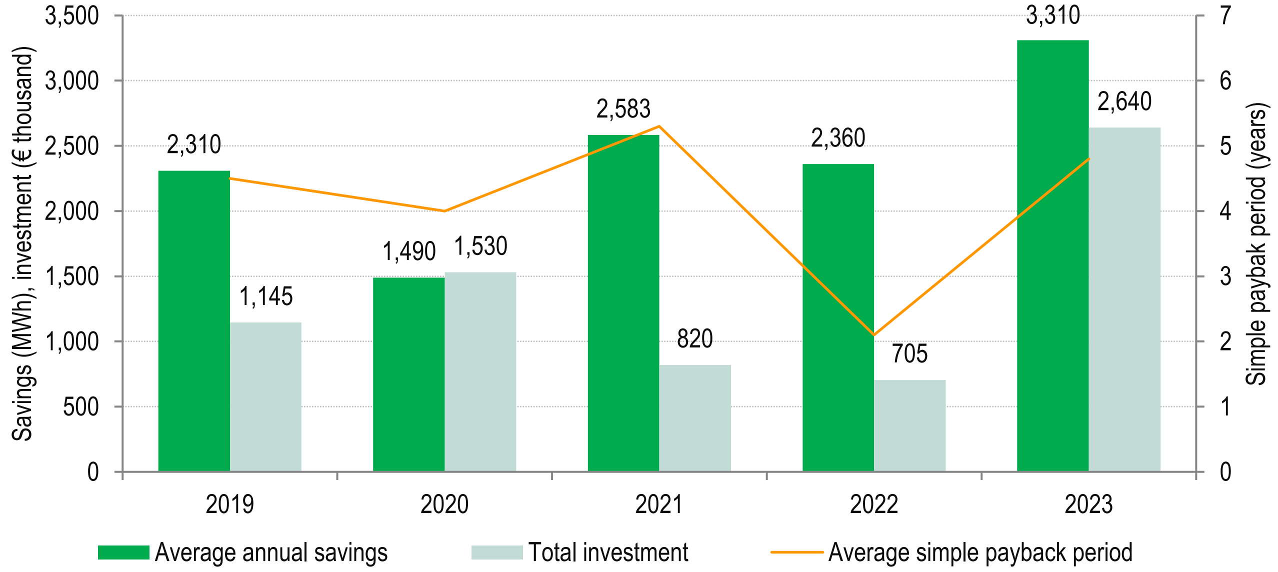
[73] GRI 303-3, 303-5
[74] GRI 3-3

Krka excelled in energy efficiency in 2023

During the 25th Slovenian Energy Experts Conference *Dnevi energetikov* held on 18 and 19 April 2023 in Portorož, Slovenia, the Slovenian business daily *Finance* recognised outstanding energy projects and top energy-efficient companies. Krka won the title of the most energy-efficient company in the expert jury and internet users' opinion.

We received two awards for integrated, efficient and sustainable management of energy and natural resources, as seen in the reduction of specific energy use and greenhouse gas emissions. We save more than 50 GWh of electricity and natural gas per year. Our purchase of zero-carbon electricity returned annual CO_2 emission savings of 45,000 tonnes. This corresponds to planting 170,000 trees. We generate more than 50% of the required thermal power by waste heat recovery.

Survey of implemented measures and their impact on energy management[75]



In accounting for an average simple payback period, we consider only measures taken exclusively for economic viability. Softening energy prices increased the simple payback period in 2023 compared to 2022.

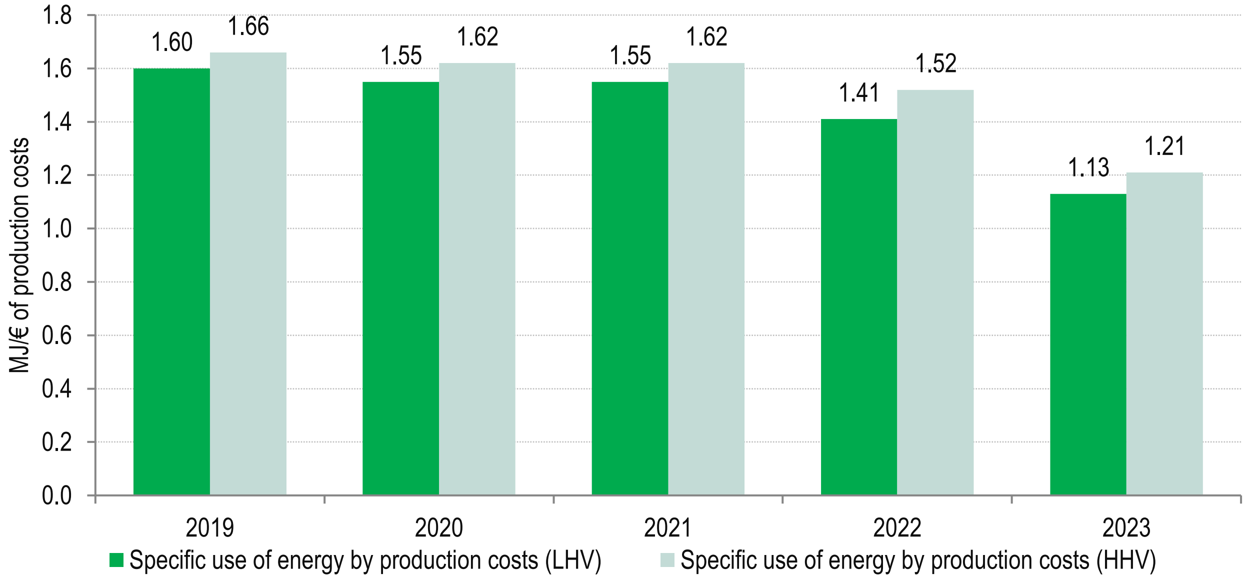
Specific use of energy[76]

Specific use of energy shows production costs, taking into account the physical volume of production.

Through various initiatives focused on efficient energy use, energy efficiency investment, and energy-efficient maintenance, we achieved a 20% year-on-year reduction in specific energy use correlated with production costs. This indicator showed that we decreased absolute energy consumption year on year despite higher production costs in 2023.

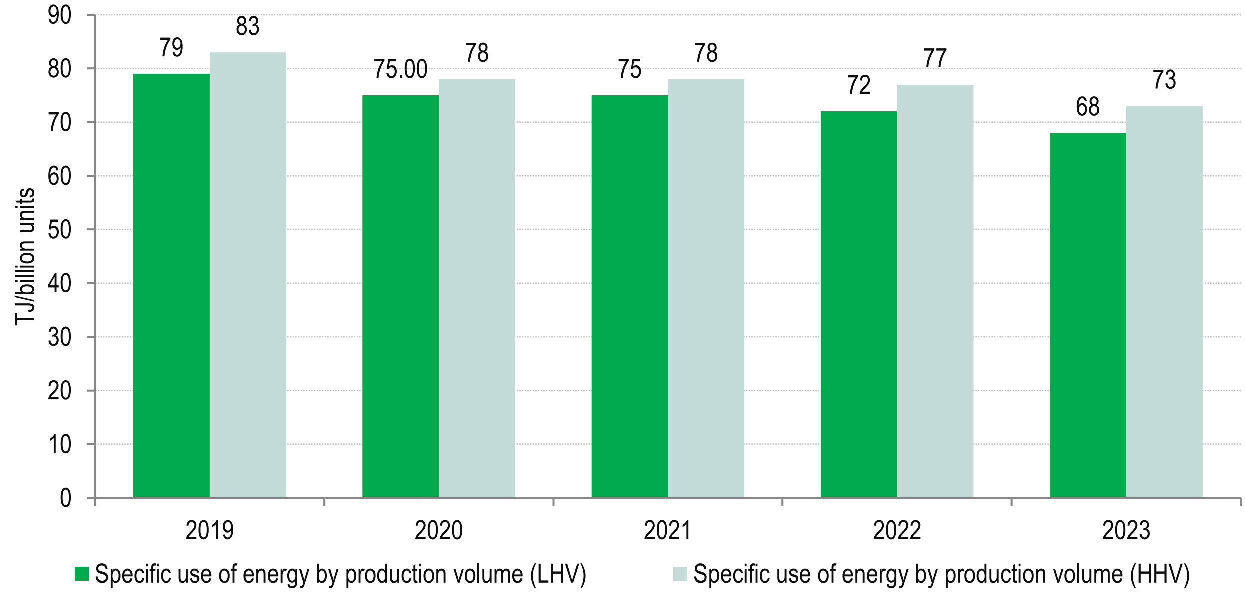
[75] GRI 302-4
[76] GRI 302-3

Specific use of energy by production costs



Through various initiatives focused on efficient energy use, energy efficiency investment, and energy-efficient maintenance, we achieved a 5% year-on-year reduction in specific energy use correlated with production volume.

Specific use of energy by production volume



Energy efficiency projects

We prioritise energy efficiency, as evidenced by our ongoing efforts to enhance specific use of energy. In recent years, systematic measures and investments have returned average electricity and natural gas savings of more than 50 GWh or emission savings of 17,000 t CO_2-eq per year. In 2023, all energy efficiency projects generated savings of 1,810 MWh and cut our emissions by 160 t CO_2-eq.

Upgrading the energy management information system – AI-driven industrial energy audit

We upgraded our energy management information system, which supports advanced analyses and accurate monitoring of our environmental goal achievements. One of the key objectives was the introduction of machine learning into energy processes, which uses artificial intelligence to monitor energy efficiency. This advanced technological solution allows easy control over the efficiency of production, processes, energy and other media consumption in a large system, which includes over 2,500 measurement points. It allows for energy efficiency screening of individual processes, speeding up our response in case of unexpected changes.

Interconnection of two cooling stations for preparing water-glycol mixture in the temperature range of -1 to 3 °C

We ensure that all work processes in the pharmaceutical industry meet the necessary environmental conditions. Relative air humidity is an important parameter, and we use two cooling stations to maintain it at required levels in certain seasons. After monitoring the efficiency of two distinct water-glycol mixture production systems at our two largest production sites, we identified an opportunity to reduce electricity consumption (200 MWh) during the preparation of the water-glycol mixture within the temperature range of -1 to 3 °C. We optimised the process by interconnecting the two stations, enabling us to produce the water-glycol mixture by running only one station. Before the reconstruction, the same quantity of the medium that can now be produced by a single station could only be produced by operating both stations. The system's specific use of energy improved by another 25%.

Waste heat recovery

We use waste heat as a by-product from various processes, e.g. from the compressor station, flue gases from steam boilers, vapours from the steam boiler system, and condensed heat from cooling units and cogeneration, to prepare heating water. Thanks to this, natural gas consumption for heat generation decreases by 54% (24 GWh) annually.

Upgrading energy efficiency monitoring at the Bršljin plant

In 2023, we installed additional electricity meters to enable real-time monitoring of production efficiency for primary utilities at the Bršljin plant (Slovenia). We integrated the measurements into our energy management information system and deployed a machine learning module to monitor on-site energy use at specific locations.

Optimisation of air-conditioning system operation

The concept, planning, design, regulation, control and operation of air-conditioning (HVAC) systems are among the deciding factors of an efficient end use of energy in production and non-production facilities. HVAC systems account for approximately 60% of energy end use at Krka. We enhanced the control of operating parameters to improve increase energy efficiency further. We conducted regular hydraulic balancing of distribution systems and heating and cooling consumers. In 2023, we completed a project involving the implementation of dehumidification technology with glycol chillers for dry air preparation, replacing the obsolete and energy-inefficient drying wheel system.

Replacement of FLUO lighting with LED lights

In line with the Krka Group's internal strategy for transition to LED lamps, we rolled out the first replacement projects. This upgrade improved the illumination of rooms and work surfaces at the Ločna site in Slovenia, with estimated annual electricity savings of 800 MWh.

Biodiversity[77]

Biodiversity in Slovenia is among the greatest in the European Union. Slovenia covers only 0.004% of the Earth's total surface area. However, it is home to more than one percent of all known species and more than two percent of terrestrial species.

All Krka production sites comply with and implement all guidelines and requirements of the European and national legislation on biodiversity to preserve the natural world's ecological, biotic and landscape features.

We raise employee awareness of the importance of biodiversity in internal training courses. We comply with the strictest environmental requirements for existing buildings and planned ones. A systematic biodiversity evaluation of watercourses as ecosystems in Slovenia has not been established yet. Therefore, we observe various publications and reports issued

[77] GRI 3-3, 304-2, 304-4

by the Slovenian Environment Agency, the Institute of the Republic of Slovenia for Nature Conservation, the Statistical Office of the Republic of Slovenia, and other professional institutions.

The area around the Krka River is an ecologically important area (EIA) and protected as a Natura 2000 site because it is an important natural habitat of several water and riparian plant and animal species, especially fish, amphibians and birds. According to the Nature Conservation Act, an EIA is an important contributor to biodiversity, while Natura 2000 demonstrates our commitment to preserving natural heritage important for Slovenia and Europe. Responsibilities are clearly defined in the European Birds Directive and the Habitats Directive. The Krka River is a habitat for several threatened species. These include fish species such as the asp, huchen, and cactus roach, thick-shelled river mussel, olm, and the European otter and beaver. The river water collection and discharge of treated wastewater from our wastewater treatment plant do not threaten the preservation of water and riparian areas or the conditions for connecting these areas. The new external lighting and appropriate lighting fixtures significantly reduced the impact of artificial lighting on animals and plants, contributing to biodiversity conservation.

All Krka production facilities are concentrated within their respective sites and do not sprawl into ecologically sensitive areas. The areas of our Ljutomer, Šentjernej, Bršljin, and Krško plants (all Slovenia) are not included in the Natura 2000 network. All wastewater is treated appropriately at the municipal wastewater treatment plants in Ljutomer, Šentjernej, Novo mesto, and the Vipap wastewater treatment plant in Krško (all Slovenia) in order to prevent any potential harm to biodiversity from our emissions.

Transport[78]

In 2023, we organised transport for over 11,000 shipments of finished products, raw materials and packaging materials. Total mileage by our fleet surpassed 2.0 million km, and fuel consumption totalled 569,000 litres. We continued to modernise our fleet and organised training for drivers.

We use state-of-the-art vehicles equipped with environmentally sound engines for road transport. We supply products to distant markets primarily by sea or by air. Our in-house transport department organises transport. We use our fleet or employ contractual carriers. Most of our products are delivered to European and Asian markets. Despite encountering additional restrictions in transit countries and facing challenges in air and maritime transportation, transport proceeded without any hindrances. To ensure uninterrupted supplies of medicines, we successfully completed the trial phase of transporting goods by rail between China and Slovenia. Due to uncertainties in the Red Sea and consequent prolonged transit times, we devised an alternative transport route between India and Slovenia.

We diligently and consistently adhere to the regulations governing the transport of pharmaceutical products, ensuring thorough communication and compliance with all contractual carriers and their drivers regarding these requirements and other pertinent specifics. Last year, the competent national bodies for transport control found no violations of the legislation.

We select our transport contractors carefully and encourage them to use modern vehicles that comply with the highest environmental standards. Their fleet includes vehicles running on liquefied natural gas.

Our fleet comprises 19 transport vehicles. We modernised it by adding three semi-trailers in 2023. All vehicles satisfy relevant requirements regarding drivers, safety, and environmental standards. New vehicles are equipped with state-of-the-art accessories (e.g. adaptive cruise control systems, ESP/ESC emergency braking, traction control system, and blind-spot detection system) that enhance traffic safety. In December 2023, we upgraded our fleet with an all-electric truck for transporting goods across Slovenia. The new vehicle marks a significant upgrade of our electric vehicle fleet and sets a new standard going forward, reaffirming our commitment to the ongoing pursuit of our long-term sustainable mobility policy. Notably, this is the first electric truck with gross vehicle weight of more than 12 tonnes, both at Krka and in Slovenia. Based on workload estimates, the truck will cover more than 50,000 kilometres a year and generate fuel savings of more than 15,000 litres. This is equivalent to the total fuel consumption of 10 typical Slovenian passenger car drivers. A fossil fuel-powered truck of the same category generates more than 40 tonnes of CO_2, meaning it would take 2,600 trees to offset its carbon emissions. We also have 14 electric and two hybrid vehicles in our fleet. We intend to closely monitor

[78] SDG 12

advancements in modern low-carbon vehicles and further expand our fleet. Following our vehicle acquisition strategy, we plan to replace at least 20 used diesel and petrol vehicles with electric ones by 2025.

We intend to expand our charging station network, which currently includes eight standard stations, by adding the first fast charging station. The new station at our site in Novo mesto will be capable of charging a vehicle six times faster than a standard electric vehicle charger. Whenever feasible, we opt for teleconferencing or video conferencing as substitutes for business travel to minimise fuel consumption and air pollution.

We joined the European Mobility Week for the eighth consecutive year with our Krka Car-Free Day campaign. In 2023, the campaign united our employees from 12 countries. Sustainable commuting has become a habit of many Krka employees. Many of our employees in Slovenia, 40% of them, live more than 40 km away from the company. The increasing number of employees carsharing contributes to reducing the environmental impact, enhancing traffic safety, and improving air quality. Green mobility should be safe, so we regularly inform our employees of health and safety recommendations and campaigns and encourage them to follow them on their way to work. To encourage our employees to commute by bike, we set up bicycle parking areas at all our facilities in Slovenia. In 2023, we arranged a modern bicycle parking station in Ločna (Novo mesto), increasing bicycle parking capacity by more than 40% and providing more secure bicycle parking. We also encourage using alternative and less environmentally harmful modes of commuting as part of *Krka's Mobility Plan*.

Emissions

Wastewater[79]

We use various physical, chemical and biological processes to completely and effectively remove pollutants from wastewater. We comply with the Decree on the Emission of Substances and Heat in the Discharge of Wastewater from Installations for the Production of Pharmaceutical Products and Active Substances, which serves as the basis for environmental protection permits issued for individual Krka production sites. At all our sites, an authorised contractor carries out wastewater monitoring. Monitoring frequency and scope are set down in individual permits.

Study findings show that the proportion of active pharmaceutical ingredients discharged into water from the pharmaceutical industry is lower than the proportion of these substances discharged into the water by end users. Nevertheless, we supplemented this well-managed aspect of wastewater treatment with hazard assessments for the water environment for individual active pharmaceutical ingredients and other substances. Hazard assessment for the water environment is a part of a broad risk assessment. The method of treating wastewater, any additional measures and the procedure for handling waste are prescribed according to the calculated risks based on physico-chemical, ecotoxicological and toxicological data for each active pharmaceutical ingredient and information concerning the local water environment. We regularly control and review the calculations, incorporating the latest research findings and other credible technical information into wastewater and waste management. In collaboration with our external partners, we have developed complex analytical methods for monitoring residue concentrations in wastewater for several active pharmaceutical ingredients that present heightened environmental risk.

We reduce industrial wastewater quantities and pollution at all stages of the production process. We integrate considerations from environmental protection permits and legislative requirements from the product development stage onwards, opting for technologies that minimise water consumption whenever possible. Advanced water preparation technologies, closed cooling systems, and other methods are employed to save production water. Whenever possible, we use raw materials and excipients that are less harmful to water. We minimise the quantity of detergents used in production washing procedures. At all our production sites, wastewater is treated in compliance with all legislative parameters for effluents before discharging into surface water. Wastewater in Ločna, Novo mesto (Slovenia), is treated at our advanced in-house industrial wastewater treatment plant using the best available technologies to meet the requirements. Wastewater from off-site plants is treated at highly efficient municipal wastewater treatment plants.

The Ločna plant (Slovenia) generates industrial and municipal wastewater, which we treat at the in-house biological wastewater treatment plant. Unpolluted cooling water is discharged into the Krka River through a cooling and rainwater

[79] GRI 303-2, 303-4, SDG 12

discharge system. In recent years, we have upgraded and professionally managed the biological wastewater treatment plant, ensuring that effluent quality remains high and compliant with all legal requirements. In 2023, we collected and treated 710,121 m³ of wastewater, or 80,427 m³ (10%) less than in 2022. Organic pollution expressed by chemical oxygen demand was cleaned in 91.5%, while removal of organic pollution expressed by biochemical oxygen demand within 5 days reached 98.6%. Cooling wastewater volume totalled 347,182 m³, down 75,557 m³ on 2022. By effectively managing the wastewater treatment plant, we reduced the volume of sludge, which is subsequently handed over to a contractor for further processing, by 17.4%. Total environmental load decreased by 274 ELU, or 19%, year on year.

Our Bršljin plant (Slovenia) generates industrial and municipal wastewater, which is discharged by the public sewerage system and treated at the municipal wastewater treatment plant in Novo mesto. In 2023, we generated a total of 19,288 m³ of wastewater.

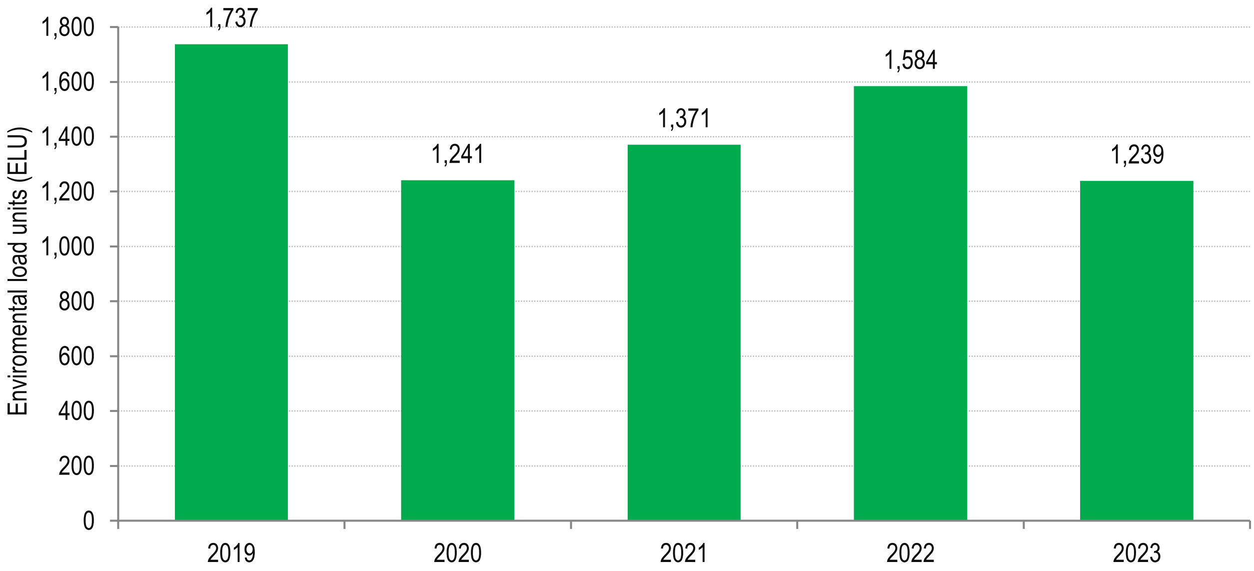
Our plant in Šentjernej (Slovenia) generates industrial and municipal wastewater. Effluents are discharged by the public sewerage system and treated at the common municipal wastewater treatment plant in Šentjernej. In 2023, we generated a total of 17,364 m³ of wastewater.

Our plant in Ljutomer (Slovenia) generates industrial, municipal, and cooling wastewater. Effluents are discharged by the public sewerage system and treated at the common municipal wastewater treatment plant in Ljutomer. In 2023, we generated a total of 26,436 m³ of wastewater.

Our plant in Krško (Slovenia) generates industrial, municipal, and energy supply wastewater. Effluents are discharged by the public sewerage system and treated at the Vipap wastewater treatment plant in Krško. In 2023, we generated a total of 28,308 m³ of wastewater. Construction of an in-house wastewater treatment plant is underway at the site. The plant is planned to become operational in June 2025.

In 2023, total environmental load decreased by 345 ELU, or 22%, year on year. Our in-house wastewater treatment plan at the Ločna site contributed most to the reduction.

Wastewater management



Environmental load units (ELU) denote the standardised mathematical calculation of pollution from all wastewater outlets in Slovenia (Ločna, Šentjernej, Bršljin, Ljutomer, and Krško). The calculation takes into account the annual wastewater rate of discharge; organic pollution; nitrogen, phosphorous, and suspended solids load; and the impact of wastewater treatment.

Waste[80]

Waste management complies with the waste management plan and instructions, which consider legal requirements and set out technical and organisational measures and waste management goals. We incorporate extended producer responsibility into common plans for managing waste medicines and packaging waste. We ensure the collection and appropriate processing of packaging materials and the safe disposal of unused medicines by end users.

We comply with the legally prescribed waste management classification and prioritise reducing environmental impacts, as set out in the ISO 14001:2015 environmental standard. Our priority is to prevent waste generation through:

- Downsizing packaging units;
- Using returnable packaging;
- Using tank vehicles and large returnable packaging units to supply liquid raw materials;
- Developing improved technological and production procedures;
- Using recovered solvents;
- Reusing pallets; and
- Many other measures.

We constantly optimise pack sizes and packaging material weight to reduce purchasing costs and waste packaging volume. We set up a returnable packaging system with our supplier. This allowed us to reuse 22.5 tonnes of plastic packaging material in 2023 in line with the circular economy principles. Solvents that we used to receive in single-use metal containers are now supplied in large returnable packaging units. In this way, we reduced packaging volume by 20.5 tonnes. Both measures reduced packaging waste by 43 tonnes and emissions by 115 t CO_2-eq.

Producing double or triple combination medicines yields higher packaging and excipient savings and leads to reduced waste volume compared to producing mono-component medicines.

We manage unavoidable waste comprehensively. We prioritise their preparation for reuse. Waste is an important source of raw materials and energy, so special attention is paid to separating waste at source, i.e. at the point where it is generated, and preparing it for reuse. This is another way in which we contribute to the circular economy principles. We have set up a separate waste collection system. All employees take part in the process. Our system relies on advanced equipment for separated collection, pressing and waste transportation. Recycling waste separation increased by 10% year over year. In 2023, we collected 567 tonnes of waste composites, up 13% compared to 2022. An approved contractor recovered 187 tonnes of aluminium and 332 tonnes of plastic from them and handed them over for recycling. We handed over 116.8 tonnes of organic waste to obtain biogas via anaerobic digestion, reducing emissions by 10.5 t CO_2-eq.

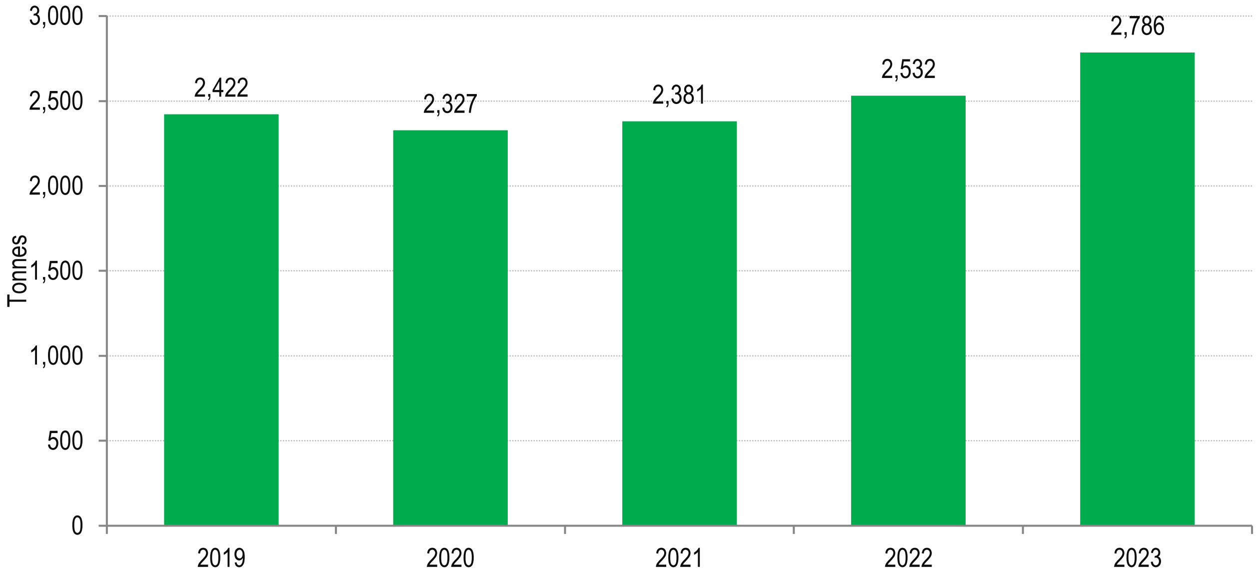
Year on year, we reduced total waste volume by 3.6%, notwithstanding the increase in production, and reduced waste disposed at landfills by 64 tonnes, or 10%.

Risks related to the reception and removal of certain types of waste in Slovenia persisted in 2023. We diversified our waste management channels and extended cooperation to several waste collection and removal companies in Slovenia and abroad to manage the risks.

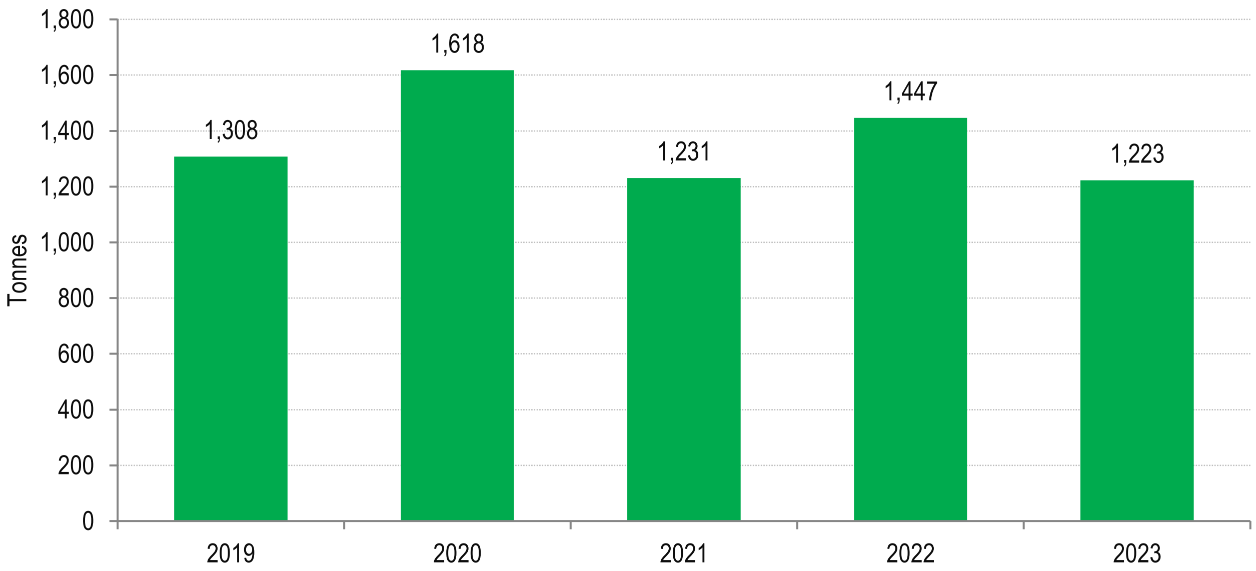
Achieving favourable outcomes necessitates responsible efforts from all employees. To accomplish this, we provided our employees with regular waste management training.

[80] GRI 3-3, 306-1, 306-2, SDG 12

Recyclable waste[81]

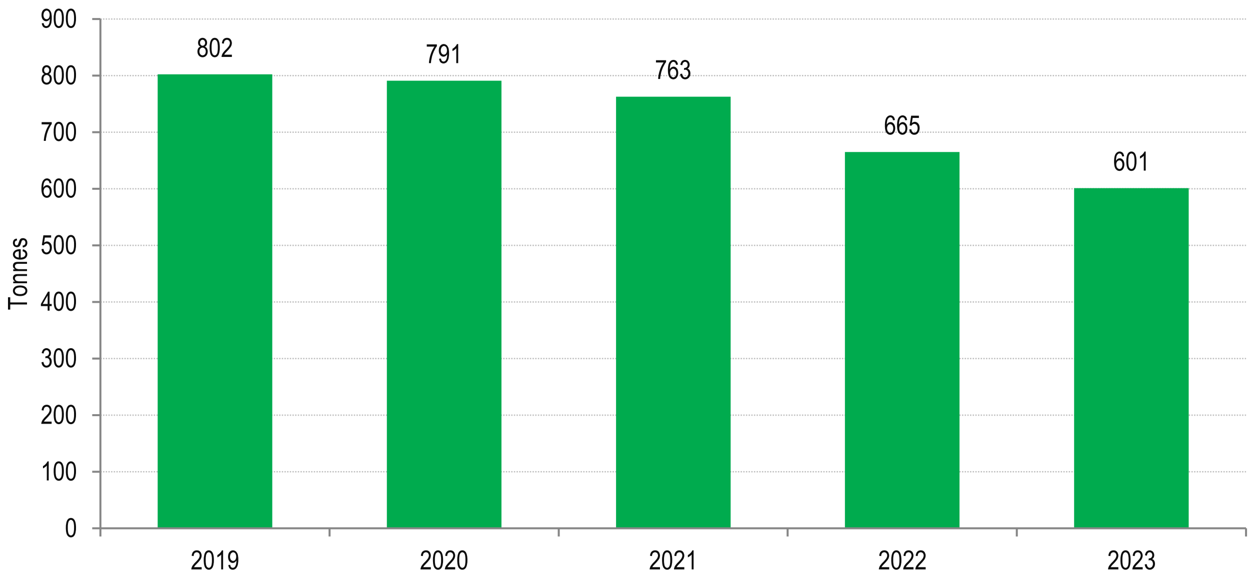


Waste for biological processing[82]

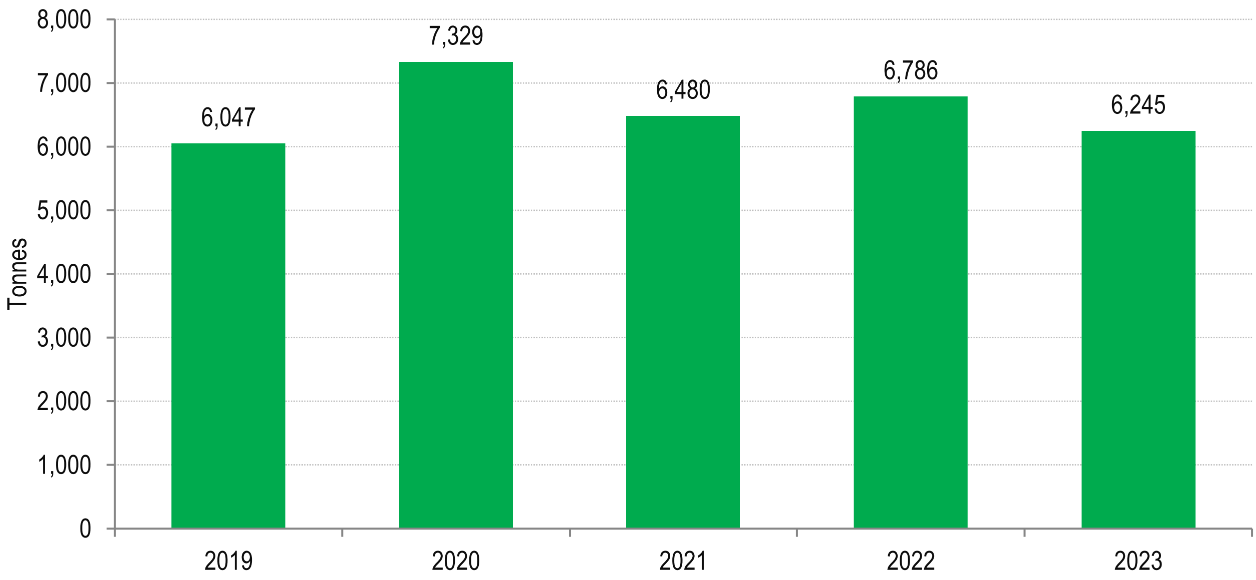


81 GRI 306-4
82 GRI 306-4

Waste disposed at landfills



Waste for incineration[83]



Noise

We reduce noise emissions using suitable equipment, installing the equipment in closed rooms, setting up noise barriers, fitting cargo vehicles with electrical cooling units, and relocating cargo vehicle docks to the inner areas of production sites. Adhering to regulations on environmental noise indicators, we conduct noise level measurements every three years and whenever modifications are made that could potentially increase noise levels. Results of monitoring conducted by authorised contractors over the last three years confirm that implemented measures were effective and noise levels complied with legislative requirements.

Air emissions[84]

Effective reduction of air emissions is one of our priorities in environmental protection and climate change mitigation. We comply with the EU actions aimed at implementing the European Green Deal, as well as legal requirements and the

[83] GRI 306-5
[84] GRI 3-3, SDG 13

pharmaceutical industry's stringent requirements to prevent cross-contamination. We reduce air emissions using treatment systems fitted on all outlets that could constitute a potential source of pollution. We use effective de-dusting systems, filters, wet-type filtration systems, condenser columns, and thermal oxidisers to keep air emissions below the legal threshold or the levels the best available technology allows.

Slovenia has a problem with occasional excessive air pollution with harmful PM_{10} particles and certain other pollutants, for example, $PM_{2.5}$ particles, nitrogen dioxide, ozone, and benzo(a)pyrene, which cause many health issues. At Krka, absolute air filtration is applied to all airborne particle emissions to remove over 99.7% of all particulate matter.

We calculated the Krka Group's carbon footprint from 1 January 2023 to 31 December 2023 inclusive pursuant to Greenhouse Gas Protocol (GHG) Scope 1 and Scope 2.

In 2023, emissions from combustion of fuel in Krka Group-owned stationary equipment used mainly for heating and in production processes and occasional emissions from combustion of fuel in diesel generators that supply power to key equipment in the event of a power outage accounted for the largest proportion of greenhouse gases (58%). Emissions from consumed electricity followed with 20%, and emissions from burning of fuels by Krka Group-owned transportation devices such as trucks, vans and cars with 19%. Other emissions, for example fugitive emissions resulting from cooling liquid leaks from cooling and heating stations, process emissions from oxidation of volatile organic agents in regenerative thermal oxidisers, emissions from wastewater treatment, emissions from consumption of heat from the heat network and heat from the cogeneration system, accounted for less than 3% of total greenhouse gas emissions.

Greenhouse gas emissions[85]

Since 2021, all our energy consumers in Slovenia have been using exclusively zero-carbon energy sources. We aim to reduce further total CO_2 emissions (Scope 1 and Scope 2 under the GHG Protocol) and maximise the carbon neutrality of our processes. We plan to include Scope 3 emissions in our subsequent emission calculations.

As our production site in Ločna (Novo mesto, Slovenia) is included in the EU emissions trading scheme, we report our emissions to the Ministry of the Environment, Climate and Energy in accordance with the relevant legislation.

In 2023, the Krka Group recorded a 48.4% decrease in CO_2 emissions compared to the reference year 2019. We reduced year-on-year Scope 1 emissions by 4.2% and Scope 2 emissions by 4.1% according to GHG.[86]

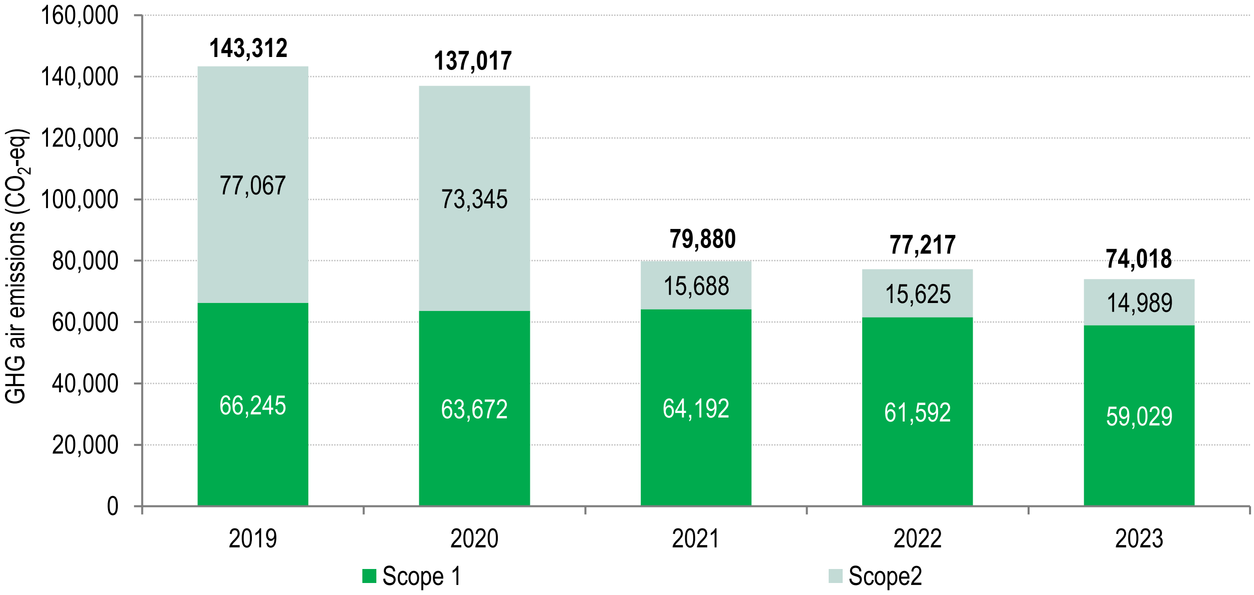
2019–2023 Krka Group carbon footprint relative to revenue, employee total, and production volume[87]

	2023	2022	2021	2020	2019
Carbon footprint/Revenue (kg CO_2-eq/€)	0.041	0.045	0.051	0.089	0.096
Carbon footprint/Employee total (t CO_2-eq/employee)	6.28	6.67	6.90	11.78	12.48
Carbon footprint/Physical production volume (t Co_2-eq/billion units)	4,379.8	4,596.3	4,930.9	8,304.1	9,428.4

In 2023, reports and the action plan for Krka Group total carbon footprint reduction were revised, adjusting the Scope 1 emission factor. In turn, total GHG emissions for 2022 changed.

[85] GRI 305-1, 305-2
[86] GRI 305-5
[87] GRI 305-4

2019–2023 Krka Group total greenhouse emissions according to GHG (Scope 1 and Scope 2)[88]



Objectives and action plan

We calculated our Scope 1 and Scope 2 carbon footprint and prepared the Krka Group's action plan for reducing GHG emissions by 2025, 2030, and 2050. This plan aligns with our commitment to reduce CO2 emissions and contribute to the EU's goal of becoming climate-neutral by 2050.

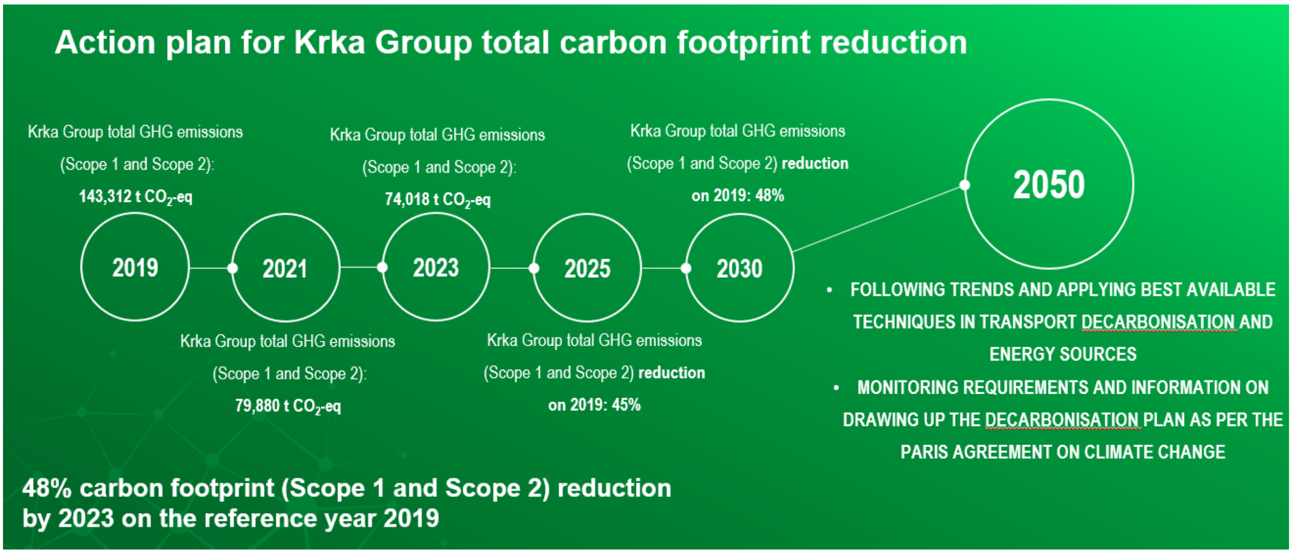
Our objective is to reduce the Krka Group's Scope 1 and Scope 2 carbon footprint by 48% by 2030 compared to the reference year 2019 through our activities. The 2030 decarbonisation target relies on intensifying fleet electrification, optimising business processes, and improving energy efficiency. The goal to reduce the carbon footprint has not yet been aligned with the Paris Agreement's objectives and science-based targets. Activities set out in the action plan are integrated into the strategic planning of investment projects, which Krka will highly likely deliver employing its own financial assets and human resources. We will monitor trends and leverage the best available technologies in the supply of carbon-neutral energy sources. If carbon-neutral energy sources are available on the market in accordance with the national energy and climate plan, Krka will strive to achieve the Paris Agreement's goals and reduce its carbon footprint by 50% by 2030.

Krka intends to maintain growth and increase its production volumes at all production sites. Therefore, it is deemed more acceptable and realistic to set relative carbon footprint reduction goals in correlation to production volume.

Carbon footprint reduction remains the Krka Group's goal also for the 2030–2050 period. We will leverage the best available technologies in decarbonisation and the supply of carbon-neutral energy sources (RES, hydrogen, etc.) and utilise them in our processes wherever feasible. Our action plan for reducing carbon footprint by 2050 will build on science-based targets (SBTi) and the Paris Agreement's decarbonisation and climate neutrality goals.

[88] GRI 305-1, 305-2, SDG 12

Chronology of performance and set goals by 2050



Electromagnetic radiation (EMR)

We constantly monitor relevant legislation and conduct necessary measurements. Electromagnetic radiation is universally present in our living environment. However, extended electricity grids and appliances also emit high-level electromagnetic radiation harmful to living organisms.

We identified high- and low-frequency electromagnetic radiation at Ločna, our main Slovenian facility in Novo mesto, as follows:

- Mobile phone base stations;
- Signal amplifier systems inside buildings;
- Transformer stations;
- Power sources used in production; and
- Medium-voltage power lines and connections.

The initial measurements indicate that radiation levels from identified sources were below statutory thresholds. There are no mobile phone base stations at our other production and business sites in Slovenia, making them less intense energy-wise.

Light pollution

Parking lots, traffic routes (i.e. roads and pedestrian areas), as well as transport and warehousing facilities at our production and business sites in Slovenia are illuminated with outdoor lighting. Our signage and billboards are also illuminated. The astronomical clock regulates the automatic activation and deactivation of outdoor lighting, signage, and billboards. We conduct separate measurements for electricity consumption for outdoor lighting at our major sites. In 2023, total rated power for all sites in Slovenia amounted to 25 kW or 17% less than in 2014 in Ločna alone.

Environmental protection at Krka's subsidiaries

We effectively disseminate robust environmental protection guidelines and practices across all subsidiaries through ongoing cooperation, information sharing, and investment. Compliance with national legislation is a key aspect of this process. Additionally, we have implemented efficient separate waste collection systems and exclusively utilise authorised waste collection and treatment companies for proper disposal.

Wastewater generated during the production of highly potent active ingredients at our plant in Jastrebarsko, Croatia, undergoes treatment at our in-house wastewater treatment plant using advanced oxidation processes that yield a 99.9% degradation of active substances. Wastewater at Krka-Rus in the Russian Federation is treated at the in-house wastewater membrane biological wastewater treatment plant, which we upgraded in 2023 by setting up a secondary sedimentation tank. Wastewater from other production plants and companies is discharged to modern municipal wastewater treatment plants.

We install highly efficient absolute filtration devices on units emitting particulate matter to reduce emissions. We transfer good practices in rational energy and water use to subsidiaries. In 2023, we reviewed the energy management system internally at Krka-Rus in the Russian Federation. The review revealed several points for improvement. We intend to set establish a comprehensive monitoring system for production efficiency for heating, cooling and power sources to ensure permanent control of the relevant systems.

Environmental communication

We recognise every employee's potential to significantly contribute to positive environmental protection outcomes. Therefore, we actively encourage continual learning and heightened environmental consciousness among our staff. Our internal communication campaign Your Care for the Environment Counts promotes energy conservation, paper reduction, and the importance of separate waste collection.

Responsible environmental management forms a part of the induction seminar for newly recruited employees and the national vocational qualification programmes. We included courses on comprehensive environmental management in the *Catalogue of Training Programmes* and courses on waste, wastewater, noise, air emissions, light pollution, and environmental sustainability topics. In 2023, 1,199 employees from Krka in Slovenia attended environment-related training courses.

We made all the related content available online during the COVID-19 pandemic. We included employees from abroad in the education about environmental protection and sustainable development by preparing various language versions of the content in e-format. In 2023, 48 employees took part in these trainings.

We brief the public about our environmental activities via public announcements in the media and at various seminars, symposia, and round tables. Additionally, we play an active role in developing environmental legislation and are a co-founder and engaged member of the Environment and Energy Section of the Dolenjska and Bela Krajina Chamber of Commerce and Industry. We work hand in hand with professional and scientific organisations in Slovenia and abroad.

Upholding responsible care for society and the environment necessitates fostering positive relationships with local community stakeholders, particularly our immediate neighbours, as our activities directly influence their living environment and quality of life. We sustain continuous and transparent communication with our neighbours, cultivating strong relationships. In March 2023, held our customary meeting with them, during which we shared updates on our environmental protection actions, accomplishments, and future plans. We plan to hold another meeting in 2025. We prepared an informative booklet *Utrip okolja* to inform our immediate neighbours of our Krško plant (Slovenia) about the company's activities, investment plans, and environmental actions. We sent the booklet to more than 1,000 recipients. We also met with the plant's immediate neighbours in December 2023. We also presented the company's activities, investment plans and environmental impacts at the Municipal Council meeting of the Municipality of Krško.

We take into account the perspectives and feedback from all our stakeholders when enhancing the environmental management system.

In 2023, during the Slovenian Chamber of Commerce and Industry's annual Environmental Business Day, the Environmental Sustainability Manager of the Year award was introduced for the first time. The inaugural recipient of this award was the Head of Environmental Protection at Krka.

GRI content index

Statement of use	Krka Group has reported in accordance with the GRI (Global Reporting Initiative) Standards for the period from 1 January 2023 to 31 December 2023
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI sector standard(s)	At the time of the preparation of the report there were no relevant sector standard(s).

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GRI standard	**Disclosure**	**Page**	**Segment**	**Requirement(s) omitted and explanation(s)**
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2-3	Reporting period, frequency and contact point	153	Sustainable development, About the Report	
2-4	Restatements of information	153	Sustainable development, About the Report	
2-5	External assurance			Krka has not yet decided on an external verification of GRI reporting.
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2-6	Activities, value chain and other business relationships	11 93–94 101–114 115–134 134 140 141 142	Krka Group financial highlights Share trading and shareholding Sales by region Product and service groups Research and development Supply process Suppliers Investments	
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2-16	Communication of critical concerns	33	Chief Compliance Officer	
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2-19	Remuneration policies		Supervisory Board report	Published on the website of the Krka Group.
2-20	Process to determine remuneration		Supervisory Board report	Published on the website of the Krka Group.

2-21	Annual total compensation ratio			In accordance with the remuneration policy, fixed remuneration of Management Board members is determined as a multiple of the average salary of all Krka employees in the last three months. These multiples are determined by the Supervisory Board upon the appointment of the Management Board and differ based on the scope of tasks and areas of work that each member of Management Board covers. For the President of the Management Board multiplier of 10 is used.
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GRI 305: Emissions 2016				
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GRI 306: Waste 2020				
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GRI 308: Supplier environmental assessment 2016				
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308-1	New suppliers that were screened using environmental criteria	140	Supply process	Data capturing includes the number of assessments by all criteria.
SOCIAL				
GRI 401: Employment 2016				
3-3	Management of material topics	157	Employees	
401-1	New employee hires and employee turnover	158	Employees	Data capturing includes employee turnover at the Krka Group level.
401-3	Parental leave	163	Health and safety at work	Data capturing includes the share of employees who took parental leave.
GRI 403: Occupational health and safety 2018				
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GRI 404: Training and education 2016				
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404-2	Programs for upgrading employee skills and transition assistance programs	159	Employee education and development	
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405-1	Diversity of governance bodies and employees	37 39 157 164	Composition of Supervisory Board of Krka as at 31 December 2023 Composition of Management Board of Krka as at 31 December 2023 Employees Health and safety at work	
GRI 406: Non-discrimination 2016				
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3-3	Management of material topics	172	Natural environment	
413-1	Operations with local community engagement, impact assessments, and development programs	173	Natural environment	Data capturing does not include the percentage of the operations.
GRI 414: Supplier social assessment 2016				
3-3	Management of material topics	140	Supply process	
414-1	New suppliers that were screened using social criteria	140	Supply process	Data capturing includes the number of assessments by all criteria.
GRI 415: Public policy 2016				
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415-1	Political contributions	35	Contributions and other financial commitments	
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FINANCIAL REPORT

Living a healthy life.

Contents

Introduction to the financial statements

The financial statements consist of two separate sections.

The first section illustrates the consolidated financial statements and related notes of the Krka Group, whereas the second section encompasses the financial statements and the accompanying Notes of Krka, d. d., Novo mesto (hereinafter: 'the Company'). The financial statements have been prepared in compliance with the International *Financial Reporting Standards* (hereinafter: '*IFRS*') as adopted by the European Union, which is in compliance with the resolution adopted at the 11th Annual General Meeting held on 6 July 2006.

The financial statements of the Company and the Krka Group are presented in euros, rounded to the nearest thousand. They are an integral part of the *2023 Annual Report*, which is published via the SEOnet electronic announcement system of the Ljubljana Stock Exchange, the ESPI system of the Warsaw Stock Exchange, and on the Krka website (https://www.krka.biz/en/for-investors/financial-reports/).

Each section of the financial statements was audited by KPMG Slovenija, d. o. o., and two separate reports as individual sections have been prepared accordingly.

The Statement of Compliance presented below includes an acknowledgement of the Management Board's responsibility for all financial statements of both the Company and the Krka Group.

Statement of compliance

The Management Board of Krka, d. d., Novo mesto is responsible for the preparation of the Annual Report of the Company and of the Krka Group including the financial statements in a manner that gives the interested public a true and fair view of the financial position and the results of operations of the Company and its subsidiaries in 2023.

The Management Board hereby acknowledges as follows:

- the financial statements of the Company and its subsidiaries have been prepared on a going concern basis;
- the selected accounting policies are applied consistently and any changes in accounting policies have been reported;
- the accounting estimates have been prepared in a fair and reasonable manner and are in compliance with the principles of prudence and due diligence;
- the financial statements and the Notes thereto for the Company and the Krka Group have been prepared in accordance with the applicable legislation and the *IFRS,* as adopted by the EU.

The Management Board is responsible for taking the measures required to preserve the assets of the Company and the Krka Group and to prevent and detect fraud and other forms of misconduct.

The tax authorities may, at any time within a period of five years after the end of the year for which tax assessment was due, carry out the audit of the Company operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regard to corporate income tax or other taxes and levies. The Management Board is not aware of any circumstances that may result in a significant tax liability.

Novo mesto, 25 March 2024

Jože Colarič
President of the Management Board and CEO

dr. Aleš Rotar
Member of the Management Board

dr. Vinko Zupančič
Member of the Management Board

David Bratož
Member of the Management Board

Milena Kastelic
Member of the Management Board – Worker Director

Consolidated financial statements of the Krka Group

Consolidated statement of financial position

€ thousand	Notes	31 Dec 2023	31 Dec 2022	Index 2023/22
Assets				
Property, plant and equipment	11	790,345	779,336	101
Intangible assets	12	102,348	102,550	100
Loans	13	70,098	77,539	90
Investments	14	47,674	110,770	43
Deferred tax assets	15	47,728	53,770	89
Other non-current assets		1,074	1,060	101
Total non-current assets		**1,059,267**	**1,125,025**	**94**
Assets held for sale		41	41	100
Inventories	16	604,621	553,332	109
Contract assets		429	946	45
Trade receivables	17	509,070	402,730	126
Other receivables	17	51,364	27,728	185
Loans	13	58,719	6,327	928
Investments	14	306,769	52,437	585
Cash and cash equivalents	18	174,011	518,934	34
Total current assets		**1,705,024**	**1,562,475**	**109**
Total assets		**2,764,291**	**2,687,500**	**103**
Equity				
Share capital	19	54,732	54,732	100
Treasury shares	19	-138,489	-124,566	111
Reserves	19	154,495	192,204	80
Retained earnings	19	2,091,317	1,996,246	105
Total equity holders of the controlling company		**2,162,055**	**2,118,616**	**102**
Non-controlling interests	19	19,711	19,893	99
Total equity		**2,181,766**	**2,138,509**	**102**
Liabilities				
Provisions	21	124,398	107,235	116
Deferred income	22	5,547	6,048	92
Lease liabilities	27	8,547	8,089	106
Deferred tax liabilities	15	10,726	10,758	100
Total non-current liabilities		**149,218**	**132,130**	**113**
Trade payables	23	153,762	140,837	109
Lease liabilities	27	3,452	3,752	92
Income tax payables		8,960	28,194	32
Contract liabilities	24	162,173	157,710	103
Other current liabilities	25	104,960	86,368	122
Total current liabilities		**433,307**	**416,861**	**104**
Total liabilities		**582,525**	**548,991**	**106**
Total equity and liabilities		**2,764,291**	**2,687,500**	**103**

The accompanying Notes form an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated income statement

€ thousand	Notes	2023	2022	Index 2023/22
Revenue		**1,806,391**	**1,717,453**	**105**
– Revenue from contracts with customers	4	1,801,873	1,712,530	105
– Other revenue		4,518	4,923	92
Cost of goods sold		-779,682	-743,060	105
Gross profit		**1,026,709**	**974,393**	**105**
Other operating income	5	6,147	9,197	67
Selling and distribution expenses		-347,898	-349,111	100
– Whereof net impairments and write-offs of receivables		3,712	-1,875	
R&D expenses		-178,582	-162,580	110
General and administrative expenses		-106,755	-90,688	118
Operating profit		**399,621**	**381,211**	**105**
Financial income	9	23,567	57,668	41
Financial expenses	9	-56,062	-5,806	966
Net financial result		**-32,495**	**51,862**	
Profit before tax		**367,126**	**433,073**	**85**
Income tax expense	10	-53,394	-69,411	77
Net profit		**313,732**	**363,662**	**86**
Attributable to:				
– Equity holders of the controlling company		313,946	363,296	86
– Non-controlling interests		-214	366	
Basic earnings per share (€)	**20**	**10.14**	**11.69**	**87**
Diluted earnings per share (€)	**20**	**10.14**	**11.69**	**87**

The accompanying Notes form an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of other comprehensive income

€ thousand	Notes	2023	2022	Index 2023/22
Net profit		**313,732**	**363,662**	**86**
Other comprehensive income for the year				
Other comprehensive income reclassified to profit or loss at a future date				
Translation reserve	19	-49,705	11,850	
Net other comprehensive income reclassified to profit or loss at a future date		**-49,705**	**11,850**	
Other comprehensive income that will not be reclassified to profit or loss at a future date				
Change in fair value of financial assets	14	10,912	128	8,525
Restatement of post-employment benefits	21	-12,007	26,099	
Deferred tax effect	15	-2,695	-3,417	79
Net other comprehensive income that will not be reclassified to profit or loss at a future date		**-3,790**	**22,810**	
Total other comprehensive income for the year (net of tax)		**-53,495**	**34,660**	
Total comprehensive income for the year (net of tax)		**260,237**	**398,322**	**65**
Attributable to:				
– Equity holders of the controlling company		261,740	398,461	66
– Non-controlling interests		-1,503	-139	1,081

The accompanying Notes form an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of changes in equity

€ thousand	Share capital	Treasury shares	Reserves: Reserves for treasury shares	Reserves: Share premium	Reserves: Legal reserves	Reserves: Statutory reserves	Reserves: Fair value reserve	Reserves: Translation reserve	Retained earnings: Other profit reserves	Retained earnings: Retained earnings from previous years	Retained earnings: Profit for the year	Equity attributable to the holders of the controlling company	Non-controlling interests	Total equity
Balance at 1 Jan 2023	**54,732**	**-124,566**	**124,566**	**105,897**	**14,990**	**30,000**	**2,670**	**-85,919**	**1,442,702**	**200,273**	**353,271**	**2,118,616**	**19,893**	**2,138,509**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**313,946**	**313,946**	**-214**	**313,732**
Total other comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**-3,181**	**-48,451**	**0**	**-574**	**0**	**-52,206**	**-1,289**	**-53,495**
Total comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**-3,181**	**-48,451**	**0**	**-574**	**313,946**	**261,740**	**-1,503**	**260,237**
Transactions with owners, recognised in equity														
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0	0	0	0	101,893	-101,893	0	0	0	0
Transfer of previous periods' profit to retained earnings	0	0	0	0	0	0	0	0	0	353,271	-353,271	0	0	0
Repurchase to treasury shares	0	-13,923	0	0	0	0	0	0	0	0	0	-13,923	0	-13,923
Formation of reserves for treasury shares	0	0	13,923	0	0	0	0	0	0	0	-13,923	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-204,378	0	-204,378	0	-204,378
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0	1,321	1,321
Total transactions with owners, recognised in equity	**0**	**-13,923**	**13,923**	**0**	**0**	**0**	**0**	**0**	**101,893**	**47,000**	**-367,194**	**-218,301**	**1,321**	**-216,980**
Balance at 31 Dec 2023	**54,732**	**-138,489**	**138,489**	**105,897**	**14,990**	**30,000**	**-511**	**-134,370**	**1,544,595**	**246,699**	**300,023**	**2,162,055**	**19,711**	**2,181,766**

The accompanying Notes form an integral part of the consolidated financial statements and should be read in conjunction with them.

€ thousand	Share capital	Treasury shares	Reserves						Retained earnings			Equity attributable to the holders of the controlling company	Non-controlling interests	Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Translation reserve	Other profit reserves	Retained earnings from previous years	Profit for the year			
Balance at 1 Jan 2022	**54,732**	**-114,541**	**114,541**	**105,897**	**14,990**	**30,000**	**-22,077**	**-98,274**	**1,370,902**	**155,083**	**293,952**	**1,905,205**	**13,880**	**1,919,085**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**363,296**	**363,296**	**366**	**363,662**
Total other comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**24,747**	**12,355**	**0**	**-1,937**	**0**	**35,165**	**-505**	**34,660**
Total comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**24,747**	**12,355**	**0**	**-1,937**	**363,296**	**398,461**	**-139**	**398,322**
Transactions with owners recognised in equity														
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0	0	0	0	71,800	-71,800	0	0	0	0
Transfer of previous periods' profit to retained earnings	0	0	0	0	0	0	0	0	0	293,952	-293,952	0	0	0
Repurchase to treasury shares	0	-10,025	0	0	0	0	0	0	0	0	0	-10,025	0	-10,025
Formation of reserves for treasury shares	0	0	10,025	0	0	0	0	0	0	0	-10,025	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-175,025	0	-175,025	0	-175,025
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0	6,152	6,152
Total transactions with owners, recognised in equity	**0**	**-10,025**	**10,025**	**0**	**0**	**0**	**0**	**0**	**71,800**	**47,127**	**-303,977**	**-185,050**	**6,152**	**-178,898**
Balance at 31 Dec 2022	**54,732**	**-124,566**	**124,566**	**105,897**	**14,990**	**30,000**	**2,670**	**-85,919**	**1,442,702**	**200,273**	**353,271**	**2,118,616**	**19,893**	**2,138,509**

The accompanying Notes form an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of cash flows

€ thousand	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		**313,732**	**363,662**
Adjustments for:		**132,771**	**188,618**
– Amortisation/Depreciation	11,12	104,594	107,684
– Net foreign exchange differences		-27,030	-224
– Net write-offs and allowances for inventories		11,420	20,321
– Net impairments and write-offs of receivables		-3,712	1,875
– Investment income		-25,534	-15,817
– Investment expenses		6,688	89
– Income on financing activities		-4	0
– Interest expenses and other financial expenses		12,955	5,279
– Income tax expense	10	53,394	69,411
Operating profit before changes in net current assets		**446,503**	**552,280**
Change in trade receivables		-104,133	63,898
Change in inventories	16	-62,709	-117,946
Change in trade payables	23	24,477	32,820
Change in provisions	21	1,770	-4,272
Change in deferred income	22	-501	-827
Change in other current liabilities		15,944	-1,410
Income tax paid		-94,097	-56,892
Net cash flow from operating activities		**227,254**	**467,651**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		9,668	3,115
Dividends received		798	631
Proceeds from sale of property, plant and equipment		2,433	4,949
Purchase of property, plant and equipment	11	-130,024	-87,905
Purchase of intangible assets	12	-9,187	-6,827
Proceeds from non-current loans		4,194	2,542
Payments for non-current loans		-2,009	-42,690
Net payments/proceeds from current loans		-46,784	189,589
Proceeds from sale of non-current investments		33,346	4,950
Payments for acquiring non-current investments		-51	-32,970
Proceeds from sale of current investments		359,100	153,804
Payments for acquiring current investments		-568,607	-121,621
Proceeds from derivatives		4,277	8,847
Payments for derivatives		-389	0
Net cash flow from investing activities		**-343,235**	**76,414**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-8,657	-4,179
Lease liabilities paid	27	-4,184	-3,926
Dividends and other profit shares paid	28	-204,379	-175,044
Repurchase of treasury shares	19	-13,923	-10,025
Proceeds from payment of non-controlling interests		1,321	6,152
Net cash flow from financing activities		**-229,822**	**-187,022**
Net decrease/increase in cash and cash equivalents		**-345,803**	**357,043**
Cash and cash equivalents at beginning of year		518,934	159,838
Effect of foreign exchange rate fluctuations on cash held		880	2,053
Closing balance of cash and cash equivalents		**174,011**	**518,934**

The accompanying Notes form an integral part of the consolidated financial statements and should be read in conjunction with them.

Notes to the consolidated financial statements

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The Company was registered at the District Court of Novo mesto on 13 July 1989, registration No. 1/00097/00. Company registration No.: 5043611000.

The consolidated financial statements for the year ended 31 December 2023 refer to the Krka Group consisting of the controlling company and its subsidiaries in Slovenia and abroad. A list of subsidiaries, members of the Krka Group, is included in Note 31 – *Profile of the Krka Group*.

The Krka Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health resort and tourist services.

1. Basis for compiling the financial statements

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘*IFRS*’) as adopted by the EU, interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (‘IFRIC’) adopted by the EU, and in compliance with additional provisions required by the Companies Act (ZGD-1).

The consolidated financial statements were approved by the Krka Management Board on 25 March 2024.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of derivatives, financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income (OCI) for which fair value was used. Methods applied in the measurement of fair value are presented in Note 2 – *Fair Value*.

Functional and reporting currency

The consolidated financial statements are presented in the euro, which is Krka’s functional currency. All financial information presented in the euro has been rounded to the nearest thousand.

Use of estimates and judgements

The preparation of financial statements requires the Management Board of the controlling company to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities of the Krka Group, as well as the reported income and expenses for the period.

Management estimates include among others: determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; revenue from contracts with customers, allowances made for inventories and receivables; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of provisions for lawsuits, as well as assumptions and estimates relating to impairment of the TAD Pharma goodwill, the assumptions and estimates for the impairment testing of the Russian Federation cash-generating unit, and the estimate of the lease term and the interest rate used. Regardless of the fact that the Management Board of the controlling company duly considers all factors that may impact the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, management makes judgements while considering potential changes in the business environment, new business events, new and additional information that may be available, as well as experience. Each year the Krka Group verifies the need for impairment of the goodwill that arose on the takeover of TAD Pharma.

Key estimates and assumptions as at the day of the statement of financial position that are associated with future operations and which could result in significant adjustment of the book values of assets and liabilities are presented below.

Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is presented in the following notes:

- Note 4 – *Revenue from contracts with customers*

  Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Krka Group expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract. In assessing variable compensation, the Krka Group specifically addresses returns, while considering specific terms and conditions of an individual contract for the sale of products and services to customers, statutory provisions and business practices in a given environment. When assessing variable compensation, the Krka Group applies either the expected value method or the most likely amount method, whichever better predicts the amount of consideration to which the Krka Group will be entitled.

  Given the large number of contracts with customers, the Krka Group determined the expected value method as the most appropriate for estimating variable consideration for the sale of products with a right of return.

  Prior to including any variable consideration in the transaction price, the Krka Group assesses whether there is a constraint on variable consideration. Based on past experience, business forecasts, and current economic conditions, the Krka Group has determined that there are no constraints on variable consideration.

  The Krka Group is a seller of products that may be subject to payment terms in excess of one year in certain markets. Krka recognises financial income and expenses on these sales using the appropriate discount rate.

- Note 11 – *Impairment testing of non-current assets*

  The controlling company checks for each cash generating unit whether there are any indicators of impairment at least once a year. The recoverable amount of non-financial assets determined as the present value of future cash flows is based on an estimate of expected cash flows from the cash generating unit and on determination of the appropriate discount rate.

- Note 12 – *Impairment testing of the TAD Pharma goodwill*

  The criteria used in goodwill impairment testing are verified at least once a year by the controlling entity. Determining the present value of future cash flows requires the controlling company's Management Board to assess estimated future cash flows from each cash-generating unit as well as to determine the appropriate discount rate and other significant assumptions explained in this Note.

- Note 17 – *Impairment testing of receivables*

  On the financial statement preparation (quarterly and annually), individual companies in the Krka Group recognise allowances (impairment) of those receivables for which it is assumed that will not be settled in full or not at all. Allowances are recognised using uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by the debtors. The methodology includes quantitative and qualitative criteria grouped into the following four sets: an analysis of the existing business dealings with the customer, an analysis of the customer's financial statements, a qualitative assessment of the customer by the sales personnel, and an assessment of the customer's country risk.

For all customers whose receivables are insured by an insurance company or other first-class insurance, insurance is taken into account when assessing the amount of impairments. Hence, allowances of receivables due from individual customer are calculated by means of an algorithm that includes all the above criteria.

- Note 21 – *Post-employment benefits*

  Defined post-employment benefit obligations include the present value of termination benefits on retirement. They are recognised on the basis of the actuarial calculation using assumptions and estimates effective at the time of the calculation, and which may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of a discount rate, assessment of employee turnover, mortality assessment, and assessment of an increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

- Note 21 – *Provisions for lawsuits and contingent liabilities*

  Lawsuits and claims may be brought against individual companies in the Krka Group for alleged breaches of intellectual property (patent rights or competition law) and those referring to other civil law areas. A provision is recognised when a Krka Group company has present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Krka Group. The Management Board of the controlling company continually assesses contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If this is the case, a provision is recognised in the financial statements of the period in which the change in probability occurs.

2. Significant accounting policies

The Krka Group applied the same accounting policies in all periods presented in the accompanying consolidated financial statements.

Accounting policies applied by subsidiaries have been changed where necessary and adjusted with policies applied by the Group.

The accounting policies and the calculation methods used are the same as for the last annual reporting, except for the new standards and interpretations. which are noted below and were applied if relevant events occurred in the Krka Group in the reporting period.

In its statement of financial position, the Krka Group classifies liabilities and assets according to their maturity i.e. as non-current and current.

The Group classifies an asset as current if:

- it expects to realise it or intends to sell or use it in the normal course of business (12 months);
- it is held primarily for trading purposes;
- it expects to realise it within 12 months after the reporting period; or
- the asset is cash or a cash equivalent (pursuant to IAS 7) unless it is prohibited from being exchanged or used to settle a liability for a period of at least 12 months after the reporting period.

All other assets are classified by the Group as non-current.

The Group classifies a liability as current if:

- it expects to settle it within the normal course of business (12 months);
- it is held primarily for trading purposes;
- it is to be settled within 12 months after the reporting period; or
- at the end of the reporting period, it does not have the right to defer settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified by the Group as non-current.

Basis for consolidation

Subsidiaries

Subsidiaries are entities controlled by the controlling company. Control exists when the controlling company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or exchangeable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Krka Group considers that the conditions for controlling both Russian subsidiaries by the controlling company has not changed due to the situation in Ukraine and the Russian Federation. The controlling company retains influence over the operations of the Russian companies and voting rights, including influence over variable returns. Activies with the Russian subsidiaries are conducted in a similar manner as before February 2022, as pharmaceuticals are not subject to EU sanctions and we do not expect this to change.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements of the Krka Group. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated to the respective functional currencies of Krka Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the prevailing exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of equity instruments, which are recognised directly in other comprehensive income. Non-cash items measured at historical cost in foreign currency are translated to the functional currency by applying the exchange rate valid at the date of the transaction.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the euro at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to the euro. Foreign exchange differences arising on translation are recognised directly in other comprehensive income as a translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Operating profit

Operating profit comprises profit before tax and financial items. Financial items include interest on bank balances, deposits, investments held for sale, interest paid on borrowings, profit or loss from the sale of financial assets at fair value through other comprehensive income, and foreign exchange gains or losses from the translation of all monetary assets and liabilities to foreign currency.

Fair value

A number of the Krka Group's accounting policies and disclosures require the determination of fair value for both, financial and non-financial assets and liabilities.

Fair value is the amount for which an asset could be sold or a liability exchanged in a regular transaction between market participants. All assets and liabilities measured and disclosed at their fair value in financial statements are classified in the fair value hierarchy on the basis of lowest level of input data significant for measurements of total fair value:

- Level 1 – market value (unadjusted) from the active market for similar assets and liabilities;
- Level 2 – valuation model for assets and liabilities, which is not classified in level 1, is valued directly or indirectly on the basis of comparable market data;
- Level 3 – valuation model which is not based on the market data.

Fair value of individual groups of assets have been determined for measurement and/or disclosure purposes based on the methods presented below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the Notes specific to that asset or liability of the Krka Group.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss and at fair value through OCI is determined by reference to their quoted closing bid price. For investment in debt securities at amortised cost, for reporting purposes the fair value is calculated on the basis of the closing rate, which is increased by accrued interest on the reporting date.

Trade and other receivables

Fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest effective at the reporting date.

Financial liabilities

Fair value is determined based on the present value of future principal and interest payments discounted at the market rate of interest prevailing at the reporting date.

Financial instruments

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

Financial assets

Financial assets of the Krka Group include cash and cash equivalents, receivables, derivatives, loans and investments.

Initial recognition and measurement

Krka Group's financial assets are upon initial recognition classified as subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined within *IFRS 15* (refer to accounting policies '*Revenue from contracts with customers*').

In order for financial assets to be classified and measured at amortised cost or fair value through other comprehensive income, they need to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at the level of an individual instrument.

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

If the Krka Group selects a business model that aims to collect contractual cash flows, it values its financial assets (debt instruments) at amortised cost. If the Krka Group acquires financial assets (debt instruments) with the objective of collecting contractual cash flows and for sale, then they are measured at fair value through other comprehensive income by recycling cumulative gains and losses. If the Krka Group does not choose any of these business models, it measures its financial assets (debt instruments) at fair value through profit or loss. Financial assets that are in accordance with IAS 32 – *Financial Instruments* and are not held for trading purposes, are classified as equity instruments at fair value through other comprehensive income without recycling cumulative gains and losses after derecognition.

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

The Krka Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to the contractual cash flows from the financial asset in a transaction that transfers all the risks and rewards of ownership of the financial asset.

Subsequent measurement

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

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

Cash and cash equivalents comprise cash, bank deposits up to three months, and other current, highly realisable investments with an original maturity of three months or less. The latter can be easily converted into known amounts of cash and for which the risk of changes in value is insignificant. The cash flows derived from these assets are solely payments of the principal and interest are therefore classified as financial assets at amortised cost.

According to the SSPI test, loans issued by the Krka Group are classified as financial assets at amortised cost, since the cash flows derived from these assets are solely payments of the principal and interest on the principal amount outstanding.

Krka Group's investments in debt securities, which include only low credit risk government bonds, are classified as financial assets at amortised cost.

The Group's financial assets at amortised cost also include trade receivables.

After initial recognition, these investments are measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI (debt instruments)

Subsequent to initial recognition, they are measured at fair value. Interest income, foreign exchange differences, and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is transferred to profit or loss.

Financial assets at fair value through OCI (equity instruments)

Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is not transferred to profit or loss.

Financial assets at fair value through profit or loss

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

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

Impairment of financial assets is described in the section *Impairment – Financial assets*.

Financial liabilities

Financial liabilities consist mainly of loans, payables to suppliers and other liabilities. Lease liabilities and employee benefits are treated separately (refer to accounting policies in the *Leases* and Employee benefits expense' sections'). All other financial liabilities are initially recognised on the trade date or when the Krka Group becomes a contracting party in relation to the instrument. On initial recognition, non-derivative financial liabilities are classified as subsequently measured at amortised cost and derivative financial liabilities as at fair value through profit or loss. After initial recognition, financial liabilities arising from loans are measured using the effective interest method. Gains and losses are recognised in profit or loss when these liabilities are discharged or modified. The Krka Group derecognises a financial liability if the obligations set out in the contract are fulfilled, cancelled or expired.

Property, plant and equipment

The items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (refer to the accounting policy '*Impairment of assets*').

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of making the asset ready for its intended use, and (if applicable) costs of dismantling and removing the items and restoring the site on which they are located, as well as capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Items of property, plant and equipment that have substantially different useful lives but whose value is significant are accounted for as individual assets.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of property, plant and equipment and are recognised within 'Other operating income' or 'Other operating expenses' in profit or loss.

The Krka Group includes in the cost of property, plant and equipment also borrowing costs that are directly attributable to the acquisition, construction or production of the asset under construction. Borrowing costs related to the acquisition or construction of the relevant assets are capitalised if they relate to the acquisition of a significant asset and the construction or preparation for use of the relevant assets takes more than six months.

Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Krka Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

The estimated useful lives as at the reporting date:

- for buildings:
  - management and administrative facilities 60 years,
  - production and warehouse facilities 40 years,
  - other from 15 to 20 years,
- for property, plant and equipment:
  - production equipment 5 -20 years,
  - laboratory equipment 10 years,
  - other equipment 5 years,
- for furniture 5 years,
- for computer equipment 4 to 6 years,
- for means of transportation 5 to 15 years.

Leases

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

The Krka Group determines the lease term as the period during which the lease cannot be terminated, inclusive of:

a) the period for which the option to extend the lease applies if it is reasonably certain that the lessee will exercise that option; and
b) the period for which the option to terminate the lease applies if it is reasonably certain that the lessee will not exercise that option.

The Krka Group as a lessee

Lease liabilities

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate based on estimated bond returns if it were to incur debt on the financial markets, while considering their maturity if the interest rate implicit in the lease is not readily determinable.

Upon initial recognition, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. change of future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

For short-term leases and leases where the leased asset is of low value, the Krka Group applies the practical expedient allowed by the standard and recognises lease payments as an expense on a straight-line basis over the lease term. The practical expedient is applied to leases with a lease term of less than one year and leases where the cost of the new leased asset is less than €5,000.

The Krka Group recognises a right-of-use property, plant and equipment asset and a lease liability at the inception of the lease (i.e. the date the leased asset is available for use).

Right-of-use assets

Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, as well as an assessment of costs that will be incurred in dismantling or removing the leased asset, restoring the site to its original condition, or returning the asset to a condition as required in the lease terms.

The right-of-use assets are depreciated by the Krka Group on a straight-line basis over the shorter of the estimated lease term or the estimated useful lives of the assets.

The Krka Group as a lessor

Leases in which the Krka Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Intangible assets

Goodwill

Goodwill, which arose on the acquisition of the subsidiary, represents the excess of the cost of the acquisition over the Krka Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost less accumulated impairment losses and is tested for impairment once a year.

Trademark

The TAD Pharma trademark is treated by the Krka Group as an intangible asset with a useful life of 50 years, whereas it is reviewed for impairment given the changed circumstances in the business environment.

Research and development

Development costs are not capitalised because the Krka Group does not distinguish between the research and development phases. All costs related to own research and development activities are recognised as an expense in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (refer to the accounting policy '*Impairment of assets*').

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and trademarks, is recognised in profit or loss as incurred.

Emission coupons

The Group recognises emission coupons purchased or acquired free of charge in order to fulfil its obligation to the State to surrender emission coupons under the Environmental Protection Act as intangible assets. Emission coupons acquired free of charge are carried at €1 per emission coupon and those purchased are measured at cost on initial recognition. The first-in-first-out (FIFO) method is used for the transfer of coupons. Intangible assets relating to emission coupons are not amortised.

Amortisation

Amortisation is recognised on a straight-line basis over the estimated useful lives of intangible assets (except of goodwill) from the date that they are available for use.

The estimated useful lives of software, licences and other rights range from 2 to 10 years, and 50 years for TAD Pharma trademark.

Inventories

In the statement of financial position, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price at the reporting date less selling expenses e. The Krka Group reviews the net realisable value of inventories once a year at the date of the consolidated statement of financial position. If the carrying amount of inventories exceeds their net realisable value, inventories are written-down through profit and loss.

As of the reporting date, the Group also reviews whether inventories need to be impaired. Thus, impaired are:

- all types of inventories that are known or expected to be unusable in the production of semi-finished and finished goods or that cannot be sold for any reason,
- all types of inventories that have expired,
- inventories that will expire within 90 days in an amount to be determined by the person responsible for the inventories,
- all other inventories that for any other reason require impairment.

Possible impairments are reviewed and recorded by inventory type group through profit or loss.

An inventory unit of raw materials and materials, auxiliary and packaging materials is valued at cost including all direct costs of purchase. Inventories of material are carried at weighted average cost. Inventories of finished products and work in progress are carried at standard cost, which in addition to direct cost of material includes also cost of production, such as: direct cost of labour, depreciation, cost of services, energy, maintenance and quality. Fixed price variances are determined in accordance with the current valuation of inventories using production costs. A quantity unit of merchandise is valued at cost including cost of purchase, import duties, and all costs directly attributable to the acquisition decreased by discounts. Inventories of merchandise are carried at moving average prices.

Impairment of assets

Financial assets

The Group recognises an allowance for the expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since the initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Impairments of receivables and assets from contracts

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Trade receivables that do not have a significant financing component or for which the Krka Group applies a practical expedient (contracts with a term of one year or less) are measured at the transaction price determined in accordance with *IFRS 15*, less the amount of any impairment losses.

The Group does not track changes in credit risk, but instead recognises a loss allowance based on a lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Allowances are recognised using uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by the debtors.

Impairment of investments

For investments that include government bonds measured at amortised cost, the Group measures expected credit losses annually.

Except when a 12-month expected credit loss is recognised, the Group recognises an allowance for credit losses in an amount equal to the expected credit loss over the entire life of the financial instrument. A 12-month expected credit loss is recognised by:

- debt securities that are determined to have low credit risk at the reporting date; and debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk (i.e. the risk of default in the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group considers a debt security to have low credit risk if its credit risk rating is equivalent to the globally understood definition of "investment grade", which equals to a rating of Baa2 or above by Moody's or BBB- or above by S&P Global Ratings.

The Group monitors changes in credit risk by tracking published external credit ratings. The probabilities of default (PD), both 12-month and over the period of the financial instrument's life, are based on information submitted by the external credit rating agency. The loss given default (LGD) ratio, which reflects the assumed recovery rate, is also reported by the external credit rating agencies.

Non-financial assets

The carrying amounts of the Group's non-financial assets are reassessed at each reporting date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is assessed.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped into the smallest cash-generating units, which are the smallest groups of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purpose of impairment testing, the goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment of an asset or a cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. Impairment is recognised in the income statement. A loss recognised in a cash-generating unit as a result of impairment is allocated by first reducing the carrying amount of goodwill allocated to the cash-generating unit and then to the other assets of the unit (group of units) in proportion to the carrying amount of each asset in the unit.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in previous periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed upon the changed estimates used to determine the recoverable amount of the asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Share capital

Repurchase of treasury shares
When treasury shares recognised as a part of share equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends
Dividends are recognised in the Krka Group's consolidated financial statements in the period in which they are declared by the Annual General Meeting.

Current employee benefits

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Non-current employee benefits

Provisions for post-employment benefits and other non-current employee benefits
Pursuant to the local legislation of countries where the controlling company and subsidiaries are located, the Krka Group is liable to pay to its employees' anniversary bonuses and termination benefits upon retirement. Provisions are set aside for these obligations.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is performed using the projected unit credit method. Employee benefit costs, as well as cost of interest, are recognised in profit or loss, whereas restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in other comprehensive income.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for disputes

The Group discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of a favourable or unfavourable outcome of the lawsuit is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Revenue from contracts with customers

The Krka Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health resort and tourist services. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services while considering specific terms and conditions of an individual contract.

Transfer of control over those goods and services depends on terms and conditions of the contract. In general, control is transferred when goods are accepted by the customer or services are rendered. The normal credit term ranges from 30 to 120 days.

The Krka Group assesses the performance obligations contained in each sales contract. The Group also considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of products, the effects of variable consideration are considered and the existence of significant financing components.

Variable consideration

If the consideration in a contract includes a variable amount, the Krka Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of products provide customers with a right of return, bonuses, and volume rebates. The rights of return, bonuses, and volume rebates give rise to variable consideration.

Rights of return

Certain contracts provide a customer with a right to return goods that are past the expiry date. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements of *IFRS 15* on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. Goods that, based on past experience and business practice in a given environment, are expected to be returned instead of generating revenue, the Group recognises a refund liability. A right-of-return asset (and corresponding adjustment to cost of products sold) is also recognised for the right to recover products from a customer.

Bonuses and volume rebates

The Group provides retrospective bonuses and volume rebates to certain customers once the quantity or value of products or services purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group considers the terms and conditions of the contract, including criteria and elements that provide the basis for the recognition of bonuses and volume rebates.

For valuation, Krka Group uses the most probable value method or the expected value method. The method chosen, which best predicts the value of the rebates and volume discounts, is based on the number of thresholds in the contract.

In addition to discounts available to end customers, the Krka Group also grants discounts for public procurement to countries, ministries, or insurance companies in individual countries, based on the agreed tender conditions or contractual provisions and the actual sales orders realised.

Disclosures about the use of estimates and judgements in estimating variable consideration are provided in the Basis of preparation of the financial statements section.

Significant financing component

In some cases, the Group receives current advances from its customers. Using the practical expedient in *IFRS 15.63*, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised goods or services to the customer and when the customer pays for those goods or services will be one year or less.

Contract balances

Contract assets

A contract asset is the right to an amount of consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or payment is due, a contract asset is recognised for the earned consideration that is conditional. Once the transaction is completed and the customer is confirmed, the contract assets are reclassified as trade receivables.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional, i.e. only the passage of time is required before payment of consideration is due (refer to the accounting policy '*Recognition of financial instruments*').

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the goods or services are transferred to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Right-of-return assets

Right-of-return assets represent the Group's right to recover the goods expected to be returned by customers.

The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of returned goods. The Group regularly updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable from the customer). It is measured at the amount the Group ultimately expects it will have to return to the customer.

The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

It is irrelevant to the Group's assessment of the role it plays in individual customer contracts, as it usually acts as a principal.

The Group does not normally have long-term sales contracts with customers.

Government grants

Income from government grants is initially recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the attached conditions. Income that compensates the realised expences is recognised in profit or loss on a systematic basis in the same periods in which the costs are recognised. Income that compensates an entity for the cost of an asset is recognised in profit or loss on a systematic basis over the useful life of the asset.

The Group recognises emission coupons received free of charge from the State within government grants received. The emission coupons received free of charge are recorded as intangible assets at a value of €1 per emission coupon. Upon their transfer, the Group reduces intangible assets and recognises other operating income.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised on the date that the shareholder's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax expense

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

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

Deferred tax is recognised using the balance sheet liability approach providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Also, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax is based on the expected manner of settling the carrying amount of assets and liabilities using tax rates enacted at the reporting date. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

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

In 2023, Slovenia adopted the Minimum Tax Act, which introduces a minimum tax into the Slovenian tax-law system, aimed at ensuring a global minimum taxation of the profits of large international and domestic groups at an effective tax rate of 15% (the minimum tax rate). The Act was adopted on the basis of EU Directive 2022/2523 on the provision of a global minimum tax rate for international and large domestic groups in the EU, which was drafted on the basis of the GLOBE Model Rules prepared by the Organisation for Economic Co-operation and Development (OECD) in October 2021. The minimum tax rules of the Act are applicable to the Group's financial years starting from 1 January 2024.

Management has assessed the impact of the global minimum tax on the financial statements of the Krka Group and based on the assumptions of current tax legislation and similar operating results, estimates that it will not have a material impact on the financial statements. The Group has subsidiaries in different countries where different tax rates apply. While the assessment has not yet been finalised, management considers that the most significant exposure to top-up tax would be in Slovenia, where, under the assumptions set out above, the estimated effective tax rate would be 14%, resulting in a top-up tax of 1% on the excess profit, which takes into account the reduction for the substantive exclusion of income.

Earnings per share

The Krka Group reports basic earnings per share, which is calculated by dividing the profit or loss attributable to majority shareholders by the average number of ordinary shares issued during the financial year, whereby treasury shares are excluded. Diluted earnings per share is equal to basic earnings per share because the Krka Group has not issued any dilutive or contingently dilutive instruments.

Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in providing products or services within a particular geographically defined economic environment. Segments are different in terms of risks and returns. The Krka Group's segment reporting is based on the Group's internal reporting system applied by the controlling company's management in the decision-making process.

The segments include: the EU (all EU member countries), South-Eastern Europe (Serbia, Bosnia and Herzegovina, North Macedonia, Montenegro, Kosovo, and Albania), Eastern Europe (Russian Federation and other former Soviet Union countries excluding the Baltic countries), as well as Other (countries not included in any of the above segments).

Revenue generated by individual segments of the Krka Group are presented in terms of customers' geographical location. The data are calculated on the basis of revenue and expenses, assets and liabilities directly attributable to each Krka Group market. Eliminations relate to transactions between the controlling company and subsidiaries and to transactions between subsidiaries themselves.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

Amendments to standards and interpretations issued but not yet effective

The following new and amended standards have not come into effect by the date of the financial statements and will be applied in future periods. The Group will apply the new and revised standards and interpretations when they become effective. The Group did not apply any amended standards or interpretations prior to their effective date.

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associates or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The management has assessed the impact of the amendments and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Non-Current Liabilities with Covenants

The amendments are effective for annual periods beginning on or after 1 January 2024 Early application is permitted. Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendments, as issued in 2020, has removed the requirement for a right to be unconditional and instead requires that a right to defer settlement must exist at the reporting date and have substance (the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early).

The amendments, as issued in 2022, further clarify that when the right to defer settlement is subject to a company complying with conditions (covenants) specified in a loan arrangement, only covenants with which the company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability's classification at that date. However, the amendments require companies to disclose information about these future covenants to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date. The amendments also clarify how a company classifies a liability that can be settled in its own shares (e.g. convertible debt). The management has assessed the impact of the amendments and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 7 – Statement of Cash Flows and IFRS 7 – Financial Instruments: Disclosures: Supplier Finance Arrangements

Effective for annual periods beginning on or after 1 January 2024. The amendments introduce additional disclosure requirements for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk. The amendments apply to supplier finance arrangements (also referred to as supply chain finance, payables finance or reverse factoring arrangements) that have all of the following characteristics:

- a finance provider (also referred to as the factor) pays amounts a company (the buyer) owes its suppliers;
- a company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid;
- the company is provided with extended payment terms or suppliers benefit from early payment terms.

However, the amendments do not apply to arrangements for financing receivables or inventory. The management has assessed the impact of the amendments and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IFRS 16 – Leases: Lease Liability in a Sale and Leaseback

Effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Early application is permitted. Amendments to IFRS 16 – Leases impact how a seller-lessee accounts for variable lease payments in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

The amendments confirm the following:

- on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction;
- after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.
These amendments do not change the accounting for leases other than those arising in a sale and leaseback transaction. The management has assessed the impact of the amendments and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 12 – Income taxes: International Tax Reform – Pillar Two Model Rules

Effective for annual periods beginning on or after 1 January 2024. 'Pillar Two taxes' are taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The Pillar Two model rules aim to ensure that large multinational groups pay taxes at least at the minimum rate of 15 percent on income arising in each jurisdiction in which they operate. There are three rules that countries can adopt: the income inclusion rule, the undertaxed profit rule and a qualified domestic minimum top-up tax. They are often referred to as 'global minimum top-up tax' or 'top-up tax'. The amendments address stakeholders' concerns about deferred tax accounting in relation to the new top-up tax under IFRS by providing entities with a temporary mandatory relief from deferred tax accounting for top-up tax; and requiring entities to provide new disclosures in relation to the top-up tax and the relief.

Management has assessed the impact of the amendments on the financial statements of the Krka Group and, given the current tax legislation and similar operating results, does not expect them to have a material impact.

Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates: Lack of exchangeability

Effective for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted. Under IAS 21 The Effects of Changes in Foreign Exchange Rates, a company uses a spot exchange rate when translating a foreign currency transaction. In some jurisdictions, no spot rate is available because a currency cannot be exchanged into another currency.

IAS 21 was amended to clarify:

- when a currency is exchangeable into another currency; and
- how a company estimates a spot rate when a currency lacks exchangeability.

The amendments also include additional disclosure requirements to help users to assess the impact of using an estimated exchange rate on the financial statements. The management has assessed the impact of the amendments and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

3. Segment reporting

The Krka Group reports in terms of certain geographical segments. Revenue generated by individual segments are presented in terms of customers' geographical location. The data are calculated on the basis of revenue and expenses, assets and liabilities directly attributable to each Krka Group market. Eliminations relate to transactions between the controlling company and subsidiaries and to transactions between subsidiaries themselves.

Segment reporting

	EU		South-Eastern Europe		Eastern Europe		Total segment reporting		Other		Eliminations		Total	
€ thousand	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Revenue from sales to non-group customers	**1,001,139**	**904,135**	**101,354**	**93,316**	**594,092**	**623,549**	**1,696,585**	**1,621,000**	**109,806**	**96,453**			**1,806,391**	**1,717,453**
Revenue from sales to intra-group customers	**422,989**	**382,540**	**69,142**	**60,170**	**604,886**	**605,779**	**1,097,017**	**1,048,489**	**30,670**	**36,933**	**-1,127,687**	**-1,085,422**		
Total revenue	**1,424,128**	**1,286,675**	**170,496**	**153,486**	**1,198,978**	**1,229,328**	**2,793,602**	**2,669,489**	**140,476**	**133,386**	**-1,127,687**	**-1,085,422**	**1,806,391**	**1,717,453**
Other operating income	4,502	7,985	481	54	576	416	5,559	8,455	588	742			6,147	9,197
Operating expenses	-871,111	-754,190	-73,142	-64,222	-383,608	-454,408	-1,327,861	-1,272,820	-85,056	-72,619			-1,412,917	-1,345,439
Intra-group operating expenses, including elimination of profits	-422,990	-382,541	-69,142	-60,170	-604,885	-605,778	-1,097,017	-1,048,489	-30,670	-36,933	1,127,687	1,085,422	0	0
Operating profit	**134,529**	**157,929**	**28,693**	**29,148**	**211,061**	**169,558**	**374,283**	**356,635**	**25,338**	**24,576**	**0**	**0**	**399,621**	**381,211**
Interest income	8,804	2,127	12	7	1,100	787	9,916	2,921	1,317	890			11,233	3,811
Intra-group interest income	4,123	995	0	0	0	0	4,123	995	0	0	-4,123	-995		
Interest expenses	-335	-1,114	-15	-15	-114	-127	-464	-1,256	-10	-5			-474	-1,261
Intra-group interest expenses	-4,123	-995	0	0	0	0	-4,123	-995	-1	0	4,124	995		
Net financial result	**13,795**	**-1,249**	**255**	**47**	**-44,553**	**46,275**	**-30,503**	**45,073**	**-1,992**	**6,789**			**-32,495**	**51,862**
Income tax expense	-19,827	-31,076	-3,163	-5,237	-27,852	-30,101	-50,842	-66,414	-2,552	-2,997			-53,394	-69,411
Net profit	**128,497**	**125,604**	**25,785**	**23,958**	**138,656**	**185,732**	**292,938**	**335,294**	**20,794**	**28,368**	**0**	**0**	**313,732**	**363,662**
Investments	123,016	90,600	1,492	579	6,603	14,627	131,111	105,806	821	168			131,932	105,974
Depreciation of property, plant and equipment	67,146	70,443	2,161	2,073	21,053	21,454	90,360	93,970	3,239	2,964			93,599	96,934
Depreciation of the right-of-use assets	3,045	2,828	115	110	555	660	3,715	3,598	82	87			3,797	3,685
Amortisation of intangible assets	4,229	4,182	348	334	2,306	2,249	6,883	6,765	315	300			7,198	7,065
	31 Dec 2023	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**
Total assets	**2,072,570**	**2,069,151**	**71,279**	**64,802**	**519,234**	**463,008**	**2,663,083**	**2,596,961**	**101,208**	**90,539**			**2,764,291**	**2,687,500**
Non-current assets exclusive of deferred tax assets	886,473	922,872	6,670	5,357	81,973	99,916	975,116	1,028,145	36,423	43,110			1,011,539	1,071,255
Total liabilities	**309,726**	**360,495**	**28,286**	**15,854**	**191,753**	**129,136**	**529,765**	**505,485**	**52,760**	**43,506**			**582,525**	**548,991**

4. Revenue from contracts with customers

Itemisation of revenue from contracts with customers

€ thousand	2023	2022
Revenue from contracts with customers (products)	1,751,273	1,665,990
Revenue from contracts with customers (health resort and tourist services)	47,696	42,552
Revenue from contracts with customers (materials)	2,904	3,988
Total revenue from contracts with customers	**1,801,873**	**1,712,530**

Revenue from contracts with customers by region

€ thousand	2023	2022
Region Slovenia	66,081	60,495
Region South-East Europe	249,330	224,523
Region East Europe	593,951	623,377
Region Central Europe	397,079	364,154
Region West Europe	369,624	327,343
Region Overseas Markets	75,208	66,098
Total	**1,751,273**	**1,665,990**

We have sold €83,392 thousand of products in 2023 in Ukraine, our fourth largest market (2022: by €95,213 thousand), which represents 4.6% of Krka Group's total sales.

We have sold €346,751 thousand of products in 2023 In the Russian Federation, which is Krka's largest single market (2022: by €387,017 thousand), representing 19.3% of Krka's total sales. Demand for our products is adequate.

Revenue from contracts with customers by product groups

€ thousand	2023	2022
Prescription pharmaceuticals	1,469,381	1,390,972
Non-prescription products	177,252	181,977
Animal health products	104,640	93,041
Total	**1,751,273**	**1,665,990**

Revenue from contracts with customers of health resort and tourist services are generated in Slovenia.

Contract-related balances

Trade receivables are outlined in Note 17 – *Trade and other receivables*, while liabilities from contracts with customers in Note 24 – *Current liabilities from contracts with customers*. The Group recognised assets from contracts with customers in the amount of €210 thousand (2022: €420 thousand) and liabilities from contracts in the amount of €8,108 thousand (2022: €10,857 thousand). The recognised assets and liabilities under contracts with customers are set out in the consolidated statement of financial position.

Right-of-return liabilities

The Krka Group recognised right-of- return liabilities in the amount of €154,065 thousand (2022: €146,853 thousand).

Performance obligations

The Krka Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health resort and tourist services. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which Krka expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract.

Transfer of control and rewards in the sale of products for human use, veterinary products and material depends on terms and conditions of an individual contract. Generally, it occurs when the customer accepts the goods in accordance with INCOTERMS 2022. The transfer of risks and rewards in the sale of health resort and tourist services occurs progressively as the customer acquires and consumes the benefits of the obligation at the same time as the obligation is being performed. Payment terms vary from region to region (distribution channels), while the normal credit term ranges from 30 to 120 days.

At the year-end, the Krka Group incurred no costs on acquisition or fulfilment of contracts with customers, which could be recognised as assets.

5. Other operating income

€ thousand	2023	2022
Reversal of non-current provisions	310	2,256
Reversal of deferred income	840	1,118
Gains on sale of property, plant and equipment and intangible assets	1,971	1,736
Other operating income	3,026	4,087
Total other operating income	**6,147**	**9,197**

Other operating income includes also government grants relating to the curbing of the COVID-19 pandemic in the amount of €1 thousand (2022: €235 thousand) and emergency State aid to two subsidiaries to mitigate the effects of the energy crisis caused by the situation in the Russian Federation and Ukraine of €887 thousand (2022: €656 thousand in 2022). Under the terms of the legal conditions, a pro rata share of the funds received as a result of the increase in energy prices will have to be repaid if they exceed the amounts of actual electricity consumption. We estimate that actual consumption in 2023 was in line with the funds received and no repayment will be required.

Group's other operating income include also income from emission coupons obtained free of charge from the State in 2022 and transferred in 2023. See Note 12 – *Intangible assets*.

Other deferred income reversed relates to income from other government grants received which cover the depreciation charged on property, plant and equipment in the proportion in which the funds were received.

6. Costs by nature

€ thousand	2023	2022
Cost of goods and materials	451,274	540,206
Cost of services	263,408	249,574
Employee benefits expense	529,400	469,576
Amortisation and depreciation	104,594	107,684
Net write-offs and allowances for inventories	11,420	20,321
Net impairments and write-offs of receivables	-3,712	1,875
Formation of provisions for lawsuits	15	20
Other operating expenses	41,747	34,923
Total costs	**1,398,146**	**1,424,179**
Change in the value of inventories of finished products and work in progress	14,771	-78,740
Total	**1,412,917**	**1,345,439**

7. Employee benefits expense[89]

€ thousand	2023	2022
Gross wages and salaries and continued pay	410,174	364,441
Social security contributions	29,217	26,368
Pension insurance contributions	55,914	51,187
Payroll tax	773	705
Post-employment benefits and other non-current employee benefits	7,748	3,888
Other employee benefits expense	25,574	22,987
Total employee benefits expense	**529,400**	**469,576**

Post-employment benefits and other non-current employee benefits are detailed in Note 21 – *Provisions*. Other employee benefits include primarily vacation bonuses and commuting allowances.

8. Other operating expenses

€ thousand	2023	2022
Grants and assistance for humanitarian and other purposes	3,166	1,752
Environmental protection expenditures	6,387	6,025
Other taxes and levies	26,214	21,933
Loss on sale and write-offs of property, plant and equipment and intangible assets	1,515	965
Other operating expenses	4,465	4,248
Total other operating expenses	**41,747**	**34,923**

Other levies include €21,604 thousand (2022: €18,125 thousand) of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries for pursuing promotional activities.

[89] GRI 201-1, 201-3

9. Financial income and financial expenses

€ thousand	2023	2022
Net foreign exchange gains	0	43,586
Interest income	11,233	3,811
Derivative income	4,277	9,096
– Realised revenue	4,277	8,847
– Fair value change	0	249
Income from other financial instruments	7,245	0
– Income generated	3,220	0
– Change in fair value	4,025	0
Income from dividends	808	702
Other financial income	4	473
Total financial income	**23,567**	**57,668**
Net foreign exchange differences	-38,319	0
Interest expenses	-474	-1,261
– Interest paid	-160	-960
– Interest expenses on lease liabilities	-314	-301
Derivative expenses	-4,782	0
– Realised expenses	-389	0
– Change in fair value	-4,393	0
Expenses for other financial instruments	0	–45
– Realised expenses	0	–45
Other financial expenses	-12,487	-4,500
Total financial expenses	**-56,062**	**-5,806**
Net financial result	**-32,495**	**51,862**

The net financial result in 2023 declined over the previous period by €84,357 thousand mostly on the account of net foreign exchange differences. In 2023, Krka continued its policy of partial hedging against rouble-related risk and the US dollar with financial instruments. The most significant impact was the exchange rate of the rouble (final exchange rate on 31 December 2023 €1 = RUB 99.9723 and on 31 December 2022 €1 = RUB 78.4308).

The income from other financial instruments in the amount of €7,245 thousand represents capital gains on investments in treasury bills.

The income from investments at amortised cost in the amount of €432 thousand (2022: €702 thousand) is income from bonds and is shown under interest income. For more information on these investments see Note 14 – *Investments*.

Detailed information on the risk of changes in foreign exchange rates can be found in Note 29 – *Financial Instruments and Financial Risks*.

10. Income tax expense

Adjustment to the effective tax rate

€ thousand	2023	2022
Current income tax	53,621	79,477
Deferred tax	-227	-10,066
Total income tax	**53,394**	**69,411**
Profit before tax	**367,126**	**433,073**
Income tax for both years calculated at the rate of 19%	69,754	82,284
Tax on reduced income	28	-3,252
Tax on non-deductible expenses	9,559	4,518
Income tax from tax incentives	-20,939	-19,336
Tax on increase/decrease of costs for taxable purposes	-1,143	2,855
Impact of the changed tax rate from 19% to 22% on deferred taxes	-4,163	0
Effect of different tax rates	1,531	1,631
Other	-1,233	711
Total income tax expense	**53,394**	**69,411**
Effective tax rate	**14.5%**	**16.0%**

Investments in R&D and investment relief represent the major share of tax incentives.

The impact of the global minimum tax (top-up tax) is disclosed in *Significant Accounting Policies – Amendments to Standards and Interpretations not yet effective (Income Tax: International Tax Reform – Pillar Two Model Rules*).

11. Property, plant and equipment

€ thousand	31 Dec 2023	31 Dec 2022
Land	64,368	40,721
Buildings	353,495	356,784
Equipment	292,123	294,308
Property, plant and equipment being acquired	68,666	76,139
Right-of-use assets	11,693	11,384
Total property, plant and equipment	**790,345**	**779,336**

In 2023, most of the controlling company's investments were earmarked for renovating the Notol packaging plant in the amount of €14,713 thousand (2022: €6,712 thousand), the construction of Pavilion 3 in the amount of €13,340 thousand (2022: €3,389 thousand), and the capacity expansion at the Ljutomer plant in the amount of €12,254 thousand (2022: €660 thousand). €9,742 thousand were invested in the field of information technology and telecommunications (2022: €4,999 thousand) and €6,008 thousand (2022: €15,162 thousand) for increasing the capacity of the OTO plant.

Among investments in subsidiaries, the largest amount was €1,842 thousand (2022: €38 thousand) for upgrading facilities and systems at the Krka Jastrebarsko plant in the Krka Farma subsidiary in Croatia. €1,580 thousand (2022: €13,218 thousand) was earmarked for expanding the production capacity in the Krka-Rus subsidiary in the Russian Federation.

The majority of the right-of-use asset refers to the right of using assets relating to buildings in the amount of €8,194 thousand (2022: €8,033 thousand).

Movement of property, plant and equipment (PPE)

€ thousand	Land	Buildings	Equipment	PPE being acquired	Right-of-use assets	Total
Purchase cost						
Balance at 1 Jan 2022*	**40,590**	**859,556**	**1,242,434**	**48,833**	**19,416**	**2,210,829**
Additions	0	0	0	99,147	0	99,147
Capitalisations – transfer from PPE being acquired	102	21,885	50,382	-72,369	0	0
Capitalisations – IFRS 16 Leases	0	0	0	0	3,648	3,648
Disposals, impairments, deficit, surplus	-19	-1,805	-23,883	0	-1,327	-27,034
Translation reserve	48	4,656	3,879	570	77	9,230
Transfers, reclassifications	0	-240	301	-42	0	19
Balance at 31 Dec 2022	**40,721**	**884,052**	**1,273,113**	**76,139**	**21,814**	**2,295,839**
Balance at 1 Jan 2023	**40,721**	**884,052**	**1,273,113**	**76,139**	**21,814**	**2,295,839**
Additions	0	0	0	122,747	0	122,747
Capitalisations – transfer from PPE being acquired	23,756	33,401	69,071	-126,228	0	0
Capitalisations – IFRS 16 Leases	0	0	0	0	4,501	4,501
Disposals, impairments, deficit, surplus	20	-1,126	-35,134	0	-1,100	-37,340
Translation reserve	-129	-14,233	-14,230	-3,992	-394	-32,978
Transfers, reclassifications	0	324	-406	0	0	-82
Balance at 31 Dec 2023	**64,368**	**902,418**	**1,292,414**	**68,666**	**24,821**	**2,352,687**
Accumulated depreciation						
Balance at 1 Jan 2022	**0**	**-500,312**	**-929,207**	**0**	**-7,653**	**-1,437,172**
Depreciation	0	-26,874	-70,060	0	-3,685	-100,619
Disposals, impairments, deficit, surplus	0	1,363	22,946	0	919	25,228
Translation reserve	0	-25	-40	0	0	-65
Transfers, reclassifications	0	-1,420	-2,444	0	-11	-3,875
Balance at 31 Dec 2022	**0**	**-527,268**	**-978,805**	**0**	**-10,430**	**-1,516,503**
Balance at 1 Jan 2023	**0**	**-527,268**	**-978,805**	**0**	**-10,430**	**-1,516,503**
Depreciation	0	-26,817	-66,782	0	-3,797	-97,396
Disposals, deficit, surplus	0	778	35,036	0	909	36,723
Translation reserve	0	-163	244	0	0	81
Transfers, reclassifications	0	4,547	10,016	0	190	14,753
Balance at 31 Dec 2023	**0**	**-548,923**	**-1,000,291**	**0**	**-13,128**	**-1,562,342**
Carrying amount						
Balance at 1 Jan 2022	**40,590**	**359,244**	**313,227**	**48,833**	**11,763**	**773,657**
Balance at 31 Dec 2022	**40,721**	**356,784**	**294,308**	**76,139**	**11,384**	**779,336**
Balance at 1 Jan 2023	**40,721**	**356,784**	**294,308**	**76,139**	**11,384**	**779,336**
Balance at 31 Dec 2023	**64,368**	**353,495**	**292,123**	**68,666**	**11,693**	**790,345**

** Reclassified from cost to valuation allowance due to the transfer of impairments of fixed assets previously reported under other current liabilities – other. The value of the reclassification amounts to €2 thousand for buildings and €638 thousand for equipment*

No capitalised borrowing costs relate to the items of property, plant and equipment in 2023.

All property, plant and equipment is free of encumbrances. The status of known future commitments related to the acquisition of property, plant and equipment is disclosed in Note 26 – *Contingent Liabilities and Commitments*.

The movements and lease liabilities recognised in profit or loss are presented in Notes 27 – *Leases* and 29 – *Financial Instruments and Risk*.

Impairment testing of the cash-generating unit Russian Federation

The Group has production and distribution facilities in the Russian Federation, where production is carried out at Krka-Rus, while distribution is carried out through Krka Farma. Both companies together constitute the cash-generating unit (CGU) Russian Federation. The carrying amount of property, plant and equipment allocated to the CGU Russian Federation is €67,618 thousand (2022: €86,527 thousand).

Due to the situation in Ukraine and the Russian Federation and the consequent higher level of uncertainty in these markets, the weighted average cost of capital (discount rate) remains at a higher level. Consequently, management has assessed the recoverable amount of the assets allocated to the CGU Russian Federation.

The recoverable amount of the CGU is based on the value in use calculated by discounting the future cash flows generated by the continued use of the CGU. The five-year financial plans of the CGU Russian Federation were used, which assume a growth of earnings before interest, taxes, depreciation and amortisation of 6.3% (a five-year average growth of 6.1% was projected for 2022). Business forecasts are based on past performance and a reasonable expectation of future performance. A discount rate of 15.3% was applied (14.0% in 2022 for the 5-year forecast and 12.1% for the residual value), which takes into account the valuation guidelines and was calculated on the basis of publicly available data necessary for its calculation and available at the valuation date. A free cash flow growth rate of 4.0% p.a. in the residual value (the same in 2022) was taken into account, based on publicly available long-term inflation estimates in the Russian Federation.

The Group's current strategy does not foresee any sale of production capacity in the Russian Federation. Projections used in the impairment test are prepared on a going concern basis with an indefinite useful life.

Based on the impairment review performed on the CGU Russian Federation, it was concluded that there was no need for impairment.

12. Intangible assets

€ thousand	31 Dec 2023	31 Dec 2022
Goodwill	42,644	42,644
Trademark	33,176	34,047
Software	15,556	14,685
Other intangible assets	7,592	7,468
– Long-term deferred operating costs	252	715
– Development-related projects	4,478	5,738
– Emission coupons	2,862	1,015
Intangible assets being acquired	3,380	3,706
Total intangible assets	**102,348**	**102,550**

Goodwill arose on the acquisition of subsidiaries TAD Pharma in Germany (€42,277 thousand) and Krka Pharma in Austria (€367 thousand). The item of trademark refers mostly to the trademark of TAD Pharma (€33,074 thousand).

The Group recognises emission coupons acquired free of charge from the State and purchased on the market as other intangible assets. In 2023, the Group acquired 50,736 emission coupons, whereof 9,736 were free emission coupons (2022: 9,736) to be transferred to the State in 2024 and 41,000 were purchased on the market at a value of €3,206 thousand. In 2023, it transferred 27,476 emission coupons, whereof 9,736 were acquired free of charge and 17,740 were purchase on the market at the value of €1,359 thousand. The transferred emission coupons were acquired in 2022 and 2023 and the FIFO method was applied for the transfer of the coupons. As at 31 December 2023, the Group had 46,116 emission coupons in the total amount of €2,862 thousand (22,856 emission coupons with a value of €1,015 thousand as at 31 December 2022). The Group transfers more emission coupons during the year than it receives free of charge from the State and is therefore considered a net contributor.

Movement of intangible assets (IA)

€ thousand	Goodwill	Trademark	Concessions, trademarks and licences	Other IA	IA being acquired	Total
Purchase cost						
Balance at 1 Jan 2022	**42,644**	**42,629**	**75,907**	**63,702**	**3,933**	**228,815**
Additions	0	0	0	0	6,827	6,827
Transfer from IA being acquired	0	0	3,893	2,917	-6,810	0
Disposals deficit, surplus	0	0	-869	-2,016	-238	-3,123
Transfers, reclassifications	0	0	132	-190	0	-58
Translation reserve	0	0	62	179	-6	235
Balance at 31 Dec 2022	**42,644**	**42,629**	**79,125**	**64,592**	**3,706**	**232,696**
Balance at 1 Jan 2023	**42,644**	**42,629**	**79,125**	**64,592**	**3,706**	**232,696**
Additions		0	0	0	9,185	9,185
Transfer from IA being acquired	0	0	5,524	3,385	-8,909	0
Disposals, deficit, surplus	0	0	-3,063	-5,787	-596	-9,446
Transfers, reclassifications	0	0	841	-843	0	-2
Translation reserve	0	0	-38	-422	-6	-466
Balance at 31 Dec 2023	**42,644**	**42,629**	**82,389**	**60,925**	**3,380**	**231,967**
Accumulated amortisation						
Balance at 1 Jan 2022	**0**	**-7,711**	**-60,691**	**-56,112**	**0**	**-124,514**
Amortisation	0	-871	-4,486	-1,708	0	-7,065
Disposals, deficit, surplus	0	0	833	722	0	1,555
Transfers, reclassifications	0	0	-43	101	0	58
Translation reserve	0	0	-53	-127	0	-180
Balance at 31 Dec 2022	**0**	**-8,582**	**-64,440**	**-57,124**	**0**	**-130,146**
Balance at 1 Jan 2023	**0**	**-8,582**	**-64,440**	**-57,124**	**0**	**-130,146**
Amortisation	0	-871	-4,659	-1,668	0	-7,198
Disposals, deficit, surplus	0	0	3,059	4,272	0	7,331
Transfers, reclassifications	0	0	-821	825	0	4
Translation reserve	0	0	28	362	0	390
Balance at 31 Dec 2023	**0**	**-9,453**	**-66,833**	**-53,333**	**0**	**-129,619**
Carrying amount						
Balance at 1 Jan 2022	**42,644**	**34,918**	**15,216**	**7,590**	**3,933**	**104,301**
Balance at 31 Dec 2022	**42,644**	**34,047**	**14,685**	**7,468**	**3,706**	**102,550**
Balance at 1 Jan 2023	**42,644**	**34,047**	**14,685**	**7,468**	**3,706**	**102,550**
Balance at 31 Dec 2023	**42,644**	**33,176**	**15,556**	**7,592**	**3,380**	**102,348**

Impairment testing of cash generating units that include goodwill

For the purpose of impairment testing, goodwill arising on the acquisition of TAD Pharma amounting to €42,277 thousand has been allocated to two cash-generating units (CGUs) i.e. to CGU TAD Pharma in the amount of €11,288 thousand and to CGU Krka (controlling company) in the amount of €30,989 thousand.

CGU TAD Pharma

The recoverable amount of the CGU TAD Pharma is based on the value in use calculated by discounting the future cash flows generated by the continued use of the CGU. The five-year financial plans of CGU TAD Pharma were used, projecting the average five-year change in earnings before interest, taxes, amortisation of -0.1% (a five-year average growth rate of

1.7% was projected for 2022), a discount rate of 7.3% (2022: 6.6%) and an annual growth rate of 2.0% in the residual value of free cash flow (2022: 2.0% as well). The annual growth rate of free cash flow was calculated based on long-term inflation estimates. The values set for the key assumptions represent management's best estimate of future trends in the industry and are based on historical data obtained from internal and external sources.

The estimated recoverable amount of the CGU exceeds its carrying amount and therefore there is no need to impair the CGU.

CGU Krka (controlling company)

The recoverable amount of the CGU Krka is based on the value in use calculated by discounting the future cash flows generated by the continued use of the CGU. The five-year financial plans of CGU Krka were used, with a projected five-year average growth rate of earnings before interest, taxes, amortisation of 4.7% (2022: 1.7%), the discount rate of 7.7% (2022: 8.0%) and the annual growth rate of the free cash flow at residual value of 2.0% (2022: 2.0% as well). The annual growth rate of free cash flow was determined on the basis of long-term inflation estimates. The values set for the key assumptions represent management's best estimate of future trends in the industry and are based on historical data obtained from internal and external sources.

The estimated recoverable amount of the CGU exceeds its carrying amount and therefore there is no need to impair the CGU.

13. Loans

€ thousand	31 Dec 2023	31 Dec 2022
Non-current loans	**70,098**	**77,539**
– Loans to others	40,098	47,539
– Deposits granted to banks	30,000	30,000
Current loans	**58,719**	**6,327**
– Portion of non-current loans maturing next year	6,956	4,559
– Loans to others	13	23
– Deposits granted to banks	50,002	2
– Current interest receivables	1,748	1,743
Total loans	**128,817**	**83,866**

Non-current loans include a loans by a subsidiary in China for the construction of a production plant for an amount of €28,659 thousand (2022: €35,335 thousand), as well as housing loans granted by the controlling company and certain subsidiaries to employees in accordance with the internal rules. The loan in China has a maturity of 7 years from the first disbursement and a grace period for repayment of 2.5 years from the first disbursement. The loan is secured by a guarantee from Ningbo Menovo Pharmaceutical Co. Ltd., which is the owner of the borrowing company Ningbo Menovo Tiankang Pharmaceutical Co., Ltd, and a mortgage on the borrower's immovable property.

Non-current loans include a deposit of €30,000 thousand with a maturity of more than one year held at a Slovenian bank with a high credit rating.

Current deposits to banks include a €50,000 thousand deposit with a maturity of over 90 days and less than one year held at a foreign bank with a high credit rating. This deposit did not exist at the end of 2022 for it was concluded in 2023.

14. Investments

€ thousand	31 Dec 2023	31 Dec 2022
Non-current investments	**47,674**	**110,770**
– Investments at fair value through OCI (equity instruments)	26,901	15,989
– Investments at amortised cost (debt instruments)	20,773	94,781
Current investments including derivatives	**306,769**	**52,437**
– Investments at fair value through profit or loss	236,751	0
– Investments at amortised cost (debt instruments)	70,018	50,697
– Derivatives	0	1,740
Total investments	**354,443**	**163,207**

Investments at fair value through other comprehensive income comprised €954 thousand of investments in shares and interests in companies in Slovenia (2022: €877 thousand), and €25,947 thousand of investments in shares of companies located abroad (2022: €15,112 thousand).

Non-current investments at amortised cost (debt instruments) amounting to €20,773 thousand are bonds of EU member countries with a maturity of more than one year and with a credit risk rating that meets the globally understood definition of investment grade. The credit rating of all bonds falls within the so-called lower medium investment grade.

Current investments at amortised cost (debt instruments) amounting to €70,018 thousand are bonds with a maturity of less than one year and with a credit risk rating that corresponds to a globally understood definition of investment grade. 35% of these belong to the upper medium investment grade and 65% to the lower medium investment grade.

Investments at fair value through profit or loss represent investments in treasury bills of EU countries with a high credit rating that meets the globally understood definition of investment grade. 59% of the treasury bill portfolio is of high grade and 41% belong to the prime investment grade.

Investments at amortised cost include investments in Slovenian government bonds which amounted to €6,033 thousand (2022: €6,533 thousand), while investments in foreign government bonds amounted to €84,758 thousand (2022: €138,945 thousand). The decrease in financial investments at amortised cost in the amount of €53,311 thousand is due to the maturity of government bonds. The increase in investments at fair value through profit or loss amounting to €571,826 thousand includes acquisitions of treasury bills and the decrease of €339,100 thousand includes disposals of treasury bills due to their maturity.

Movement of investments

€ thousand	Financial assets at fair value through OCI	Investments at amortised cost	Investments at fair value through profit or loss
Balance at 1 Jan 2022	**15,861**	**207,009**	**39,970**
Increase	0	54,083	0
Decrease	0	-119,265	-40,000
Foreign exchange differences	0	3,651	0
Adjustment to market value	128	/	30
Balance at 31 Dec 2022	**15,989**	**145,478**	**0**
Balance at 1 Jan 2023	**15,989**	**145,478**	**0**
Increase	0	2,103	571,826
Decrease	0	-53,311	-339,100
Foreign exchange differences	0	-3,479	0
Adjustment to market value	10,912	/	4,025
Balance at 31 Dec 2023	**26,901**	**90,791**	**236,751**

Increases in financial assets comprise new acquisitions and imputed interest, while decreases comprise coupons received, imputed interest and disposals due to the investments' maturity. Adjustments of non-current investments at fair value through OCI were recognised in other comprehensive income in the amount of €10,912 thousand (2022: €128 thousand). Exchange differences on investments at amortised cost of -€3,479 thousand (2022: €3,651 thousand) are recognised in financial expenses.

15. Deferred tax assets and deferred tax liabilities

€ thousand	Assets		Labilities	
	2023	2022	2023	2022
Investments, property, plant and equipment and intangible assets	340	332	11,544	11,925
Investments at fair value through OCI	1,978	1,708	5,284	2,490
Inventories	29,139	34,540	0	0
Receivables	11,376	11,766	145	0
Dividends	1,800	33	0	0
Provisions for post-employment benefits and other non-current employee benefits	9,117	8,704	0	0
Transfer of tax loss	225	344	0	0
Total	**53,975**	**57,427**	**16,973**	**14,415**
Offsetting	**-6,247**	**-3,657**	**-6,247**	**-3,657**
Net	**47,728**	**53,770**	**10,726**	**10,758**

€ thousand	Balance at 1 Jan 2022	Recognised in income statement	Translation reserve	Recognised in OCI	Balance at 31 Dec 2022	Recognised in income statement	Translation reserve	Recognised in OCI	Balance at 31 Dec 2023
Investments, property, plant and equipment and intangible assets	**-11,949**	417	-61	0	**-11,593**	286	103	0	**-11,204**
Financial assets at fair value through OCI	**-739**	-19	0	-24	**-782**	270	0	-2,794	**-3,306**
Inventories	**24,415**	10,218	-93	0	**34,540**	-3,862	-1,539	0	**29,139**
Receivables	**10,242**	967	557	0	**11,766**	1,582	-2,117	0	**11,231**
Dividends	**19**	14	0	0	**33**	1,767	0	0	**1,800**
Provisions for post-employment benefits and other non-current employee benefits	**13,398**	-1,300	-1	-3,393	**8,704**	303	11	99	**9,117**
Transfer of tax loss	**575**	-231	0	0	**344**	-119	0	0	**225**
Total	**35,961**	**10,066**	**402**	**-3,417**	**43,012**	**227**	**-3,542**	**-2,695**	**37,002**

No unrecognised deferred tax on account of tax losses of subsidiaries existed in 2023 (2022: €484 thousand). The unrecognised deferred tax liability for unpaid dividends from subsidiaries is recorded at €18,552 thousand (2022: €13,675 thousand).

The revised tax rate in Slovenia, which has changed from 19% to 22%, is used to recalculate deferred taxes. The impact of the change amounts to €1,398 thousand.

16. Inventories

€ thousand	31 Dec 2023	31 Dec 2022
Materials	265,019	230,094
Work in progress	128,610	125,925
Finished products	177,247	169,510
Merchandise	11,476	8,297
Advances for inventories	22,269	19,506
Total inventories	**604,621**	**553,332**

The increase in inventories is the result of adapting to uncertain market conditions. By carefully planning our inventories and maintaining safety stocks, we ensure that we always have access to the intermediate goods that we require to produce our finished products. The planning of inventories of intermediate goods is based on sales forecasts. We also ensure optimal and adequate stocks of finished products throughout the distribution chain.

The net write-downs and write-offs of inventories recorded among operating expenses amounted in the reporting period to €11,420 thousand (2022: €20,321 thousand).

The Group does not pledge inventories as collateral.

17. Trade and other receivables

€ thousand	31 Dec 2023	31 Dec 2022
Current trade receivables	509,070	402,730
Current receivables due from others	51,364	27,728
Total trade and other receivables	**560,434**	**430,458**

The net amount of the write-offs and impairment of receivables disclosed in operating expenses amounted in 2023 to -€3,712 thousand (2022: €1,875 thousand).

95.3% of trade receivables were insured with a credit insurer, by taking into account 82.0% of the deductible (96.1% of trade receivables were insured as at 31 December 2022, by taking into account 86.7% of the deductible).

Current trade receivables

€ thousand	Gross value	Allowances for receivables	Net value at 31 Dec 2023	Net values at31 Dec 2022
Trade receivables due from domestic customers	12,615	30	12,585	11,566
Trade receivables due from foreign customers	532,722	35,607	497,115	393,660
Deferred income from contracts with foreign customers	-630	0	-630	-2,496
Total current trade receivables	**544,707**	**35,637**	**509,070**	**402,730**

Current receivables due from others

Current receivables due from others relate primarily to receivables due from the State. Income tax credits amounted to €22,885 thousand (2022: €1,644 thousand), while the remaining €18,486 thousand relate to other receivables due by the State (2022: €16,570 thousand).

Advances for services were recorded at €2,025 thousand (2022: €2,304 thousand) at the year-end of 2023.

18. Cash and cash equivalents

€ thousand	31 Dec 2023	31 Dec 2022
Cash in hand	71	64
Bank balances	173,940	518,870
Total cash and cash equivalents	**174,011**	**518,934**

Bank balances includes a deposit in the amount of €118,000 thousand and a maturity of up to 90 days (2022: €223,000 thousand).

19. Equity

Share capital

The share capital of the Company in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. There is solely one class of share. The share capital is fully paid in.

Treasury shares

At the 29 Annual General Meeting on 6 July 2023, the Company's Management Board was granted authorisation for the purchase of treasury shares. However, the total amount of treasury shares should not exceed the 10% of Company's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by Krka as at the date. The authorisation is valid for a period of 36 months from the date of the resolution's adoption.

Krka is allowed to acquire treasury shares on the regulated securities market at respective market prices at any time. It may also acquire treasury shares outside the regulated securities market. When purchasing treasury shares on the regulated market, the purchase price must not be lower than the book value based on the respective latest publicly published audited financial statements of the Krka Group. Furthermore, the purchase price of the shares must not exceed 25-fold the earnings per share held by the majority stakeholders as calculated based on the latest publicly published audited consolidated income statement of the Krka Group.

Pursuant to Paragraphs 3 and 4, Article 381 of the ZGD-1, an entity may reduce the share capital by withdrawal of all treasury shares in a simplified procedure and recognise the amount against other profit reserves.

Repurchase of treasury shares

	No. of shares	Weighted average share price (€)	Value of treasury shares (€ thousand)
Balance at 31 Dec 2021	**1,683,908**		**114,541**
Repurchases in 2022	101,941	98.35	10,025
Balance at 31 Dec 2022	**1,785,849**		**124,566**
Repurchases in 2023	130,117	107.00	13,923
Balance at 31 Dec 2023	**1,915,966**		**138,489**

The performed repurchases of treasury shares refers to repurchases that were recorded in individual years. A subscription fee is included in the weighted average price of shares. The amount paid, including commission, is deducted from the total capital as treasury shares until such shares are withdrawn, reissued or sold.

The repurchases of treasury shares in 2023 in terms of days are outlined in Note 35 – *Repurchase of treasury shares* to the financial statements of Krka, d. d., Novo mesto.

Reserves

The Krka Group's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves, fair value reserve and translation reserves.

Reserves for treasury shares amounted as at the balance sheet date to €138,489 thousand and increased by €13,923 thousand based on their formation as a result of additional repurchase of treasury shares.

The share premium is to be used under the terms and purposes as defined by the applicable act. The share premium was reported at €105,897 thousand as at 31 December 2023 and consisted of the general equity revaluation adjustment of €90,659 thousand that was included in share premium during the transfer to *IFRS*; the share premium of €10,844 thousand formed pursuant to a special regulation applicable in the ownership transformation of the controlling company; and €4,394 thousand of share premium resulting from reduction in the share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2023, the value of share premium remained unchanged.

Legal reserves may be formed up to 30% of the share capital. They amounted to €14,990 thousand as at 31 December 2023 and remained unchanged compared to the previous period.

Statutory reserves amounted to €30,000 thousand as at the reporting date and remained unchanged over the previous period. Statutory reserves are formed by the Krka Group up to the amount of €30,000 thousand. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy. Statutory reserves are available for drawdown.

The fair value reserve includes the cumulative change in the fair value of financial assets and post-employment benefits. Compared to the previous period, the fair value reserve decreased by €3,181 thousand and amounted to -€511 thousand as at 31 December 2023. The cumulative change is due to the increase in the fair value of financial assets through OCI (equity instruments) by €10,912 thousand, to the increase of translation reserve when restating post-employment effects by €35 thousand, to a decrease for the impact of deferred taxes amounting to €2,695 thousand and to the decrease due to the restatement of post-employment benefits by €11,433 thousand.

Compared to the previous period, the value of the *translation reserve* decreased by €48,451 thousand and amounted to -€134,370 thousand as at 31 December 2023. The decrease occurred as a result of translating individual items in financial statements of foreign operations into the reporting currency.

Retained earnings

Retained earnings grew based on the majority shareholder's profit of €313,946 thousand. On the other hand, they declined as a result of allocation of accumulated profit to dividend payment amounting to €204,378 thousand in accordance with the resolution adopted by the 29th Annual General Meeting on 6 July 2023; an additional formation of reserves for treasury shares in total of €13,923 thousand on account of the share repurchase by the controlling company in 2023 and changes in provisions for termination benefits amounting to €574 thousand.

The amount of the dividend payout reported in the statement of cash flows, differs from the figure confirmed by the Annual General Meeting and reported in the statement of changes in equity by €1 thousand of dividends paid in respect of previous periods (2022: €19 thousand).

Dividend per share

In 2023, the declared gross dividend per share was €6.60 (2022: €5.63).

Non-controlling interests

Krka holds a 60-percent holding in Ningbo Krka Menovo Pharmaceutical Co. Ltd., with Ningbo Menovo Pharmaceutical Co., Ltd. having a 40-percent holding. The following table summarises information about the company before any intra-group spin-offs. In 2023, the shareholders increased the share capital of the company in the amount of €3,303 thousand, in proportion to their respective shareholdings.

€ thousand	2023	2022
Non-controlling interest	**40.0%**	**40.0%**
Non-current assets	33,573	40,521
Current assets	20,385	20,626
Non-current liabilities	-238	0
Current liabilities	-4,443	-11,416
Net assets	**49,277**	**49,731**
Net assets attributable to the non-controlling interest	**19,711**	**19,893**
Revenue	21,337	29,634
Net profit	-534	915
Other comprehensive income	0	0
Total comprehensive income	**-534**	**915**
Net profit, attributable to the non-controlling interest	-214	366
Other comprehensive income, attributable to the non-controlling interest	-1,289	-505

20. Earnings per share

Basic earnings per share amounted to €10.14 in 2023 and declined by 13% over the previous year, when it amounted to €11.69. The calculation of earnings per share took into account the net profit for the period attributable to the controlling interests in the amount of €313,946 thousand (2022: €363,296 thousand). The weighted average number of shares was accounted for in the calculation for both years i.e. 30,954,055 shares for 2023, and 31,070,960 shares for 2022. The average number of shares is calculated from the daily share balances during the year, less treasury shares.

Diluted earnings per share equal the basic earnings per share as the Krka Group has not issued any dilutive or contingently dilutive instruments.

21. Provisions

Movement of provisions in 2023

€ thousand	Balance at 31 Dec 2022	Formation	Utilisation	Reversal	Translation reserve	Balance at 31 Dec 2023
Provisions for lawsuits	10,597	0	-1	-14	0	10,582
Provisions for post-employment benefits	79,750	19,693	-4,448	-744	31	94,282
Provisions for other non-current employee benefits	16,209	4,408	-1,415	-216	18	19,004
Other provisions	679	560	-620	-89	0	530
Total provisions	**107,235**	**24,661**	**-6,484**	**-1,063**	**49**	**124,398**

Movement of provisions in 2022

€ thousand	Balance at 31 Dec 2021	Transfer	Formation	Utilisation	Reversal	Translation reserve	Balance at 31 Dec 2022
Provisions for lawsuits	577	10,000	20	0	0	0	10,597
Provisions for post-employment benefits	104,429	0	-18,966	-3,898	-1,807	-8	79,750
Provisions for other non-current employee benefits	19,854	0	-1,857	-1,442	-341	-5	16,209
Other provisions	1,293	0	719	-1,225	-108	0	679
Total provisions	**126,153**	**10,000**	**-20,084**	**-6,565**	**-2,256**	**-13**	**107,235**

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for disputes referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed.

In 2014, the European Commission found that Krka had infringed Article 101 of the Treaty on the Functioning of the EU, thereby distorting competition on the EU market for perindopril, and imposed a fine of €10,000 thousand on Krka. Krka paid the fine within the time limit set by the Commission. However, as it considered that its conduct did not infringe competition law rules, it brought an action against the decision before the EU General Court, which ruled in favour of Krka in December 2018.[90]

The General Court's decision is not yet final and the Commission has lodged an appeal against it within the appeal period, which will be decided by the European Court of Justice.

Krka and its subsidiaries were in 2023 involved in intellectual property disputes and other areas of law (civil, labour, administrative disputes, etc.). The total value of the claims against Krka is estimated at €1,708 thousand. The Krka Group has formed provisions of €582 thousand for this purpose. The reversal of provisions is disclosed in Note 5 – *Other operating income*.

Provisions for obligations to employees arising from post-employment and other non-current benefits are based on actuarial calculation using the following assumptions:

- a discount rate that depends on the average duration of the liability in each company – for the Krka company, an annual discount rate of 4.07% is used, which is the yield on 10-year Eurozone high quality corporate bonds at the end of November 2023 (2022: 3.91%), for subsidiaries different annual discount rates are used, ranging between 1.82% and 6.69% (2022: from 3.14% and 6.75%);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal rules;
- staff turnover depending primarily upon the employees' age (3.0% for up to 30 years; 2.0% for 31 to 40 years; 0.5% for 41 to 50 years; 0.2% for 51 to 60 years);
- mortality rates calculated on the basis of most recent mortality tables available;
- long-term increase in salaries by 2.5% (2022: 2.0%) for Krka, whereas for subsidiaries from 1.0% and 3.5% (2022: 1.5% to 4.0%).

[90] GRI 206-1

Liabilities for post-employment benefits

€ thousand	2023	2022
Balance at 1 January	**79,750**	**104,429**
Current service costs (CSC)	4,683	5,824
Interest cost (IC)	3,113	1,300
Post-employment benefits paid	-4,501	-3,897
Staff departures (reversal)	-735	-1,807
Actuarial surplus/deficit, whereof:	11,972	-26,099
– Change in financial assumptions	2,552	-28,492
– Experience	9,420	2,393
Balance at 31 December	**94,282**	**79,750**

Sensitivity analysis

	Discount rate		Increase in wages and salaries	
Change in	percentage points		percentage points	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities (€ thousand)	**-6,009**	**6,606**	**6,677**	**-6,125**

22. Deferred income[91]

€ thousand	Balance at 31 Dec 2022	New deferred income received	Reversal of deferred income	Balance at 31 Dec 2023
Grants received from the European Regional Development Fund and budget of the Republic of Slovenia intended for the production of pharmaceuticals in the new Notol 2 Plant	843	0	-156	687
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resort and Golf Grad Otočec	3,231	288	-375	3,144
Grants received from the European Regional Development Fund (Farma GRS)	1,855	0	-288	1,567
Subsidy for acquisition of electric drive vehicles	2	0	-1	1
Property, plant and equipment received free of charge	13	8	-7	14
Emission coupons	10	10	-10	10
Subsidy for the purchase of joinery	92	0	-2	90
Subsidy for acquisition of other equipment	2	0	-1	1
Subsidy to subsidise increased gas prices	0	33	0	33
Subsidy for implementing preventive measures to reduce injuries in the undertaking	0	9	-9	0
Total deferred income	**6,048**	**348**	**-849**	**5,547**

Production of pharmaceuticals in the new Notol 2 Plant and Farma GRS projects are partly funded by the EU from the European Regional Development Fund. The Notol project is carried out within the framework of the Operational programme for strengthening regional development potentials for the 2007-2013 period; Priority axis 1: Competitiveness and Research Excellence: main type of activity 1.1.: Improvement of competitiveness and research excellence. The Farma GRS project was eligible for co-financing of costs under R&D projects, including project management and investment in research and development and production activities.

The amounts of deferred income are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of realised expenses.

[91] GRI 201-4

23. Trade payables

€ thousand	31 Dec 2023	31 Dec 2022
Current trade payables	**153,762**	**140,837**
Payables to domestic suppliers	57,459	55,799
Payables to foreign suppliers	96,303	85,038
Total trade payables	**153,762**	**140,837**

24. Current contract liabilities

€ thousand	31 Dec 2023	31 Dec 2022
Refund liabilities	**154,065**	**146,853**
– Bonuses and volume rebates	152,347	145,924
– Rights of return	1,718	929
Contract liabilities	**8,108**	**10,857**
– Contract liabilities – deferred income	1,381	1,290
– Contract liabilities – advances from other customers	6,727	9,567
Total current contract liabilities	**162,173**	**157,710**

Accrued bonuses and volume discounts include discounts to which the customers are entitled when the relevant terms and conditions are fulfilled; these discounts are not granted to customers in the year of the sale. Bonuses and volume rebates reduce revenue (generated sales) in the year to which they relate.

25. Other current liabilities

€ thousand	31 Dec 2023	31 Dec 2022
Payables to employees – gross salaries, other receipts and charges	88,803	69,812
Derivatives	2,653	0
Other	13,504	16,556
Total other current liabilities	**104,960**	**86,368**

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €6,657 thousand (2022: €10,557 thousand) and other current liabilities to the State totalling to €4,786 thousand (2022: €4,268 thousand).

26. Contingent liabilities and commitments

€ thousand	31 Dec 2023	31 Dec 2022
Guarantees issued	17,823	17,291
Other	1,417	1,935
Total contingent liabilities	**19,240**	**19,226**

Among the guarantees issued, the largest items are the performance guarantee for the supply of products awarded in tenders in Italy, amounting to €12,000 thousand, and the guarantee for the TAD Pharma credit line, amounting to €3,000 thousand. Both guarantees are valid until cancelled.

Based on the contracts that had been signed in connection with the on-going investments, the balance of Krka's commitments for acquisition of property, plant and equipment amounted at the end of 2023 to €76,482 thousand (2022: €82,801 thousand).

27. Leases

The Krka Group concludes lease agreements for various assets such as parking spaces and offices, warehouses, land, apartments, cars and equipment.

The lease terms are assessed according to the type of a lease:
- office premises, parking spaces and warehouses: up to 10 years;
- land: 30 years;
- apartments: up to 3 years maximum;
- cars: up to 5 years maximum;
- equipment: up to 10 years.

The Krka Group does not sub-lease the leased assets.

The Krka Group concluded lease contracts for various production and non-production equipment, temporary offices and parking spaces, with lease term of shorter than one year. In respect of those leases, the Krka Group applied a practical expedient provided by the Standard.

The carrying amounts of lease liabilities included under interest-bearing loans and borrowings and the movements during the period

€ thousand	Carrying amounts of lease liabilities under interest-bearing loans and borrowings and movements during the period
Balance at 1 Jan 2022	**12,157**
Increase/Decrease	3,305
Interest	301
Lease payments	-3,926
Translation reserve	4
Balance at 31 Dec 2022	**11,841**
– Current lease liabilities	3,752
– Non-current lease liabilities	8,089
Balance at 1 Jan 2023	**11,841**
Increase/Decrease	4,106
Interest	314
Lease payments	-4,184
Translation reserve	-78
Balance at 31 Dec 2023	**11,999**
– Current lease liabilities	3,452
– Non-current lease liabilities	8,547

The maturity analysis of lease liabilities is disclosed in Note 29 – *Financial instruments and financial risks*.

Amounts recognised in the income statement

€ thousand	2023	2022
Depreciation of right-of-use assets	3,797	3,685
Interest expenses on lease liabilities	314	301
Expenses relating to current leases	1,310	1,134
Total amount recognised in income statement	**5,421**	**5,120**

28. Financial liabilities

Movement of financial liabilities in 2023

€ thousand	Balance at 31 Dec 2022	Monetary changes	Non-monetary changes Additions/ disposals	Non-monetary changes Other	Balance at 31 Dec 2023
Dividends	1,303	-204,379	204,378	0	1,302
Leases	11,841	-4,184	4,028	314	11,999
Total	**13,144**	**-208,563**	**208,406**	**314**	**13,301**

Movement of financial liabilities in 2022

€ thousand	Balance at 31 Dec 2021	Monetary changes	Non-monetary changes Additions/ disposals	Non-monetary changes Other	Balance at 31 Dec 2022
Dividends	1,322	-175,044	175,025	0	1,303
Leases	12,157	-3,926	3,309	301	11,841
Liabilities under repurchase transactions (repo-type operations)	102,234	-101,762	0	-472	0
Total	**115,713**	**-280,732**	**178,334**	**-171**	**13,144**

29. Financial instruments and financial risks

Credit risk

The key credit risk of the Krka Group arises from trade receivables. This is the risk of customers failing to settle their liabilities by maturity dates.

The Krka Group introduced a centralised credit control process in 2004. The system includes all customers with credit limits exceeding €20,000. Numbering over 700 of such customers at the end of 2023, they accounted for more than 95% of total trade receivables. Receivables due from small customers accounted for less than 5% of total trade receivables. Control over small customers is decentralised in the sales network and under the constant supervision of the controlling company.

Credit control is a two-step process. The first step involves assessing the credit risk for each customer, determining hedging instruments, and assigning relevant credit limits. We assess each new customer and review the credit ratings of all customers twice a year. Each credit rating includes many different financial and non-financial indicators, which fall into four categories (assessment of the profitability, payment habits and payment discipline of the customer, assessment of the customer's financial statements, qualitative assessment of sales staff and country risk assessment), each of which carries a different weight in the final assessment.

Each customer is assigned a customised credit limit according to the credit rating and the expected shipment and payment dynamics.

The second step in the credit-control process involves regular dynamic monitoring of a customer's payment discipline. The information systems of all Krka Group companies engaged in sales monitor available limits and overdue receivables. Control is exercised for each shipment of Krka products to customers. A shipment is automatically blocked if a customer is in arrears or if receivables together with the new shipment exceed the approved credit limit. Sales personnel are required to initiate a payment collection procedure or arrange hedging for the outstanding settlements.

Krka's internal rules determine the process of credit control and authorisations for granting credit limits to customers. Credit control also avails of a system of regular reporting on trade receivables and the customer's payment discipline. The reporting system aids the early detection of customers at increased risk of defaulting on payments and facilitates effective credit risk management.

The credit control process employs uniform rules which apply to all customers. Due to specifics of sales markets, additional national controls have been introduced in individual subsidiaries. Credit control processes are regularly adjusted to changes in the sales markets.

Credit control guarantees permanent control over the quality of the trade receivables portfolio. The result is a low share of receivable write-offs and impairments in view of Krka Group sales.

The amount of receivable write-offs and impairments is also low because receivables are dispersed across many customers and sales markets, and the majority of outstanding receivables are due from customers with whom Krka has been doing business for several years.

A complex credit risk situation in 2023 derived from the tense situation in Ukraine, the Russian Federation, and Belarus. These markets were at our focal point. We continued with our trade receivable management activities. The credit risk management balance was favourable in 2023. At the end of 2023, the value of trade receivables increased by 26% compared to the beginning of the year. The amount of overdue and outstanding receivables remained within limits acceptable for Krka.

The amount of the newly established valuation allowance for receivables was lower than the amount of the reversed allowance. Therefore, net impairments and write-offs of receivables had a positive impact on the Krka Group's bottom line in 2023.

Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below:

€ thousand	Notes	31 Dec 2023	31 Dec 2022
Loans	13	128,817	83,866
Investments at fair value through profit or loss	14	236,751	0
Investments at amortised cost (debt instruments)	14	90,791	145,478
Trade receivables	17	509,070	402,730
Cash and cash equivalents	18	174,011	518,934
Total		**1,139,440**	**1,151,008**

As for the financial assets exposed to credit risk, the loans, investments, trade receivables, as well as cash and cash equivalents are presented separately.

The loans include a €30,000 thousand deposit with a maturity of over one year with a Slovenian bank with a high credit rating and a €50,000 thousand deposit with a maturity of over 90 days and less than a year with a high credit rating foreign bank. The loan in the amount of €28,695 thousand for production facilities in China and housing loans for Krka employees represent a limited credit risk for the Krka Group.

Investments at fair value through profit or loss represent investments in treasury bills of Western European EU member countries with a high credit rating (P-1 by Moody's).

Investments at amortised cost (debt instruments) represent investments in non-current and current bonds of EU countries. They are classified as financial instruments with low credit risk because their credit rating is equivalent to the globally understood definition of 'investment grade', which equals a credit rating of Baa2 or above by Moody's or BBB- or above by S&P Global Ratings.

Group's cash and cash equivalents are represented by bank balances and deposits with a maturity of less than 90 days with banks in the EU with a high credit rating (P-1 by Moody's).

Loans by region

€ thousand	31 Dec 2023	31 Dec 2022
Region Slovenia	43,854	43,817
Region South-East Europe	85	107
Region East Europe	137	163
Region Central Europe	175	199
Region West Europe	50,197	381
Region Overseas Markets	34,369	39,199
Total	**128,817**	**83,866**

Trade receivables by region

€ thousand	31 Dec 2023	31 Dec 2022
Region Slovenia	12,615	11,568
Region South-East Europe	97,211	78,859
Region East Europe	212,160	143,635
Region Central Europe	86,279	72,534
Region West Europe	95,266	90,545
Region Overseas Markets	5,539	5,589
Total	**509,070**	**402,730**

As at 31 December 2023, €3,037 thousand of receivables were outstanding from Ukrainian customers (2022: €132 thousand).

The value of receivables from Russian customers as at 31 December 2023 amounted to €184,029 thousand (2022: €120,137 thousand).

Age analysis of loans as at the reporting date

€ thousand	Gross value at 31 Dec 2023	Allowance at 31 Dec 2023	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022
Not past due	128,810	0	83,861	0
Past due up to 20 days	0	0	-1	0
Past due from 21 to 50 days	2	0	1	0
Past due from 51 to 180 days	1	0	1	0
Past due more than 180 days	4	0	4	0
Total	**128,817**	**0**	**83,866**	**0**

Age analysis of trade receivables as at the reporting date

€ thousand	Gross value at 31 Dec 2023	Allowance at 31 Dec 2023	Net value at 31 Dec 2023	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022	Net value at 31 Dec 2022
Not past due	481,775	861	480,914	394,575	685	393,890
Past due up to 20 days	21,574	138	21,436	6,618	45	6,573
Past due from 21 to 50 days	4,050	105	3,945	372	16	356
Past due from 51 to 180 days	1,501	118	1,383	862	58	804
Past due more than 180 days	35,807	34,415	1,392	38,862	37,755	1,107
Total	**544,707**	**35,637**	**509,070**	**441,289**	**38,559**	**402,730**

The Krka Group is extending payment deadlines to certain customers. If payment deadlines to some customers would not be extended, the receivable maturity structure would be as follows at the reporting date: not past due €438,038 thousand (2022: €364,673 thousand); past due up to 20 days €44,372 thousand (2022: €21,125 thousand); past due between 21 and 50 days €21,549 thousand (2022: €10,136 thousand); past due between 51 and 180 days €3,071 thousand (2022: €2,806 thousand); and past due more than 180 days €1,391 thousand (2022: €3,458 thousand).

Age analysis of receivables due from customers in the Russian Federation as at the reporting date

€ thousand	Gross value at 31 Dec 2023	Allowance at 31 Dec 2023	Net value at 31 Dec 2023	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022	Net value at 31 Dec 2022
Not past due	184,390	370	184,020	120,406	269	120,137
Past due up to 20 days	9	0	9	0	0	0
Total	**184,399**	**370**	**184,029**	**120,406**	**269**	**120,137**

The share of secured receivables in the Russian Federation was 94.9% (2022: 90.9%).

Movement of allowances for trade receivables

€ thousand	2023	2022
Balance at 1 Jan	**38,559**	**37,549**
Formation of allowance	879	2,054
Write-off of receivables	-528	-700
Impairment reversal	-4,140	-352
Collected written-off receivables	-496	-1
Effect of exchange rate differences	-72	9
Reallocation of compensations received	1,435	0
Balance at 31 Dec	**35,637**	**38,559**

Liquidity risk

Business partners value Krka for its excellent financial discipline and stable cash flows. We settled all financial liabilities regularly in 2023 as well. Krka Group exposure to liquidity risk was low.

The Krka Group has agreements with two banks for the allowed negative balance on transaction accounts for a total amount of €10,050 thousand (in 2022, the Krka Group had agreements with two banks for a total amount of €5,688 thousand). As there were no negative balances on transaction accounts at 31 December 2023, the bank overdraft remained fully unused.

As at 31 December 2023, Krka Group had an undrawn credit facility of €20,000 thousand (2022: €20,000 thousand as well).

At the end of 2023, the Krka Group recorded cash and cash equivalents primarily as cash at bank or short-term deposits with first-class commercial banks. Other current liquid assets were held in short-term treasury bills of western European countries with first-class credit ratings.

The world's most important central banks raised the key interest rates in 2023. The Krka Group recorded favourable returns on cash, cash equivalents, and low-risk liquid investments, leading to higher interest income and income from other financial instruments.

The Krka Group oversees liquid assets in line with internal investment diversification rules, taking into account factors such as interest rate, liquidity, credit, and currency risks.

The controlling company manages liquidity risk centrally for the entire Krka Group. The controlling company finances subsidiaries through intra-group loans. Any potential excess cash is deposited with the controlling company. Excess cash from all Group companies is transferred to the controlling company's master account either automatically daily (cash pooling) or manually through individual bank transfers. This allows for cash management optimisation, currency risk mitigation, an overview of liquidity of all Group companies, and enhanced security of money transactions.

The Krka Group also reported favourable and stable liquidity ratios at the end of 2023.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 December 2023

€ thousand	Carrying amount	Contractual cash flows					
		Total	Up to 6 months	6–12 months	1–2 years	2–5 years	5–10 years
Financial liabilities							
Lease liabilities	11,999	13,550	2,041	1,907	3,144	5,610	848
Trade payables excluding advances	153,762	153,762	153,762	0	0	0	0
Contract liabilities excluding advances	152,347	152,347	152,347	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	8,629	8,629	8,629	0	0	0	0
Total financial liabilities	**326,737**	**328,288**	**316,779**	**1,907**	**3,144**	**5,610**	**848**
Derivatives	2,653	2,653	2,653	0	0	0	0
Total derivative financial liabilities	**2,653**	**2,653**	**2,653**	**0**	**0**	**0**	**0**
Total	**329,390**	**330,941**	**319,432**	**1,907**	**3,144**	**5,610**	**848**

Maturity of financial liabilities as at 31 December 2022

€ thousand	Carrying amount	Contractual cash flows					
		Total	Up to 6 months	6–12 months	1–2 years	2–5 years	5–10 years
Financial liabilities							
Lease liabilities	11,841	12,406	1,980	1,923	2,842	4,771	890
Trade payables excluding advances	140,837	140,837	140,837	0	0	0	0
Contract liabilities excluding advances	145,924	145,924	145,924	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	7,478	7,478	7,478	0	0	0	0
Total financial liabilities	**306,080**	**306,645**	**296,219**	**1,923**	**2,842**	**4,771**	**890**
Total derivative financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**306,080**	**306,645**	**296,219**	**1,923**	**2,842**	**4,771**	**890**

Foreign exchange risk

The Krka Group operates in diverse international environments and is exposed to foreign exchange risk in certain sales and purchase markets.

Currency exposure arises from the difference in the value of assets and liabilities in a particular currency in the financial position statement of the Group and from differences between operating income and expenses generated in individual currencies.

The key accounting categories composing a currency position are trade receivables, trade payables, liquid financial assets in foreign currencies, derivatives for currency risk hedging, financing of subsidiaries ensured by the controlling company and recorded purchase orders.

At the end of 2023, the Russian rouble held the largest share of Krka's currency position at 45%. The position in roubles has increased over the beginning of 2023. A key reason for this is the limited possibility to use derivatives to hedge rouble-related risk. The rouble position arises from receivables from customers on the Russian market and partly from financing provided by the controlling to subsidiaries in the Russian Federation.

The Russian rouble accounted for the major, 45%, share in the currency position of the Krka Group at the end of 2023. The rouble's currency position strengthened compared to the beginning of the year. The primary reason for this was a limited possibility for hedging the rouble with derivative financial instruments. The position in the rouble arises from trade receivables in the Russian market and partly from subsidiary funding in the Russian Federation by the controlling company.

The importance of the Russian market, the level of currency exposure, and the volatility of the Russian rouble are why we pay special attention to Russian rouble risk management. The availability of financial instruments was reduced and we, therefore, focused more on natural risk mitigation methods in 2023.

Unlike with other currencies, exposure to the US dollar arises from a surplus of liabilities over assets from regular business operations, or in other words, the currency position is short. Exposure to the US dollar arises primarily from purchasing raw and other materials. Considering liquid financial assets in US dollars and dollar forward contracts that together offset the short financial position from operations, the 2023 year-end exposure to US dollars accounted for 7% of total Krka Group currency exposure.

The exposure to the Romanian leu, accounting for 15% of the currency position at the end of 2023, arises from trade receivables accrued due to extended payment terms in Romania. Exposure to the Polish zloty resulted from trade receivables and manufacturing facilities held by the Group in Poland and accounted for 14% of the currency position.

Other currencies, among them the Swedish krona, North Macedonian denar, Kazakh tenge, Serbian dinar, British pound, Czech koruna, Ukrainian hryvnia, and Hungarian forint, accounted for 19% of the Krka Group currency position.

The different dynamics of consumer price index in certain important Krka's markets and various measures that monetary authorities took against the rise in prices enhanced the volatility of important currency pairs in 2023.

The European Central Bank (ECB) aggressively hiked the key interest rate in the first half of 2023, then gradually slowed the hike in the middle of the year, concluding its rate-hiking cycle at the end of the year. The US Federal Reserve adopted a similar approach. The central banks of Poland, Hungary, Czechia, and Romania, which raised their interest rates already in 2022 due to high inflation, did not implement any major changes during the year. However, except for the Romanian central bank, they gradually lowered the key interest rates towards the end of 2023.

The decline in the rouble's value started in the last quarter of 2022 already and continued until the end of the first half of 2023. The downward trend was primarily driven by a reduced trade surplus, which resulted in rising inflation on the back of relatively stable economic activity. Monetary authorities moderated the inflation and depreciation of the rouble in the second half of the year with several key interest rate hikes and other measures to protect the value of domestic currency. The value of the Russian rouble denominated in the euro dropped by 21.5% from the beginning to the end of the year and was, on average, 20.6% lower than in 2022.

The value of the US dollar denominated in the euro declined by 3.5% over the course of 2023 and was, on average, 2.6% lower than the previous year. The euro/US dollar currency pair fluctuated between 1.05 and 1.13 in 2023. The impact of the US dollar fluctuations on the Krka Group result was offset using financial instruments.

In 2023, the value of the Ukrainian hryvnia continued to be affected by the Russian invasion and uncertainty regarding the future economic situation in the country.

For the majority of the year, the value of the Polish zloty experienced a gradual strengthening, with further increases occurring after the parliamentary elections at the end of September. Over the course of 2023, the value of the zloty increased by 7.9% and the average value was 3.2% higher than in 2022.

Throughout 2023, the Romanian leu remained highly stable. By mid-2023, the long-term trend of the Czech koruna's gradual appreciation against the euro shifted to a slow depreciation. Additionally, the Hungarian forint exhibited less volatility in 2023 compared to 2022.

The Krka Group generally mitigates currency risks by natural hedging, primarily by increasing purchases and liabilities in currencies in which sales invoices are issued. When this is impossible, we use derivatives or do not hedge the risk. Generally, only forward contracts are used for hedging.

In 2023, we continued to hedge the US dollar with financial instruments. We used natural hedging to mitigate the risk exposure to the Russian rouble as there were no suitable financial instruments on the banking market. Due to the declining value of the Russian rouble denominated in the euro, we generated net foreign exchange losses, primarily in the first half of 2023.

The increasing exposure from operations and the favourable interest rate differential between the euro and the US dollar for Krka are the key reasons why we continued to hedge part of our US dollar exposure with financial instruments in 2023. To hedge the risk of changes in the currency parity between the euro and the US dollar, forward contracts with a principal amount of $75,000 thousand and a maturity of less than three months were open at the end of 2023.

Exposure to the risk of foreign exchange rate fluctuations

	31 Dec 2023				
€ thousand	EUR	RUB	PLN	USD	RON
Loans	94,116	51	169	0	22
Trade receivables	135,047	198,075	59,091	11,100	52,899
Cash and cash equivalents	134,641	7,573	775	5,447	2,838
Current trade payables	-127,456	-150	-45	-11,987	-483
Financial position exposure (net)	**236,348**	**205,549**	**59,991**	**4,560**	**55,276**

* EUR is the functional currency and does not represent exposure to foreign currency risk.

	31 Dec 2022				
€ thousand	EUR*	RUB	PLN	USD	RON
Loans	44,244	86	17	0	31
Trade receivables	101,451	137,966	50,293	5,819	46,991
Cash and cash equivalents	454,565	29,846	2,674	7,682	538
Current trade payables	-109,248	-4,385	-1,914	-9,753	-485
Financial position exposure (net)	**491,012**	**163,513**	**51,069**	**3,748**	**47,075**

* EUR is the functional currency and does not represent exposure to foreign currency risk.

Significant exchange rates

	Average exchange rate*		Final exchange rate*	
	2023	2022	2023	2022
RUB	92.49	73.43	99.97	78.43
PLN	4.54	4.69	4.34	4.68
USD	1.08	1.05	1.11	1.07
RON	4.95	4.93	4.98	4.95

* Number of national currency units for one euro.

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December and equal the reference exchange rates of the ECB effective on the last day of the year. Since the end of March 2022, the Bloomberg exchange rate is used to convert the Russian rouble.

Sensitivity analysis

A 1% change in the value of these currencies against euro as at 31 December 2023 or 31 December 2022 would increase or decrease the profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining variables except for the exchange rate, in particular interest rates, remain unchanged. The calculation of the above-stated exchange rate volatility impact took into account the balance of receivables, liabilities, loans and cash and cash equivalents denominated in the local currencies.

	Impact on profit or loss before tax			
	2023		2022	
Currency fluctuations	**+1%**	**-1%**	**+1%**	**-1%**
RUB	2,055	-2,055	1,635	-1,635
PLN	600	-600	511	-511
USD	46	-46	37	-37
RON	553	-553	471	-471

Any additional 1% increase/decrease of the euro exchange rate in respect of currencies stated above, would increase or decrease the profit or loss before tax in the above-stated amounts.

Interest rate risk

Interest rate risk is the risk of losses that result from a change in interest rates and is related to Krka's non-current borrowings and investments.

The interest rate risk with current borrowings and current investments is managed as part of the Group's liquidity risk.

The Krka Group had no non-current borrowings in 2023.

Exposure to interest rate risk

€ thousand	31 Dec 2023	31 Dec 2022
Financial instruments at a fixed rate of interest	**215,069**	**485,123**
Financial assets	215,069	485,123
Financial liabilities	0	0
Financial instruments at a variable rate of interest	**30,000**	**30,000**
Financial assets	30,000	30,000
Financial liabilities	0	0

Cash flow sensitivity analysis for variable interest rate instruments

A 100 basis-point increase in the variable interest rate for 2023 would increase the profit or loss by €300 thousand (a decrease in the interest rate by 100 basis points would decrease the profit or loss by €300 thousand). An increase of 100 basis points in the variable interest rate would increase the 2022 profit by €300 thousand (a decrease of the interest rate by 100 basis points would decrease the profit or loss by €300 thousand). The analysis, which is carried out in the same way for both years, assumes that all variables, in particular the exchange rate, remain constant.

Capital management

The primary objective of managing the Group's capital is to ensure a high credit rating and adequate funding ratios so that the Group can adequately develop its business and maximise value for its shareholders.

By managing and adjusting its capital structure, the Krka Group aims to keep pace with changes in the economic environment. Dividends are paid once a year in line with the strategic dividend growth policy. The Krka Group has no specific employee ownership targets and no share option plan.

There were no changes in Group's approach to capital management in 2023 or 2022.

The Krka Group monitors capital using a gearing ratio, which is net debt divided by total net debt plus total equity. Within net debt, Krka includes interest bearing borrowings, operating liabilities, current liabilities from contracts with customers and other current payables less cash and cash equivalents.

Financial leverage ratio

€ thousand	31 Dec 2023	31 Dec 2022
Operating liabilities	153,762	140,837
Current liabilities from contracts with customers	162,173	157,710
Other current payables	104,960	86,368
Cash and cash equivalents	174,011	518,934
Net indebtedness	**246,884**	**-134,019**
Equity	2,181,766	2,138,509
Equity and net indebtedness	**2,428,650**	**2,004,490**
Financial leverage (debt/equity) ratio	**10.2%**	**-6.7%**

Fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. The table does not include disclosures about the fair values of financial assets and liabilities not measured at fair value, where the carrying amount is a reasonable approximation of fair value.

	31 Dec 2023		31 Dec 2022	
€ thousand	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial assets				
Loans	70,098		77,539	
Investments at fair value through OCI (equity instruments)	26,901	26,901	15,989	15,989
Investments at amortised cost (debt instruments)	20,773		94,781	
Current financial assets				
Loans	58,719		6,327	
Investments through profit or loss	236,751	236,751	0	0
Investments at amortised cost (debt instruments)	70,018		50,697	
Derivatives	0	0	1,740	1,740
Trade receivables	509,070		402,730	
Cash and cash equivalents	174,011		518,934	
Non-current financial liabilities				
Lease liabilities	-8,547		-8,089	
Current financial liabilities				
Lease liabilities	-3,452		-3,752	
Trade payables excluding advances	-153,762		-140,837	
Contract liabilities excluding advances	-152,347		-145,924	
Other liabilities excluding amounts owed to the State, to employees and advances	-8,629		-7,478	
Total	**839,604**	**263,652**	**862,657**	**17,729**

In terms of fair value, assets and liabilities are classified into three levels:

- Level 1 – assets at market price;
- Level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- Level 3 – assets the value of which cannot be determined using observable market data.

Fair value of assets

€ thousand	31 Dec 2023 Level 1	Level 2	Level 3	Total	31 Dec 2022 Level 1	Level 2	Level 3	Total
Assets at fair value								
Investments at fair value through OCI (equity instruments)	25,514	0	1,387	26,901	14,602	0	1,387	15,989
Investments at fair value through profit or loss	236,751	0	0	236,751	0	0	0	0
Derivatives	0	0	0	0	0	0	1,740	1,740
Total assets at fair value	**262,265**	**0**	**1,387**	**263,652**	**14,602**	**0**	**3,127**	**17,729**

30. Related party transactions

Data on groups of persons

By the end of 2023, members of the Management Board of the controlling company held 37,040 Krka shares i.e. 0.1129% of total equity or 0.1195% of voting rights. Members of the Supervisory Board of the controlling company held 2,847 shares i.e. 0.0087% of total equity or 0.0092% of voting rights. Directors of subsidiaries held 4,169 shares or 0.0127% of the total equity or 0.0135% of voting rights.

Equity stakes held by Management and the Supervisory Board members of the controlling company and their shares of voting rights

	31 Dec 2023 No. of shares	Equity share (%)	Share in voting rights (%)	31 Dec 2022 No. of shares	Equity share (%)	Share in voting rights (%)
Members of the Management Board						
Jože Colarič	22,500	0.0686	0.0729	22,500	0.0686	0.0726
Aleš Rotar	13,915	0.0424	0.0451	13,915	0.0424	0.0449
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
David Bratož	0	/	/	0	/	/
Milena Kastelic	505	0.0015	0.0016	505	0.0015	0.0016
Total Members of the Management Board	**37,040**	**0.1129**	**0.1200**	**37,040**	**0.1129**	**0.1195**
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	/	/	0	/	/
Luka Cerar*	0	/	/	0	/	/
Borut Jamnik**	0	/	/	0	/	/
Matej Lahovnik	1,000	0.0030	0.0032	600	0.0018	0.0019
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Mojca Osolnik Videmšek	617	0.0019	0.0020	617	0.0019	0.0020
Boris Žnidarič	0	/	/	0	/	/
Members of the Supervisory Board (employee representatives)						
Franc Šašek	500	0.0015	0.0016	1,400	0.0043	0.0045
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0016
Mateja Vrečer	0	/	/	0	/	/
Total Members of the Supervisory Board	**2,847**	**0.0087**	**0.0092**	**3,347**	**0.0102**	**0.0108**
Total	**39,887**	**0.1216**	**0.1292**	**40,387**	**0.1232**	**0.1302**

** Member of the Supervisory Board since 7 July 2023*
*** Member of the Supervisory Board until 6 July 2023*

Treasury shares were eliminated from the calculation of voting rights (1,915,966 treasury shares as at 31 December 2023 and 1,785,849 as at 31 December 2022).

Remuneration paid to groups of persons (gross)

€ thousand	31 Dec 2023	31 Dec 2022
Members of the Management Board in the controlling company	4,317	4,163
Managers of subsidiaries	2,722	2,839
Members of the Supervisory Board in the controlling company	311	274
Members of the Supervisory and Management Boards in subsidiaries	1	1
Total gross remuneration paid to groups of persons	**7,351**	**7,276**

Remuneration paid to members of the Management Board in the controlling company and directors of subsidiaries included wages and salaries, fringe benefits and any other earnings. For each year, they are shown on a cost basis and therefore differ from the remuneration shown in the Report on Remuneration of the Members of the Management Board and Supervisory Board of the Company for 2023, where they are shown by payments in each year.

Remuneration paid to members of the Supervisory Board in the controlling company represents earnings in connection with exercising the function within the Supervisory Board. Remuneration paid to members of the Supervisory and Management Boards in subsidiaries, who simultaneously act as members of the Management Board in the controlling company or are employed under individual employment contracts, also only include earnings for exercising the function within the Supervisory and Management Boards.

Gross earnings paid to persons employed under individual employment contracts in 2023 amounted to €14,533 thousand (2022: €13,825 thousand).

Remuneration paid to Management Board members in the controlling company in 2023

	Salary – fixed part			Salary – variable part		Total	
€ thousand	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	526	191	33	858	335	1,384	559
Aleš Rotar	415	154	29	575	224	990	407
Vinko Zupančič	349	131	26	479	187	828	344
David Bratož	342	129	26	470	184	812	339
Milena Kastelic	209	82	19	94	37	303	138
Total remuneration paid to Members of the Management Board	**1,841**	**687**	**133**	**2,476**	**967**	**4,317**	**1,787**

	Net fringe benefits and other earnings						
€ thousand	Executive health insurance	Supplementary pension insurance	Anniversary bonuses	Other bonuses	Refund of work-related funds	Pay for annual leave	Total
Jože Colarič	27.15	2.90	0.00	1.10	0.06	2.15	33.36
Aleš Rotar	19.27	2.90	0.00	3.12	1.10	2.15	28.54
Vinko Zupančič	16.07	2.90	0.00	4.45	0.89	2.15	26.46
David Bratož	16.96	2.90	0.00	2.68	1.09	2.15	25.78
Milena Kastelic	12.34	2.90	0.00	0.08	1.16	2.15	18.63
Total remuneration paid to Members of the Management Board	**91.79**	**14.50**	**0,00**	**11.43**	**4.30**	**10.75**	**132.77**

Remuneration paid to Management Board members in the controlling company in 2022

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	521	214	19	849	341	1,370	574
Aleš Rotar	390	165	15	549	221	939	401
Vinko Zupančič	311	132	16	457	184	768	332
David Bratož	333	142	16	449	181	782	339
Milena Kastelic	219	94	13	85	35	304	142
Total remuneration paid to Members of the Management Board	**1,774**	**747**	**79**	**2,389**	**962**	**4,163**	**1,788**

€ thousand	Net fringe benefits and other earnings						
	Executive health insurance	Supplementary pension insurance	Anniversary bonuses	Other bonuses	Refund of work-related funds	Pay for annual leave	Total
Jože Colarič	10.00	2.89	3.18	1.19	0.04	1.92	19.23
Aleš Rotar	5.00	2.89	0.00	3.87	1.02	1.92	14.70
Vinko Zupančič	5.00	2.89	0.00	5.31	0.84	1.92	15.97
David Bratož	5.00	2.89	0.00	5.59	1.03	1.92	16.43
Milena Kastelic	5.00	2.89	1.92	0.06	1.09	1.92	12.88
Total remuneration paid to Members of the Management Board	**30.00**	**14.45**	**5.11**	**16.02**	**4.01**	**9.62**	**79.20**

Other bonuses refer to the use of a company car for private purposes and other similar bonuses. Refund of work-related costs consists of commuting and meal allowances. Members of the Management Board do not receive attendance fees or any other income for exercising their functions in the Management and Supervisory Boards in subsidiaries.

Remuneration paid to Supervisory Board members in the controlling company in 2023

	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
€ thousand	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	34.35	24.99	1.55	1.12	0.00	0.00	35.90	26.11
Luka Cerar*	16.33	11.88	0.72	0.52	0.52	0.38	17.57	12.78
Borut Jamnik**	14.52	10.55	1.70	1.24	0.00	0.00	16.22	11.79
Matej Lahovnik	31.67	23.04	2.78	2.02	0.94	0.68	35.39	25.74
Julijana Kristl	29.88	21.73	2.55	1.85	0.55	0.40	32.98	23.98
Mojca Osolnik Videmšek	31.06	22.60	2.78	2.02	0.35	0.25	34.19	24.87
Boris Žnidarič	34.49	25.08	3.12	2.27	0.49	0.36	38.10	27.71
Members of the Supervisory Board (employee representatives)								
Franc Šašek	31.67	23.03	3.28	2.38	0.00	0.00	34.95	25.41
Tomaž Sever	29.88	21.73	2.55	1.85	0.52	0.38	32.95	23.96
Mateja Vrečer	29.88	21.73	2.55	1.85	0.00	0.00	32.43	23.58
Total remuneration paid to Members of the Supervisory Board	**283.73**	**206.36**	**23.58**	**17.12**	**3.37**	**2.45**	**310.68**	**225.93**

** Member of the Supervisory Board since 7 July 2023*
*** Member of the Supervisory Board until 6 July 2023*

Pursuant to a resolution of the 29th Annual General Meeting of the controlling company held on 6 July 2023, the members of its Supervisory Board receive attendance fees amounting to €360.00 gross per member for their attendance. The members of the Supervisory Board Committee shall receive an attendance fee for attending a meeting of the Supervisory Board Committee equal to 80% of the attendance fee for attending a meeting of the Supervisory Board. The attendance fee for a correspondence meeting corresponds to 80% of the attendance fee otherwise payable. Notwithstanding the above and irrespective of the number of meetings attended in a financial year, a Supervisory Board member shall be entitled to payment of attendance fees until its total amount reaches 50% of the basic remuneration of the Supervisory Board member for performing his/her duties on an annual basis. Notwithstanding the foregoing and irrespective of the number of attendances at meetings of the Supervisory Board and the committees in each financial year, a Supervisory Board member who is a member of a committee or Supervisory Board committees shall be entitled to payment of attendance fees until its total amount reaches 75% of his/her basic remuneration for the performance of his/her duties as a member of the Supervisory Board on an annual basis.

In addition to the attendance fees, a member of the Supervisory Board receives a basic remuneration for the performance of his/her duties amounting to €21,000.00 gross per year. The President of the Supervisory Board shall also be entitled to a payment of 50% of the basic remuneration for the performance of his/her duties as a member of the Supervisory Board, and the Vice-President or Deputy President of the Supervisory Board shall be entitled to a payment of 10% of the basic remuneration for the performance of his/her duties as a member of the Supervisory Board. Members of the Supervisory Board Committee shall receive an additional payment of 25% of the basic remuneration for their duties as a member of the Supervisory Board. The Chairperson of the Committee shall be entitled to a supplement of 37.5% of the basic remuneration for the performance of his/her duties as a member of the Supervisory Board. Notwithstanding the above and irrespective of the number of committees of which he/she is a member or which he/she chairs in any financial year, a member of an Supervisory Board Committee shall be entitled to additional remuneration for the performance of his/her duties until the total amount of such remuneration reaches 50% of the basic remuneration for performing the duties of a member of the Supervisory Board on an annual basis. If the term of office of a member of the Supervisory Board is less than one financial year, notwithstanding the above and irrespective of the number of committees of which he is a member or which he chairs, a member of a Supervisory Board committee shall be entitled in each financial year to additional remuneration for performing his/her duties until the total amount of such additional remuneration reaches 50% of the basic remuneration for performing his/her duties as an Supervisory Board member in respect of the eligible remuneration for the period of his/her term of office during the financial year.

Supervisory Board members are also entitled to an extra payment for special duties, which involve the performance of unusual duties of above-average complexity over a prolonged period of time, normally lasting at least one month. The Supervisory Board shall be empowered to decide, with the agreement of the Supervisory Board member, on the assignment of special tasks to that member, the duration of the special tasks and the special tasks allowance in accordance with this decision of the Annual General Meeting. The Supervisory Board shall also be empowered to decide on the payment of additional remuneration to Supervisory Board members for special assignments due to objective circumstances in the Company. Additional payments for specific tasks shall be admissible only for the time when the specific tasks are actually carried out. Exceptionally, the Supervisory Board may also decide to do so retrospectively (in particular in case of special duties due to objective circumstances in the Company), but not more than for the previous financial year. The additional remuneration that a member may receive in any one year in respect of special duties may amount to a maximum of 50% of the member's basic remuneration for the performance of his/her duties as a member of the Supervisory Board (irrespective of the number of special duties). In setting the amount of the additional remuneration, account shall be taken of the complexity of the special duties and the increase in workload and responsibility involved. The additional payment shall be calculated on the basis of the time actually spent on the specific task.

The Supervisory Board members shall receive the basic salary, the function allowance and the special duties allowance in pro rata monthly payments to which they are entitled for as long as they hold office and/or perform the special duties. The monthly payment shall be one-twelfth of the above annual amounts. In view of the circumstances, the extra payment for special duties may also be made in a single lump sum when the special duty is completed.

The limitation of the amount of the total amount of the attendance fees and the payment of additional allowances to a member of the Supervisory Board shall in no way affect the member's duty to actively participate in all meetings of the Supervisory Board and of the committees' meetings of which he/she is a member, nor his/her statutory responsibility.

Members of the Supervisory Board are entitled to reimbursement of the travelling and accommodation expenses incurred in connection with their work for the Supervisory Board, up to the amount laid down in the rules governing the reimbursement of expenses relating to work and other income not deductible for tax purposes (provisions applicable to commuting and accommodation on work-related travels). The amount due to the Supervisory Board member under the above provision is increased by the relevant levies so that the net payment corresponds to the reimbursement of actual travel expenses. For the purpose of determining the mileage allowance, account shall be taken of the distances between places published on the AMZS web site. Overnight accommodation expenses may be reimbursed only if the permanent or temporary residence of the Supervisory Board member or Supervisory Board Committee member is at least 100 kilometres from the place of work, if he/she was unable to return because no public transport was scheduled to run, or for other objective reasons.

Loans to groups of persons

	Balance		Repayments	
€ thousand	31 Dec 2023	31 Dec 2022	2023	2022
Members of the Management Board in the controlling company	0	0	0	0
Managers of subsidiaries	10	26	17	9
Members of the Supervisory Board in the controlling company	0	0	0	0
Members of the Supervisory and Management Boards in subsidiaries	0	0	0	0
Total loans to groups of persons	**10**	**26**	**17**	**9**

Loans to staff employed under individual employment contracts amounted to €143 thousand at 31 December 2023 (2022: €152 thousand). In 2023, repayments of loans by staff employed under individual employment contracts reached €58 thousand (2022: €27 thousand).

31. Profile of the Krka Group

	Ownership share	Value of share capital at 31 Dec 2023 (in thousand of local currency)	Value of share capital at 31 Dec 2023 (€ thousand)	Headcount at 31 Dec 2023	Headcount at 31 Dec 2022
Controlling company					
KRKA, d. d., Novo mesto	100%	54,732 EUR	54,732	6,509	6,320
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753 EUR	14,753	626	592
KRKA-FARMA d.o.o., Zagreb, Croatia	100%	18,983 EUR	18,983	210	204
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37 RON	7	159	160
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	65 RSD	1	99	93
KRKA-FARMA DOOEL Skopje, Skopje, North Macedonia	100%	49,021 MKD	796	46	45
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	20 BGN	10	75	74
KRKA HELLAS E.P.E., Athens, Greece	100%	10 EUR	10	15	17
KRKA FARMA, d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	100%	20 BAM	10	1	1
Krka-Rus LLC, Istra, Russian Federation	100%	5,361,375 RUB	53,629	558	569
KRKA FARMA LLC, Istra, Russian Federation	100%	753,875 RUB	7,541	1,301	1,356
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100 UAH	3	382	367
LLC ´KRKA Kazakhstan´, Almaty, Kazakhstan	100%	14 USD	12	102	97
KRKA – POLSKA Sp. z.o.o., Warsaw, Poland	100%	17,490 PLN	4,030	659	656
KRKA ČR, s. r. o., Prague, Czechia	100%	100 CZK	4	158	166
KRKA Magyarország Kft., Budapest, Hungary	100%	44,880 HUF	117	160	158
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10 EUR	10	116	121
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10 EUR	10	55	53
SIA KRKA Latvija, Riga, Latvia	100%	10 EUR	10	38	37
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650 EUR	6,650	200	200
KRKA Sverige AB, Stockholm, Sweden	100%	150 SEK	14	7	6
KRKA Pharma GmbH, Wien, Vienna, Austria	100%	37 EUR	37	21	20
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10 EUR	10	53	48
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10 EUR	10	66	64
KRKA FARMACEUTICI MILANO S.R.L, Milan, Italy	100%	10 EUR	10	57	62
Krka France Eurl, Paris, France	100%	10 EUR	10	20	35
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1 EUR	1	8	9
KRKA Belgium, SA, Brussels, Belgium	100%	300 EUR	300	21	17
KRKA Finland Oy, Espoo, Finland	100%	3 EUR	3	18	16
KRKA UK LTD, London, United Kingdom	100%	1 GBP	1	16	16
123 Acurae Pharma GmbH, Cuxhaven, Germany	100%	25 EUR	25	0	0
KRKA Netherlands B.V., Breskens, Netherlands	100%	10 EUR	10	0	0
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	480,673 CNY	61,225	23	19
KRKA USA LLC, Wilmington, USA	100%	10 USD	9	0	0
KRKA GCC L.L.C., Dubai, United Arab Emirates	100%	37 AED	9	1	0
Total				**11,780**	**11,598**

The subsidiary Terme Krka, d.o.o. had a 100-percent equity interest in Golf Grad Otočec, d.o.o., at 31 December 2023; the subsidiary KRKA France Eurl had a 100-percent equity interest in HCS bvba in Belgium. The Chinese company Ningbo Menovo Pharmaceutical Co. Ltd. has a 40-percent holding in the company Ningbo Krka Menovo Pharmaceutical Co. Ltd.

32. Situation in Ukraine and the Russian Federation

We conduct our business activities in Ukraine and the Russian Federation, which are part of the Eastern Europe sales region, through three subsidiaries and our controlling company Krka, d. d., Novo mesto.

Krka's subsidiary in Ukraine is only involved in marketing. It does not carry out distribution and production activities and therefore had no receivables from customers outside the Group, but had other assets of €1,383 thousand (2022: €1,658 thousand), the largest item whereof are property, plant and equipment (office premises and vehicles). The Krka Group has no significant exposure to credit risk (Note 29 – *Credit risk*) and no exposure to foreign exchange risk (Note 29 – *Foreign exchange risk*). We are not directly exposed to currency risks in Ukraine because we sell in euro. We estimate that the stock of our products at distributors and pharmacies is sufficient for a few months. At the end of 2023, the number of employees in the subsidiary in Ukraine was 382 and at the end of 2022 it was 367. Ukraine is our fourth largest market (Note 4 – *Revenue from contracts with customers*).

We have two subsidiaries in the Russian Federation. KRKA-RUS LLC is engaged in the manufacture of pharmaceuticals. It produces the vast majority of all the products we sell on the Russian market. Production there runs smoothly. KRKA FARMA LLC is engaged in marketing and sales activities. The Russian Federation is Krka's largest single market (Note 4 – *Revenue from contracts with customers*). Krka assesses that the situation in Ukraine and the Russian Federation has not changed the conditions for the controlling company's control of the two Russian subsidiaries, or that the controlling company retains influence over the Russian companies' operations and voting rights, including the influence on variable returns. The activities with the Russian subsidiaries are conducted in a similar manner as before February 2022, as the pharmaceutical products are not subject to EU sanctions. The companies have various forms of tangible assets - business and production premises, equipment, vehicles, inventories of raw materials and materials, inventories of finished products and others. As there were indicators of impairment, an impairment test was performed on the assets (Note 11 – *Property, plant and equipment*). The latter showed that the value of the assets did not need to be impaired. The Krka Group's assets (excluding trade receivables) in the two Krka subsidiaries in the Russian Federation amounted to €155,560 thousand and €172,461 thousand as at 31 December 2023 and 31 December 2022, respectively.

The situation is closely monitored and continuously adjusted in the different areas of the business. Demand for our products is adequate. We have put in place additional controls on accounts receivable and closely monitor the liquidity of our business partners so that we can immediately adjust our activities in the event of any payment delays (Note 29 – *Credit risk*). In line with our business continuity plan, we carry out necessary activities to ensure uninterrupted production in the future. The largest decrease compared to the previous year is in property, plant and equipment, cash and VAT-related receivables to the State. At 31 December 2023 there were 1,859 employees in subsidiaries in the Russian Federation and at the end of 2022 there were 1,925 employees. The exposure to foreign exchange risk is disclosed in Note 29 – *Foreign exchange risk*.

In 2023, all payments between the subsidiaries in the Russian Federation and the controlling company were made without specificity.

33. Educational structure of the Krka Group employees

	2023		2022	
	Average headcount	Share (%)	Average headcount	Share (%)
PhD	203	1.8	204	1.8
MSc	400	3.4	390	3.4
University education	5,359	45.9	5,330	46.1
Higher professional education	1,836	15.7	1,773	15.3
Vocational college education	304	2.6	313	2.7
Secondary school education	2,625	22.5	2,591	22.4
Skilled workers	817	7.0	833	7.2
Unskilled workers	123	1.1	135	1.1
Total (average for the year)	**11,667**	**100.0**	**11,569**	**100.0**

34. Transactions with the audit firm

€ thousand	2023	2022
Contract value of auditing the annual consolidated and separate financial statements performed by the audit firm KPMG Slovenija, d. o. o.	128	118
Contract value of auditing the subsidiaries' reporting for preparing the consolidated financial statements, performed by companies within the KPMG network	93	80
Contract value of auditing the subsidiaries' local financial statements, performed by companies within the KPMG network	45	43
Total contract value of audit services	**266**	**241**
Contract value of non-audit services rendered by the audit firm KPMG Slovenija, d. o. o.	12	9
Total contract value of services	**278**	**250**

The contract value of audit services provided by other audit firms (outside the KPMG network) in relation to the audit of the consolidated financial statements amounted to €150 thousand (2022: €145 thousand).

35. Events after the reporting date

The 2023 financial statements were not impacted by the events after the end of the period.

Establishment of a joint venture in India

On 25 January 2024, Krka notified investors that it had reached an agreement with Indian company Laurus Labs Ltd. to establish a joint venture, Krka Pharma Pvt. Ltd., in Hyderabad, India. Under the agreement, Krka holds a 51% stake and Laurus a 49% stake in the new company.

Krka and Laurus have been contractual partners for years, with their respective businesses complementing one another. After discussing opportunities to strengthen their cooperation and leveraging synergies by combining know-how and resources, the two partners agreed to establish and develop the new company gradually. The joint venture will devise a strategy to penetrate the Indian market and other markets beyond the European Union, where neither party currently offers its finished products.

The newly established company's registered capital amounts to €50 million in Indian rupees. Depending on financing needs, Krka and Laurus agreed to subscribe to the registered capital in stages. The joint venture will develop its business activities step by step.

Repurchase of treasury shares

Krka repurchased 44,992 treasury shares between 1 January 2024 and 18 March 2024, and thus held 1,960,958 treasury shares at the end of this period, accounting for 5.98% of total shares.

Independent auditor’s report

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Independent Auditors' Report

To the shareholders of KRKA, tovarna zdravil, d.d., Novo mesto

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of KRKA, tovarna zdravil, d.d., Novo mesto and its subsidiaries (»together the Group«), which comprise:

- the consolidated statement of financial position as at 31 December 2023;

and, for the period from 1 January to 31 December 2023;

- the consolidated statement of profit or loss;
- the consolidated statement of other comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows;

and

- notes, comprising material accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (OJ L 158, 27.5.2014, p. 77- 112 – EU Regulation (EU) No 537/2014). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

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

We have determined the following key audit matters:

Impairment testing of TAD Pharma goodwill

As at 31 December 2023, the Group carried goodwill at EUR 42,277 thousand (31 December 2022: EUR 42,277 thousand). The goodwill was allocated to two cash generating units (CGUs): controlling company Krka and TAD Pharma.

We refer to the consolidated financial statements: Note 12 – Intangible assets (disclosures).

Key audit matter	Our response
The recoverable amount of the CGUs, which is based on of the value in use, has been derived from discounted cash flow models. These models use several key assumptions, including estimates of future sales, operating costs, terminal value growth rates and the weighted-average cost of capital (discount rate). The annual impairment testing of goodwill has been considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgement required in determining the assumptions to be used to estimate the recoverable amount.	Our audit procedures in this area included, among others: • involving our own valuation specialist to assist us in evaluating the appropriateness of the discount rates applied, which included comparing the weighted-average cost of capital with sector averages for the relevant markets in which the CGUs operate; • evaluating the appropriateness of the assumptions applied to key inputs such as future sales, operating costs, and long-term growth rates, which included comparing these inputs with historical data of the Group, where possible with externally derived data, as well as our own assessments based on our knowledge of the Group and the industry; and • evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.

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Impairment testing of cash generating unit – Krka Russian Federation	
The carrying amount of property, plant and equipment allocated to the CGU Krka Russian Federation as at 31 December 2023: EUR 67,618 thousand (31 December 2022: EUR 86,527 thousand). *We refer to the consolidated financial statements: Note 32 – Situation in Ukraine and the Russian Federation (disclosures); Note 11 – Property, plant and equipment (disclosures).*	
Key audit matter	**Our response**
The Group owns several production facilities allocated to different cash generating units in different countries, including the Russian Federation. As at each reporting date, management assesses whether indicators of impairment exist. The Russian-Ukrainian war has increased uncertainty, resulting in a substantial increase in the weighted-average cost of capital (discount rate) which was identified as impairment indicator by management. The impairment testing of the CGU Krka Russian Federation is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgement required in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of the CGU was determined as its value in use, based on discounted cash flow model. The model uses several key assumptions, including estimates of future sales, operating costs, terminal value growth rates and the weighted-average cost of capital (discount rate).	Our audit procedures in this area included, among others: • involving our own valuation specialist to assist us in evaluating the appropriateness of the discount rates applied, which included comparing the weighted-average cost of capital with sector averages for the relevant markets in which the CGU operates; • evaluating the appropriateness of the assumptions applied to key inputs such as sales revenue, operating costs, and long-term growth rates, which included comparing these inputs with historical data of the Group, where possible with externally derived data, as well as our own assessments based on our knowledge of the CGU and the industry; and • evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.

Revenue recognition	
The carrying amount of revenue for the year ended 31 December 2023: EUR 1,806,391 thousand (31 December 2022: EUR 1,717,453 thousand). *We refer to the consolidated financial statements: Note 4 – Revenue from contracts with customers (disclosures), Note 24 – Current contract liabilities (disclosures).*	
Key audit matter	**Our response**
Revenue is recognised as the Group satisfies a performance obligation by transferring a promised good or service to a customer. Revenue is measured taking account of discounts and rebates. Due to the multitude of	Our audit procedures in this area included, among others: • testing the design and implementation of Group's controls over recognition of revenue

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contractual terms across the Group's markets, the calculation of discounts and rebates is considered to be complex. Revenue is one of the key performance indicators for the Group, which could create an incentive for revenue to be recognised before the point in time when control of the assets is transferred to the customer or at the amount that is not measured in accordance with contractual terms. In the wake of the above we considered revenue recognition to be a key audit matter.	including controls over discounts and rebates; • selecting and testing a sample of sale transactions throughout the period with particular focus on sale transactions close to the turn of the year to assess whether revenue was allocated to appropriate period and measured in accordance with the contractual terms by reference to underlying source documentation supporting revenue recognition and/or completeness of discounts and rebates, • inspecting a sample of credit notes issued after the year end to assess completeness of rebates, and • evaluating the adequacy of the financial statement disclosures.

Other Information

Management is responsible for the other information. The other information comprises the »Introduction«, the »Report of Supervisory Board«, the »Business Report« and the »Sustainable development« included in the Annual Report but does not include the consolidated financial statements and our auditor's report thereon. Other information was obtained prior to the date of this auditors' report, except for the Report of the Supervisory Board, which will be available after that date.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, with respect to the Business Report, we are required to report on its consistency with the consolidated financial statements and on whether the Business Report includes the disclosures required by the Companies Act dated 4 May 2006 (Official Gazette of the Republic of Slovenia no. 42/2006 with amendments - hereafter referred to as »the applicable legal requirements«). Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs and EU Regulation (EU) No 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs and EU Regulation (EU) No 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and 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 consolidated 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 the shareholders of company KRKA, tovarna zdravil, d.d., Novo mesto on the shareholders meeting dated 7 July 2022 to audit the consolidated financial statements of the Group for the year ended 31 December 2023. Our total uninterrupted period of engagement is 2 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 25 March 2024;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the Group in conducting the audit.

For the period to which our statutory audit relates, we and other KPMG network firms have not provided any other services to the Company and its controlled related entities which are not disclosed in the Business Report or in the consolidated financial statements.

Independent Auditor's report on the Compliance of the Electronic Financial Statements with the Delegated Regulation 2019/815 on a Single Electronic Reporting Format

We have conducted an engagement to provide reasonable assurance as to whether the audited consolidated financial statements of the Group, for the financial year ended 31 December 2023 (»Audited Consolidated Financial Statements«) have been prepared in accordance with requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 on supplementing the Directive 2004/109/EC of the European Parliament and the Council with regard to regulatory technical standards for establishing a single electronic reporting format applicable for the year 2023 (»Delegated Regulation«).

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Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and presentation of the Audited Consolidated Financial Statements in accordance with the Delegated Regulation, and for such internal control as management determines is necessary to enable the preparation of the Audited Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the preparation of the Audited Consolidated Financial Statements in compliance with requirements of the Delegated Regulation.

Auditor's Responsibilities

Our responsibility is to express an opinion on whether the Audited Consolidated Financial Statements are prepared in accordance with requirements of the Delegated Regulation. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform the engagement to obtain reasonable assurance on whether the opinion is appropriate. We have acted in accordance with the independence and ethical requirements of the EU Regulation (EU) No 537/2014 and the International Code of Ethics for Accounting Professionals issued by the International Ethics Standards Board for Accounting Professionals. The Code is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional conduct.

The firm applies International Standard on Quality Management 1 which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of Work Performed

Within the scope of our work, we performed the following audit procedures:

- identified and assessed the risks of material non-compliance of the Audited Consolidated Financial Statements with the requirements of the Delegated Regulation, whether due to error or fraud;
- obtained an understanding of internal control relevant to the engagement in order to provide reasonable assurance for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- assessed whether the Audited Consolidated Financial Statements comply with the requirements of the Delegated Regulation applicable as of the reporting date;
- obtained reasonable assurance that the Audited Consolidated Financial Statements of the issuer are presented in a correct XHTML electronic format.
- obtained reasonable assurance that the values and disclosures in the Audited Consolidated Financial Statements in XHTML format are correctly marked and in Inline XBRL (iXBRL) technology and that their machine reading provides complete and accurate information contained in the Audited Consolidated Financial Statements.
- obtained reasonable assurance that notes to the consolidated financial statements are correctly block-tagged.

We believe that the evidence obtained provides a sufficient and appropriate basis for our opinion.

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Opinion

Based on the procedures performed and the evidence obtained, the Audited Consolidated Financial Statements of the Group for the financial year ended 31 December 2023 are in our opinion prepared, in all material respects, in accordance with the requirements of the Delegated Regulation.

On behalf of audit firm

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Matej Ušaj
Certified Auditor

Domagoj Vuković
Certified Auditor
Partner

KPMG Slovenija, d.o.o.
2

Ljubljana, 25 March 2024

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Financial statement of Krka, d. d., Novo mesto

Statement of financial position

€ thousand	Notes	31 Dec 2023	31 Dec 2022	Index 2023/22
Assets				
Property, plant and equipment	10	595,525	566,780	105
Intangible assets	11	26,043	24,960	104
Investments in subsidiaries	12	357,265	355,763	100
Loans	13	41,243	56,013	74
Investments	14	47,673	110,769	43
Deferred tax assets	15	7,846	8,666	91
Other non-current assets		640	643	100
Total non-current assets		**1,076,235**	**1,123,594**	**96**
Assets held for sale		41	41	100
Inventories	16	513,892	492,978	104
Trade receivables	17	463,126	357,889	129
Other receivables	17	47,116	12,639	373
Loans	13	65,699	6,669	985
Investments	14	306,769	52,437	585
Cash and cash equivalents	18	140,993	470,297	30
Total current assets		**1,537,636**	**1,392,950**	**110**
Total assets		**2,613,871**	**2,516,544**	**104**
Equity				
Share capital	19	54,732	54,732	100
Treasury shares	19	-138,489	-124,566	111
Reserves	19	290,481	279,760	104
Retained earnings	19	1,926,534	1,850,866	104
Total equity		**2,133,258**	**2,060,792**	**104**
Liabilities				
Provisions	22	113,999	96,608	118
Deferred income	23	2,366	2,816	84
Lease liabilities		2,565	2,909	88
Total non-current liabilities		**118,930**	**102,333**	**116**
Trade payables	24	175,847	194,143	91
Borrowings	21	88,061	53,524	165
Lease liabilities		1,022	1,033	99
Income tax payables		0	25,660	0
Contract liabilities	25	18,953	21,687	87
Other current liabilities	26	77,800	57,372	136
Total current liabilities		**361,683**	**353,419**	**102**
Total liabilities		**480,613**	**455,752**	**105**
Total equity and liabilities		**2,613,871**	**2,516,544**	**104**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Income statement

€ thousand	Notes	2023	2022	Index 2023/22
Revenue		**1,674,572**	**1,553,514**	**108**
– Revenue from contracts with customers	3	1,664,611	1,544,409	108
– Other revenue		9,961	9,105	109
Cost of goods sold		-786,145	-663,332	119
Gross profit		**888,427**	**890,182**	**100**
Other operating income	4	1,639	4,699	35
Selling and distribution expenses		-300,863	-301,319	100
– Whereof net impairments and write-offs of receivables		3,960	-1,548	
R&D expenses		-173,783	-158,292	110
General and administrative expenses		-93,112	-77,400	120
Operating profit		**322,308**	**357,870**	**90**
Financial income	8	60,964	57,744	106
Financial expenses	8	-54,223	-3,356	1,616
Net financial result		**6,741**	**54,388**	**12**
Profit before tax		**329,049**	**412,258**	**80**
Income tax expense	9	-34,568	-64,043	54
Net profit		**294,481**	**348,215**	**85**
Basic earnings per share (€)	**20**	**9.51**	**11.21**	**85**
Diluted earnings per share (€)	**20**	**9.51**	**11.21**	**85**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of other comprehensive income

€ thousand	Notes	2023	2022	Index 2023/22
Net profit		**294,481**	**348,215**	**85**
Other comprehensive income that will not be reclassified to profit or loss at a future date				
Change in fair value of financial assets	14	10,912	128	8,525
Restatement of post-employment benefits	22	-12,133	24,691	
Deferred tax effect	15	-2,493	-3,334	75
Net other comprehensive income that will not be reclassified to profit or loss at a future date		**-3,714**	**21,485**	
Total other comprehensive income for the year (net of tax)		**-3,714**	**21,485**	
Total comprehensive income for the year (net of tax)		**290,767**	**369,700**	**79**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of changes in equity

€ thousand	Share capital	Treasury shares	Reserves: Reserves for treasury shares	Reserves: Share premium	Reserves: Legal reserves	Reserves: Statutory reserves	Reserves: Fair value reserve	Retained earnings: Other profit reserves	Retained earnings: Retained earnings from previous years	Retained earnings: Profit for the year	Total equity
Balance at 1 Jan 2023	**54,732**	**-124,566**	**124,566**	**105,897**	**14,990**	**30,000**	**4,307**	**1,442,702**	**69,974**	**338,190**	**2,060,792**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**294,481**	**294,481**
Total other comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**-3,202**	**0**	**-512**	**0**	**-3,714**
Total comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**-3,202**	**0**	**-512**	**294,481**	**290,767**
Transactions with owners, recognised in equity											
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0	0	0	101,893	-101,893	0	0
Transfer of previous periods' profit to retained earnings	0	0	0	0	0	0	0	0	338,190	-338,190	0
Repurchase to treasury shares	0	-13,923	0	0	0	0	0	0	0	0	-13,923
Formation of reserves for treasury shares	0	0	13,923	0	0	0	0	0	0	-13,923	0
Dividends paid	0	0	0	0	0	0	0	0	-204,378	0	-204,378
Total transactions with owners, recognised in equity	**0**	**-13,923**	**13,923**	**0**	**0**	**0**	**0**	**101,893**	**31,919**	**-352,113**	**-218,301**
Balance at 31 Dec 2023	**54,732**	**-138,489**	**138,489**	**105,897**	**14,990**	**30,000**	**1,105**	**1,544,595**	**101,381**	**280,558**	**2,133,258**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

€ thousand	Share capital	Treasury shares	Reserves					Retained earnings			Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings from previous years	Profit for the year	
Balance at 1 Jan 2022	**54,732**	**-114,541**	**114,541**	**105,897**	**14,990**	**30,000**	**-19,004**	**1,370,902**	**88,671**	**229,954**	**1,876,142**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**348,215**	**348,215**
Total other comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**23,311**	**0**	**-1,826**	**0**	**21,485**
Total comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**23,311**	**0**	**-1,826**	**348,215**	**369,700**
Transactions with owners, recognised in equity											
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0	0	0	71,800	-71,800	0	0
Transfer of previous periods' profit to retained earnings	0	0	0	0	0	0	0	0	229,954	-229,954	0
Repurchase to treasury shares	0	-10,025	0	0	0	0	0	0	0	0	-10,025
Formation of reserves for treasury shares	0	0	10,025	0	0	0	0	0	0	-10,025	0
Dividends paid	0	0	0	0	0	0	0	0	-175,025	0	-175,025
Total transactions with owners, recognised in equity	**0**	**-10,025**	**10,025**	**0**	**0**	**0**	**0**	**71,800**	**-16,871**	**-239,979**	**-185,050**
Balance at 31 Dec 2022	**54,732**	**-124,566**	**124,566**	**105,897**	**14,990**	**30,000**	**4,307**	**1,442,702**	**69,974**	**338,190**	**2,060,792**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of cash flows

€ thousand	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		**294,481**	**348,215**
Adjustments for:		**74,451**	**145,291**
– Amortisation/Depreciation	10, 11	80,239	82,216
– Net foreign exchange differences		1,955	-6,490
– Net write-offs and allowances for inventories		9,808	14,194
– Net impairments and write-offs of receivables		-3,960	1,548
– Investment income		-61,729	-12,990
– Investment expenses		6,232	-60
– Income on financing activities		-1	0
– Interest expenses and other financial expenses		7,339	2,830
– Income tax expense	9	34,568	64,043
Operating profit before changes in net current assets		**368,932**	**493,506**
Change in trade receivables		-103,777	70,231
Change in inventories	16	-30,722	-112,849
Change in trade payables	24	-14,391	7,501
Change in provisions	22	1,871	-3,289
Change in deferred income	23	-450	-730
Change in other current liabilities		17,776	-4,386
Income tax paid		-83,840	-42,251
Net cash flow from operating activities		**155,399**	**407,733**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		7,502	1,656
Dividends received		798	631
Proportionate profit of subsidiaries		29,890	0
Proceeds from sale of property, plant and equipment		1,380	2,971
Purchase of property, plant and equipment	10	-109,515	-61,771
Purchase of intangible assets	11	-8,875	-6,570
Acquisition of subsidiaries and a share of non-controlling interests net of financial assets acquired	12	-2,001	-9,319
Refunds of subsequent contributions to subsidiaries	12	500	0
Proceeds from non-current loans		8,372	5,726
Payments for current loans		-1,288	-31,708
Net payments/proceeds from current loans		-50,984	190,432
Proceeds from sale of non-current investments		33,333	4,941
Payments for acquiring non-current investments		-22	-32,946
Proceeds from sale of current investments		359,100	153,804
Costs for acquiring current investments		-568,607	-121,621
Proceeds from derivatives		4,277	8,847
Payments for derivatives		-389	0
Net cash flow from investing activities		**-296,529**	**105,073**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-3,022	-1,856
Net proceeds from/payments for current borrowings	29	34,290	-1,758
Lease liabilities paid	28	-1,125	-1,124
Dividends and other profit shares paid	29	-204,379	-175,044
Repurchase of treasury shares	35	-13,923	-10,025
Net cash flow from financing activities		**-188,159**	**-189,807**
Net decrease/increase in cash and cash equivalents		**-329,289**	**322,999**
Cash and cash equivalents at beginning of year		470,297	144,981
Effect of foreign exchange rate fluctuations on cash held		-15	2,317
Closing balance of cash and cash equivalents		**140,993**	**470,297**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Notes to the financial statements

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The Company was registered at the District Court of Novo mesto on 13 July 1989, registration number 1/00097/00. Company registration No.: 5043611000.

The financial statements of the Company refer to the year ended 31 December 2023.

The Company is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals and non-prescription products), and animal health products.

1. Basis for compiling the financial statements

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (‘*IFRS*’) as adopted by the EU, interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (‘IFRIC’) adopted by the EU, and in compliance with additional provisions required by the Companies Act (ZGD-1).

The financial statements were approved by the Krka Management Board on 25 March 2024.

Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of derivatives, financial instruments at fair value through profit or loss and financial instruments at fair value through OCI for which fair value was used. Methods applied in the measurement of fair value are presented in Note 2 – *Fair Value*.

Functional and reporting currency

The financial statements are presented in the euro, which is the Company’s functional currency. All financial information presented in the euro has been rounded to the nearest thousand.

Use of estimates and judgements

The preparation of financial statements requires the Management Board of the controlling company to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities of Krka as well as the reported income and expenses for the period.

These include, among others: determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; income from contracts with customers, allowances made for inventories and receivables; investment impairment; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of potential provisions for disputes, and an estimate of the duration of the lease and the interest rate used. Regardless of the fact that the Company’s Management Board duly considers all factors that may impact the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, management makes judgements while considering potential changes in the business environment, new business events, new and additional information that may be available, as well as experience.

Key estimates and assumptions as at the day of the statement of financial position that are associated with future operations and which could result in significant adjustment of the book values of assets and liabilities are presented below.

Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is presented in the following notes:

- Note 3 – *Revenue from contracts with customers*

  Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract. In assessing variable compensation, the Company specifically addresses returns, while considering specific terms and conditions of an individual contracts for the sale of products and services to customers, statutory provisions, and business practices in a given environment. When assessing variable compensation, the Company must use either the expected value method or the most likely amount method, whichever better predicts the amount of consideration to which it will be entitled.

  Given the large number of contracts with customers, the Company determined the expected value method as the most appropriate for estimating variable consideration for the sale of products with a right to return. To estimate the variable consideration for expected future volume rebates on the quantity of products purchased, the Company identified combination of the most likely amount method and the expected value method as the most appropriate. The method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contracts, legal provisions and business practices in various environments. The most likely amount method is best suited for contracts with a single-volume threshold, and the expected value method for contracts with more than one volume threshold.

  Prior to including any variable consideration in the transaction price, the Company assesses whether there is a constraint on variable consideration. Based on past experience, business forecasts and current economic conditions, the Company has determined that there are no constraints on variable consideration.

  The Company is a seller of products that may be subject to payment terms in excess of one year in certain markets. The Company recognises financial income and expenses on these sales using the appropriate discount rate.

- Note 12 – *Impairment testing of investments in subsidiaries*

  The controlling company checks whether there are any indicators of impairment of investments in subsidiaries at least once a year. The fair value of investments that may be impaired is determined as the present value of future cash flows, which is based on an estimate of expected cash flows from the cash-generating unit and on determination of the appropriate discount rate. The Company found no need for impairment of investments in subsidiaries as at 31 December 2023.

- Note 17 – *Impairment of receivables*

  On the financial statement preparation (quarterly and annually), the Company recognises allowances (impairment) of those receivables for which it is assumed that will not be settled in full or not at all. Allowances are recognised using uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by the debtors. The methodology includes quantitative and qualitative criteria grouped into the following four sets: an analysis of the existing business dealings with the customer, an analysis of the customer's financial statements, a qualitative assessment of the customer by the sales personnel, and an assessment of the customer's country risk. For all customers whose receivables are insured by an insurance company or other first-class insurance, insurance is taken into account when assessing the amount of impairments. Hence, allowances of receivables due from individual customer are calculated by means of an algorithm that includes all the above criteria.

- Note 22 – *Post-employment benefits*

  Defined post-employment benefit obligations include the present value of termination benefits on retirement. They are recognised on the basis of the actuarial calculation using assumptions and estimates effective at the time of the calculation, and which may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of a discount rate, assessment of employee turnover, mortality assessment, and assessment of an increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

- Note 22 – *Provisions for lawsuits and contingent liabilities*

  Lawsuits and claims may be brought against the Company for alleged breaches of intellectual property (patent rights or competition law) and those referring to other civil law areas. A provision is recognised when the Company has present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Company's Management Board continually assess contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If this is the case, a provision is recognised in the financial statements of the period in which the change in probability occurs.

2. Significant accounting policies

The Company as the controlling company applied the same accounting policies in all periods presented in the accompanying financial statements.

The accounting policies and the calculation methods used are the same as for the last annual reporting, except for the newly adopted standards and interpretations. which are noted below and were applied if relevant events occurred in the Company in the reporting period.

In its statement of financial position, the Company classifies liabilities and assets according to their maturity i.e. as non-current and current.

The Company classifies an asset as current if:
- it expects to realise it or intends to sell or use it in the normal course of business (12 months);
- it is held primarily for trading purposes;
- it expects to realise it within 12 months after the reporting period; or
- the asset is cash or a cash equivalent (pursuant to IAS 7) unless it is prohibited from being exchanged or used to settle a liability for a period of at least 12 months after the reporting period.

All other assets are classified by the Company as non-current.

The Company classifies a liability as current if:
- it expects to settle it within the normal course of business (12 months);
- it is held primarily for trading purposes;
- it is to be settled within 12 months after the reporting period; or
- at the end of the reporting period, it does not have the right to defer settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified by the Company as non-current.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated to the euro (the functional currency of the Company) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to the euro at the exchange rate applicable on the reporting date. Non- monetary assets and liabilities denominated in foreign currencies and measured at the fair value are converted to the euro at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of equity instruments, which are recognised directly in other comprehensive income. Non-cash items measured at historical cost in foreign currency are translated to the functional currency by applying the exchange rate valid at the date of the transaction.

Fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair value is the amount for which an asset could be sold or a liability exchanged in a regular transaction between market participants. All assets and liabilities measured and disclosed at their fair value in financial statements are classified in the fair value hierarchy on the basis of lowest level of input data significant for measurements of total fair value:

- Level 1 – market value (unadjusted) from the active market for similar assets and liabilities;
- Level 2 – valuation model for assets and liabilities, which is not classified in level 1, is valued directly or indirectly on the basis of comparable market data;
- Level 3 – valuation model which is not based on the market data.

Fair value of individual groups of assets have been determined for measurement and/or disclosure purposes based on the methods presented below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the Notes specific to that asset or liability.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss and at fair value through other comprehensive income (FVOCI) is determined by reference to their quoted closing bid price. For investments in debt securities at amortised cost, for reporting purposes the fair value is calculated on the basis of the closing rate, which is increased by accrued interest on the reporting date.

Trade and other receivables

Fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest effective at the reporting date.

Financial liabilities

Fair value is determined based on the present value of future principal and interest payments discounted at the market rate of interest prevailing at the reporting date.

Financial instruments

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

Financial assets

Financial assets of the Company include cash and cash equivalents, receivables, derivatives, loans and investments and investments in subsidiaries (refer to accounting policies '*Investments in subsidiaries*').

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under *IFRS 15* (refer to the accounting policies in section '*Revenue from contracts with customers')*.

In order for financial assets to be classified and measured at amortised cost or fair value through OCI, they need to give rise to cash flows that are »solely payments of principal and interest (SPPI)« on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

If the Company selects a business model that aims to collect contractual cash flows, it values its financial assets (debt instruments) at amortised cost. If the Company acquires financial assets (debt instruments) with the objective of collecting contractual cash flows and for sale, then they are measured at fair value through other comprehensive income by recycling cumulative gains and losses. If the Company does not choose any of these business models, it measures its financial assets (debt instruments) at fair value through profit or loss. Financial assets that have the characteristics of an equity instrument in accordance with IAS 32 – *Financial Instruments,* are classified as equity instruments at fair value through other comprehensive income without recycling cumulative gains and losses after derecognition.

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

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to the contractual cash flows from the financial asset in a transaction that transfers all the risks and rewards of ownership of the financial asset.

Subsequent measurement

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

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

Cash and cash equivalents comprise cash, bank deposits up to three months, and other current, highly realisable investments with an original maturity of three months or less. The latter can be easily converted into known amounts of cash and for which the risk of changes in value is insignificant. The cash flows derived from these assets are solely payments of the principal and interest are therefore classified as financial assets at amortised cost.

According to the SSPI test, loans issued by the Company are classified as financial assets at amortised cost, since the cash flows derived from these assets are solely payments of the principal and interest on the principal amount outstanding.

The Company's investments in debt securities, which include only low credit risk government bonds, are classified as financial assets at amortised cost.

The Company’s financial assets at amortised cost also include trade receivables.

After initial recognition, these investments are measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI (debt instruments)

Subsequent to initial recognition, they are measured at fair value. Interest income, foreign exchange differences, and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through OCI (equity instruments)

Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is not transferred to profit or loss.

Financial assets at fair value through profit or loss

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

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

Impairment of financial assets is described in the section *Impairment – Financial assets*.

Financial liabilities

Financial liabilities consist mainly of loans, payables to suppliers and other liabilities. Lease liabilities and employee benefits are treated separately (refer to accounting policies in the ‘Leases’ and ‘Employee benefits expense’ sections’). All other financial liabilities are initially recognised on the trade date or when the Company becomes a contracting party in relation to the instrument. On initial recognition, the Company classifies non-derivative financial liabilities as subsequently measured at amortised cost and derivative financial liabilities as at fair value through profit or loss. After initial recognition, financial liabilities arising from loans are measured using the effective interest method. Gains and losses are recognised in profit or loss when these liabilities are discharged or modified. The Company derecognises a financial liability if the obligations set out in the contract are fulfilled, cancelled or expired.

Investments in subsidiaries

Non-current investments made in equity of subsidiaries included in consolidated financial statements are valued at cost. Participation in the profit of a subsidiary is recognised in the profit or loss of the controlling company when an appropriate resolution referring to profit distribution has been adopted. If the investment is required to be impaired due to subsidiary's loss, the amount of loss due to impairment is measured as a difference between the carrying amount of the investment and the present value of expected future cash flows.

Property, plant and equipment

The items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (refer to the accounting policy '*Impairment*'). The cost of an item of property, plant and equipment as at 1 January 2004, the date of transition to *IFRS*, is determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of making the asset ready for its intended use, and (if applicable) assessed costs of dismantling and removing the items and restoring the site on which they are located, as well as capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Items of property, plant and equipment that have substantially different useful lives but whose value is significant are accounted for as individual assets.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of property, plant and equipment and are recognised within other operating income or other operating expenses in profit or loss.

The Company includes in the cost of property, plant and equipment also borrowing costs that are directly attributable to the acquisition, construction or production of the asset under construction. Borrowing costs related to the acquisition or construction of the relevant assets are capitalised if they relate to the acquisition of a significant asset and the construction or preparation for use of the relevant assets takes more than six months.

Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

The estimated useful lives as at the reporting date:

- for buildings:
  - management and administrative facilities 60 years,
  - production and warehouse facilities 40 years,
  - other from 15 to 20 years,
- for property, plant and equipment:
  - production equipment 5 -20 years,
  - laboratory equipment 10 years,
  - other equipment 5 years,
- for furniture 5 years,
- for computer equipment 4 to 6 years,
- for means of transportation 5 to 15 years.

Leases

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

As a lessee, the Company determines the lease term as the period during which the lease cannot be terminated, inclusive of:

a) The period for which the option to extend the lease applies if it is reasonably certain that the lessee will exercise that option; and
b) The period for which the option to terminate the lease applies if it is reasonably certain that the lessee will not exercise that option.

The Company as a lessee

Lease liabilities

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

In calculating the present value of lease payments, the Company uses its incremental borrowing rate based on estimated bond returns if it were to incur debt on the financial markets, while considering their maturity if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. change of future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

For short-term leases and leases where the leased asset is of low value, the Company applies the practical expedient allowed by the standard and recognises lease payments as an expense on a straight-line basis over the lease term. The practical expedient is applied to leases with a lease term of less than one year and leases where the cost of the new leased asset is less than €5,000.

The Company recognises a right-of-use property, plant and equipment asset and a lease liability at the inception of the lease (i.e. the date the leased asset is available for use).

Right-of-use assets

Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, as well as an assessment of costs that will be incurred in dismantling or removing the leased asset, restoring the site to its original condition, or returning the asset to a condition as required in the lease terms. The right-of-use assets are depreciated by the Company on a straight-line basis over the shorter of the estimated lease term or the estimated useful lives of the assets.

The Company as a lessor

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

Intangible assets

Research and development

Development costs are not capitalised because the Company does not distinguish between the research and development phases. All costs referring to the research and development work within the Company are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (refer to the accounting policy *'Impairment'*).

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Emission coupons

The Company recognises emission coupons purchased or acquired free of charge in order to fulfil its obligation to the State to surrender emission coupons under the Environmental Protection Act as intangible assets. Emission coupons acquired free of charge are carried at €1 per emission coupon and those purchased are measured at cost on initial recognition. The first-in-first-out (FIFO) method is used for the transfer of coupons. Intangible assets relating to emission coupons are not amortised.

Amortisation

Amortisation is recognised on a straight-line basis over the estimated useful lives of intangible assets from the date that they are made available for use.

The estimated useful lives for software, licences and other rights range from 2 to 10 years.

Inventories

In the statement of financial position, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price at the reporting date less selling expenses and other potential administrative expenses, which are usually associated with the sale. The Company reviews the net realisable value of inventories once a year at the date of the statement of financial position. If the carrying amount of inventories exceeds their net realisable value, inventories are impaired through profit or loss.

As of the reporting date, the Company also reviews whether inventories need to be impaired. Thus, impaired are:

- all types of inventories that are known or expected to be unusable in the production of semi-finished and finished goods or that cannot be sold for any reason,
- all types of inventories that have expired,
- inventories that will expire within 90 days in an amount to be determined by the person responsible for the inventories,
- all other inventories that for any other reason require impairment.

Possible impairments are reviewed and recorded by inventory type group through profit or loss.

An inventory unit of raw materials and materials, auxiliary and packaging materials is valued at cost including all direct costs of purchase. Inventories of material are carried at moving average prices. Inventories of finished products and work in progress are carried at standard cost, which in addition to direct cost of material includes also cost of production, such as: direct labour cost, depreciation, cost of services, energy, maintenance, and quality. Fixed price variances are determined in accordance with the current valuation of inventories using production costs. A quantity unit of merchandise is valued at cost including cost of purchase, import duties, and all costs directly attributable to the acquisition decreased by discounts. Inventories of merchandise are carried at moving average prices.

Impairment of assets

Financial assets

The Company recognises an allowance for the expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since the initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Impairments of receivables and assets from contracts

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient (contracts agreed for a period of one year or less) are measured at the transaction price determined under *IFRS 15* less any impairment losses.

Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on a lifetime ECL at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Allowances are recognised using uniform methodology applicable to the Company and in consideration of the probability or assessed probability of receivable settlement by the debtors.

Impairment of investments

For investments that include government bonds measured at amortised cost, the Company measures expected credit losses annually.

Except when a 12-month expected credit loss is recognised, the Company recognises an allowance for credit losses in an amount equal to the expected credit loss over the life of the financial instrument. A 12-month expected credit loss is recognised by:

- debt securities that are determined to have low credit risk at the reporting date; and debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk (i.e. the risk of default in the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company considers a debt security to have low credit risk if its credit risk rating is equivalent to the globally understood definition of ‘investment grade’ or equivalent to a rating of Baa2 or above by Moody’s or BBB- or above by S&P Global Ratings.

The Company monitors changes in credit risk by tracking published external credit ratings. The probabilities of default (PD), both 12-month and over the life of the financial instrument, are based on information provided by the external credit rating agency. The loss given default (LGD) ratios, which reflect the assumed recovery rate, are also reported by the external credit rating agencies.

Non-financial assets

The carrying amounts of the Company’s non-financial assets, except for inventories and deferred tax assets, are reassessed at each reporting date to determine whether there is any indication of impairment. If such indications exist, the asset’s recoverable amount is assessed.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together. These are the smallest groups of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets

An impairment of an asset or cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. Impairment is recognised in the income statement. A loss recognised in a cash-generating unit as a result of impairment is allocated by first reducing the carrying amount of goodwill allocated to the cash-generating unit and then to the other assets of the unit (group of units) in proportion to the carrying amount of each asset in the unit.

Impairment losses recognised in previous periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Share capital

Repurchase of treasury shares

When treasury shares recognised as a part of share equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends

Dividends are recognised in the Company's financial statements in the period in which they are declared by the Annual General Meeting.

Current employee benefits

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Non-current employee benefits

Provisions for post-employment benefits and other non-current employee benefits

Pursuant to the local legislation, Krka is liable to pay to its employees' anniversary bonuses and termination benefits upon retirement and recognises relevant amount of provisions for these purposes. The Company has no other pension obligations.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is performed using the projected unit credit method. Employee benefit costs, as well as cost of interest, are recognised in profit or loss, whereas restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in other comprehensive income.

Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for disputes

The Company discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of a favourable or unfavourable outcome of the lawsuit is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Revenue from contracts with customers

The Company is engaged in development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and material. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services while considering specific terms and conditions of an individual contract.

Transfer of control over those goods and services depends on terms and conditions of the contract. In general, control is transferred when goods are accepted by the customer or services are rendered. The normal credit term ranges from 30 to 120 days.

The Company assesses the performance obligations contained in each sales contract. The Company also considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of products, the effects of variable consideration are considered and the existence of significant financing components.

Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of products provide customers with a right of return, bonuses, and volume rebates. The rights of return, bonuses, and volume rebates give rise to variable consideration.

Rights of return

Certain contracts provide a customer with a right to return goods that are past the expiry date. The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which it will be entitled. The requirements of *IFRS 15* on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. Goods that, based on past experience and business practice in a given environment, are expected to be returned instead of generating revenue, the Company recognises a refund liability. A right-of-return asset (and corresponding adjustment to cost of products sold) is also recognised for the right to recover products from a customer.

Bonuses and volume rebates

The Company provides retrospective bonuses and volume rebates to certain customers once the quantity or value of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. The Company estimates the variable consideration for the expected future bonuses and volume rebates based on terms and conditions of the contract including criteria and elements that provide the basis for the recognition of those bonuses and volume rebates. For valuation, the Company uses the most probable value method or the expected value method. The method chosen, which best predicts the value of the rebates and volume discounts, is based on the number of thresholds in the contract.

Disclosures about the use of estimates and judgements in estimating variable consideration are provided in the Basis of preparation of the financial statements section.

Significant financing component

In some cases, the Company receives current advances from its customers. Using the practical expedient in *IFRS 15.63*, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised goods or services to the customer and when the customer pays for those goods or services will be one year or less.

Contract balances

Contract assets

A contract asset is the right to an amount of consideration in exchange for goods or services transferred to the customer. If the Company transfers goods or services to a customer before the customer pays consideration or payment is due, a contract asset is recognised for the earned consideration that is conditional. Once the transaction is completed and the customer is confirmed, the contract assets are reclassified as trade receivables.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional, i.e. only the passage of time is required before payment of consideration is due (refer to the accounting policy '*Recognition of financial instruments')*.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the goods or services are transferred to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

Right-of-return assets

Right-of-return assets represent the Company's right to recover the goods expected to be returned by the customer.

The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of returned goods. The Company regularly updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable from the customer). The refund liability arises from bonuses and volume discounts. It is measured at the amount the Company ultimately expects it will have to return to the customer.

The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. The described accounting policy applies also to the variable consideration.

It is irrelevant to the Company's assessment of the role it plays in individual customer contracts, as it usually acts as a principal.

The Company does not normally have long-term sales contracts with customers.

Government grants

Revenue referring to government grants is initially recognised when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grants. Revenue that compensates the realised expenses is recognised in profit or loss on a systematic basis in the same periods in which the costs are recognised. Revenue that compensates an entity for the cost of an asset is recognised in profit or loss on a systematic basis over the useful life of the asset.

The Company recognises emission coupons received free of charge from the State within government grants received. The emission coupons received free of charge are recorded as intangible assets at a value of €1 per emission coupon. Upon their transfer, the Group reduces intangible assets and recognises other operating income.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised on the date that the shareholder's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax expense

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

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

Deferred tax is recognised using the balance sheet liability approach providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Also, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax is based on the expected manner of settling the carrying amount of assets and liabilities using tax rates enacted at the reporting date. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

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

In 2023, Slovenia adopted the Minimum Tax Act, which introduces a minimum tax into the Slovenian tax-law system, aimed at ensuring a global minimum taxation of the profits of large international and domestic groups at an effective tax rate of 15% (the minimum tax rate). The Act was adopted on the basis of EU Directive 2022/2523 on the provision of a global minimum tax rate for international and large domestic groups in the EU, which was drafted on the basis of the GLOBE Model Rules prepared by the Organisation for Economic Co-operation and Development (OECD) in October 2021. The minimum tax rules of the Act are applicable to the financial years starting from 1 January 2024.

Management has assessed the impact of the global minimum tax on the Company's financial statements and based on the assumptions of current tax legislation and similar operating results, estimates that it will not have a material impact on the financial statements. While the assessment has not yet been finalised, management considers that the most significant exposure to top-up tax would be in Slovenia, where, under the assumptions set out above, the estimated effective tax rate would be 14%, resulting in a top-up tax of 1% on the excess profit, which takes into account the reduction for the substantive exclusion of income. The largest share of the top-up for Slovenia would fall on the Company.

Earnings per share

The Company presents basic earnings per share (EPS) data. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the average number of ordinary shares issued during the financial year, whereby treasury shares are excluded. Diluted earnings per share is equal to basic earnings per share because the Company has not issued any dilutive or potentially dilutive instruments.

Amendments to standards and interpretations issued but not yet effective

The following new and amended standards have not come into effect by the date of the financial statements and will be applied in future periods. The Company will apply the new and revised standards and interpretations when they become effective. The Company did not apply any amended standards or interpretations prior to their effective date.

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associates or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The management has assessed the impact of the amendments and believes they will have no significant impact on the Company's financial statements.

Amendments to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Non-Current Liabilities with Covenants

The amendments are effective for annual periods beginning on or after 1 January 2024. Early application is permitted. Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendments, as issued in 2020, has removed the requirement for a right to be unconditional and instead requires that a right to defer settlement must exist at the reporting date and have substance (the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early).

The amendments, as issued in 2022, further clarify that when the right to defer settlement is subject to a company complying with conditions (covenants) specified in a loan arrangement, only covenants with which the Company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the Company must comply after the reporting date do not affect a liability's classification at that date. However, the amendments require companies to disclose information about these future covenants to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date. The amendments also clarify how a company classifies a liability that can be settled in its own shares (e.g. convertible debt). The management has assessed the impact of the amendments and believes they will have no significant impact on the Company's financial statements.

Amendments to IAS 7 – Statement of Cash Flows and IFRS 7 – Financial Instruments: Disclosures: Supplier Finance Arrangements

Effective for annual periods beginning on or after 1 January 2024. The amendments introduce additional disclosure requirements for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the Company's liabilities and cash flows, and the Company's exposure to liquidity risk. The amendments apply to supplier finance arrangements (also referred to as supply chain finance, payables finance or reverse factoring arrangements) that have all of the following characteristics:

- a finance provider (also referred to as the factor) pays amounts a company (the buyer) owes its suppliers;
- a company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid;
- the Company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

However, the amendments do not apply to arrangements for financing receivables or inventory. The management has assessed the impact of the amendments and believes they will have no significant impact on the Company's financial statements.

Amendments to IFRS 16 – Leases: Lease Liability in a Sale and Leaseback

Effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Early application is permitted. Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

The amendments confirm the following:

- on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction;
- after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. These amendments do not change the accounting for leases other than those arising in a sale and leaseback transaction. The management has assessed the impact of the amendments on the Company's financial statements and believes that they will not have a material impact on them.

Amendments to IAS 12 – Income taxes: International Tax Reform – Pillar Two Model Rules

Effective for annual periods beginning on or after 1 January 2024. 'Pillar Two taxes' are taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The Pillar Two model rules aim to ensure that large multinational groups pay taxes at least at the minimum rate of 15 percent on income arising in each jurisdiction in which they operate. There are three rules that countries can adopt: the income inclusion rule, the undertaxed payment rule and a qualified domestic minimum top-up tax. They are often referred to as 'global minimum top-up tax' or 'top-up tax'. The amendments address stakeholders' concerns about deferred tax accounting in relation to the new top-up tax under IFRSs by providing entities with a temporary mandatory relief from deferred tax accounting for top-up tax; and requiring entities to provide new disclosures in relation to the top-up tax and the relief.

Management has assessed the impact of the amendments on the Company's financial statements and based on the assumptions of the current tax legislation and similar operating results, does not expect them to have a material impact.

Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates: Lack of exchangeability

Effective for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted. Under IAS 21 The Effects of Changes in Foreign Exchange Rates, a company uses a spot exchange rate when translating a foreign currency transaction. In some jurisdictions, no spot rate is available because a currency cannot be exchanged into another currency.

IAS 21 was amended to clarify:

- when a currency is exchangeable into another currency; and
- how a company estimates a spot rate when a currency lacks exchangeability.

The amendments also include additional disclosure requirements to help users to assess the impact of using an estimated exchange rate on the financial statements. The management has assessed the impact of the amendments and believes they will have no significant impact on the Company's financial statements.

3. Revenue from contracts with customers

Itemisation of revenue from contracts with customers

€ thousand	2023	2022
Revenue from contracts with customers (products)	1,449,739	1,356,075
Revenue from contracts with customers (materials)	214,872	188,334
Total revenue from contracts with customers	**1,664,611**	**1,544,409**

Revenue from contracts with customers by region

€ thousand	2023	2022
Region Slovenia	66,087	60,503
Region South-East Europe	246,512	220,624
Region East Europe	376,988	387,489
Region Central Europe	380,775	351,191
Region West Europe	319,539	284,593
Region Overseas Markets	59,838	51,675
Total	**1,449,739**	**1,356,075**

In Ukraine, our third largest market, we have sold €83,392 thousand of products in 2023 (2022: by €95,213 thousand), which represents 5.8% of the Company's total sales.

In the Russian Federation, which is Krka's largest single market, we have sold €133,609 thousand of products in 2023 (2022: by €150,791 thousand), representing 9.2% of the Company's total sales. Demand for our products is adequate.

Revenue from contracts with customers by product groups

€ thousand	2023	2022
Prescription pharmaceuticals	1,181,580	1,104,323
Non-prescription products	168,858	163,482
Animal health products	99,301	88,270
Total	**1,449,739**	**1,356,075**

Contract balances

Trade receivables are described in Note 17 – *Trade and other receivables*, while liabilities recognised from contracts with customers in Note 25 – *Current liabilities from contracts with customers*. The Company has not recognised assets from contracts with customers in 2023 and 2022, while liabilities from contracts were recognised in the amount of €5,053 thousand (2022: €8,593 thousand). Recognised assets and liabilities arising from contracts with customers are reported in the statement of financial position.

Right-of-return liabilities

The Company recognised right-of-return liabilities as accrued bonuses, volume rebates and discounts on products sold to other customers in the amount €13,900 thousand (2022: €13,094 thousand).

Performance obligations

The Company is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and material. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract.

Transfer of control and rewards in the sale of products for human use, veterinary products and material depends on terms and conditions of an individual contract. Generally, it occurs when the customer accepts the goods in accordance with INCOTERMS 2022. Payment terms vary from region to region (distribution channels), while the normal credit term ranges from 30 to 120 days.

At the year-end, the Company incurred no costs on acquisition or fulfilment of contracts with customers, which could be recognised as an item of asset.

4. Other operating income

€ thousand	2023	2022
Reversal of non-current provisions	0	1,827
Reversal of deferred income	462	755
Gains on sale of property, plant and equipment and intangible assets	779	352
Revaluation operating revenue – leases	2	0
Other operating income	396	1,765
Total other operating income	**1,639**	**4,699**

Other operating income includes also government grants relating to the curbing of the COVID-19 pandemic in the amount of €1 thousand (2022: €156 thousand). All government grants under the COVID-19 intervention laws are presented at the eligible amount based on the fulfilment of the legal conditions for their granting and recognition, hence that there is no risk of repayment.

The Company did not receive any emergency State aid in 2023 to mitigate the consequences of the energy crisis caused by the situation in the Russian Federation and Ukraine (2022: €180 thousand).

Company's other operating income include also income from emission coupons obtained free of charge from the State in 2022 and transferred in 2023. See Note 11 – *Intangible assets*.

Other deferred income reversed relates to income from other government grants received which cover the depreciation charged on property, plant and equipment in the proportion in which the funds were received.

5. Costs by nature

€ thousand	2023	2022
Cost of goods and materials	504,285	487,124
Cost of services	339,398	331,940
Employee benefits expense	378,344	317,362
Amortisation and depreciation	80,239	82,216
Net write-offs and allowances for inventories	9,808	14,194
Net impairments and write-offs of receivables	-3,960	1,548
Other operating expenses	29,539	25,048
Total costs	**1,337,653**	**1,259,432**
Change in the value of inventories of finished products and work in progress	16,250	-59,089
Total	**1,353,903**	**1,200,343**

6. Employee benefits expense

€ thousand	2023	2022
Gross wages and salaries and continued pay	293,381	247,046
Social security contributions	21,340	16,763
Pension insurance contributions	37,019	33,189
Post-employment benefits and other non-current employee benefits	7,046	3,264
Other employee benefits expense	19,558	17,100
Total employee benefits expense	**378,344**	**317,362**

Post-employment benefits and other non-current employee benefits are detailed in Note 22 – *Provisions*. Other employee benefits include primarily vacation bonuses and commuting allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable amounted in 2023 to €69,015 thousand (2022: €61,399 thousand).

Supplementary pension insurance contributions amounted to €10,468 thousand (2022: €9,546 thousand).

7. Other operating expenses

€ thousand	2023	2022
Grants and assistance for humanitarian and other purposes	2,901	1,551
Environmental protection expenditures	4,639	4,414
Other taxes and levies	18,374	15,904
Loss on sale and write-offs of property, plant and equipment and intangible assets	1,054	818
Other operating expenses	2,571	2,361
Total other operating expenses	**29,539**	**25,048**

Other levies include €16,177 thousand (2022: €13,854 thousand) of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries for pursuing promotional activities.

8. Financial income and financial expenses

€ thousand	2023	2022
Net foreign exchange gains	0	45,105
Interest income	9,074	2,369
Derivative income	4,277	9,096
– Realised revenue	4,277	8,847
– Fair value change	0	249
Income from other financial instruments	7,245	0
– Income generated	3,220	0
– Change in fair value	4,025	0
Income from dividends and other profit shares	40,354	702
– Dividends	808	702
– Profits of subsidiaries	39,546	0
Other financial income	14	472
Total financial income	**60,964**	**57,744**
Net foreign exchange differences	-42,096	0
Interest expenses	-3,781	-1,718
– Interest paid	-3,705	-1,669
– Interest expenses on lease liabilities	-76	-49
Derivative expenses	-4,782	0
– Realised expenses	-389	0
– Change in fair value	-4,393	0
Expenses for other financial instruments	0	-45
– Realised expenses	0	-45
Other financial expenses	-3,564	-1,593
Total financial expenses	**-54,223**	**-3,356**
Net financial result	**6,741**	**54,388**

The net financial result in 2023 declined mostly due to a poor result from the net foreign exchange differences in the amount of €47.647 thousand. In 2023, the Company continued its policy of partial hedging against rouble-related risk and the US dollar with financial instruments. The largest impact was caused by the exchange rate of the rouble (final exchange rate on 31 December 2023 €1 = RUB 99.9723 and on 31 December 2022 €1 = RUB 78.4308).

The income from other financial instruments in the amount of €7,245 thousand represents capital gains on investments in treasury bills.

The income from investments at amortised cost in the amount of €432 thousand (2022: €702 thousand) is income from bonds and is shown under interest income. For more information on these investments see Note 14 – *Investments*.

Detailed information on the risk of changes in foreign exchange rates can be found in Note 30 – *Financial Instruments and Financial Risks*.

9. Income tax expense

Adjustment to effective tax rate

€ thousand	2023	2022
Current income tax	36,241	63,301
Deferred tax	-1,673	742
Total income tax	**34,568**	**64,043**
Profit before tax	**329,049**	**412,258**
Income tax for both years calculated at the rate of 19%	62,519	78,329
Tax on reduced income	-7,439	-133
Tax on non-deductible expenses	3,198	2,677
Income tax from tax incentives	-20,328	-17,588
Tax on increase/decrease of costs for taxable purposes	-1,922	758
Impact of the changed tax rate from 19% to 22% on deferred taxes	-1,460	0
Total income tax expense	**34,568**	**64,043**
Effective tax rate	**10.5%**	**15.5%**

Investments in R&D and investment relief represent the major share of tax incentives.

The impact of the global minimum tax (top-up tax) is disclosed in Significant Accounting Policies - Amendments to Standards and Interpretations not yet effective (Income Tax: International Tax Reform – Pillar Two Model Rules).

10. Property, plant and equipment

€ thousand	31 Dec 2023	31 Dec 2022
Land	51,786	28,010
Buildings	242,811	243,918
Equipment	240,106	238,871
Property, plant and equipment being acquired	57,273	52,107
Right-of-use assets	3,549	3,874
Total property, plant and equipment	**595,525**	**566,780**

In 2023, most of the controlling company's investments were earmarked for renovating the Notol packaging plant in the amount of €14,713 thousand (2022: €6,712 thousand), the construction of Pavilion 3 in the amount of €13,340 thousand (2022: €3,389 thousand), and the capacity expansion at the Ljutomer plant in the amount of €12,254 thousand (2022: €660 thousand). €9,742 thousand were invested in the field of information technology and telecommunications, (2022: €4,999 thousand) and €6,008 thousand (2022: €15,162 thousand) for increasing the capacity of the OTO plant.

The majority of the right-of-use asset refers to the right of using assets relating to buildings in the amount of €3,533 thousand (2022: €3,858 thousand).

Movement of property, plant and equipment (PPE)

€ thousand	Land	Buildings	Equipment	PPE being acquired	Right-of-use assets	Total
Purchase cost						
Balance at 1 Jan 2022*	**28,010**	**624,215**	**1,058,928**	**34,621**	**5,111**	**1,750,885**
Additions	0	0	0	72,970	0	72,970
Capitalisations – transfer from PPE being acquired	0	16,122	39,362	-55,484	0	0
Capitalisations – IFRS 16 Leases	0	0	0	0	1,918	1,918
Disposals, impairments, deficit, surplus	0	-636	-17,131	0	-257	-18,024
Transfers, reclassifications	0	-241	299	0	0	58
Balance at 31 Dec 2022	**28,010**	**639,460**	**1,081,458**	**52,107**	**6,772**	**1,807,807**
Balance at 1 Jan 2023	**28,010**	**639,460**	**1,081,458**	**52,107**	**6,772**	**1,807,807**
Additions	0	0	0	102,876	0	102,876
Capitalisations – transfer from PPE being acquired	23,756	19,145	54,809	-97,710	0	0
Capitalisations – IFRS 16 Leases	0	0	0	0	765	765
Disposals, impairments, deficit, surplus	20	-414	-31,420	0	-69	-31,883
Transfers, reclassifications	0	357	-357	0	0	0
Balance at 31 Dec 2023	**51,786**	**658,548**	**1,104,490**	**57,273**	**7,468**	**1,879,565**
Accumulated depreciation						
Balance at 1 Jan 2022	**0**	**-375,664**	**-803,764**	**0**	**-2,066**	**-1,181,494**
Depreciation	0	-20,360	-55,104	0	-1,062	-76,526
Disposals, deficit, surplus	0	507	16,314	0	230	17,051
Transfers, reclassifications	0	-25	-33	0	0	-58
Balance at 31 Dec 2022	**0**	**-395,542**	**-842,587**	**0**	**-2,898**	**-1,241,027**
Balance at 1 Jan 2023	**0**	**-395,542**	**-842,587**	**0**	**-2,898**	**-1,241,027**
Depreciation		-20,400	-53,064	0	-1,064	-74,528
Disposals, deficit, surplus	0	398	31,074	0	43	31,515
Transfers, reclassifications	0	-193	193	0	0	0
Balance at 31 Dec 2023	**0**	**-415,737**	**-864,384**	**0**	**-3,919**	**-1,284,040**
Carrying amount						
Balance at 1 Jan 2022	**28,010**	**248,551**	**255,164**	**34,621**	**3,045**	**569,391**
Balance at 31 Dec 2022	**28,010**	**243,918**	**238,871**	**52,107**	**3,874**	**566,780**
Balance at 1 Jan 2023	**28,010**	**243,918**	**238,871**	**52,107**	**3,874**	**566,780**
Balance at 31 Dec 2023	**51,786**	**242,811**	**240,106**	**57,273**	**3,549**	**595,525**

** Reclassified from cost to valuation allowance due to the transfer of impairments of fixed assets previously reported under other current liabilities - other. The value of the reclassification amounts to €2 thousand for buildings and €638 thousand for equipment*

In 2022 and 2023, the Company did not make any investments that would have met the criteria for capitalised borrowing costs.

All property, plant and equipment is free of encumbrances. The status of known future commitments related to the acquisition of property, plant and equipment is disclosed in Note 27 – *Contingent Liabilities and Commitments*.

The movements and lease liabilities recognised in profit or loss are presented in Notes 28 – *Leases* and Note 30 – *Financial Instruments and Risks*.

11. Intangible assets

€ thousand	31 Dec 2023	31 Dec 2022
Software	15,138	14,334
Other intangible assets	7,556	7,007
– Long-term deferred operating costs	216	282
– Development-related projects	4,478	5,710
– Emission coupons	2,862	1,015
Intangible assets being acquired	3,349	3,619
Total intangible assets	**26,043**	**24,960**

The Company recognises emission coupons acquired free of charge from the State and purchased on the market as other intangible assets. In 2023, the Company acquired 50,736 emission coupons, whereof 9,736 were free emission coupons (2022: 9,736) to be transferred to the State in 2024 and 41,000 were purchased on the market at a value of €3,206 thousand. In 2023, it transferred 27,476 emission coupons, whereof 9,736 were acquired free of charge and 17,740 were purchase on the market at the value of €1,359 thousand. The transferred emission coupons were acquired in 2022 and 2023 and the FIFO method was applied for the transfer of the coupons. As at 31 December 2023, the Company had 46,116 emission allowances in the total amount of €2,862 thousand (22,856 emission coupons with a value of €1,015 thousand as at 31 December 2022). The Company transfers more emission coupons during the year than it receives free of charge from the State and is therefore considered a net contributor.

Movement of intangible assets (IA)

€ thousand	Concessions, trademarks and licences	Other IA	IA being acquired	Total
Purchase cost				
Balance at 1 Jan 2022	**87,404**	**28,571**	**3,929**	**119,904**
Additions	0	0	6,570	6,570
Transfer from IA being acquired	3,771	2,870	-6,641	0
Disposals, deficit, surplus	-858	-1,982	-239	-3,079
Transfers, reclassifications	-54	-4	0	-58
Balance at 31 Dec 2022	**90,263**	**29,455**	**3,619**	**123,337**
Balance at 1 Jan 2023	**90,263**	**29,455**	**3,619**	**123,337**
Additions	0	0	8,875	8,875
Transfer from IA being acquired	5,182	3,366	-8,548	0
Disposals deficit, surplus	-2,650	-1,932	-597	-5,179
Balance at 31 Dec 2023	**92,795**	**30,889**	**3,349**	**127,033**
Accumulated amortisation				
Balance at 1 Jan 2022	**-72,604**	**-21,672**	**0**	**-94,276**
Amortisation	-4,202	-1,488	0	-5,690
Disposals deficit, surplus	823	708	0	1,531
Transfers, reclassifications	54	4	0	58
Balance at 31 Dec 2022	**-75,929**	**-22,448**	**0**	**-98,377**
Balance at 1 Jan 2023	**-75,929**	**-22,448**	**0**	**-98,377**
Amortisation	-4,378	-1,333	0	-5,711
Disposals deficit, surplus	2,650	448	0	3,098
Balance at 31 Dec 2023	**-77,657**	**-23,333**	**0**	**-100,990**
Carrying amount				
Balance at 1 Jan 2022	**14,800**	**6,899**	**3,929**	**25,628**
Balance at 31 Dec 2022	**14,334**	**7,007**	**3,619**	**24,960**
Balance at 1 Jan 2023	**14,334**	**7,007**	**3,619**	**24,960**
Balance at 31 Dec 2023	**15,138**	**7,556**	**3,349**	**26,043**

12. Investments in subsidiaries

Movement of investments in subsidiaries

€ thousand	Investments in subsidiaries
Purchase cost	
Balance at 1 Jan 2022	**355,435**
Acquisition of equity interest	91
Subsequent payments	9,228
Balance at 31 Dec 2022	**364,754**
Balance at 1 Jan 2023	**364,754**
Establishment of new companies	20
Subsequent payments	1,982
Repayment of subsequent payments	-500
Balance at 31 Dec 2023	**366,256**
Accumulated depreciation	
Balance at 1 Jan 2022	**-8,991**
Balance at 31 Dec 2022	**-8,991**
Balance at 1 Jan 2023	**-8,991**
Balance at 31 Dec 2023	**-8,991**
Carrying amount	
Balance at 1 Jan 2022	**346,444**
Balance at 31 Dec 2022	**355,763**
Balance at 1 Jan 2023	**355,763**
Balance at 31 Dec 2023	**357,265**

The Company reviews whether there are any indications for impairment of investments in subsidiaries at least once a year. The fair value of an investment that may be impaired is determined by applying methods that are most appropriate in an individual investment. The most recent assessment was performed in February 2024.

Impairment testing of investments in subsidiaries KRKA-RUS LLC and KRKA FARMA LLC

In the Russian Federation, the Company is the owner of the subsidiary Krka-Rus, which in engaged in production activities, and of Krka Farma, which carries out distribution activities. Both investments constitute a single cash-generating unit. The carrying amount of the investment in Krka-Rus is €118,916 thousand (2022: €118,916 thousand), whereas the carrying amount of the investment in Krka Farma is recorded at €15,170 thousand (2022: €15,170 thousand).

Due to the situation in Ukraine and the Russian Federation and the consequent higher level of uncertainty in these markets, the weighted average cost of capital (discount rate) remains at a higher level. As a result, management has estimated the value in use calculated by discounting the future cash flows of the subsidiaries for both investments in subsidiaries. Five-year financial projections for each subsidiary in the Russian Federation were used, which assumed annual growth rates of earnings before interest, taxes, depreciation and amortisation of 6.3% (the average five-year annual growth was planned at 6.1%). Business forecasts are based on past performance and a reasonable expectation of future performance. A discount rate of 15.3% was applied (in 2022 it was 14.0% for the five-year forecast period and 12.1% for the residual value). An annual free cash flow growth rate in the residual value of 4.0% was considered (the same in 2022) and is based on publicly available long-term inflation estimates in the Russian Federation. The values set for the key assumptions represent management's best estimate of future trends in the industry and are based on historical data obtained from internal and external sources.

Krka's current strategy does not foresee the sale of subsidiaries in the Russian Federation. The projections used in the impairment test are prepared on a going concern basis with an indefinite useful life.

Based on the impairment assessment performed, it was concluded that there is no need to impair the investments in subsidiaries.

Shareholdings in subsidiaries

€ thousand	Ownership share	Share capital	Value of shares in subsidiaries	
	31 Dec 2023	31 Dec 2023	31 Dec 2023	31 Dec 2022
KRKA-RUS LLC, Istra, Russian Federation	100%	53,629	118,916	118,916
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
TERME KRKA, d.o.o., Novo mesto, Slovenia	100%	14,753	36,416	36,416
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	61,225	37,624	35,642
KRKA-FARMA d.o.o., Zagreb, Croatia	100%	18,983	19,738	19,738
KRKA – POLSKA Sp. z.o.o., Warsaw, Poland	100%	4,030	18,697	18,697
KRKA FARMA LLC, Istra, Russian Federation	100%	7,541	15,170	15,170
Krka France Eurl, Paris, France	100%	10	4,662	4,662
KRKA Pharma GmbH, Wien, Vienna, Austria	100%	36	2,344	2,344
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA FARMACEUTICI MILANO S.R.L, Milan, Italy	100%	10	1,350	1,350
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,042	1,042
KRKA Finland Oy, Espoo, Finland	100%	3	503	1,003
KRKA-FARMA DOOEL Skopje,Skopje, North Macedonia	100%	796	802	802
KRKA Belgium, SA, Brussels, Belgium	100%	300	376	376
KRKA Magyarország Kft., Budapest, Hungary	100%	117	184	184
123 Acurae Pharma GmbH, Cuxhaven, Germany	100%	25	25	25
KRKA Sverige AB, Stockholm, Sweden	100%	14	16	16
LLC ´KRKA Kazakhstan´, Almaty, Kazakhstan	100%	12	11	11
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	10	10	10
KRKA FARMA d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	100%	10	10	10
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	10	10
KRKA HELLAS E.P.E., Athens, Greece	100%	10	10	10
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	7	10	10
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	10	10
SIA KRKA Latvia, Riga, Latvia	100%	10	10	10
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
KRKA UKRAINE LLC, Kiev, Ukraine	100%	3	9	9
KRKA USA LLC, Wilmington, USA	100%	9	8	8
KRKA ČR, s. r. o., Prague, Czechia	100%	4	3	3
KRKA UK LTD, London, United Kingdom	100%	1	2	2
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA GCC L.L.C., Dubai, United Arab Emirates	100%	9	10	-
KRKA Netherlands B.V., Breskens, the Netherlands	100%	10	10	-
Total		**168,259**	**357,265**	**355,763**

The subsidiary Terme Krka, d.o.o. had a 100% interest in Golf Grad Otočec, d.o.o., at 31 December 2023; the subsidiary KRKA France Eurl had a 100-percent interest in HCS bvba in Belgium. The Chinese company Ningbo Krka Menovo Pharmaceutical Co. Ltd. has a 40-percent holding in the company Ningbo Krka Menovo Pharmaceutical Co. Ltd.

13. Loans

€ thousand	31 Dec 2023	31 Dec 2022
Non-current loans	**41,243**	**56,013**
– Loans to subsidiaries	0	14,100
– Loans to others	11,243	11,913
– Deposits granted to banks	30,000	30,000
Current loans	**65,699**	**6,669**
– Portion of non-current loans maturing next year	12,827	5,140
– Loans to subsidiaries	1,697	888
– Loans to others	13	23
– Deposits granted to banks	50,000	0
– Current interest receivables	1,162	618
Total loans	**106,942**	**62,682**

The annual rate of interest agreed on conclusion of loan contracts within the Group companies, is the rate of interest set by the Minister of Finance of the Republic of Slovenia in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. In 2023, the interest rate 0.870%.

Non-current loans include a deposit of €30,000 thousand with a maturity of more than one year held at a Slovenian bank with a high credit rating.

Non-current loans to other entities comprise loans that are extended to the employees in accordance with internal rules of the Company. These loans are used for the purchase or renovation of housings. The interest rate fluctuated in 2023 between 4.096% and 5.008% (2022: between 0.281% and 3.652%). The maximum repayment period is 15 years.

Current deposits to banks include a €50,000 thousand deposit with a maturity of over 90 days and less than one year held at a foreign bank with a high credit rating. This deposit did not exist at the end of 2022 for it was concluded in 2023.

Loans to subsidiaries including related current interest receivable

€ thousand	31 Dec 2023	31 Dec 2022
Non-current loans to subsidiaries	**0**	**14,100**
TERME KRKA, d. o. o., Novo mesto, Slovenia	0	14,100
Current loans to subsidiaries inclusive of the non-current part of the loan maturing next year	**12,826**	**4,349**
TERME KRKA, d. o. o., Novo mesto, Slovenia	11,106	2,502
KRKA Finland Oy, Espoo, Finland	1,330	1
SIA KRKA Latvia, Riga, Latvia	115	115
KRKA HELLAS E.P.E., Athens, Greece	100	100
HCS bvba*, Edegem, Belgium	78	74
KRKA Netherlands B.V., Breskens, the Netherlands	43	0
KRKA GCC L.L.C., Dubai, United Arab Emirates	36	0
TAD Pharma GmbH, Cuxhaven, Germany	12	9
KRKA Belgium, SA, Brussels, Belgium	2	1
Krka FARMACÉUTICA, S.L., Madrid, Spain	2	2
Krka France Eurl, Paris, France	1	601
KRKA Pharma GmbH, Wien, Vienna, Austria	1	1
KRKA Farmaceutici Milano S.r.l., Milano, Italy	0	890
KRKA Bulgaria EOOD, Sofia, Bulgaria	0	50
KRKA Sverige AB, Stockholm, Sweden	0	1
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	1
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	0	1
Total current trade receivables due from subsidiaries	**12,826**	**18,449**

** HCS bvba is owned (100%) by the subsidiary Krka France Eurl.*

The repayment period of the non-current loan to Terme Krka was 6 months as at 31 December 2023.

14. Investments

€ thousand	31 Dec 2023	31 Dec 2022
Non-current investments	**47,673**	**110,769**
– Investments at fair value through OCI (equity instruments)	26,900	15,988
– Investments at amortised cost (debt instruments)	20,773	94,781
Current investments including derivatives	**306,769**	**52,437**
– Investments at fair value through profit or loss	236,751	0
– Investments at amortised cost (debt instruments)	70,018	50,697
– Derivatives	0	1,740
Total investments	**354,442**	**163,206**

Investments at fair value through other comprehensive income (OCI) comprised €953 thousand of investments in shares and interests in companies in Slovenia (2022: €876 thousand), and €25,947 thousand of investments in shares of companies located abroad (2022: €15,112 thousand).

Non-current investments at amortised cost (debt instruments) amounting to €20,773 thousand are bonds of EU member countries with a maturity of more than one year and with a credit risk rating that meets the globally understood definition of investment grade. The credit rating of all bonds falls within the so-called lower medium investment grade.

Current investments at amortised cost (debt instruments) amounting to €70,018 thousand are bonds with a maturity of less than one year and with a credit risk rating that corresponds to a globally understood definition of investment grade. 35% of these are in the upper medium investment grade and 65% in the lower medium investment grade.

Investments at fair value through profit or loss represent investments in treasury bills of EU countries with a high credit rating that meets the globally understood definition of investment grade. 59% of the treasury bill portfolio is of high grade and 41% belong to the prime investment grade.

Investments at amortised cost include investments in Slovenian government bonds which amounted to €6,033 thousand (2022: €6,533 thousand), while investments in foreign government bonds amounted to €84,758 thousand (2022: €138,945 thousand). The decrease in financial investments at amortised cost in the amount of €53,311 thousand is due to the maturity of government bonds. The increase in investments at fair value through profit or loss amounting to €571,826 thousand includes acquisitions of treasury bills and the decrease of €339,100 thousand includes disposals of treasury bills due to their maturity.

Movement of investments

€ thousand	Financial assets at fair value through OCI	Investments at amortised cost	Investments at fair value through profit or loss
Balance at 1 Jan 2022	**15,860**	**207,009**	**33,970**
Increase	0	54,083	0
Decrease	0	-119,265	-40,000
Foreign exchange differences	0	3,651	0
Adjustment to market value	128	/	30
Balance at 31 Dec 2022	**15,988**	**145,478**	**0**
Balance at 1 Jan 2023	**15,988**	**145,478**	**0**
Purchases	0	2,103	571,826
Disposals/maturities	0	-53,311	-339,100
Foreign exchange differences	0	-3,479	0
Adjustment to market value	10,912	/	4,025
Balance at 31 Dec 2023	**26,900**	**90,791**	**236,751**

Increases in financial assets comprise new acquisitions and imputed interest, while decreases comprise coupons received, imputed interest and disposals due to the investments' maturity. Adjustments of non-current investments at fair value through OCI are recognised in other comprehensive income in the amount of €10,912 thousand in the reporting period (2022: €128 thousand). Foreign exchange differences on investments at amortised cost amounting to -€3,479 thousand (2022: €3,651 thousand) are recognised in financial expenses.

15. Deferred tax assets and deferred tax liabilities

€ thousand	Assets		Liabilities	
	2023	**2022**	**2023**	**2022**
Investments at fair value through OCI	1,978	1,708	5,284	2,490
Receivables	1,055	1,687	0	0
Dividends	1,800	33	0	0
Provisions for post-employment benefits and other non-current employee benefits	8,297	7,728	0	0
Total	**13,130**	**11,156**	**5,284**	**2,490**
Offsetting	**-5,284**	**-2,490**	**-5,284**	**-2,490**
Net	**7,846**	**8,666**	**0**	**0**

€ thousand	Balance at 1 Jan 2022	Recognised in income statement	Recognised in OCI	Balance at 31 Dec 2022	Recognised in income statement	Recognised in OCI	Balance at 31 Dec 2023
Investments at fair value through OCI	**-739**	-19	-24	**-782**	270	-2,794	**-3,306**
Receivables	**1,484**	203	0	**1,687**	-632	0	**1,055**
Dividends	**19**	14	0	**33**	1,767	0	**1,800**
Provisions for post- employment benefits and other non-current employee benefits	**11,978**	-940	-3,310	**7,728**	268	301	**8,297**
Total	**12,742**	**-742**	**-3,334**	**8,666**	**1,673**	**-2,493**	**7,846**

Deferred taxes were calculated using the changed tax rate, which increased from 19% to 22%. The relevant impact thereof amounted to €1,368 thousand.

16. Inventories

€ thousand	31 Dec 2023	31 Dec 2022
Materials	249,217	215,961
Work in progress	113,596	122,864
Finished products	110,199	122,144
Merchandise	18,705	12,711
Advances for inventories	22,175	19,298
Total inventories	**513,892**	**492,978**

The increase in inventories is the result of adapting to uncertain market conditions. By carefully planning our inventories and maintaining safety stocks, we ensure that we always have access to the intermediate goods that we require to produce our finished products. The planning of inventories of intermediate goods is based on sales forecasts. We also ensure optimal and adequate stocks of finished products throughout the distribution chain.

The net write-offs and value adjustments of inventories are presented within operating expenses and amounted in the reporting period to €9,808 thousand (2022: €14,194 thousand).

The Company does not pledge inventories as security for a liability.

17. Trade and other receivables

€ thousand	31 Dec 2023	31 Dec 2022
Current trade receivables	463,126	357,889
– Receivables due from subsidiaries	268,438	196,166
– Receivables due from customers other than Group companies	194,688	161,723
Current receivables for other dividends	9,837	171
Current receivables due from others	37,279	12,468
Total trade and other receivables	**510,242**	**370,528**

97.9% of receivables due from customers other the Group companies were insured with a credit insurer and 93.4% if taking into account the deductible (97.3% of such receivables were insured as at 31 December 2022 and 87.6% if taking into account the deductible).

Current trade receivables

Current trade receivables due from subsidiaries

€ thousand	31 Dec 2023	31 Dec 2022
KRKA-RUS LLC, Istra, Russian Federation	106,356	76,254
KRKA FARMA LLC, Istra, Russian Federation	58,515	36,260
KRKA Sverige AB, Stockholm, Sweden	21,500	16,395
TAD Pharma GmbH, Cuxhaven, Germany	12,346	2,403
KRKA - POLSKA, Sp. z o. o., Warsaw, Poland	11,693	10,128
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	11,457	8,406
KRKA UK LTD, London, United Kingdom	10,665	4,307
KRKA-FARMA DOOEL Skopje, Skopje, North Macedonia	8,758	9,792
LLC 'Krka Kazakhstan', Almaty, Kazakhstan	7,561	9,981
KRKA Farmaceutici Milano S.r.l., Milano, Italy	5,233	5,701
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	2,742	1,301
KRKA Finland Oy, Espoo, Finland	2,420	4,080
KRKA-FARMA d.o.o., Zagreb, Croatia	2,282	2,516
KRKA Belgium, SA, Brussels, Belgium	2,181	3,120
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1,163	334
Krka France Eurl, Paris, France	1,162	1,948
Krka FARMACÉUTICA, S.L., Madrid, Spain	1,037	1,456
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	817	417
KRKA Pharma GmbH, Wien, Vienna, Austria	182	861
Receivables due from other Group companies	368	506
Total current trade receivables due from subsidiaries	**268,438**	**196,166**

Current trade receivables due from customers other than Group companies

€ thousand	Gross value	Allowances for receivables	Net value at 31 Dec 2023	Net value at 31 Dec 2022
Trade receivables due from domestic customers other than Group companies	10,725	13	10,712	9,310
Trade receivables due from foreign customers other than Group companies	215,586	30,999	184,587	154,898
Deferred income from contracts with foreign customers	-611	0	-611	-2,485
Total current trade receivables due from customers other than Group companies	**225,700**	**31,012**	**194,688**	**161,723**

The net amount of the receivable write-offs and impairment disclosed in operating expenses amounted in 2023 to -€3,960 thousand (2022: €1,548 thousand).

Current receivables due from others

Most of current receivables due from others in the total amount of €37,279 thousand (2022: €12,468 thousand) include primarily receivables due from the State, whereof receivables due from tax on profit amounted to €21,938 thousand (no such receivables existed as at 31 December 2022) and VAT receivables amounted to €5,438 thousand (2021: €4,346 thousand).

Advances for services were recorded at €322 thousand (2022: €859 thousand).

18. Cash and cash equivalents

€ thousand	31 Dec 2023	31 Dec 2022
Bank balances	140,993	470,297
Total cash and cash equivalents	**140,993**	**470,297**

Bank balances includes a deposit in the amount of €118,000 thousand and a maturity of up to 90 days (2022: €223,000 thousand).

19. Equity

Share capital

The share capital of the Company in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. There is solely one class of share. The share capital is fully paid in.

Treasury shares

At the 29th Annual General Meeting on 6 July 2023, the Company's Management Board was granted authorisation for the purchase of treasury shares. However, the total amount of treasury shares should not exceed the 10% of Company's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by the Company as at the date. The authorisation is valid for a period of 36 months from the date of the resolution's adoption.

The Company is allowed to acquire treasury shares on the regulated securities market at respective market prices at any time. It may also acquire treasury shares outside the regulated securities market. When purchasing treasury shares on the regulated market, the purchase price must not be lower than the book value based on the respective latest publicly published audited financial statements of the Krka Group. Furthermore, the purchase price of the shares must not exceed 25-fold the earnings per share held by the majority stakeholders as calculated based on the latest publicly published audited consolidated income statement of the Krka Group.

Pursuant to paragraphs 3 and 4, Article 381 of the ZGD-1, an entity may reduce the share capital by withdrawal of all treasury shares in a simplified procedure and recognise the amount against other profit reserves.

Repurchase of treasury shares

	No. of shares	Weighted average share price (€)	Value of treasury shares (€ thousand)
Balance at 31 Dec 2021	**1,683,908**		**114,541**
Repurchases in 2022	101,941	98.35	10,025
Balance at 31 Dec 2022	**1,785,849**		**124,566**
Repurchases in 2023	130,117	107.00	13,923
Balance at 31 Dec 2023	**1,915,966**		**138,489**

The performed repurchases of treasury shares refers to repurchases that were recorded in individual years. A subscription fee is included in the weighted average price of shares. The amount paid, including commission, is deducted from the total capital as treasury shares until such shares are withdrawn, reissued or sold.

The repurchases of treasury shares in 2023 in terms of days are outlined in Note 35 – *Repurchase of treasury shares*.

Reserves

Company's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves, fair value reserve and translation reserves.

Reserves for treasury shares amounted as at the balance sheet date to €138,489 thousand and increased by €13,923 thousand based on their formation as a result of additional repurchase of treasury shares.

The *share premium* is to be used under the terms and purposes as defined by the applicable act. The share premium was recorded at €105,897 thousand as at 31 December 2023 and consisted of the general equity revaluation adjustment of €90,659 thousand that was included in share premium during the transfer to IFRS; the share premium of €10,844 thousand formed pursuant to a special regulation applicable in the ownership transformation of the Company; and €4,394 thousand of share premium resulting from reduction in the share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2023, the value of share premium remained unchanged.

Legal reserves may be formed up to 30% of the share capital for the coverage of possible future losses. They amounted to €14,990 thousand as at 31 December 2023 and remained unchanged compared to the previous period.

Statutory reserves amounted to €30,000 thousand as at the reporting date and remained unchanged over the previous period. Statutory reserves are formed by the Company up to the amount of €30,000 thousand. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy. Statutory reserves are available for drawdown.

The fair value reserve includes the cumulative change in the fair value of financial assets and post-employment benefits. Compared to the previous period, the fair value reserve decreased by €3,202 thousand and amounted to €1,105 thousand as at 31 December 2023. The cumulative change is due to a €10,912 thousand increase in the fair value of financial assets through OCI (equity instruments) and a decrease due to the restatement of post-employment benefits of €11,621 thousand by the impact of deferred taxes of €2,493 thousand.

Retained earnings

Retained earnings grew based on the profit of €294,481 thousand. On the other hand, they declined as a result of allocation of accumulated profit to dividend payment (€204,378 thousand) in accordance with the resolution adopted by the 29th Annual General Meeting on 6 July 2023; an additional formation of reserves for treasury shares in total of €13,923 thousand on account of the treasury share repurchase and changes in provisions for termination benefits amounting to €512 thousand.

The amount of the dividend payout reported in the statement of cash flows, differs from the figure confirmed by the Annual General Meeting and reported in the statement of changes in equity by €1 thousand of dividends paid in respect of previous periods (2022: €19 thousand).

Dividend per share

In 2023, the declared gross dividend per share was €6.60 (2022: €5.63).

Accumulated profit

The table below is presented in €, unlike all other tables in the financial report hereof, where data is expressed in € thousand.

€	2023	2022
Compulsory appropriation of profit		
Net profit	**294,481,380.06**	**348,215,048.50**
– To cover the loss from previous periods	0.00	0.00
– Allocation to legal reserves	0.00	0.00
– Allocation to reserves for treasury shares	-13,922,553.48	-10,025,534.49
– Allocation to statutory reserves	0.00	0.00
Profit after compulsory appropriation	**280,558,826.58**	**338,189,514.01**
– Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0.00	0.00
Surplus of profit	**280,558,826.58**	**338,189,514.01**
Identification of distributable profit		
– Surplus of profit	280,558,826.58	338,189,514.01
– Profit brough forward	101,381,119.42	69,973,616.13
Distributable profit	**381,939,946.00**	**408,163,130.14**

20. Earnings per share

Basic earnings per share amounted to €9.51 in 2023 showing a decline of 15% over the previous year, when it amounted to €11.21. The calculation of earnings per share took into account the net profit in the amount of €294,481 thousand (2022: €348,215 thousand). The weighted average number of shares was accounted for in the calculation for both years i.e. 30,954,055 shares for 2023, and 31,070,960 shares for 2022. The average number of shares is calculated from the daily share balances during the year, less treasury shares.

Diluted earnings per share equal the basic earnings per share as the Company has not issued any dilutive or contingently dilutive instruments.

21. Borrowings

€ thousand	31 Dec 2023	31 Dec 2022
Current borrowings	**88,061**	**53,524**
– Borrowings from subsidiaries	87,655	53,375
– Current interest payable	406	149
Total borrowings	**88,061**	**53,524**

Borrowings from subsidiaries, including current interest payable

€ thousand	31 Dec 2023	31 Dec 2022
Current borrowings from subsidiaries	**88,061**	**53,524**
TAD Pharma GmbH, Cuxhaven, Germany	85,603	48,467
KRKA Pharma GmbH, Wien, Vienna, Austria	1,382	144
KRKA FARMACÉUTICA, S.L., Madrid, Spain	463	1,365
TERME KRKA, d. o. o., Novo mesto, Slovenia	264	424
KRKA Belgium, SA, Brussels, Belgium	208	927
123 Acurae Pharma GmbH, Cuxhaven, Germany	123	1
KRKA Sverige AB, Stockholm, Sweden	10	2,174
Krka France Eurl, Paris, France	5	1
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	3	18
KRKA Finland Oy, Espoo, Finland	0	3
Total	**88,061**	**53,524**

Current loans were raised in euro for a period of up to one year and were not specifically collateralised.

22. Provisions

Movement of provisions in 2023

€ thousand	Balance at 31 Dec 2022	Formation	Utilisation	Reversal	Balance at 31 Dec 2023
Provisions for lawsuits	10,543	0	0	0	10,543
Provisions for post-employment benefits	70,898	19,082	-3,837	-579	85,564
Provisions for other non-current employee benefits	15,167	4,228	-1,339	-164	17,892
Total provisions	**96,608**	**23,310**	**-5,176**	**-743**	**113,999**

Movement of provisions in 2022

€ thousand	Balance at 31 Dec 2021	Transfer	Formation	Utilisation	Reversal	Balance at 31 Dec 2022
Provisions for lawsuits	543	10,000	0	0	0	10,543
Provisions for post-employment benefits	93,963	0	-18,123	-3,345	-1,597	70,898
Provisions for other non-current employee benefits	18,630	0	-1,851	-1,382	-230	15,167
Total provisions	**113,136**	**10,000**	**-19,974**	**-4,727**	**-1,827**	**96,608**

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for disputes referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed.

In 2014, the European Commission found that Krka had infringed Article 101 of the Treaty on the Functioning of the EU, thereby distorting competition on the EU market for perindopril, and imposed a fine of €10,000 thousand on Krka. Krka paid the fine within the time limit set by the Commission. However, as it considered that its conduct did not infringe competition law rules, it brought an action against the decision before the EU General Court, which ruled in favour of Krka in December 2018.

The General Court’s decision is not yet final and the Commission has lodged an appeal against it within the appeal period, which will be decided by the European Court of Justice.

The Company was in 2023 involved in intellectual property disputes and other areas of law (civil, labour, administrative disputes, etc.). The total value of the claims against Krka is estimated at €984 thousand. The Company has formed provisions of €543 thousand for this purpose; no provisions were reversed by the Company in 2023 and hence no income recorded in this relation.

Provisions for obligations to employees arising from post-employment and other non-current benefits are based on actuarial calculation using the following assumptions:

- 4.07% annual discount rate, which is the yield on 10-year high-yield corporate bonds in the euro area at end-November 2023 (3.91% discount rate used in 2022); Bloomberg was used as data source;
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal rules;
- staff turnover depending primarily upon the employees' age (3.0% for up to 30 years; 2.0% for 31 to 40 years; 0.5% for 41 to 50 years; 0.2% for 51 to 60 years,);
- mortality rates calculated on the basis of most recent mortality tables available;
- the 2.5% increase in salaries (2022: 2.0%)

Liabilities for post-employment benefits

€ thousand	2023	2022
Balance at 1 January	**70,898**	**93,963**
Current service costs (CSC)	4,176	5,364
Interest costs (IC)	2,772	1,204
Post-employment benefits paid	-3,836	-3,344
Staff departures (reversal)	-579	-1,598
Actuarial surplus/deficit, whereof:	12,133	-24,691
– Change in financial assumptions	3,114	-27,006
– Experience	9,019	2,315
Balance at 31 December	**85,564**	**70,898**

Sensitivity analysis for post-employment and other benefits

	Discount rate		Increase in wages and salaries	
Change in	percentage points		percentage points	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities (€ thousand)	**-5,811**	**6,390**	**6,460**	**-5,924**

23. Deferred income

€ thousand	Balance at 31 Dec 2022	New deferred income received	Reversal of deferred income	Balance at 31 Dec 2023
Grants received from the European Regional Development Fund and budget of the Republic of Slovenia intended for the production of pharmaceuticals in the new Notol 2 Plant	843	0	-156	687
Subsidy for acquisition of electric drive vehicles	2	0	-1	1
Property, plant and equipment received free of charge	12	2	-4	10
Emission coupons	10	10	-10	10
Subsidy for the purchase of joinery	92	0	-2	90
Subsidy for acquisition of other equipment	2	0	-1	1
Grants received from the European Regional Development Fund (Farma GRS)	1,855	0	-288	1,567
Total deferred income	**2,816**	**12**	**-462**	**2,366**

Production of pharmaceuticals in the new Notol 2 Plant and Farma GRS projects are partly funded by the EU from the European Regional Development Fund. The Notol project is carried out within the framework of the Operational programme for strengthening regional development potentials for the period 2007 2013; Priority axis 1: Competitiveness and Research Excellence: main type of activity 1.1.: Improvement of competitiveness and research excellence. The Farma GRS project was eligible for co-financing of costs under R&D projects, including project management and investment in research and development and production activities.

The amounts of deferred income are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of realised expenses.

24. Trade payables

€ thousand	31 Dec 2023	31 Dec 2022
Current trade payables	**175,847**	**194,143**
Payables to subsidiaries	53,490	87,559
Payables to domestic suppliers	53,639	52,271
Payables to foreign suppliers	68,718	54,313
Total trade payables	**175,847**	**194,143**

Payables to subsidiaries

€ thousand	31 Dec 2023	31 Dec 2022
KRKA FARMA LLC, Istra, Russian Federation	9,091	17,555
KRKA-FARMA d.o.o., Zagreb, Croatia	6,975	24,912
KRKA - POLSKA, Sp. z o. o., Warsaw, Poland	5,702	5,009
KRKA ROMANIA S.R.L., Bucharest, Romania	4,874	4,689
KRKA-RUS LLC, Istra, Russian Federation	3,893	3,761
KRKA UKRAINE LLC, Kiev, Ukraine	3,536	3,199
KRKA Magyarország Kft., Budapest, Hungary	3,378	2,779
KRKA ČR, s. r. o., Prague, Czechia	2,922	3,686
KRKA Slovensko, s.r.o., Bratislava, Slovakia	2,332	2,124
KRKA Farmaceutici Milano S.r.l., Milano, Italy	1,523	1,799
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	1,467	1,060
TAD Pharma GmbH, Cuxhaven, Germany	1,195	3,507
SIA KRKA Latvia, Riga, Latvia	824	772
KRKA Bulgaria EOOD, Sofia, Bulgaria	803	740
Krka France Eurl, Paris, France	624	1,331
UAB KRKA Lietuva, Vilnius, Lithuania	605	1,556
KRKA Sverige AB, Stockholm, Sweden	590	154
LLC KRKA Kazakhstan, Almaty, Kazakhstan	538	506
KRKA-FARMA DOOEL Skopje, Skopje, North Macedonia	469	512
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	452	512
KRKA Pharma GmbH, Wien, Vienna, Austria	347	602
KRKA HELLAS E.P.E., Athens, Greece	327	293
Krka FARMACÉUTICA, S.L., Madrid, Spain	237	531
KRKA Finland Oy, Espoo, Finland	207	286
KRKA Belgium, SA, Brussels, Belgium	196	115
KRKA UK LTD, London, United Kingdom	97	95
123 Acurae Pharma GmbH, Germany	85	0
HCS bvba, Edegem, Belgium*	69	70
KRKA FARMA d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	56	48
TERME KRKA, d. o. o., Novo mesto, Slovenia	45	31
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	18	18
KRKA GCC L.L.C., Dubai, United Arab Emirates	12	0
KRKA USA LLC, Wilmington, USA	1	1
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	0	5,306
Total liabilities to subsidiaries	**53,490**	**87,559**

* HCS bvba is owned (100%) by the subsidiary Krka France Eurl

25. Current contract liabilities

€ thousand	31 Dec 2023	31 Dec 2022
Refund liabilities	**13,900**	**13,094**
– Bonuses and volume rebates	13,900	13,094
Contract liabilities	**5,053**	**8,593**
– Contract liabilities – advances from other customers	5,053	8,593
Total current contract liabilities	**18,953**	**21,687**

Accrued bonuses and volume discounts include discounts to which the customers are entitled when the relevant terms and conditions are fulfilled; these discounts are not granted to customers in the year of the sale. Bonuses and volume rebates reduce revenue (generated sales) in the year to which they relate.

26. Other current liabilities

€ thousand	31 Dec 2023	31 Dec 2022
Payables to employees – gross salaries, other receipts and charges	72,498	55,304
Derivatives	2,653	0
Other	2,649	2,068
Total other current liabilities	**77,800**	**57,372**

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €1,317 thousand (2022: €739 thousand).

27. Contingent liabilities and commitments

€ thousand	31 Dec 2023	31 Dec 2022
Guarantees issued	15,238	15,195
Other	1,417	1,935
Total contingent liabilities	**16,655**	**17,130**

Among the guarantees issued, the largest items are the performance guarantee for the supply of products awarded in tenders in Italy, amounting to €12,000 thousand, and the guarantee for the TAD Pharma credit line, amounting to €3,000 thousand. Both guarantees are valid until cancelled.

Based on the contracts that had been signed in connection with the on-going investments, the balance of Company's commitments for acquisition of property, plant and equipment amounted at the year-end of 2023 to €67,391 thousand (2022: €74,610 thousand).

28. Leases

The Company concludes lease agreements for various assets such as land, parking spaces and offices, apartments, warehouses, and equipment.

The lease terms are assessed according to the type of a lease:

- offices, parking spaces and warehouses: up to 10 years;
- land: 30 years;
- apartments: up to 2 years maximum;
- equipment: up to 10 years.

The Company does not sub-lease the leased assets.

The Company has concluded lease contracts for various production and non-production equipment, temporary offices and parking spaces, with lease term of shorter than one year. In respect of those leases, the Company applied the practical expedient provided by the Standard.

The carrying amounts of lease liabilities included under interest-bearing loans and borrowings and movements during the period

€ thousand	Carrying amounts of lease liabilities under interest-bearing loans and borrowings and movements during the period
Balance at 1 Jan 2022	**3,088**
Increase/Decrease	1,929
Interest	49
Lease payments	-1,124
Balance at 31 Dec 2022	**3,942**
– Current lease liabilities	1,033
– Non-current lease liabilities	2,909
Balance at 1 Jan 2023	**3,942**
Increase/Decrease	693
Interest	76
Lease payments	-1,125
Balance at 31 Dec 2023	**3,586**
– Current lease liabilities	1,022
– Non-current lease liabilities	2,565

The maturity analysis of lease liabilities is disclosed in Note 30 – *Financial instruments and financial risks*.

Amounts recognised in the income statement

€ thousand	2023	2022
Depreciation of right-of-use assets	1,064	1,062
Interest expenses on lease liabilities	76	49
Expenses relating to current leases	81	1
Expenses relating to leases of low-value assets	7	12
Total amount recognised in income statement	**1,228**	**1,124**

29. Financial liabilities

Movement of financial liabilities in 2023

€ thousand	Balance at 31 Dec 2022	Monetary changes	Non-monetary changes: Additions/ disposals	Non-monetary changes: Other	Balance at 31 Dec 2023
Borrowings	53,375	34,290	0	-10	87,655
Interest on borrowings	149	-3,022	3,279	0	406
Dividends	1,303	-204,379	204,377	0	1,301
Leases	3,942	-1,125	693	76	3,586
Total	**58,769**	**-174,236**	**208,349**	**66**	**92,948**

Movement of financial liabilities in 2022

€ thousand	Balance at 31 Dec 2021	Monetary changes	Non-monetary changes		Balance at 31 Dec 2022
			Additions/ disposals	Other	
Borrowings	55,068	-1,758	0	65	53,375
Interest on borrowings	24	-1,856	1,981	0	149
Dividends	1,322	-175,044	175,025	0	1,303
Leases	3,088	-1,124	1,929	49	3,942
Liabilities under repurchase transactions (repo-type operations)	102,234	-101,762	0	-472	0
Total	**161,736**	**-281,544**	**178,935**	**-358**	**58,769**

30. Financial instruments and financial risks

Credit risk

The key credit risk of the Company arises from trade receivables. This is the risk of customers failing to settle their liabilities by maturity dates.

The Krka Group introduced a centralised credit control process in 2004. The system includes all customers with credit limits exceeding €20,000. Receivables due from small customers accounted for less than 5% of total trade receivables. Control over small customers is decentralised in the sales network and under the constant supervision of the controlling company.

Credit control is a two-step process. The first step involves assessing the credit risk for each customer, determining risk mitigation instruments, and assigning relevant credit limits. We assess each new customer and review the credit ratings of all customers twice a year. Each credit rating includes many different financial and non-financial indicators, which fall into four categories (an assessment of the buyer's profitability, payment habits and payment discipline, an assessment of the buyer's financial statements, a qualitative assessment of the sales staff, an assessment of country risk) each of which carries a different weight in the final assessment).

Each customer is assigned a customised credit limit according to the credit rating and the expected shipment and payment dynamics.

The second step in the credit-control process involves regular dynamic monitoring of a customer's payment discipline. The information systems of the Company and other Krka Group companies engaged in sales monitor available limits and overdue receivables. Control is exercised for each shipment of products to customers. A shipment is automatically blocked if a customer is in arrears or if receivables together with the new shipment exceed the approved credit limit. Sales personnel are required to initiate a payment collection procedure or arrange hedging for the outstanding settlements.

Krka's internal rules determine the process of credit control and authorisations for granting credit limits to customers. Credit control also avails of a system of regular reporting on trade receivables and the customer's payment discipline. The reporting system aids the early detection of customers at increased risk of defaulting on payments and facilitates effective credit risk management.

The credit control process employs uniform rules which apply to all customers and is regularly adjusted to changes in the sales markets.

Credit control guarantees permanent control over the quality of the trade receivables portfolio. The result is a low share of receivable write-offs and impairments in view of Company's sales.

The amount of receivable write-offs and impairments is also low because receivables are dispersed across many customers and sales markets, and the majority of outstanding receivables are due from customers with whom Krka has been doing business for several years.

The credit risk environment was in 2023 challenging due to the heightened situation in Ukraine, the Russian Federation and Belarus. We paid particular attention to these markets and maintained our activities to manage trade receivables. The credit risk management performance in 2023 was favourable. At the year-end, the value of trade receivables was 20% higher than at the beginning of the year, while the amount of overdue and unpaid receivables remained within a range acceptable to Krka.

Credit risk exposure

The carrying amount of financial assets, which were mostly exposed to credit risk, was as follows at the reporting date:

€ thousand	Notes	31 Dec 2023	31 Dec 2022
Loans	13	106,942	62,682
Investments at fair value through profit or loss	14	236,751	0
Investments at amortised cost (debt instruments)	14	90,791	145,478
Trade receivables including those due from subsidiaries	17	463,126	357,889
Cash and cash equivalents	18	140,993	470,297
Total		**1,038,603**	**1,036,346**

As for the financial assets exposed to credit risk, the loans, investments, trade receivables and receivables due from subsidiaries, cash and cash equivalents are presented separately.

The loans include a €30,000 thousand deposit with a maturity of over one year with a Slovenian bank with a high credit rating and a €50,000 thousand deposit with a maturity of over 90 days and less than a year with a high credit rating foreign bank. The residual part of refers to loans granted to Group companies and to housing loans extended to employees.

Investments at fair value through profit or loss represent investments in treasury bills of Western European EU member countries with a high credit rating (P-1 by Moody's).

Investments at amortised cost (debt instruments) represent investments in non-current and current bonds of EU member countries. They are classified as financial instruments with low credit risk because their credit rating is equivalent to the globally understood definition of 'investment grade', which equals a credit rating of Baa2 or above by Moody's or BBB- or above by S&P Global Ratings.

Krka's cash and cash equivalents are represented by bank balances and deposits with a maturity of less than 90 days with banks in the EU with a high credit rating (P-1 by Moody's).

Loans by regions

€ thousand	31 Dec 2023	31 Dec 2022
Region Slovenia	54,960	60,419
Region South-East Europe	100	150
Region East Europe	65	40
Region Central Europe	115	121
Region West Europe	51,666	1,952
Region Overseas Markets	36	0
Total	**106,942**	**62,682**

Trade receivables by region

€ thousand	31 Dec 2023	31 Dec 2022
Region Slovenia	10,774	9,359
Region South-East Europe	100,154	81,760
Region East Europe	195,507	141,775
Region Central Europe	81,372	68,088
Region West Europe	68,984	50,955
Region Overseas Markets	6,335	5,952
Total	**463,126**	**357,889**

Age analysis of loans as at the reporting date

€ thousand	Gross value at 31 Dec 2023	Allowance at 31 Dec 2023	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022
Not past due	106,935	0	62,673	0
Past due up to 20 days	0	0	0	0
Past due from 21 to 50 days	2	0	2	0
Past due from 51 to 180 days	1	0	2	0
Past due more than 180 days	4	0	5	0
Total	**106,942**	**0**	**62,682**	**0**

Age analysis of subsidiaries' trade receivables as at the reporting date

€ thousand	Gross value at 31 Dec 2023	Allowance at 31 Dec 2023	Net value at 31 Dec 2023	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022	Net value at 31 Dec 2022
Not past due	436,088	207	435,881	346,743	182	346,561
Past due up to 20 days	15,746	33	15,713	3,000	16	2,984
Past due from 21 to 50 days	8,893	78	8,815	2,782	8	2,774
Past due from 51 to 180 days	2,155	58	2,097	4,789	27	4,762
Past due more than 180 days	31,256	30,636	620	36,016	35,208	808
Total	**494,138**	**31,012**	**463,126**	**393,330**	**35,441**	**357,889**

The Company is extending payment deadlines to certain customers. If The Company did not extend payment terms to some of its customers, receivable maturity structure would be as follows at the reporting date: not past due €430,348 thousand (2022: €343,445 thousand); past due up to 20 days €16,363 thousand (2022: €2,892 thousand); past due between 21 and 50 days €13,698 thousand (2022: €5,634 thousand); past due between 51 and 180 days €2,096 thousand (2022: €2,759 thousand); and past due more than 180 days €620 thousand (2022: €3,158 thousand).

Age analysis of receivables due from customers outside the Group in the Russian Federation as at the reporting date

€ thousand	Gross value at 31 Dec 2023	Allowance at 31 Dec 2023	Net value at 31 Dec 2023	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022	Net value at 31 Dec 2022
Not past due	0	0	0	331	0	331
Total	**0**	**0**	**0**	**331**	**0**	**331**

Liquidity risk

Business partners value Krka for its excellent financial discipline and stable cash flows. In 2023, we settled all financial liabilities regularly and Company's exposure to liquidity risk was low.

The Company has agreements with two banks for the allowed negative balance on transaction accounts for a total amount of €10,050 thousand (in 2022, the Company had agreements with two banks for a total amount of €5,688 thousand). As there were no negative balances on transaction accounts at 31 December 2023, the bank overdraft remained fully unused.

As at 31 December 2023, the Company had an undrawn credit facility of €20,000 thousand (2022: €20,000 thousand as well).

At the end of 2023, Krka recorded cash and cash equivalents primarily as cash at bank or short-term deposits with first-class commercial banks. Other current liquid assets were held in short-term treasury bills of western European countries with first-class credit ratings.

The world's most important central banks raised the key interest rates in 2023. Krka recorded favourable returns on cash, cash equivalents, and low-risk liquid investments, leading to higher interest income and income from other financial instruments.

The Krka Group oversees liquid assets in line with internal investment diversification rules, taking into account factors such as interest rate, liquidity, credit, and currency risks.

The Company manages liquidity risk centrally for the entire Krka Group. Subsidiaries are financed through intra-group loans and any potential cash surpluses are deposited with the controlling company. Excess cash from all Group companies is transferred to the controlling company's master account either automatically daily (cash pooling) or manually through individual bank transfers. This allows for cash management optimisation, currency risk mitigation, an overview of liquidity of all Group companies, and enhanced security of cash transactions.

Krka's liquidity ratios remain favourable and stable also at the end of 2023.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 December 2023

€ thousand	Carrying amount	Contractual cash flows Total	Up to 6 months	6–12 months	1–2 years	2–5 years	5-0 years
Financial liabilities							
Other borrowings	88,061	88,061	88,061	0	0	0	0
Lease liabilities	3,587	3,752	550	547	980	1,620	55
Trade payables excluding advances	175,847	175,847	175,847	0	0	0	0
Contract liabilities excluding advances	13,900	13,900	13,900	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	1,333	1,333	1,333	0	0	0	0
Total financial liabilities	**282,728**	**282,893**	**279,691**	**547**	**980**	**1,620**	**55**
Derivatives	2,653	2,653	2,653	0	0	0	0
Total derivative financial liabilities	**2,653**	**2,653**	**2,653**	**0**	**0**	**0**	**0**
Total	**285,381**	**285,546**	**282,344**	**547**	**980**	**1,620**	**55**

Maturity of financial liabilities as at 31 December 2022

€ thousand	Carrying amount	Contractual cash flows Total	Up to 6 months	6–12 months	1–2 years	2–5 years	5-0 years
Financial liabilities							
Other borrowings	53,524	53,524	53,524	0	0	0	0
Lease liabilities	3,942	4,095	555	529	892	1,932	187
Trade payables excluding advances	194,143	194,143	194,143	0	0	0	0
Contract liabilities excluding advances	13,094	13,094	13,094	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	1,328	1,328	1,328	0	0	0	0
Total financial liabilities	**266,031**	**266,184**	**262,644**	**529**	**892**	**1,932**	**187**
Total derivative financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**266,031**	**266,184**	**262,644**	**529**	**892**	**1,932**	**187**

Foreign exchange risk

The Company operates in diverse international environments and is exposed to foreign exchange risk in certain sales and purchase markets.

Currency exposure arises from the difference in the value of assets and liabilities in a particular currency in the Company's financial position statement and from differences between operating income and expenses generated in individual currencies.

The key accounting categories composing a currency position are trade receivables, trade payables, liquid financial assets in foreign currencies, derivatives for currency risk hedging, financing of subsidiaries provided by the Company and recorded purchase orders.

The decline in the rouble's value started in the last quarter of 2022 already and continued until the end of the first half of 2023. The downward trend was primarily driven by a reduced trade surplus, which resulted in rising inflation on the back of relatively stable economic activity. Monetary authorities moderated the inflation and depreciation of the rouble in the second half of the year with several key interest rate hikes and other measures to protect the value of domestic currency. The value of the Russian rouble denominated in the euro dropped by 21.5% from the beginning to the end of the year and was, on average, 20.6% lower than in 2022.

The value of the US dollar denominated in the euro declined by 3.5% over the course of 2023 and was, on average, 2.6% lower than the previous year. The euro/US dollar currency pair fluctuated between 1.05 and 1.13 in 2023. The impact of the US dollar fluctuations on the Krka Group result was offset using financial instruments.

In 2023, the value of the Ukrainian hryvnia continued to be affected by the Russian invasion and uncertainty regarding the future economic situation in the country.

For the majority of the year, the value of the Polish zloty experienced a gradual strengthening, with further increases occurring after the parliamentary elections at the end of September. Over the course of 2023, the value of the zloty increased by 7.9% and the average value was 3.2% higher than in 2022.

Throughout 2023, the Romanian leu remained highly stable. By mid-2023, the long-term trend of the Czech koruna's gradual appreciation against the euro shifted to a slow depreciation. Additionally, the Hungarian forint exhibited less volatility in 2023 compared to 2022.

The Company generally mitigates currency risks by natural hedging, primarily by increasing purchases and liabilities in currencies in which sales invoices are issued. When this is impossible, we use derivatives or do not hedge the risk. Generally, only forward contracts are used for hedging.

In 2023, we continued to hedge the US dollar with financial instruments. We used natural hedging to mitigate the risk exposure to the Russian rouble as there were no suitable financial instruments on the banking market. Due to the declining value of the Russian rouble denominated in the euro, we generated net foreign exchange losses, primarily in the first half of 2023.

The increasing exposure from operations and the favourable interest rate differential between the euro and the US dollar for Krka are the key reasons why we continued to hedge part of our US dollar exposure with financial instruments in 2023. To hedge the risk of changes in the currency parity between the euro and the US dollar, forward contracts with a principal amount of $75,000 thousand and a maturity of less than three months were open at the end of 2023.

Exposure to the risk of foreign exchange rate fluctuations

€ thousand	31 Dec 2023				
	EUR*	RUB	PLN	USD	RON
Loans	106,942	0	0	0	0
Trade receivables	146,120	178,631	53,995	10,485	52,899
Cash and cash equivalents	128,027	8	317	5,417	2,743
Borrowings	-88,059	0	0	-2	0
Current trade payables	-142,611	-3,276	-5,858	-11,643	-4,848
Financial position exposure (net)	**150,420**	**175,363**	**48,454**	**4,257**	**50,794**

* EUR is the functional currency and does not represent exposure to foreign currency risk.

€ thousand	31 Dec 2022				
	EUR*	RUB	PLN	USD	RON
Loans	62,682	0	0	0	0
Trade receivables	98,656	125,927	45,732	5,575	46,991
Cash and cash equivalents	451,763	49	823	7,665	528
Borrowings	-53,524	0	0	0	0
Current trade payables	-165,283	-2,455	-5,172	-9,246	-4,642
Financial position exposure (net)	**394,293**	**123,520**	**41,384**	**3,994**	**42,877**

* EUR is the functional currency and does not represent exposure to foreign currency risk.

Significant exchange rates

	Average exchange rate*		Final exchange rate*	
	2023	2022	2023	2022
RUB	92.49	73.43	99.97	78.43
PLN	4.54	4.69	4.34	4.68
USD	1.08	1.05	1.11	1.07
RON	4.95	4.93	4.98	4.95

* Number of national currency units for one €

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December and equal the reference exchange rates of the ECB effective on the last day of the year. Since the end of March 2022, the Bloomberg exchange rate is used to convert the Russian rouble.

Sensitivity analysis

A 1% change in the value of these currencies against euro as at 31 December 2023 or 31 December 2022 would increase or decrease the profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining variables except for the exchange rate, in particular interest rates, remain unchanged. The calculation of the above-stated exchange rate volatility impact took into account the balance of receivables, liabilities, loans and cash and cash equivalents denominated in the local currencies.

€ thousand	Impact on profit or loss before tax			
	2023		2022	
Currency fluctuations for	**+1%**	**-1%**	**+1%**	**-1%**
RUB	1,754	-1,754	1,235	-1,235
PLN	485	-485	414	-414
USD	43	-43	40	-40
RON	508	-508	429	-429

Any additional 1% increase/decrease of the euro exchange rate in respect of currencies stated above, would increase or decrease the profit or loss before tax in the above-stated amounts.

Interest rate risk

Interest rate risk is the risk of losses that result from a change in interest rates and is related to Krka's non-current borrowings and investments.

The interest rate risk with current borrowings and current investments is managed as part of the Group's liquidity risk.

In 2023, the Company raised non-current borrowings only from subsidiaries.

Exposure to interest rate risk

€ thousand	31 Dec 2023	31 Dec 2022
Financial instruments at fixed rate of interest	**192,411**	**464,464**
Financial assets	192,411	464,464
Financial liabilities	0	0
Financial instruments at variable rate of interest	**-56,286**	**-22,775**
Financial assets	31,369	30,600
Financial liabilities	-87,655	-53,375

Cash flow sensitivity analysis for variable interest rate instruments

A 100 basis-point increase in the variable interest rate for 2023 would decrease the profit or loss by €563 (a decrease in the interest rate by 100 basis points would increase the profit or loss by €563 thousand). An increase of 100 basis points in the variable interest rate would decrease the 2022 profit or loss by €228 thousand (a decrease of the interest rate by 100 basis points would increase the profit or loss by €228 thousand). The analysis, which is carried out in the same way for both years, assumes that all variables, in particular the exchange rate, remain constant.

A detailed schedule of current borrowings is presented below.

Current borrowings

€ thousand	31 Dec 2023	31 Dec 2022
Current borrowings inclusive of current portion of non-current borrowings	87,655	53,375
– Other borrowings	87,655	53,375
Current borrowings exclusive of current portion of non-current borrowings	87,655	53,375
Average balance of current borrowings	70,515	54,222
Interest paid in the financial year	3,699	720
Average effective costs of current borrowings	5.25%	1.33%
Currency structure of current borrowings		
– €	100%	100%
Structure of current borrowings in terms of interest rates		
– Variable	100%	100%

Capital management

The primary objective of managing the Company's capital is to ensure a high credit rating and adequate funding ratios so that the Group can adequately develop its business and maximise value for its shareholders.

The Company follows the changes in the economic environment by managing and adjusting its equity structure. Dividends are paid out on an annual basis in line with the strategic policy adopted. The Company has no specific goals as regards the ownership share held by employees, and no share option plans.

There were no changes in Company's approach to capital management in 2023 or 2022.

The Company monitors capital using a gearing ratio, which is net debt divided by total net debt plus total equity. Within net debt, The Company includes interest bearing borrowings, operating liabilities, current liabilities from contracts with customers and other current payables less cash and cash equivalents.

Financial leverage ratio

€ thousand	31 Dec 2023	31 Dec 2022
Borrowings	88,061	53,524
Operating liabilities	175,847	194,143
Current liabilities from contracts with customers	18,953	21,687
Other current payables	77,800	57,372
Cash and cash equivalents	140,993	470,297
Net indebtedness	**219,668**	**-143,571**
Equity	2,133,258	2,060,792
Equity and net indebtedness	**2,352,926**	**1,917,221**
Financial leverage (debt/equity) ratio	**9.3%**	**-7.5%**

Fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. The table does not include disclosures about the fair values of financial assets and liabilities not measured at fair value, where the carrying amount is a reasonable approximation of fair value.

	31 Dec 2023		31 Dec 2022	
€ thousand	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial assets				
Loans	41,243		56,013	
Investments at fair value through OCI (equity instruments)	26,900	26,900	15,988	15,988
Investments at amortised cost (debt instruments)	20,773		94,781	
Current financial assets				
Loans	65,699		6,669	
Investments at fair value through profit or loss	236,751	236,751	0	0
Investments at amortised cost (debt instruments)	70,018		50,697	
Derivatives	0	0	1,740	1,740
Trade receivables	463,126		357,889	
Cash and cash equivalents	140,993		470,297	
Non-current financial liabilities				
Lease liabilities	-2,565		-2,909	
Current financial liabilities				
Borrowings	-88,061		-53,524	
Derivatives	-2,653	-2,653	0	0
Lease liabilities	-1,022		-1,033	
Trade payables excluding advances	-175,847		-194,143	
Contract liabilities excluding advances	-13,900		-13,094	
Other current liabilities excluding amounts owed to the State, to employees and advances	-1,333		-1,328	
Total	**780,122**	**260,998**	**788,043**	**17,728**

In terms of fair value, investments are classified into three levels:

- Level 1 – assets at market price;
- Level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- Level 3 – assets the value of which cannot be determined using observable market data.

There were no transfers between fair value levels in 2023.

Fair value of assets

	31 Dec 2023				31 Dec 2022			
€ thousand	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Investments at fair value through OCI (equity instruments)	25,514	0	1,386	26,900	14,602	0	1,386	15,988
Investments at fair value through profit or loss	236,751	0	0	236,751	0	0	0	0
Derivatives	0	0	0	0	0	0	1,740	1,740
Total assets at fair value	**262,265**	**0**	**1,386**	**263,651**	**14,602**	**0**	**3,126**	**17,728**

31. Related party transactions

Intra-group transactions

Transactions (turnover) with subsidiaries in 2023 are presented below.

€ thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto, Slovenia*	355	712	0	0
KRKA-FARMA d.o.o., Zagreb, Croatia	8,722	28,577	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	145	21,538	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	36,979	5,153	0	0
KRKA-FARMA DOOEL Skopje, Skopje, North Macedonia	24,827	2,012	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	62	3,664	0	0
KRKA HELLAS E.P.E., Athens, Greece	18	1,625	0	0
KRKA FARMA d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	4	411	0	0
KRKA-RUS LLC, Istra, Russian Federation	192,828	12,259	0	0
KRKA FARMA LLC, Istra, Russian Federation	133,482	48,665	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	140	13,667	0	0
LLC 'Krka Kazakhstan', Almaty, Kazakhstan	18,255	3,322	0	0
KRKA - POLSKA, Sp. z o. o., Warsaw, Poland	32,608	31,514	0	0
KRKA ČR, s. r. o., Prague, Czechia	141	12,004	0	0
KRKA Magyarország Kft., Budapest, Hungary	81	11,996	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	299	8,666	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	33	4,278	0	0
SIA KRKA Latvia, Riga, Latvia	19	3,098	0	0
KRKA Finland Oy, Espoo, Finland	14,371	1,904	0	0
TAD Pharma GmbH, Cuxhaven, Germany	82,265	9,522	0	0
KRKA Sverige AB, Stockholm, Sweden	45,379	1,959	0	0
KRKA Pharma GmbH, Wien, Vienna, Austria	8,134	1,784	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	23,036	2,226	0	0
Krka FARMACÉUTICA, S.L., Madrid, Spain	12,523	2,551	0	0
KRKA Farmaceutici Milano S.r.l., Milano, Italy	16,727	7,168	0	0
Krka France Eurl, Paris, France**	4,846	4,303	0	25
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	10,952	86	0	0
KRKA Belgium, SA, Brussels, Belgium	14,817	907	0	0
KRKA UK LTD, London, United Kingdom	17,470	840	0	0
123 Acurae Pharma GmbH, Cuxhaven, Germany	94	85	0	0
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	1,690	15,933	0	0
KRKA USA LLC, Wilmington, USA	0	7	0	0
KRKA GCC L.L.C., Dubai, United Arab Emirates	0	61	0	35
KRKA Netherlands B.V., Breskens, the Netherlands	0	0	0	25
Total	**701,302**	**262,497**	**0**	**85**

** Including the subsidiary Golf Grad Otočec, d.o.o.*

*** Including the subsidiary HCS bvba*

The transactions between the Company and the above-mentioned subsidiaries were based on sales contracts, which included rendering products and services at market prices.

Loans received and granted do not include turnover from daily automatic cash pooling.

The balance of loans to subsidiaries is presented in Note 13 – *Loans*, the balance of borrowings from subsidiaries is presented in Note 21 – *Borrowings*, the balance of receivables due from subsidiaries is presented in Note 17 – *Trade and* *other receivables* and the balance of current trade payables to subsidiaries is presented in Note 24 – *Trade and other payables*.

Data on groups of persons

By the end of the year, members of the Management Board of the Company held 37,040 Krka shares i.e. 0.1129% of total equity or 0.1200% of voting rights.

Members of the Supervisory Board of the Company held 2,847 shares i.e. 0.0087% of total equity or 0.0092% of voting rights at the end of 2023.

Equity stakes held by Management and the Supervisory Board members of the controlling company and their shares of voting rights

	31 Dec 2023			31 Dec 2022		
	No. of shares	Equity share (%)	Share in voting rights (%)	No. of shares	Equity share (%)	Share in voting rights (%)
Members of the Management Board						
Jože Colarič	22,500	0.0686	0.0729	22,500	0.0686	0.0726
Aleš Rotar	13,915	0.0424	0.0451	13,915	0.0424	0.0449
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
David Bratož	0	/	/	0	/	/
Milena Kastelic	505	0.0015	0.0016	505	0.0015	0.0016
Total Members of the Management Board	**37,040**	**0.1129**	**0.1200**	**37,040**	**0.1129**	**0.1195**
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	/	/	0	/	/
Luka Cerar*	0	/	/	0	/	/
Borut Jamnik**	0	/	/	0	/	/
Matej Lahovnik	1,000	0.0030	0.0032	600	0.0018	0.0019
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Mojca Osolnik Videmšek	617	0.0019	0.0020	617	0.0019	0.0020
Boris Žnidarič	0	/	/	0	/	/
Members of the Supervisory Board (employee representatives)						
Franc Šašek	500	0.0015	0.0016	1.400	0.0043	0.0045
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0016
Mateja Vrečer	0	/	/	0	/	/
Total Members of the Supervisory Board	**2,847**	**0.0087**	**0.0092**	**3,347**	**0.0102**	**0.0108**
Total	**39,887**	**0.1216**	**0.1292**	**40,387**	**0.1232**	**0.1302**

** Member of the Supervisory Board since 7 July 2023*
*** Member of the Supervisory Board until 6 July 2023*

Treasury shares were eliminated from the calculation of voting rights (1,915,966 treasury shares as at 31 December 2023 and 1,785,849 as at 31 December 2022).

Remuneration paid to groups of persons (gross)

€ thousand	31 Dec 2023	31 Dec 2022
Members of the Management Board	4,317	4,163
Members of the Supervisory Board	311	274
Total gross remuneration paid to groups of persons	**4,628**	**4,437**

Remuneration paid to members of the Company's Management Board included wages and salaries, fringe benefits and any other earnings. For each year, they are shown on a cost basis and therefore differ from the remuneration shown in the Report on Remuneration of the Members of the Management Board and Supervisory Board of Krka for 2023, where they are shown by payments in each year.

Gross earnings paid to persons employed under individual employment contracts in 2023 amounted to €13,310 thousand (2022: €12,571 thousand).

Remuneration paid to Management Board members in 2023

	Salary – fixed part			Salary – variable part		Total	
€ thousand	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Neto
Jože Colarič	526	191	33	858	335	1,384	559
Aleš Rotar	415	154	29	575	224	990	407
Vinko Zupančič	349	131	26	479	187	828	344
David Bratož	342	129	26	470	184	812	339
Milena Kastelic	209	82	19	94	37	303	138
Total remuneration paid to Members of the Management Board	**1,841**	**687**	**133**	**2,476**	**967**	**4,317**	**1,787**

	Net fringe benefits and other earnings						
€ thousand	Executive health insurance	Supplemen-tary pension insurance	Anni-versary bonuses	Other bonuses	Refund of work-related funds	Pay for annual leave	Total
Jože Colarič	27.15	2.90	0.00	1.10	0.06	2.15	33.36
Aleš Rotar	19.27	2.90	0.00	3.12	1.10	2.15	28.54
Vinko Zupančič	16.07	2.90	0.00	4.45	0.89	2.15	26.46
David Bratož	16.96	2.90	0.00	2.68	1.09	2.15	25.78
Milena Kastelic	12.34	2.90	0.00	0.08	1.16	2.15	18.63
Total remuneration paid to Members of the Management Board	**91.79**	**14.50**	**0.00**	**11.43**	**4.30**	**10.75**	**132.77**

Remuneration paid to Management Board members in 2022

	Salary – fixed part			Salary – variable part		Total	
€ thousand	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Neto
Jože Colarič	521	214	19	849	341	1,370	574
Aleš Rotar	390	165	15	549	221	939	401
Vinko Zupančič	311	132	16	457	184	768	332
David Bratož	333	142	16	449	181	782	339
Milena Kastelic	219	94	13	85	35	304	142
Total remuneration paid to Members of the Management Board	**1,774**	**747**	**79**	**2,389**	**962**	**4,163**	**1,788**

€ thousand	Net fringe benefits and other earnings						
	Executive health insurance	Supplemen-tary pension insurance	Anni-versary bonuses	Other bonuses	Refund of work-related funds	Pay for annual leave	Total
Jože Colarič	10.00	2.89	3.18	1.19	0.04	1.92	19.23
Aleš Rotar	5.00	2.89	0.00	3.87	1.02	1.92	14.70
Vinko Zupančič	5.00	2.89	0.00	5.31	0.84	1.92	15.97
David Bratož	5.00	2.89	0.00	5.59	1.03	1.92	16.43
Milena Kastelic	5.00	2.89	1.92	0.06	1.09	1.92	12.88
Total remuneration paid to Members of the Management Board	**30.00**	**14.45**	**5.11**	**16.02**	**4.01**	**9.62**	**79.20**

Other bonuses refer to the use of a company car for private purposes and other similar bonuses. Refund of work-related costs consists of commuting and meal allowances. Members of the Management Board do not receive attendance fees or any other income for exercising their functions in the Management and Supervisory Boards in subsidiaries.

Remuneration paid to Supervisory Board members in 2023

	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
€ thousand	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	34.35	24.99	1.55	1.12	0.00	0.00	35.90	26.11
Luka Cerar*	16.33	11.88	0.72	0.52	0.52	0.38	17.57	12.78
Borut Jamnik**	14.52	10.55	1.70	1.24	0.00	0.00	16.22	11.79
Matej Lahovnik	31.67	23.04	2.78	2.02	0.94	0.68	35.39	25.74
Julijana Kristl	29.88	21.73	2.55	1.85	0.55	0.40	32.98	23.98
Mojca Osolnik Videmšek	31.06	22.60	2.78	2.02	0.35	0.25	34.19	24.87
Boris Žnidarič	34.49	25.08	3.12	2.27	0.49	0.36	38.10	27.71
Members of the Supervisory Board (employee representatives)								
Franc Šašek	31.67	23.03	3.28	2.38	0.00	0.00	34.95	25.41
Tomaž Sever	29.88	21.73	2.55	1.85	0.52	0.38	32.95	23.96
Mateja Vrečer	29.88	21.73	2.55	1.85	0.00	0.00	32.43	23.58
Total remuneration paid to Members of the Supervisory Board	**283.73**	**206.36**	**23.58**	**17.12**	**3.37**	**2.45**	**310.68**	**225.93**

** Member of the Supervisory Board since 7 July 2023*
*** Member of the Supervisory Board until 6 July 2023*

Pursuant to a resolution of the 29th Annual General Meeting of the Company held on 6 July 2023, the members of its Supervisory Board receive attendance fees amounting to €360.00 gross per member for their attendance. The members of the Supervisory Board Committee shall receive an attendance fee for attending a meeting of the Supervisory Board Committee equal to 80% of the attendance fee for attending a meeting of the Supervisory Board. The attendance fee for a correspondence meeting corresponds to 80% of the attendance fee otherwise payable. Notwithstanding the above and irrespective of the number of meetings attended in a financial year, a Supervisory Board member shall be entitled to payment of attendance fees until its total amount reaches 50% of the basic remuneration of the Supervisory Board member for performing his/her duties on an annual basis. Notwithstanding the foregoing and irrespective of the number of attendances at meetings of the Supervisory Board and the committees in each financial year, a Supervisory Board member who is a member of a committee or Supervisory Board committees shall be entitled to payment of attendance fees until its total amount reaches 75% of his/her basic remuneration for the performance of his/her duties as a member of the Supervisory Board on an annual basis.

In addition to the attendance fees, a member of the Supervisory Board receives a basic remuneration for the performance of his/her duties amounting to €21,000.00 gross per year. The President of the Supervisory Board shall also be entitled to a payment of 50% of the basic remuneration for the performance of his/her duties as a member of the Supervisory Board, and the Vice-President or Deputy President of the Supervisory Board shall be entitled to a payment of 10% of the basic remuneration for the performance of his/her duties as a member of the Supervisory Board. Members of the Supervisory Board Committee shall receive an additional payment of 25% of the basic remuneration for their duties as a member of the Supervisory Board. The Chairperson of the Committee shall be entitled to a supplement of 37.5% of the basic remuneration for the performance of his/her duties as a member of the Supervisory Board. Notwithstanding the above and irrespective of the number of committees of which he/she is a member or which he/she chairs in any financial year, a member of an Supervisory Board Committee shall be entitled to additional remuneration for the performance of his/her duties until the total amount of such remuneration reaches 50% of the basic remuneration for performing the duties of a member of the Supervisory Board on an annual basis. If the term of office of a member of the Supervisory Board is less than one financial year, notwithstanding the above and irrespective of the number of committees of which he is a member or which he chairs, a member of a Supervisory Board committee shall be entitled in each financial year to additional remuneration for performing his/her duties until the total amount of such additional remuneration reaches 50% of the basic remuneration for performing his/her duties as an Supervisory Board member in respect of the eligible remuneration for the period of his/her term of office during the financial year.

Supervisory Board members are also entitled to an extra payment for special duties, which involve the performance of unusual duties of above-average complexity over a prolonged period of time, normally lasting at least one month. The Supervisory Board shall be empowered to decide, with the agreement of the Supervisory Board member, on the assignment of special tasks to that member, the duration of the special tasks and the special tasks allowance in accordance with this decision of the Annual General Meeting. The Supervisory Board shall also be empowered to decide on the payment of additional remuneration to Supervisory Board members for special assignments due to objective circumstances in the Company. Additional payments for specific tasks shall be admissible only for the time when the specific tasks are actually carried out. Exceptionally, the Supervisory Board may also decide to do so retrospectively (in particular in case of special duties due to objective circumstances in the Company), but not more than for the previous financial year. The additional remuneration that a member may receive in any one year in respect of special duties may amount to a maximum of 50% of the member's basic remuneration for the performance of his/her duties as a member of the Supervisory Board (irrespective of the number of special duties). In setting the amount of the additional remuneration, account shall be taken of the complexity of the special duties and the increase in workload and responsibility involved. The additional payment shall be calculated on the basis of the time actually spent on the specific task.

The Supervisory Board members shall receive the basic salary, the function allowance and the special duties allowance in pro rata monthly payments to which they are entitled for as long as they hold office and/or perform the special duties. The monthly payment shall be one-twelfth of the above annual amounts. In view of the circumstances, the extra payment for special duties may also be made in a single lump sum when the special duty is completed.

The limitation of the amount of the total amount of the attendance fees and the payment of additional allowances to a member of the Supervisory Board shall in no way affect the member's duty to actively participate in all meetings of the Supervisory Board and of the committees' meetings of which he/she is a member, nor his/her statutory responsibility.

Members of the Supervisory Board are entitled to reimbursement of the travelling and accommodation expenses incurred in connection with their work for the Supervisory Board, up to the amount laid down in the rules governing the reimbursement of expenses relating to work and other income not deductible for tax purposes (provisions applicable to commuting and accommodation on work-related travels). The amount due to the Supervisory Board member under the above provision is increased by the relevant levies so that the net payment corresponds to the reimbursement of actual travel expenses. For the purpose of determining the mileage allowance, account shall be taken of the distances between places published on the AMZS web site. Overnight accommodation expenses may be reimbursed only if the permanent or temporary residence of the Supervisory Board member or Supervisory Board Committee member is at least 100 kilometres from the place of work, if he/she was unable to return because no public transport was scheduled to run, or for other objective reasons.

In 2022 and 2023, members of the Management Board and the Supervisory Board, the employee representatives, did not receive any loans from the Company.

Loans to staff employed under individual employment contracts amounted to €143 thousand at 31 December 2023 (2022: €152 thousand). In the reporting period, repayments of loans by staff employed under individual employment contracts reached €58 thousand (2022: €27 thousand). The loans to the above-mentioned persons were earmarked for housing purposes.

32. Situation in Ukraine and the Russian Federation

We conduct our business activities in Ukraine and the Russian Federation, which are part of the Eastern Europe sales region, through three subsidiaries and controlling company Krka, d. d., Novo mesto.

Krka's subsidiary in Ukraine is only involved in marketing. It does not carry out distribution and production activities and therefore had no receivables from customers outside the Group, but had other assets of €1,383 thousand (2022: €1,658 thousand), the largest item whereof are property, plant and equipment (office premises and vehicles). Krka has no significant exposure to credit risk (Note 30 – *Credit risk*) and no exposure to foreign exchange risk (Note 30 – *Foreign exchange risk*). At the end of 2023, the number of employees in the Ukrainian subsidiary was 382, and at the end of 2022 it was 367. Ukraine is one of Krka's important markets (Note 3 – *Revenue from contracts with customers*).

We have two subsidiaries in the Russian Federation. KRKA-RUS LLC is engaged in the manufacture of pharmaceuticals. It produces the vast majority of all the products we sell on the Russian market. Production there runs smoothly. KRKA FARMA LLC is engaged in marketing and sales activities. The largest increases compared to the previous year are in inventories and trade receivables outside the Group. As at 31 December 2023, the number of employees in the Russian Federation subsidiaries was 1,859 compared to 1,925 at the end of 2022. The exposure to foreign exchange rate risk is disclosed in Note 30 – *Foreign exchange risk*). The Russian Federation is Krka's largest single market (Note 3 – *Revenue from contracts with customers*).

Krka's investment in the subsidiary in Ukraine amounted as at 31 December 2023 to €9.1 thousand and the investment in the subsidiary in the Russian Federation totalled to €134,086 thousand. Krka did not increase its investments in its subsidiaries in Ukraine and the Russian Federation in 2023. Due to the situation in these countries and consequently higher level of uncertainty in these markets, the weighted average cost of capital (discount rate) remains at a higher level. Management considers this to be an indicator of potential impairment. Following an impairment test, it was concluded that no impairment was necessary (Note 12 – *Investments in subsidiaries*).

As at 31 December 2023, the Company recorded €3,075 thousand of receivables due from customers and subsidiaries in Ukraine (2022: €162 thousand), whereof €39 thousand due from the subsidiary (2022: €30 thousand) and €3,037 thousand due from customers outside the Krka Group (2022: €132 thousand). As for the Russian Federation, the Company recorded €164,870 thousand of receivables due from customers and subsidiaries (2022: €143,005 thousand), whereof €164,870 thousand to subsidiaries (2022: €142,674 thousand) and €0 due from customers outside the Krka Group (2022: €331 thousand) (Note 30 – *Credit risk*). The exposure to exchange rate risk is outlined in Note 30 – *Foreign exchange rate risk*.

In 2023, all payments between the subsidiaries in the Russian Federation and the controlling company were made without specificity.

33. Educational structure of employees

	2023		2022	
	Average headcount	**Share** (%)	**Average headcount**	**Share** (%)
PhD	173	2.7	170	2.7
MSc	269	4.2	264	4.2
University education	2,128	33.2	2,015	32.2
Higher professional education	915	14.3	871	13.9
Vocational college education	255	4.0	263	4.2
Secondary school education	1,926	30.0	1,900	30.4
Skilled workers	685	10.7	697	11.2
Unskilled workers	60	0.9	74	1.2
Total (average for the year)	**6,411**	**100.0**	**6,254**	**100.0**

34. Transactions with the audit firm

€ thousand	2023	2022
Contract value of auditing the annual consolidated and separate financial statements performed by the audit firm KPMG Slovenija, d. o. o.	128	118
Contract value of auditing the subsidiaries' reporting for the purpose of preparing the consolidated financial statements, performed by companies within the KPMG network	93	80
Contract value of auditing the subsidiaries' local financial statements, performed by companies within the KPMG network	45	43
Total contract value of audit services	**266**	**241**
Contract value of non-audit services rendered by the audit firm KPMG Slovenija, d. o. o.	12	9
Total contract value of services	**278**	**250**

35. Repurchase of treasury shares

Repurchase of Krka treasury shares in 2022 by date

Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)
27 Jan 2023	637	99.09	63	10 Mar 2023	307	104.84	32	25 Jul 2023	996	111.68	111
30 Jan 2023	688	99.21	68	13 Mar 2023	441	105.43	46	26 Jul 2023	792	111.43	88
31 Jan 2023	436	100.51	44	14 Mar 2023	842	105.17	89	27 Jul 2023	972	112.29	109
2 Feb 2023	716	106.01	76	15 Mar 2023	500	104.67	52	16 Aug 2023	1,302	108.80	142
3 Feb 2023	500	106.17	53	16 Mar 2023	873	104.76	91	17 Aug 2023	1,299	104.69	136
6 Feb 2023	593	106.43	63	17 Mar 2023	877	105.78	93	18 Aug 2023	1,348	106.99	144
7 Feb 2023	837	103.11	86	20 Mar 2023	857	104.87	90	21 Aug 2023	1,389	105.17	146
9 Feb 2023	291	105.17	31	21 Mar 2023	575	105.66	61	22 Aug 2023	1,199	104.17	125
10 Feb 2023	862	106.30	92	22 Mar 2023	950	107.23	102	23 Aug 2023	1,421	101.96	145
13 Feb 2023	933	106.43	99	23 Mar 2023	600	105.26	63	24 Aug 2023	1,472	100.63	148
14 Feb 2023	790	107.09	85	24 Mar 2023	810	106.17	86	25 Aug 2023	946	104.05	98
15 Feb 2023	957	106.84	102	27 Mar 2023	1,024	105.41	108	28 Aug 2023	1,615	104.60	169
16 Feb 2023	969	106.17	103	28 Mar 2023	500	105.97	53	29 Aug 2023	1,645	104.29	172
17 Feb 2023	574	107.13	61	29 Mar 2023	1,010	107.05	108	30 Aug 2023	1,100	104.08	114
20 Feb 2023	993	106.75	106	30 Mar 2023	722	106.74	77	31 Aug 2023	1,655	104.09	172
21 Feb 2023	865	106.49	92	31 Mar 2023	506	108.24	55	1 Sep 2023	1,696	104.05	176
22 Feb 2023	843	106.17	90	3 Apr 2023	1,048	107.42	113	4 Sep 2023	1,160	103.99	121
23 Feb 2023	510	107.17	55	4 Apr 2023	1,082	107.17	116	5 Sep 2023	1,761	103.67	183
24 Feb 2023	1,022	106.50	109	5 Apr 2023	1,010	108.37	109	6 Sep 2023	1,829	104.67	191
27 Feb 2023	821	105.79	87	6 Apr 2023	1,008	109.05	110	7 Sep 2023	801	108.33	87
28 Feb 2023	983	106.04	104	11 Apr 2023	1,091	110.23	120	8 Sep 2023	984	109.71	108
1 Mar 2023	950	106.55	101	12 Apr 2023	631	114.05	72	11 Sep 2023	890	110.19	98
2 Mar 2023	500	106.67	53	13 Apr 2023	1,181	110.82	131	12 Sep 2023	795	109.18	87
3 Mar 2023	470	107.19	50	14 Apr 2023	1,179	111.18	131	13 Sep 2023	1,700	106.98	182
6 Mar 2023	873	107.48	94	17 Apr 2023	500	111.48	56	14 Sep 2023	1,677	105.55	177
7 Mar 2023	800	106.11	85	20 Jul 2023	817	113.85	93	15 Sep 2023	1,096	105.43	116
8 Mar 2023	831	105.04	87	21 Jul 2023	869	113.07	98	18 Sep 2023	1,566	106.16	166
9 Mar 2023	911	105.28	96	24 Jul 2023	928	112.30	104	19 Sep 2023	689	105.67	73

Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)
20 Sep 2023	765	107.17	82	23 Oct 2023	406	107.25	44	24 Nov 2023	1,109	106.05	118
21 Sep 2023	180	107.21	19	24 Oct 2023	686	108.18	74	27 Nov 2023	924	106.63	99
22 Sep 2023	1,111	107.29	119	25 Oct 2023	685	107.88	74	28 Nov 2023	1,142	107.35	123
25 Sep 2023	400	108.80	44	26 Oct 2023	705	106.80	75	29 Nov 2023	1,134	108.50	123
26 Sep 2023	42	108.00	5	27 Oct 2023	834	106.00	88	30 Nov 2023	850	107.17	91
27 Sep 2023	257	108.54	28	2 Nov 2023	875	105.67	92	1 Dec 2023	1,182	107.46	127
28 Sep 2023	717	109.61	79	3 Nov 2023	955	107.21	102	4 Dec 2023	893	107.84	96
29 Sep 2023	50	108.18	5	6 Nov 2023	800	108.05	86	5 Dec 2023	1,211	108.01	131
2 Oct 2023	610	109.01	66	7 Nov 2023	700	108.17	76	6 Dec 2023	101	108.17	11
3 Oct 2023	683	108.69	74	8 Nov 2023	887	107.92	96	7 Dec 2023	1,270	109.30	139
4 Oct 2023	708	107.39	76	9 Nov 2023	440	109.35	48	8 Dec 2023	1,034	109.35	113
5 Oct 2023	665	107.34	71	10 Nov 2023	888	108.17	96	11 Dec 2023	1,310	108.67	142
6 Oct 2023	636	106.90	68	13 Nov 2023	897	109.40	98	12 Dec 2023	1,351	108.93	147
9 Oct 2023	651	106.44	69	14 Nov 2023	545	109.22	60	13 Dec 2023	1,140	108.83	124
10 Oct 2023	657	106.55	70	15 Nov 2023	884	108.17	96	14 Dec 2023	1,254	109.99	138
11 Oct 2023	663	106.67	71	16 Nov 2023	677	106.79	72	15 Dec 2023	1,261	109.55	138
12 Oct 2023	646	106.36	69	17 Nov 2023	590	107.84	64	18 Dec 2023	495	108.68	54
13 Oct 2023	647	106.44	69	20 Nov 2023	917	107.17	98	19 Dec 2023	1,234	108.67	134
16 Oct 2023	520	107.29	56	21 Nov 2023	896	107.38	96	20 Dec 2023	927	109.18	101
17 Oct 2023	616	107.38	66	22 Nov 2023	965	106.94	103	21 Dec 2023	800	109.30	87
18 Oct 2023	490	107.68	53	23 Nov 2023	1,012	105.95	107	22 Dec 2023	1,135	109.90	125
19 Oct 2023	714	108.90	78								
								Total purchases in 2023	**130,117**	**107.00**	**13,923**

The average share price includes also the commission paid.

36. Events after the reporting date

The 2023 financial statements were not impacted by the events after the end of the period.

Establishment of a joint venture in India

On 25 January 2024, Krka notified investors that it had reached an agreement with Indian company Laurus Labs Ltd. to establish a joint venture, Krka Pharma Pvt. Ltd., in Hyderabad, India. Under the agreement, Krka holds a 51% stake and Laurus a 49% stake in the new company.

Krka and Laurus have been contractual partners for years, with their respective businesses complementing one another. After discussing opportunities to strengthen their cooperation and leveraging synergies by combining know-how and resources, the two partners agreed to establish and develop the new company gradually. The joint venture will devise a strategy to penetrate the Indian market and other markets beyond the European Union, where neither party currently offers its finished products.

The newly established company's registered capital amounts to €50 million in Indian rupees. Depending on financing needs, Krka and Laurus agreed to subscribe to the registered capital in stages. The joint venture will develop its business activities step by step.

Repurchase of treasury shares

Krka repurchased 44,992 treasury shares between 1 January 2024 and 18 March 2024, and thus held 1,960,958 treasury shares at the end of this period, accounting for 5.98% of total shares.

Independent auditor's report

KPMG

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Independent Auditors' Report

To the shareholders of KRKA, tovarna zdravil, d.d., Novo mesto

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of KRKA, tovarna zdravil, d.d., Novo mesto (the »Company«), which comprise:

- the separate statement of financial position as at 31 December 2023;

and, for the period from 1 January to 31 December 2023;

- the separate statement of profit or loss;
- the separate statement of other comprehensive income;
- the separate statement of changes in equity;
- the separate statement of cash flows;

and

- notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2023, 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 (»IFRS EU«).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (OJ L 158, 27 May 2014, p. 77-112 - EU Regulation EU No 537/2014). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The Independent Auditor's Report is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556000

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Key Audit Matters

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

We have determined the following key audit matters:

Impairment testing of investments in subsidiaries operating in the Russian Federation

The carrying amount of the investment in Krka-Rus is EUR 118,916 thousand (2022: EUR 118,916 thousand) and the carrying amount of the investment in Krka Farma is EUR 15,170 thousand (2022: EUR 15,170 thousand).

We refer to the separate financial statements: Note 12 – Investments in subsidiaries (disclosures); Note 32 – Situation in Ukraine and the Russian Federation (disclosures).

Key audit matter	Our response
The Company holds investments in the subsidiaries which operate in the Russian Federation. In the separate financial statements, the investments are carried at cost less impairment losses, if any. As at each reporting date, management assesses whether indicators of impairment exist. The Russian-Ukrainian war has increased uncertainty, resulting in a substantial increase in the weighted-average cost of capital (discount rate) which was identified as impairment indicator by management. If impairment indicators are identified, management estimates the investments' recoverable amounts, by reference to the discounted cash flows methods for relevant cash generating units. The determination of the recoverable amount involves significant management judgement and estimates, in particular, in respect of the assumptions such as future sales, operating costs, terminal value growth rates and the weighted-average cost of capital (discount rate). In the wake of the above, we considered impairment of the investments in subsidiaries operating in the Russian Federation to be a key audit matter.	Our audit procedures in this area included, among others: • involving our own valuation specialist to assist us in evaluating the appropriateness of the discount rates applied, which included comparing the weighted-average cost of capital with sector averages for the relevant markets in which the subsidiaries operate; • evaluating the appropriateness of the assumptions applied to key inputs such as sales, operating costs, and long-term growth rates, which included comparing these inputs with historical data, where possible with externally derived data as well as our own assessments based on our knowledge of the entities and the industry; and • evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.

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Revenue recognition	
The carrying amount of revenue for the year ended 31 December 2023: EUR 1,674,572 thousand (31 December 2022: EUR 1,553,514 thousand). *We refer to the separate financial statements: Note 3 – Revenue from contracts with customers (disclosures); Note 25 – Current contract liabilities (disclosures).*	
Key audit matter	**Our response**
Revenue is recognised at the point in time when control of the asset is transferred to the customer. Revenue is measured taking account of discounts and rebates. Due to the multitude of contractual terms, calculation of discounts and rebates is considered to be complex. Revenue is one of the key performance indicators for the Company, which could create an incentive for revenue to be recognised before the point in time when control of the assets is transferred to the customer or at the amount that is not measured in accordance with contractual terms. In the wake of the above we considered revenue recognition to be a key audit matter.	Our audit procedures in this area included, among others: • testing the design and implementation of Company's controls over recognition of revenue including controls over discounts and rebates; • selecting and testing a sample of sale transactions throughout the period with particular focus on sale transactions close to the turn of the year to assess whether revenue was allocated to appropriate period and measured in accordance with the contractual terms by reference to underlying source documentation supporting revenue recognition and/or completeness of discounts and rebates; • inspecting a sample of credit notes issued after the year end to assess completeness of rebates; and • evaluating the adequacy of the financial statement disclosures.

Other Information

Management is responsible for the other information. The other information comprises the »Introduction«, the »Report of Supervisory Board«, the »Business Report« and the »Sustainable development« included in the Annual Report but does not include the separate financial statements and our auditor's report thereon. Other information was obtained prior to the date of this auditors' report, except for the Report of the Supervisory Board, which will be available after that date.

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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In addition, with respect to the Business Report, we are required to report on its consistency with the separate financial statements and on whether the Business Report includes the disclosures required by the Companies Act dated 4 May 2006 (Official Gazette of Republic of Slovenia no. 42/2006 with amendments - hereafter referred to as »the applicable legal requirements«). Based solely on the work required to be undertaken in the course of the audit of the separate financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the separate financial statements are prepared is consistent, in all material respects, with the separate financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

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

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

In preparing the separate 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.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 ISAs and EU Regulation (EU) No 537/2014 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 separate financial statements.

As part of an audit in accordance with ISAs and EU Regulation (EU) No 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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- 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 separate 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 separate 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 the shareholders of company KRKA, tovarna zdravil, d.d., Novo mesto on the shareholders meeting dated 7 July 2022 to audit the separate financial statements of the Company for the year ended 31 December 2023. Our total uninterrupted period of engagement is 2 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 25 March 2024;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the Company in conducting the audit.

For the period to which our statutory audit relates, we and other KPMG network firms have not provided any other services to the Company and its controlled related entities which are not disclosed in the Business Report or in the separate financial statements.

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Independent Auditor's Report on the Compliance of the Electronic Financial Statements with the Delegated Regulation 2019/815 on a Single Electronic Reporting Format

We have conducted an engagement to provide reasonable assurance as to whether the audited separate financial statements of the Company, for the financial year ended 31 December 2023 (»Audited Separate Financial Statements«) have been prepared in accordance with requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 on supplementing the Directive 2004/109/EC of the European Parliament and the Council with regard to regulatory technical standards for establishing a single electronic reporting format applicable for the year 2023 (»Delegated Regulation«).

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and presentation of the Audited Separate Financial Statements in accordance with the Delegated Regulation, and for such internal control as management determines is necessary to enable the preparation of the Audited Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the preparation of the Audited Separated Financial Statements in compliance with requirements of the Delegated Regulation.

Auditor's Responsibilities

Our responsibility is to express an opinion on whether the Audited Separate Financial Statements are prepared in accordance with requirements of the Delegated Regulation. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform the engagement to obtain reasonable assurance on whether the opinion is appropriate. We have acted in accordance with the independence and ethical requirements of the EU Regulation 537/2014 and the International Code of Ethics for Accounting Professionals issued by the International Ethics Standards Board for Accounting Professionals. The Code is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional conduct.

The firm applies International Standard on Quality Management 1 which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of Work Performed

Within the scope of our work, we performed the following audit procedures:

- identified and assessed the risks of material non-compliance of the Audited Separate Financial Statements with the requirements of the Delegated Regulation, whether due to error or fraud;
- obtained an understanding of internal control relevant to the engagement in order to provide reasonable assurance for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- assessed whether the Audited Separate Financial Statements are prepared in a correct XHTML format.

We believe that the evidence obtained provides a sufficient and appropriate basis for our opinion.

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Opinion

Based on the procedures performed and the evidence obtained, the Audited Separate Financial Statements of the Company for the financial year ended 31 December 2023 are in our opinion prepared, in all material respects, in accordance with the requirements of the Delegated Regulation.

On behalf of audit firm

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Matej Ušaj
Certified Auditor

Domagoj Vuković
Certified Auditor
Partner

KPMG Slovenija, d.o.o.
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Ljubljana, 25 March 2024

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SIGNING OF THE 2023 ANNUAL REPORT AND ITS CONSTITUENT PARTS

President and members of Krka's Management Board are aware of the content of the integral parts of the 2023 Annual Report of Krka and the Krka Group, and hence the 2023 Annual Report in its entirety. We hereby acknowledge the Report by our signatures.

Jože Colarič
President of the Management Board and CEO

dr. Aleš Rotar
Member of the Management Board

dr. Vinko Zupančič
Member of the Management Board

David Bratož
Member of the Management Board

Milena Kastelic
Member of the Management Board – Worker Director