



Business Resilience and Agility in Focus

At the end of the financial year, the Krka Group reported higher revenue and operating profit than a year ago.

Pages 1–9

Statement by the President of the Management Board

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Financial Statements

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**2020
Annual
Report**

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Krka share on the Ljubljana Stock Exchange


- The most frequently traded share
- A prime market share
- Best Investor Relations award from the Ljubljana Stock Exchange

Why invest in Krka share?

- The vertically integrated business model
- A wide variety of innovative generic pharmaceuticals
- High-quality, effective and safe APIs and products
- Clinical trials and over 170 products in development
- More than 700 experts working on product development
- An extensive marketing-and-sales network
- The strategic objective: a 5% average annual increase in sales value or sales volume
- The robust cash flow from operating activities
- The stable dividend policy, > 50% of profit allocated to dividends
- High dividend yield: > 5%

A Successful Year: Increasing Revenue and Profit

The Krka Group's profitability and the best business results to date stemmed from rising sales thanks to an extended product portfolio and efficient business processes mirrored by most important long-term indicator trends and strategy results.

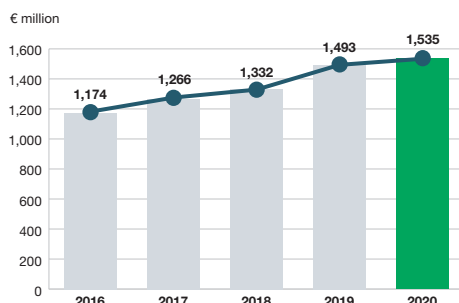
Revenue: 
€1,534.9 million,
+3%

Sales volume increase: 
+7%

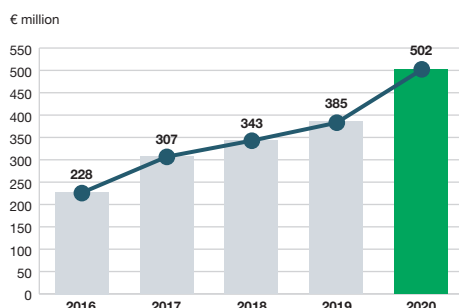
Uninterrupted business and market supplies

Long-Term Business Stability

Average annual revenue growth in the five-year period: **Up 5.7%**



Average annual EBITDA growth in the five-year period: **Up 10.4%**



EBIT growth in the past five years: **Up 96%**



Net profit: 
€288.9 million: +18%

EBITDA: +30% 

EBIT: +43% 

Net profit margin (ROS): 18.8% 

Increasing business process efficiency 

Decrease in operating expenses 

This version of the report has been prepared in line with the *Market Abuse Regulation* and is unofficial. 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 version of the report is in the European Single Electronic Format (ESEF) and published via SEOnet, the official electronic dissemination information system of the Ljubljana Stock Exchange.

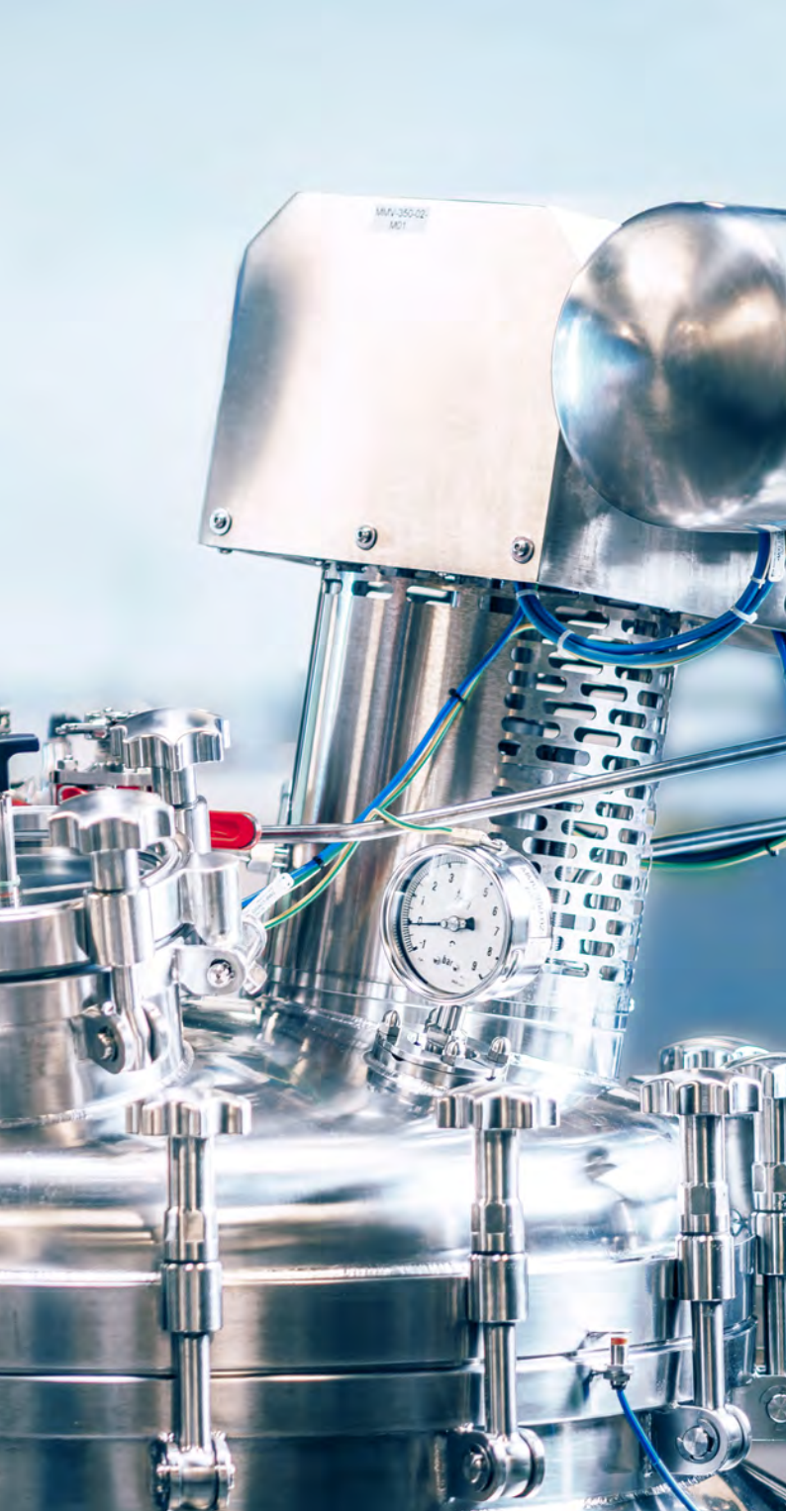


Business Resilience and Agility in Focus

In 2020, our business operations and supplies of medicines were uninterrupted.

Krka's operations did not significantly change during the COVID-19 pandemic. We adjusted to the new situation without stopping, our business ran uninterruptedly, and we successfully supplied medicines to more than 70 markets. We are developing flexibility as our competitive advantage, which is directly linked to our organisational culture that incorporates speed.

The Krka Group is not unaccustomed to rapid changes in business conditions on individual markets, but this time the situation took on a global dimension. We know that uninterrupted operations in all circumstances are key to long-term success in the pharmaceutical industry. That is why we pursue, maintain and consolidate the vertically integrated business model. It reduces risks related to the supply chain, development, and business operations, and ensures excellence at all stages of our business helping us create and manage value. We apply vertical integration to the production of more than 70% of products from our portfolio.



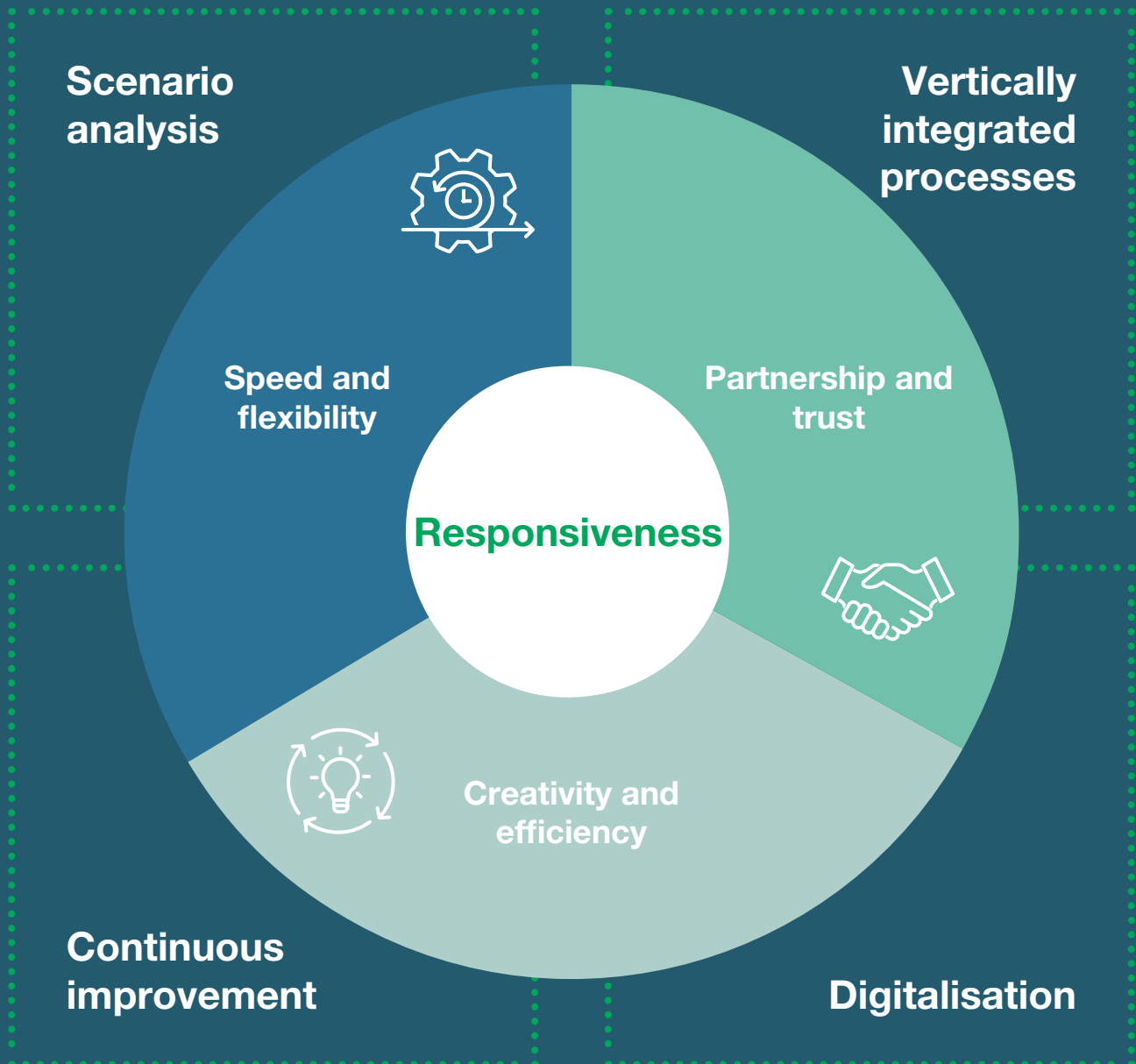
The resilience of our business model is multi-faceted, making it flexible too.

Our vertically integrated business model is pivotal to versatile resilience and flexibility. Krka controls all key business processes: the development, production, well-developed supply chain, quality management, distribution, marketing, and sales. This allows for external issues to be resolved in-house in a quick and orchestrated manner.

Flexibility is integral to all planning and management stages of business processes



Agility



Resilience

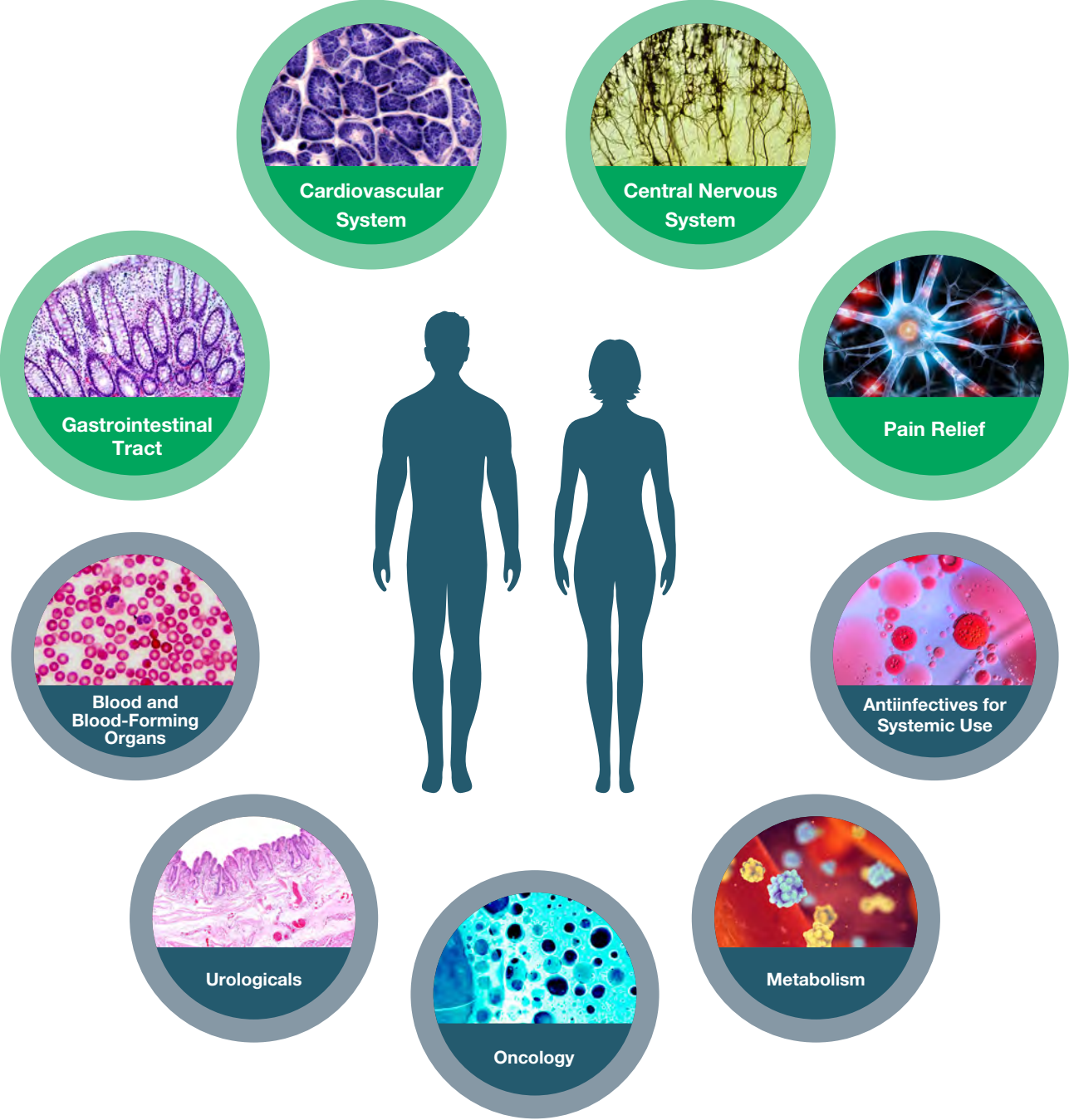
The organisational culture and implementation of business principles help us achieve the flexibility and resilience necessary for quick adaptation.

In-House Development of Quality APIs and Finished Products

More than 700 experts work on research and development, the core of our business. Our innovative generic medicines are of equal therapeutic value as the originators’.

They are developed in-house using advanced and innovative approaches and technological solutions. Our products comply with the strictest quality, safety, and efficacy standards. They are available at affordable prices.

Key therapeutic areas



- Key therapeutic categories
- Other significant therapeutic categories



We employ in-house methods to develop our products and control the quality of raw materials and finished products during manufacturing processes.

At the end of 2020, we were developing more than 170 products. During the year, we received MAs for 20 new products and completed more than 200 registration procedures. One of them was our first-ever marketing authorisation in China for our antiepileptic, pregabalin hard capsules.

Please see section [Research and Development](#) for details. →

We pursue high-end quality starting with the raw material through to the finished product throughout the production process of each individual batch that can comprise several million tablets or capsules. Quality, safety, and efficacy of our products that behave

predictably in the patient's body are guaranteed by the in-house chemical and pharmaceutical development and preclinical, pharmacokinetic and clinical studies. We use state-of-the-art instruments and techniques to analyse physical and chemical properties of APIs and products, and develop specific research methods applied in API and product development and quality control in the industrial scale. By continuously upgrading top-notch analytical instruments and analytical methods, we ensure detection and absence of critical impurities in products and suitable bioavailability of a medicine throughout its shelf life.



We placed on new markets our single-pill combination containing patent-independent active ingredients for the treatment of high blood pressure. It is available in five different doses to accommodate patients' individual needs. With the patient required to take just a single pill containing amlodipine, valsartan and hydrochlorothiazide, patient compliance improves and so does therapy management.

The **multi-stage chemical synthesis** is also the result of our in-house development. In 2020, we produced 620 tonnes of high-quality patent-independent APIs, for example valsartan, perindopril, atorvastatin, rosuvastatin, losartan, esomeprazole, and incorporated them in our finished products. We control manufacturing and distribution process excellence based on our own process data.

We develop and manufacture single-pill combinations, i.e. fixed-dose combinations of two or three active ingredients in a single tablet or capsule, in integrated in-house developing and manufacturing processes. Namely, they enable the experts involved in the development of medicines to overcome the development challenges (for example, the compatibility of the ingredients) and to ensure the appropriate speed and volume of release of each of the incorporated active ingredients. Combination medicines are a very important platform for developing many new products.

In 2020, we obtained the marketing authorisations for our antidiabetic agent Maymetsi, our first fixed-dose combination of sitagliptin and metformin.

We obtained marketing authorisations for our new cardiovascular single-pill combination, Olsitri (olmesartan/amlodipine/hydrochlorothiazide). We obtained approval on new markets for a single-pill triple combination Valtricom (valsartan/amlodipine/hydrochlorothiazide). We remained the only European manufacturer of a single-pill combination of perindopril, indapamide, and rosuvastatin, Roxiper, for the treatment of concomitant high blood pressure and cholesterol levels.

Please see section 'New Products and Marketing Authorisations of the Krka Group' for details. →



The Power of Technology and 50 Years of Digitalisation

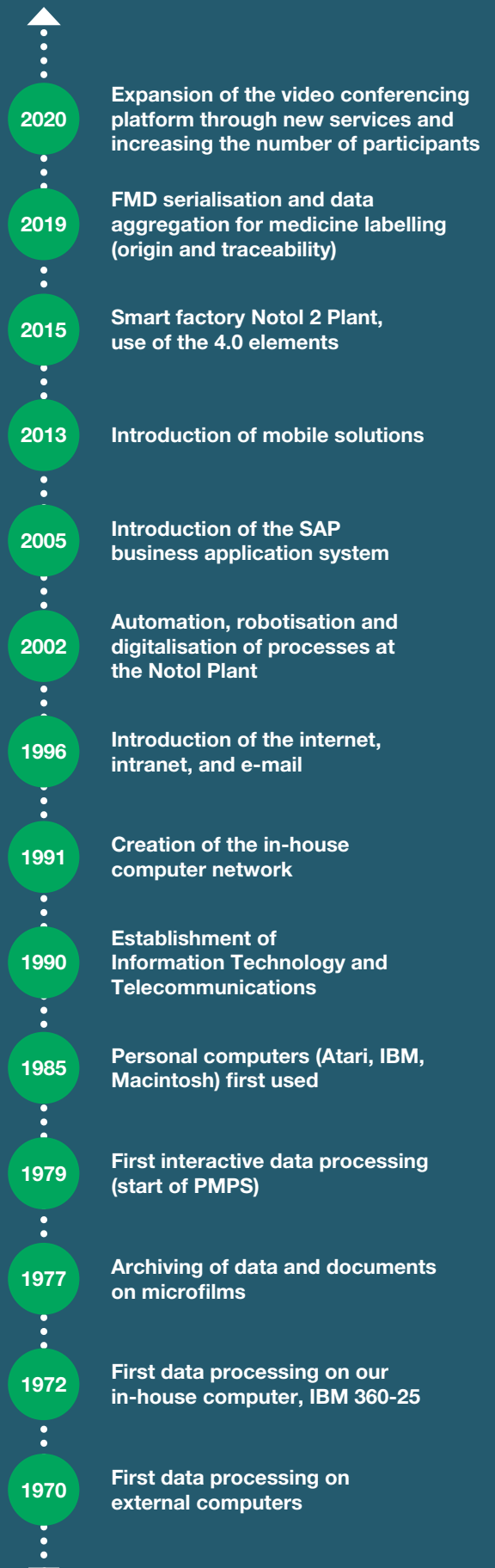
Digitalisation of operations allows us to seamlessly move from one business opportunity to the next. It is implemented across all our research-and-development laboratories, production plants, logistic processes, human resource processes, sales, marketing, and other activities.

State-of-the-art information technologies ensure maximum uptime of IT systems and services, information security, process optimisation, and a high level of quality. They support the supply chain and business intelligence and provide added value for our customers. This allowed us to operate without any interruptions during the COVID-19 pandemic.

In 2020, business operations ran smoothly during the pandemic in no small part thanks to sophisticated communication solutions that facilitated our marketing activities. We held virtual business meetings to keep our working processes safe and uninterrupted, and used digital tools to maintain other contacts. Attendance at online investment conferences and webcasts to present our quarterly reports allowed us to up our presence at investor and financial analyst events by more than 50 percent and to brief them about Krka and our business operations.

New tools increased our efficiency and agility, helped us to optimise our business processes, and prepare us for the post-COVID-19 landscape.

Five decades of digitalisation processes





Responsible Pharmaceutical and Chemical Industries

We comply with the principles of the responsible pharmaceutical and chemical industries that restrict or eliminate the use or generation of hazardous substances throughout the product life cycle, increase the efficiency of energy and raw material consumption, and reduce potentials for industrial accidents. We comply with the *EU Chemicals Strategy* adopted in 2020 by the European Commission.

We renewed our international certificate committing the chemical industry to sustainable development, the *Responsible Care Programme*, as we endeavour to improve performance in healthcare, environment, safety, and transparent reporting.

Krka in Global Markets

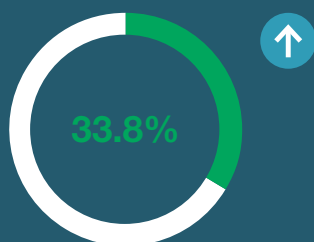
Krka's medicinal products are trusted in more than 70 countries

- Albania
- Armenia
- Austria
- Azerbaijan
- Belarus
- Belgium
- Bosnia and Herzegovina
- Bulgaria
- China
- Croatia
- Czech Republic
- Estonia
- Finland
- France
- Georgia
- Germany
- Hungary
- India
- Ireland
- Italy
- Kazakhstan
- Kyrgyzstan
- Kosovo
- Latvia
- Lithuania
- Moldova
- Mongolia
- Montenegro
- Poland
- Portugal
- Romania
- Russian Federation
- Republic of North Macedonia
- Slovakia
- Slovenia
- Serbia
- Spain
- Sweden
- Turkmenistan
- Ukraine
- United Kingdom
- United States
- Uzbekistan

Regions by size and sales volume

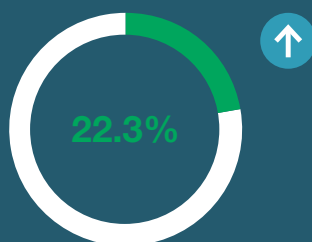
Region East Europe

€517.2 million +7%



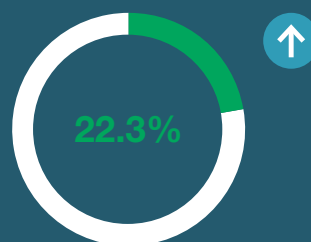
Region Central Europe

€341.5 million +1%



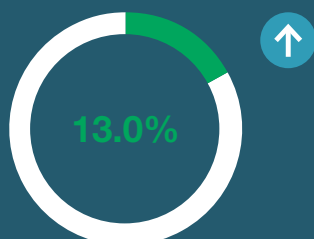
Region West Europe

€341.1 million +1%



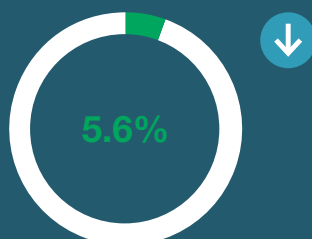
Region South-East Europe

€199.4 million +4%



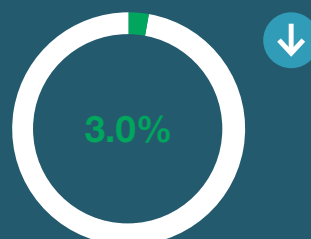
Region Slovenia

€85.1 million -8%



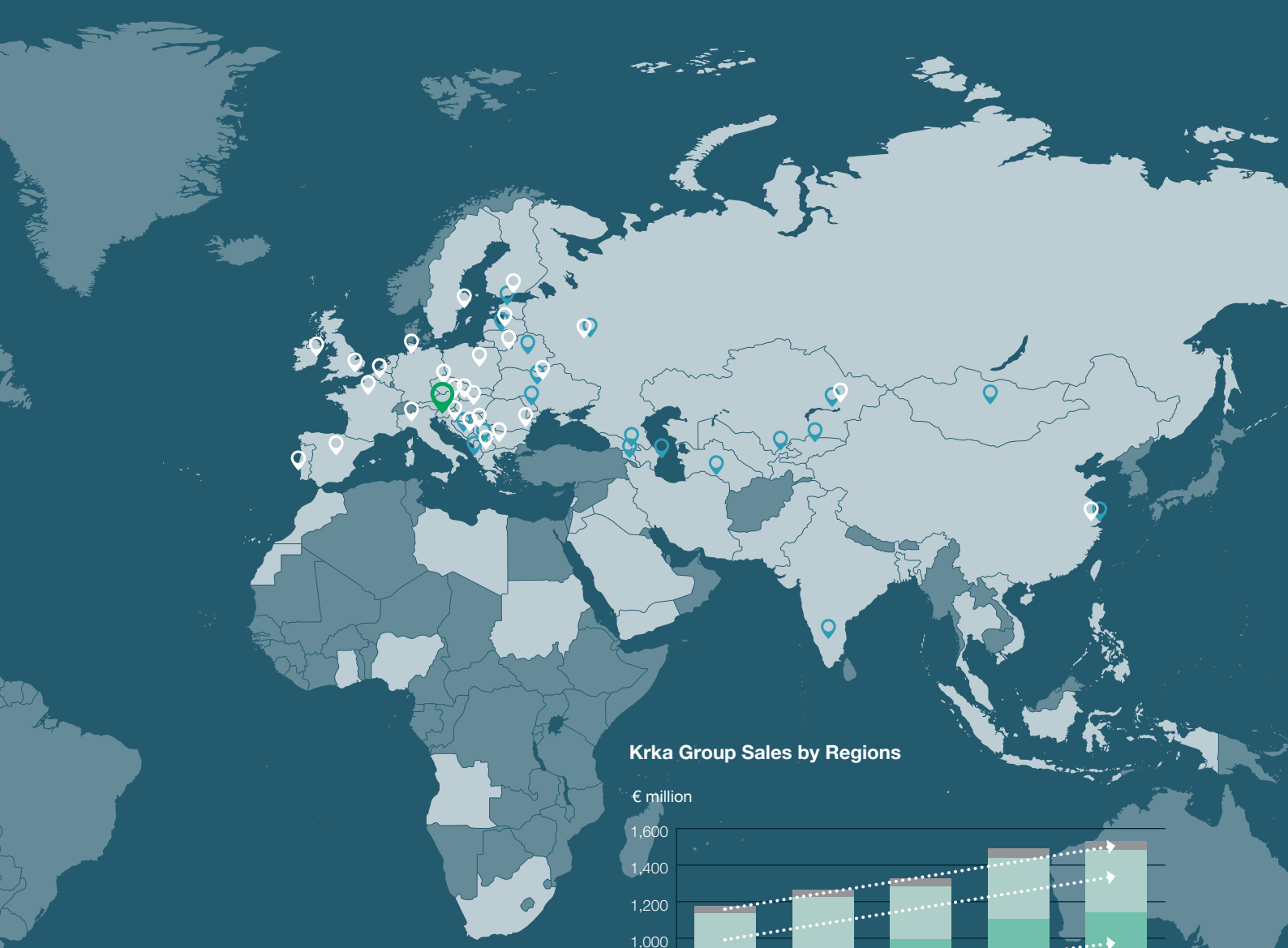
Region Overseas Markets

€45.7 million -6%

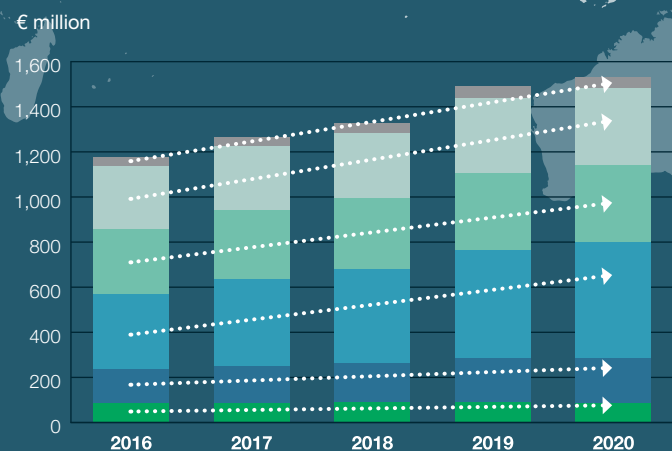


Total Value of Product and Service Sales in 2020

€1,530 million +3%



Krka Group Sales by Regions



Controlling company

Subsidiary

Representative office

You can find the addresses of Krka subsidiaries and representative offices and other contact data at <http://www.krka.biz/en/about-krka/krka-business-network/>.

Region Slovenia
 Region South-East Europe
 Region East Europe
 Region Central Europe
 Region West Europe
 Region Overseas Markets

Financial Highlights of the Krka Group

€ thousand	2020	2019	2018	2017	2016
Revenue	1,534,941	1,493,409	1,331,858	1,266,392	1,174,424
– Of that revenue from contracts with customers (products and services) ¹	1,529,959	1,489,080	1,326,747	1,260,898	–
Operating profit (EBIT) ²	390,744	274,195	232,686	198,741	122,435
Earnings before interest, tax, depreciation and amortisation (EBITDA) ³	502,432	385,437	343,280	306,638	228,238
Net profit	288,949	244,272	174,008	152,576	108,456
Non-current assets (year-end)	990,998	1,041,833	1,010,811	1,033,008	1,038,067
Current assets (year-end)	1,244,544	1,142,785	974,258	886,123	873,451
Equity (year-end)	1,751,812	1,667,516	1,540,270	1,487,699	1,444,444
Non-current liabilities (year-end)	172,796	160,905	123,058	121,182	115,313
Current liabilities (year-end)	310,934	356,197	321,741	310,250	351,761
R&D expenses	153,447	152,421	130,700	125,864	117,994
Investments	76,613	112,568	96,293	105,088	131,817
RATIOS	2020	2019	2018	2017	2016
EBIT margin	25.5%	18.4%	17.5%	15.7%	10.4%
EBITDA margin	32.7%	25.8%	25.8%	24.2%	19.4%
Net profit margin (ROS)	18.8%	16.4%	13.1%	12.0%	9.2%
Return on equity (ROE) ⁴	16.9%	15.2%	11.5%	10.4%	7.6%
Return on assets (ROA) ⁵	13.1%	11.7%	8.9%	8.0%	5.8%
Liabilities/Equity	0.276	0.310	0.289	0.290	0.323
R&D expenses/Revenue	10.0%	10.2%	9.8%	9.9%	10.0%
NUMBER OF EMPLOYEES	2020	2019	2018	2017	2016
Year-end	11,677	11,696	11,390	10,832	10,889
Average	11,631	11,484	11,129	10,823	10,774
SHARE INFORMATION	2020	2019	2018	2017	2016
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 € ⁶	9.27	7.73	5.46	4.74	3.35
Gross dividend per share in €	4.25	3.20	2.90	2.75	2.65
Closing price on LJSE at the end of the period in €	91.40	73.20	57.80	57.50	52.90
Price/Earnings ratio (P/E)	9.86	9.47	10.59	12.14	15.81
Book value in € ⁷	53.42	50.85	46.97	45.37	44.05
Price/Book value (P/B)	1.71	1.44	1.23	1.27	1.20
Market capitalisation in € thousand (31 Dec)	2,997,321	2,400,480	1,895,461	1,885,623	1,734,773

¹ 2020, 2019, and 2018 revenue complies with IFRS 15. 2017 revenue from customer contracts for the sale of products and services has been presented adequately.

² The difference between operating income and expenses

³ The difference between operating income and expense increased by accumulated depreciation and amortisation

⁴ Net profit/Average shareholders' equity in the year

⁵ Net profit/Average total asset balance in the year

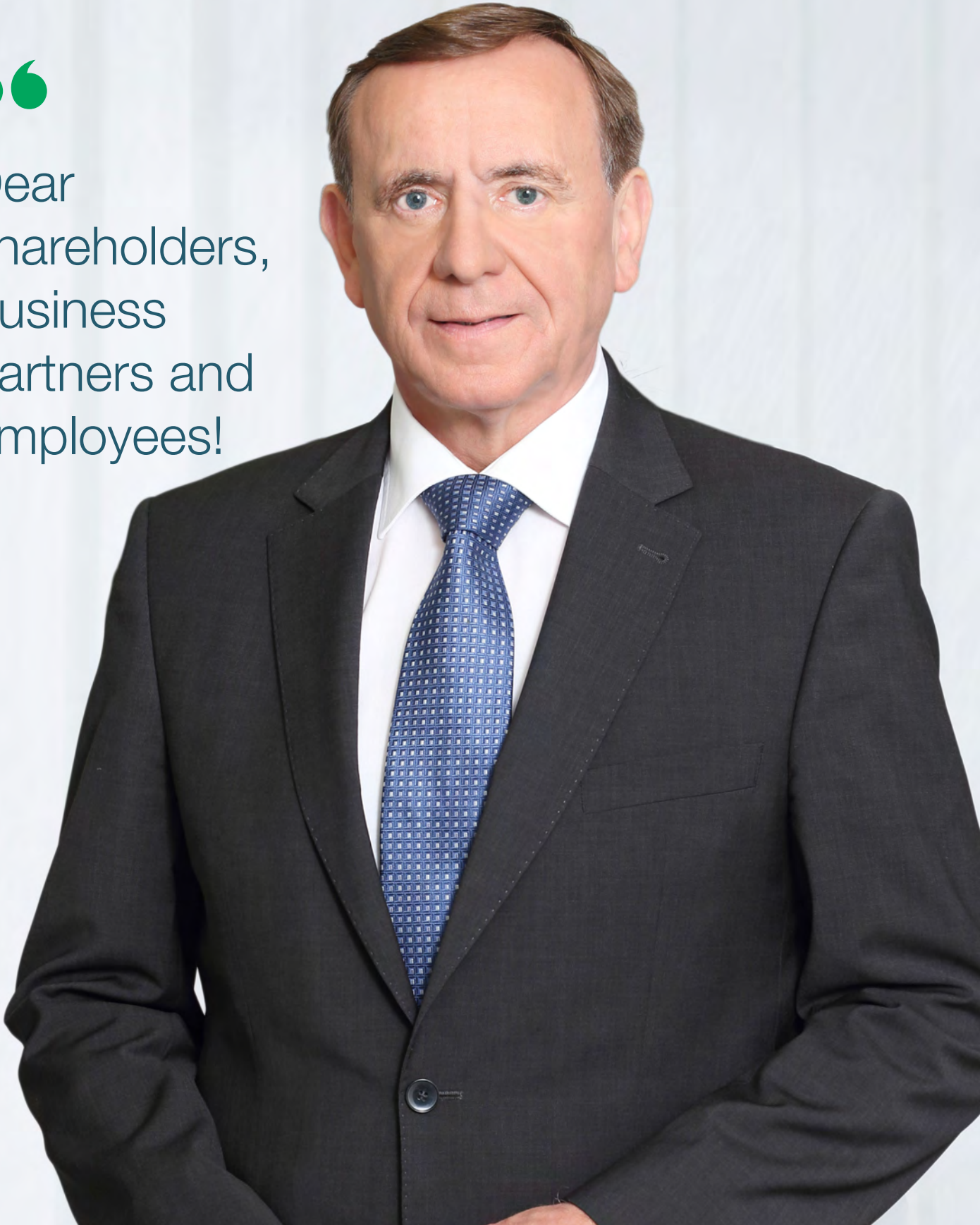
⁶ Net profit for the year attributable to equity holders of the controlling company/Average number of shares issued in the year, excluding treasury shares

⁷ Equity as at 31 Dec/Total number of shares issued

Statement by the President of the Management Board

“

Dear
shareholders,
business
partners and
employees!



In 2020, the COVID-19 pandemic presented an unprecedented challenge for health-care providers, economic, and other social systems.

At Krka, we reacted quickly to the new situation. We protected our employees, ensured uninterrupted operations and ample supplies of quality and effective pharmaceutical products in markets at all times. We proved once again that thanks to our vertically integrated business model we are ready to react in an instant to ever changing and challenging situations.

Record Product Sales and Best Business Results Ever

Even though the pandemic impacted our marketing-and-sales activities, Krka Group revenue from product sales added up to €1,534.9 million, a 3% increase on 2019. Of that, revenue from contracts with customers on sales of products and services amounted to €1,530 million. Sales in markets outside Slovenia reached €1,444.8 million and accounted for 94% of overall Krka Group sales. Product sales volume increased by 7%.

Earnings before interest, tax, depreciation, and amortisation (EBITDA) increased by 30% to €502.4 million in 2020. Operating income (EBIT) increased by 43% to €390.7 million. Net profit generated by the Krka Group totalled €288.9 million, up 18% on 2019. Return on equity (ROE) improved by 1.7 percentage points and reached 16.9%.

Region East Europe remained our largest sales region also in 2020. Even though we witnessed significant currency fluctuations in the area, our sales reached €517.2 million and outstripped the 2019 figure by 7%. We recorded growth in all regional countries except in Mongolia. Strong performance on our two largest markets, in Ukraine and the Russian Federation, contributed the most to growth. In the Russian Federation, we generated €326.9 million in product sales, up 5% on 2019 or up 17% denominated in the Russian rouble. In Ukraine, we generated €86 million in sales and recorded an 8% increase. This was a good result as the market had stagnated before that. In Belarus, Mongolia, Armenia, and Azerbaijan, our product sales reached €36.4 million, up 13%. In Kazakhstan, Moldova, and Kyrgyzstan, we generated €31 million in product

sales, up 11% on 2019. In Uzbekistan, Georgia, Tajikistan, and Turkmenistan, product sales reached €36.9 million, a 21% year-on-year increase.

Region Central Europe generated product sales of €341.5 million, up 1% year on year. Sales growth was recorded in Poland, Latvia, and Estonia. In Poland, the largest regional market and our key market, product sales reached €163 million, up 2% on 2019, recording the highest growth in terms of value. In Latvia, sales saw the strongest growth in relative terms reaching 12%.

Markets of Region West Europe collectively classify as our key market. Product sales in the region grew by 1% to €341.1 million in 2020. Germany, the Scandinavian countries, France, Spain, and Italy led in terms of sales. Generating €90.9 million, up 6% on 2019, Germany remained our most important regional and third strongest market.

Region South-East Europe generated product sales of €199.4 million, a year-on-year increase of 4%. Most regional markets contributed to growth, except Croatia where sales mirrored those of 2019. Serbia, Romania, and North Macedonia recorded the highest absolute growth. The bulk, 86% of the regional sales, was generated by sales of prescription pharmaceuticals.

Sales of products and services in Slovenia, which is one of our key markets, amounted to €85.1 million in 2020, down 8% on 2019. Product sales increased by 5% to €55.4 million. Sales of tourist services at our health resorts, however, dropped to €29.8 million due to the COVID-19 pandemic.

Region Overseas Markets recorded product sales of €45.7 million, down 6% year on year. The decline was driven primarily due to lower sales in the Middle East, even though most other regional markets witnessed growth. Product sales in the markets of the Far East and Africa reached €27.2 million, up 18% compared to 2019.

Marketing Authorisations for 20 New Medicinal Products, Also the First in China

We follow market trends and scientific achievements and incorporate them in our development. This allows us to respond quickly to development challenges and market demand. Approximately 700 experts work in this segment. Currently we are developing more than 170 products.

In 2020, we allocated €153.4 million to research and development, or 10% of total sales. We were granted marketing authorisations for 20 new products.

Most of them, 16, were prescription pharmaceuticals, two non-prescription products, and two animal health products. An important milestone in 2020 was our first-ever marketing authorisation in China for our antiepileptic, pregabalin in hard capsules.

We filed eight patent applications for new technological solutions we developed in 2020 and evaluated as inventions at global ranking level. More than 200 valid patents protected our technological solutions last year.

We digitalised many research-and-development activities to facilitate in-depth research. We also robotised certain analytical and finishing processes to improve their repeatability. These upgrades will also boost cost efficiency.

Production Records in 2020

In 2020, we manufactured and packed a record quantity: 16.5 billion tablets, film-coated tablets, and capsules, a 9% year-on-year increase. We recorded the highest monthly, quarterly, and annual production volume so far.

In 2019, we were one of the first generic manufacturers that introduced technical and systemic solutions for implementation of the EU directive regarding the prevention of the entry into the legal supply chain of falsified medicinal products to provide for tamper-evident packaging and labelling with unique identifiers. In 2020, we were among the first pharmaceutical providers in the Russian Federation to have introduced unique identifiers and the product aggregation system in compliance with national regulations. This further increased our competitive edge there.

Despite the COVID-19 pandemic, we established effective connections between research and development, API production, and pharmaceutical production. We have considerably reduced the average lead time from an order to delivery by continuous process improvements, and hence increased our responsiveness and the flexibility of processes in the supply chain.

€76.6 Million to Investment

Our production volume has grown, so capacities for production and storage of pharmaceuticals had to be extended. In Slovenia, Croatia, the Russian Federation, and China, we invested primarily in new manufacturing equipment and infrastructure upgrades to further enhance the quality of our products and services.

We acquired new technological equipment for our largest production plant, Noto 2, to accommodate increasing orders. We allocated €17 million to equip the new

packaging facility and to the purchase of large-scale production equipment. We started investing €21 million in additional capacities for double-layer tableting process, and in logistic capacities in the Solid Dosage Form Production Plant (Slovene abbreviation: OTO). The purchase of a new packaging line for lozenges and tablets increased the packaging output of the Ljutomer plant.

In Krško, we constructed a new warehouse for raw materials used in chemical and pharmaceutical production. The €8.2 million investment provided us with facilities that address our current and future storage and sampling needs. We also invested in our facilities outside Slovenia. We allocated €5 million to increase the manufacturing and laboratory capacities of our Russian subsidiary, where we manufacture a good 80% of products that Krka currently sells in the Russian Federation. We invested €0.7 million in our plant in Croatia to optimise production. We apportioned €3.1 million for manufacturing and quality control equipment of the production plant in China. Our subsidiary Terme Krka that provides health resort and tourist services invested €2 million to refurbish the hospitality infrastructure.

In-house development and proper quality are fundamental to the Company's long-term success. We therefore intend to streamline our investments accordingly, also in expanding and upgrading production capacities. Another notable investment worth €163 million is the construction of a building for development and production of active pharmaceutical ingredients in Krško planned for 2021. Over the next few years, we plan to invest €35 million in increasing the capacity of our plant in the Russian Federation.

Krka Share Price Increased by One Quarter

In 2020, the Krka share price rose by 25% exceeding growth of SBITOP, the blue-chip index of the Ljubljana Stock Exchange, by close to 28 percentage points. The Company's market capitalisation amounted to €3 billion. We received first-time awards from the Ljubljana Stock Exchange: the Prime Market Share of the Year Award, and the Best Investor Relations Award.

Shareholders received a dividend of €4.25 gross per share, up by almost one third on a year ago. In comparison to other generic pharmaceutical companies, participation in profit paid in the form of dividends and dividend yield were higher than average.

Employing Primarily in Slovenia in 2020

At the end of 2020, the Krka Group had 11,677 employees. The number of employees increased by 262 in Slovenia and decreased by 281 abroad. Of our employees, 5,955 held at least university degrees, 206 doctoral degrees, and 394 master's degrees or specialisations. We encourage our employees to extend their knowledge and experience in various areas. In 2020, our employees underwent 36 hours of formal training on average. The age profile of our personnel is relatively young, 40 years of age on average, composed of many nationalities, with 46% of employees hailing from more than 70 countries where Krka offers its products and services. Female employees held 47% of managerial posts.

COVID-19 Pandemic: Health of Employees Protected, Uninterrupted Operations Ensured

At the outbreak of the COVID-19 pandemic, we immediately adopted a wide range of preventive measures and further strengthened them during the year in accordance with latest information about the disease to protect our employees. Krka's in-house physicians and microbiologists teamed up with Health and Safety at Work to adapt work processes to ensure appropriate distancing. The wearing of face masks, disinfection of hands and surfaces, and body temperature checks all became mandatory. We made personal protective equipment available to all employees on a daily basis. We complied with orders and recommendations issued by the competent authorities. Manufacturing processes were unhindered during the pandemic primarily due to our vertical integration business model as we ourselves manage our key business segments.

Committed to Sustainable Development

We are aware that ecological and sustainable development is vital for increasing the long-term value of the company and successful implementation of business strategies. We therefore sought to make improvements in this regard, and last year was no exception.

We constantly invest in environmental protection, follow a special strategy on energy management, constantly educate our employees and support young talent and scientists. We collaborate with humanitarian, healthcare, educational, scientific, sports, and cultural institutions.

We pursue high standards in corporate governance and transparent reporting in all areas. We nurture partnerships with all stakeholders: shareholders, customers, suppliers, employees, and social community.

We aim to improve our environmental conservation results in compliance with our environmental responsibility. In 2020, we handed over to processing 420 tonnes of waste composites in total, from which a contractor recovered 154 tonnes of aluminium and 245 tonnes of plastics. We reduced the amount of waste disposed at landfills by 10 tonnes. Over the past few years, we reduced CO₂ emissions to an extent equivalent to planting 85,000 trees. In six years, we almost halved total rated power of outdoor lighting at our central manufacturing site.

Investing in equipment and technologies provided for continuous improvement in all segments of environmental protection. We allocated €6.4 million for maintaining a clean and healthy environment in 2020. We invested €3.7 million in environmental protection. We undertake to integrate environmental protection in the earliest development stages and projects going forward.

Growth Projected Also in 2021

Despite many challenges, we are focused on the road ahead and seeking new opportunities. According to our 2021 plan for the Krka Group, product and service sales are forecast to reach €1,535 million and net profit €265 million. By achieving that, the average annual sales growth between 2017 and 2021 will outstrip the average annual growth of 5% forecast in our strategy.

According to our estimates, investment will amount to €114 million, while the number of employees in Slovenia and abroad will grow by a good one per cent. The 2021 business results will also depend on the spread of COVID-19, the related restrictions imposed by states, and global recovery post-pandemic.

Last year was the most successful in our 66-year history. We are embarking on the road ahead with a clear strategy, new products and many markets. We have know-how and manage processes from developing an active pharmaceutical ingredient to manufacturing a finished product. Against that background, but above all the trust placed in us by shareholders, customers and users of our products and services, is what inspires us with confidence.



Jože Colarič

President of the Management Board and CEO

2020 Supervisory Board Report



Dear
shareholders
and
stakeholders!



In 2020, Krka responded swiftly and effectively to the new circumstances and risks posed by the pandemic. I am happy to announce that, in 2020, Krka achieved its best business results in its 66-year history.

The Management and Supervisory Boards will continue to monitor the COVID-19 situation and adapt to the circumstances accordingly. Krka is an internationally established, vertically integrated company in a strong financial position with a well-thought-out strategy and a broad range of high-quality products, so our outlook for 2021 is optimistic.

Below, I outline our work in 2020 on behalf of the members of the Supervisory Board.

Work of the Supervisory Board

Krka's Supervisory Board has nine members. As at 31 December 2020, the shareholder representatives were Prof. Dr Julijana Kristl, President of the Supervisory Board Jože Mermal, Deputy President of the Supervisory Board Prof. Dr Matej Lahovnik, Dr Boris Žnidarič, Borut Jamnik, and Mojca Osolnik Videmšek. The employee representatives were Deputy President of the Supervisory Board Franc Šašek, Dr Mateja Vrečer, and Tomaž Sever. In 2020, Krka's Supervisory Board was composed of three women and six men, all with diverse qualifications, work experience, age profiles, and fields of work. The Supervisory Board members were aged from 49 to 72 years. Their knowledge is wide-ranging and covers various fields, including pharmacy, chemistry, law, economics, mathematics, social sciences, mechanical engineering, organisational sciences, and management. Throughout their careers, they have managed and supervised many companies, organisations, and processes.

Up until August 2020, the Supervisory Board had the same composition since elected. On 20 August 2020, the terms of office of Jože Mermal, Julijana Kristl, Boris Žnidarič, and Andrej Slapar expired. At the 26th Annual General Meeting (hereinafter: AGM) of 9 July 2020, Jože Mermal, Julijana Kristl, and Boris Žnidarič were re-elected for another five-year term, which commenced

on 21 August 2020. Matej Lahovnik was newly elected for a five-year term of office to replace Andrej Slapar. More information about the composition of the Supervisory Board is contained in the section 'Corporate Governance Statement', table 'Composition of the Supervisory Board of Krka as at 31 December 2020'.

The Supervisory Board's work and decision-making concern monitoring the objectives of Krka and the Krka Group in accordance with its strategy and plans, legislation, sound national and international practices, and bye-laws. Meetings provide an opportunity for the Supervisory Board members to voice their opinions and concerns, while working to reconcile any differences in order to pass unanimous resolutions. In 2020, there were no differences in opinion with regard to any items on the agenda.

We also received all requisite data, reports, and information in 2020. Krka departments provided technical and organisational support to us. The Supervisory Board used a secure digital platform IxtlanBoard for the distribution of materials and to facilitate their work throughout the year. The platform was developed by the Slovenian company Ixtlan. The application was last updated in the summer of 2020 and is in line with the applicable security standards. The Management Board submitted the materials seven days prior to each Supervisory Board meeting through this application.

The members regularly attended the meetings. Further information on this is contained in the section 'Corporate Governance Statement', table 'Composition of the Supervisory Board of Krka as at 31 December 2020'. Generally, members of the Supervisory Board, members of the Management Board, and the Supervisory Board Secretary were present at the meetings. If necessary, but certainly when adopting the annual report, certified auditors from the external audit firm attended the meetings as well. Representatives of relevant Krka departments occasionally attended the meetings as rapporteurs to present any details concerning the topic under discussion. However, the Management Board remains responsible for reporting.

In 2020, the Supervisory Board members met at seven regular meetings and discussed 60 agenda items. Members of the Supervisory Board committees met nine times and discussed 43 agenda items, which they reported and advised on to the Supervisory Board.

The Supervisory Board discussed Krka's past and current operations, financial and business risks, work and precautionary measures during the pandemic, information on human resources, investments, products, and implementation of the strategy. We monitored

Krka's strengths, weaknesses, risks, and opportunities recorded in the reports of the professional community and analysts. We compared Krka's operations with those of competitors, received regular updates about new developments in the Company, the pharmaceutical industry, and the business environment. We also evaluated the work of the Management Board. We prepared a proposal for the appropriation of distributable profit and materials for the AGM together with the Management Board. At the proposal of the Appointment Committee, we nominated members for membership on the Supervisory Board. We also discussed and agreed with the 2021 business and financial plans prepared by the Management Board. In 2020, we continued to improve our work, conducted a self-assessment, and adopted an action plan.

Key Areas Discussed at Supervisory Board Meetings in 2020

The Annual Report

In 2020, within the statutory time frame, the Supervisory Board thoroughly examined the *2019 Annual Report* of Krka and the Krka Group and discussed the independent auditor's report issued by audit firm Ernst & Young d. o. o., Ljubljana. The report stated the financial statements, which form part of the annual report, presented fairly, in all material respects, the financial position of Krka and the Krka Group, their financial performance, and their cash flows in accordance with the *International Financial Reporting Standards* (hereinafter: IFRS) as adopted by the European Union. We had no comments on the auditor's work or report. We also compiled and adopted a report on our work in 2019 and, together with the Management Board, drew up the 'Corporate Governance Code Compliance Statement' regarding Krka's compliance with the *Slovenian Corporate Governance Code for Listed Companies* (hereinafter: *Corporate Governance Code*).

On 25 November 2020, the Slovenian business daily *Finance* held a contest for best annual report and announced Krka's *2019 Annual Report* as the winner in the large company category. The focal point of the winning report was Krka's focus on high-quality products.

Interim Results

The Supervisory Board discussed the first-quarter, half-year, and nine-month performance reports of Krka and the Krka Group for 2020. The Audit Committee reviewed particularly the accounting and financial aspects of interim results as well as risks, and briefed the Supervisory Board about all interim reports. During each analysis of the interim results, the Audit Committee and the Supervisory Board were informed about business processes and risk management during the pandemic. They also discussed the management of other risks, especially foreign exchange, credit, and liquidity risks.

Supervision of Krka Group Subsidiary Performance

The Supervisory Board discussed business operations of Krka subsidiaries. These include production and distribution, distribution and marketing, and marketing companies abroad as well as the health-resort and tourist services company Terme Krka in Slovenia. The Management Board reported to the Supervisory Board on the business model for subsidiaries, their performance, key business information, business challenges encountered, etc. The Supervisory Board members were briefed about all significant accounting information pertaining to these companies, especially the book value of Krka investments in them, the number of employees, the value of inventories, assets, equity, operating income and operating expenses, operating profit or loss, and net operating results.

Merger by Acquisition of Subsidiary Farma GRS

The pharmaceutical and economic development centre (Farma GRS, d. o. o.) developed pharmaceutical products and technologies for pharmaceutical production. Farma GRS was founded in February 2011 by Krka as the major partner holding a 99.7% share and three other partners. They obtained grants to co-fund Farma GRS activities and one of the conditions was to set up a separate legal entity.

In February 2020, Krka purchased the minority shares in Farma GRS and thus became its sole shareholder. Organisation and process implementation in a separate legal entity no longer proved to be optimal; therefore, Krka merged the acquired subsidiary Farma GRS in 2020. In the year leading up to the merger by acquisition, Farma GRS generated revenue from contracts with customers totalling €8 million. At the end of the year, prior to the

merger by acquisition, the company had 27 employees, with assets of €40.9 million and equity of €35.9 million.

The Supervisory Board reviewed the Contract on Merger by Acquisition, signed off on it, and adopted a report on the matter. We had no comments with regard to the documentation on merger by acquisition. In line with Article 583 of the *Companies Act* (ZGD-1), an audit of the merger by acquisition was not necessary since it was carried out according to the simplified procedure under Article 599 of the *Companies Act*.

Krka Group Operational Plans for 2021

At the November 2020 meeting, the members of the Supervisory Board and the members of the Management Board discussed the 2021 operational plans of Krka and the Krka Group. They were prepared by the Management Board, which outlined them to the Supervisory Board at the July meeting.

The plan included detailed information about sales by region and product group, new products, planned investments in research and development, purchase of fixed assets and investments, employment plan, and projections of business results. The 2021 business plan is based on the 2020–2024 development strategy, which was also approved by the Supervisory Board.

Convening and Holding the Annual General Meeting

The Supervisory Board, together with the Management Board, drafted the agenda and materials for the AGM of 9 July 2020 and prepared a proposal for the appropriation of distributable profit. The Supervisory Board proposed that the AGM discharge the Management and Supervisory Boards of liability for 2019.

As the terms of office of Jože Mermal, Julijana Kristl, Boris Žnidarič, and Andrej Slapar expired, the Supervisory Board prepared a motion to elect new members – shareholder representatives. The AGM elected Jože Mermal, Julijana Kristl, Boris Žnidarič, and Matej Lahovnik for a five-year term of office. A temporary Appointment Committee identified, evaluated, and nominated the candidates and advised the Supervisory Board on the matter. During the candidate evaluation stage, the Supervisory Board members took into account regulatory requirements and eligibility criteria set out in the Rules of *Procedure of the Supervisory Board* and *Corporate Governance Code*. When preparing materials for the AGM, the Supervisory Board followed the proposal

of the Appointment Committee in full. The AGM approved three of the four proposed candidates and voted for the counter-proposal with regard to one candidate.

Investments

The Management Board reports to the Supervisory Board on investments in their quarterly and annual business reports. Once a year, the Management Board prepares a detailed overview of major investments and reports on the work progress, fulfilment of deadlines, and budgeted cost and accounting value, and also shows photographs, diagrams and other presentations of construction sites and buildings. In 2020, the Supervisory Board members discussed capacity increase in Krka's main production plant, Notol 2. The investment refers to Packaging Room 2 (Pakirnica 2) and includes refurbishing rooms and installations as well as setting up additional packaging lines one by one. We were also briefed about the works to expand bulk product manufacturing capacities at Notol 2 (to be completed in 2021), the increase in production capacities at the Krka-Rus subsidiary, and the new warehouse in Krško for storing and sampling raw materials.

Risks

The Management Board regularly reported to the Supervisory Board on various risks. In addition to currency, business, and legal risks, we also discussed risks related to the COVID-19 pandemic in 2020.

As in previous years, the Management Board presented the members with procedures regarding patent and similar disputes, broken down by individual product and market, and the related risks. When discussing interim reports, the Management Board briefed the Supervisory Board on potential market and regional risks, such as measures taken by authorities or regulatory bodies in individual countries. The Internal Audit of Krka reported on the risks identified in internal audit reviews.

They prepared a revised *Krka Group Risk Register* for the November meeting. It is intended to identify and manage factors that could influence the efforts to deliver on business objectives. It takes into account new items listed in the overview of risks and control activities, which are a result of the revised 2020–2024 *Krka Group Development Strategy*, changes in the business environment, such as corporate compliance and transparency requirements in all areas, and risks related to the COVID-19 pandemic. For the first time, the Supervisory Board discussed the *Integrity Plan*, which represents good practice in risk management

related to ethics, integrity, and corporate compliance. The Management Board prepared it based on the recommendations of the *Corporate Governance Code for State-Owned Enterprises*.

The Supervisory Board members were regularly briefed about risk management related to the pandemic. Immediately after the declaration of the epidemic, Krka introduced precautionary measures to allow for uninterrupted operations and prevent the spread of the infection, thus reducing sanitary and health risks. It also considered the experiences of and measures adopted by its Chinese partners and Italian companies. It promptly set up a team of experts composed of doctors and microbiologists who worked together with Health and Safety at Work. The processes were adapted to ensure physical distance, and the mandatory use of personal protective equipment was introduced. This helped to eliminate significant risk factors, access especially to common areas was limited, and food catering arrangements adjusted. Krka started to carry out the usual group visits, events, social gatherings, and training courses remotely. In addition to disinfection procedures applicable to all rooms, materials, vehicles, and workplaces, all Krka employees entering the Company's premises had to have their body temperature taken at the entrances and, when necessary, also during shifts, especially if an infection was suspected. The use of face masks and disinfectants became mandatory. Krka provided these daily to all employees and kept informing them on the importance of precautionary measures through internal communication. At the workplace, an internal healthcare team immediately examined anyone who was ill. A special methodology was put in place to assess the risk of infection transmission to other employees and take appropriate steps. Whenever an infection was suspected, the internal mobile team came to disinfect the rooms and equipment. The procedures were harmonised across Krka and regularly checked by an occupational medicine specialist. They comply with the government measures and guidelines laid down by the association of occupational medicine specialists.

Production processes, development, supply chain, and quality control ran relatively smoothly during the pandemic. The Company carried out many activities digitally, especially promotional activities. Investments during 2020 lagged behind the plan due to the impact of the COVID-19 pandemic on the construction industry. Krka intends to get the investment plan back on track as soon as possible together with the contractors.

During the pandemic, Krka focused further on credit control and expanded the commercial insurance for

receivables to almost all customers. Since the Krka Group performed well and had no debts, liquidity risks remained low despite the pandemic. With the help of the cash-pooling system, the controlling company regularly covered the short- and long-term needs of subsidiaries for financial assets and absorbed their surplus.

During the discussion of interim performance results, the Management Board briefed the Audit Committee and the Supervisory Board on currency risks. The sales-side exposure to the Russian rouble was the Group's main exposure in 2020, followed by the U.S. dollar exposure on the purchase side, which is gradually becoming more significant. Due to the pandemic, the exchange rate volatility in currency markets increased. Krka's key policy remains mitigating foreign exchange risks by natural methods. To a limited extent, Krka also uses plain vanilla derivatives. In 2020, Krka continued its policy of partial hedging against the Russian rouble and U.S. dollar by financial instruments.

Business Trends in the Pharmaceutical Industry and Analytical Reports on Krka

In 2020, Krka operations were monitored by one Slovenian and five foreign financial analysts from banks or financial companies and by internal analysts of large owners. As in previous years, the Supervisory Board was briefed about the findings of external analysts, fair value assessments of Krka shares, and benefits, opportunities, weaknesses, and dangers with respect to Krka. It also discussed current information about the pharmaceutical industry.

Benchmarking Krka Performance Against Comparable Companies

The Supervisory Board regularly compares Krka operations with those of its competitors. In 2020, the Supervisory Board learnt about the performance of the Krka Group compared to other generic pharmaceutical companies, in particular Gedeon Richter, Stada, Lek, and Hikma. It mainly analysed sales, their structure by region and product group, gross profit, operating profit (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA), profit before tax, and profit for the period, margins, ROE and ROA ratios, cost structure, statement of financial position, and share price ratios. In 2020, Krka consistently ranked highly vis-à-vis competitors in terms of the ratios, especially the EBITDA margin.

Works Council Report on Worker Participation in Management

In accordance with Article 80 of the *Worker Participation in Management Act*, the President of the Works Council presented the Works Council report at the July meeting. Its purpose was to inform the Supervisory Board on worker participation in management, draw attention to any shortcomings, and propose measures.

In the conclusion of the report, the Works Council members disclosed they had worked well with Krka's Management Board, their President, the Worker Director, relevant departments, both unions, and internal employee representatives on the Supervisory Board. They were effective in addressing day-to-day employee issues and kept employees regularly briefed about the situation in the Company. The members were involved in humanitarian projects and encouraged employees to develop good interpersonal relationships and work as a team. They took part in workplace health promotion projects, analysed occupational injuries, and helped relevant departments to improve traffic safety and parking issues. They successfully implemented activities related to the Works Council as a body. Based on the report, the President of the Works Council believed the organisational climate, employee engagement, and employee satisfaction were at a high level and the employees trusted the management.

The members of the Supervisory Board were presented with the report and had no comments on it.

Cooperation with Internal Audit

The Supervisory Board approves the appointment, dismissal, and remuneration of the Head of Internal Audit; the documents regulating the purpose, meaning, and tasks of Internal Audit; and their annual and medium-term work plans. They are also briefed about the annual performance report of Internal Audit.

In 2020, the Supervisory Board determined the performance bonus for the Head of Internal Audit for 2019 and for the first half of 2020. Due to her strong performance, she received both bonuses as per her employment contract.

We were also briefed about the annual performance report of Internal Audit. We had no comments.

With regard to provisions of the *Companies Act* (ZGD-1), the Supervisory Board discussed and approved the employment contract of the Head of Internal Audit for the following contract period commencing on 1 April 2020.

We discussed and approved the Internal Audit medium-term work plan for the 2021–2025 period and the 2021 annual work plan.

In each case, the Audit Committee reported and advised the Supervisory Board, and the Board accepted their recommendations.

Management Board Performance and Remuneration

The Supervisory Board measures the Management Board performance according to qualitative and quantitative criteria. Quantitative criteria included growth in sales value and volume, increase in cash flows from operating activities and in operating profit, return on equity, and dividends. Qualitative criteria included activities in new indication areas, implementation of new requirements, e.g. related to quality, regulatory, and other areas, entry into new markets, new product launches, corporate social responsibility, Krka's reputation, investor and public relations, as well as areas of information technology, investments, and human resources.

In 2020, the Supervisory Board regularly monitored the work of the Management Board. Twice a year, when determining the variable portion of the members' remuneration pursuant to the rules, their work was evaluated based on the above criteria.

The variable portion of the Management Board remuneration is disbursed in two parts: the first payment is made based on interim performance results and the second depending on annual performance.

Shares and Shareholders' Structure

Every quarter, the Supervisory Board obtained up-to-date information about shares and reviewed the report on the acquisition of treasury shares, the shareholders' structure, share trading, and the Company share price. In 2020, no major changes occurred in the shareholders' structure, and the share price rose. The Company regularly purchased treasury shares in line with the provisions of the relevant legislation and bye-laws.

At the Slovenian and Croatian Investor Days investor conference organised by the Ljubljana Stock Exchange in cooperation with the Zagreb Stock Exchange on 8 December 2020, Krka received the Prime Market Share of the Year Award by the Ljubljana Stock Exchange for the third year in a row. Krka also won the Best Investor Relations Award among all companies listed on the Ljubljana Stock Exchange.

The Supervisory Board was also briefed about the calendar of closed periods when persons with access to insider information – including all members of the Supervisory Board – are prohibited from trading in Krka shares.

Strengthening the Good Practice of Supervisory Board Performance

In 2020, using the methodology of the Slovenian Directors' Association, the Supervisory Board conducted a regular annual self-assessment. The members submitted the completed questionnaires to the Secretary, based on which the Secretary and the President of the Supervisory Board prepared a report. The average score was 3.8 out of 4. The scores demonstrated that the Supervisory Board performance meets the highest standards. Regarding the current needs in 2020, the members proposed some improvements. At the November meeting, the Supervisory Board adopted the *Diversity Policy*, which is in line with the recommendations of the Slovenian Directors' Association.

Other Current Matters

The Supervisory Board also regularly discussed other current matters related to Krka and the industry.

Corporate Events

In 2020, the members attended the AGM and some corporate cultural events. Due to the pandemic and related restrictions, we participated in fewer events than previous years.

Work of Supervisory Board Committees

The Audit Committee and the Human Resource Committee, which deal with accounting, auditing, finance, and human resource issues in detail, advise and report to the Supervisory Board. However, the decision-making remains the remit of the Supervisory Board. The Supervisory Board agreed with the opinions tendered by both Committees regarding the items they reported and advised on.

In 2020, the Supervisory Board also appointed the members to the temporary Appointment Committee to help prepare a list of candidates for the Supervisory Board members, shareholder representatives, for the following term of office.

The Committees' work is detailed in the next sections.

Audit Committee

In 2020, the Audit Committee met six times and discussed 34 agenda items. The President of the Audit Committee is Borut Jamnik, and its members are Matej Lahovnik, Mojca Osolnik Videmšek, Franc Šašek, and Borut Šterbenc.

Borut Šterbenc is an external accounting and auditing expert. On 9 September 2020, at the first meeting of the new members, the Supervisory Board appointed him as an external member of the Audit Committee for a five-year term of office. He is not a member of the Supervisory Board.

Up until 8 September 2020, Boris Žnidarič was a member of the Audit Committee. At their first meeting of 9 September 2020, the Supervisory Board appointed him President of the Human Resource Committee of the Supervisory Board, whereas the newly elected Supervisory Board member Matej Lahovnik became a member of the Audit Committee.

The Audit Committee invited the President of the Management Board, the member of the Management Board responsible for economics, finance, and IT, and the Head of Internal Audit to all its meetings. The President of the Supervisory Board may attend the meetings at his own discretion. The Supervisory Board Secretary attends all meetings. In 2020, two representatives of the audit firm, Ernst & Young d. o. o., Ljubljana, also attended two meetings.

The Audit Committee dedicated most of its time to the following:

Annual Report

In 2020, the Committee discussed the *2019 Annual Report* of Krka and the Krka Group, the auditor's report, and the 2019 Supervisory Board report, and proposed the Supervisory Board approve them. The audit partner and coordinator from the external audit firm Ernst & Young d. o. o., Ljubljana reported twice to the members of the Committee on the audit procedures.

Interim Results

When considering interim reports, the Audit Committee discussed these primarily with regard to accounting and finance, and reported back to the Supervisory Board. In 2020 interim reports, there were no accounting or financial particularities or significant changes in past practice.

Cooperation with External Auditor

The Committee regularly monitored the external audit procedures and worked with the external auditors who regularly reported to the Audit Committee on the progress of the audit of financial statements for the previous financial year.

In September 2020, the Audit Committee started preparing for the audit of the *2020 Annual Report* of Krka and the Krka Group. Every year before the start of the audit, Committee representatives meet with the audit partner and coordinator to agree on the key work areas. They met on 21 September 2020 to further review the draft audit plan and the composition of the audit team as well as to agree with the auditors which individual work areas would be reviewed in greater depth. Representatives of Krka departments and the Head of Internal Audit also attended the meeting. The Management Board members were not present.

An important new development in 2020 was reporting in the European Single Electronic Format (ESEF), which the Committee representatives promptly consulted the external auditor about. The Company prepared accordingly for the new reporting obligations.

An important topic regarding the audit is audit procedures during the pandemic. Krka reported to the Audit Committee and the Supervisory Board on the organisational measures introduced to protect auditors in the discharge of their duties. These included sanitary measures, dedicated rooms for auditors, and ensuring physical distance.

Cooperation with the auditors in 2020 was good and their reports thorough. Their high-quality and comprehensive work contributed to improved oversight of business operations.

Internal Audit

In 2020, the Audit Committee discussed several topics related to internal audit. Within the statutory time frame of three months following the year end, they reviewed the 2019 Internal Audit performance report. In its annual report, the Head of Internal Audit reported on audits performed in Production of Active Pharmaceutical Ingredients, Public Services, Purchasing, Pharmacokinetics and Preclinical Research, and Sales. She reported on internal audit reviews conducted in Moldova, Serbia, Italy, Turkmenistan, Azerbaijan, France, Armenia, India, Austria, the Czech Republic, and China. The business continuity management system was reviewed and the operations of the SAP ERP,

PR – Purchasing information system were audited. They also provided consulting services. The report included a description of internal audit activities in both subsidiaries in the Russian Federation, which have a local internal auditor. Internal audits identified no significant deviations. The Audit Committee had no comments on the report.

The Committee discussed the Internal Audit performance report for the period from January to June 2020, the 2021 work plan, and the medium-term work plan for the period from 2021 to 2025.

Again in 2020, the Audit Committee proposed that the Supervisory Board award a performance bonus to the Head of Internal Audit for 2019 and the first half of 2020.

In accordance with bye-laws, the employment contract of the Head of Internal Audit came up for renewal in March 2020. The Audit Committee reviewed the document, approved it, and submitted it to the Supervisory Board. In accordance with Article 281a of the *Companies Act* (ZGD-1), the Supervisory Board also reviewed and signed off on the document.

In line with good practice, the *International Standards for the Professional Practice of Internal Auditing*, and legislation, the Head of Internal Audit must evaluate any starting points provided by the Audit Committee when preparing the work plan. The Audit Committee provides guidelines for work before the Head of Internal Audit prepares a draft work plan for the following year. Based on a presentation of the work carried out by Internal Audit in 2020, the Committee members assessed the guidelines did not need to be changed as they were useful. They recommended to Internal Audit that it continue with the existing good practice when drafting the 2021 work plan and take account of the relevant standards and legislation.

Internal Audit is periodically reviewed by an independent professional organisation, most recently by ADAKTA, d. o. o., from Trbovlje. The company was selected due to its professional competencies, independence, and eligibility on other grounds. Internal Audit briefed the Audit Committee about the content of the report at the March 2020 meeting. At the same meeting, the Committee also examined the Internal Audit self-assessment report. The external evaluation and self-assessment showed that Internal Audit performed well.

Risk Management

The Audit Committee regularly discussed financial risks in particular and reported back to the Supervisory Board. At every meeting, it considered currency risks and focused primarily on risks related to the Russian rouble exchange

rate fluctuation, which accounted for the majority of Krka's foreign exchange exposure. The U.S. dollar exposure on the purchase side was also becoming increasingly important.

The Audit Committee was briefed about Krka's measures to ensure the safe and uninterrupted supply of medicines during the COVID-19 pandemic and supported them. Details on the measures are provided in the subsection on the work of the Supervisory Board.

At the November meeting, the Committee discussed the revised *Risk Register*, which includes an overview of risks and control measures at the Krka level, and reported to the Supervisory Board on the matter. It also discussed the *Integrity Plan* for the first time, which was prepared in 2020 by the Management Board based on the recommendations of the *Corporate Governance Code for State-Owned Enterprises*. The *Integrity Plan* demonstrates good practice with regard to risk management in ethics, integrity, and corporate governance. We established the risks were managed appropriately.

Current Issues and Other Topical Reports

As in previous years, depending on the current issues or following the proposal of its members, the Audit Committee also discussed current information, particularly from the accounting or financial perspective and the risk perspective.

Human Resource Committee

In 2020, the Human Resource Committee met two times and discussed six agenda items. Up to 20 August 2020, when his term of office expired, Andrej Slapar presided over the Committee. On 9 September 2020, at the first meeting of new members, the Supervisory Board appointed Boris Žnidarič President of the Human Resource Committee. The other members are Julijana Kristl, Mateja Vrečer, and Tomaž Sever. The Committee invited the President of the Management Board, the Management Board member responsible for economics, finance, and IT, and the Supervisory Board Secretary to all meetings. The President of the Supervisory Board may attend the meetings at his own discretion.

As in previous years, the Human Resource Committee mostly dealt with evaluation of Management Board performance and remuneration. In 2020, the Committee evaluated the work of the Management Board twice: for 2019 as a whole and separately for the first half of 2020. It applied quantitative and qualitative performance criteria from the *Rules Defining the Bonus Element*

of Management Board Remuneration. In line with the evaluation, the Committee also proposed to the Supervisory Board to pay the variable portion of the remuneration to the President of the Management Board and its members for 2019 and the first half of 2020.

Temporary Appointment Committee

The Supervisory Board followed the recommendations of the *Corporate Governance Code* and *Corporate Governance Code for State-Owned Enterprises* and appointed a temporary Appointment Committee at its meeting of 18 March 2020. It was tasked with preparing a list of candidates for appointment as Supervisory Board members, shareholder representatives, decided on by the AGM on 9 July 2020. The Supervisory Board took into account the recommendations of the Appointment Committee when preparing materials for the AGM.

The Committee consisted of four members. Three external members were appointed, namely Uroš Ivanc, Melita Malgaj, and Gorazd Žmavc, while Jože Mermal of the Krka Supervisory Board presided over it. The Committee's term of office lasted until the AGM, when the Supervisory Board members were elected.

Performance Evaluation of Management and Supervisory Boards

The Supervisory Board monitors the management and business operations of Krka and the Krka Group in compliance with the legislation in force, primarily the *Companies Act* (ZGD-1), and good practice, especially the *Corporate Governance Code*.

The Management Board regularly attended all the meetings of the Supervisory Board in 2020. The President of the Management Board primarily reported and answered questions on behalf of Krka, while individual members provided clarifications or explanations for specific topics.

In 2020, the Supervisory Board discussed the Management Board performance as a separate agenda item twice, i.e. when setting the amount of the variable portion of remunerations. Performance of the Management Board was evaluated based on a model containing seven quantitative and four qualitative performance criteria, which are further described in the subsection on the work of the Supervisory Board. To this end, the Management Board prepared a detailed report describing and justifying

the achievement of individual criteria through financial ratios. The Supervisory Board regularly evaluated the work of the Management Board following each discussion of interim results, compared Krka's performance with that of competitors, and considered external analysts' opinions about Krka.

The Management Board collected all the necessary data, reports, and information on time, so that the Supervisory Board could do its work properly. The Management Board responded quickly and efficiently to the resolutions of the Supervisory Board. The President of the Supervisory Board and the President of the Management Board remained in contact between the meetings, consulted with each other, and examined various topics together. In 2020, the Management and Supervisory Boards cooperated well and to the benefit of the company. We evaluated the Management Board performance as successful given that Krka outperformed results from previous years and, in its 66-year corporate history, set an all-time high in sales, physical volume of production, and profit. It also responded effectively to the pandemic.

The Supervisory Board members discussed numerous subject areas from this report and supervised Krka's operations diligently throughout the year. We, therefore, evaluated our performance as successful. In accordance with our statutory duty (Article 6.18 of the *Articles of Association*), we also signed off on the Company's 2021 plan.

All members remained independent in their work in 2020. In line with the recommendations of the *Corporate Governance Code*, we completed statements on independence, which Krka published. Should a conflict of interest arise, the Rules of *Procedure of the Supervisory Board* take precedence. A member must refrain from voting in such cases, while other steps may also be taken by the Supervisory Board.

Krka allocated €236,115 for the work of the Supervisory Board and its committees (remuneration, attendance fees, travel expenses) in 2020, whereas €236,130 were spent. In 2020, the Company paid €7,000 in membership fees to the Slovenian Directors' Association. In addition, Krka incurred costs for leasing the IxtlanBoard application totalling €8,076. There were no other costs or expenses payable to external contracting partners or consultants.

Approval of the Annual Report and Proposal for the Appropriation of the 2020 Distributable Profit

The Supervisory Board discussed the contents of the *2020 Annual Report* at **two** Supervisory Board **meetings** and **two** Audit Committee **meetings**. In addition, the Supervisory Board and Audit Committee discussed the 2020 preliminary business results at their meeting of 27 January 2021.

The draft 2020 Annual Report and the 2020 unaudited financial statements of Krka and the Krka Group were discussed by the Supervisory Board and the Audit Committee at their respective meetings of 17 March 2021. The statutory audit firm, Ernst & Young d. o. o., Ljubljana, reported to the Audit Committee **on the findings and 2020 audit procedures** on the same day before the meeting of the Supervisory Board.

The members of the Supervisory Board and of the Audit Committee received the **draft 2020 Annual Report and the audited 2020 financial statements of Krka and the Krka Group** on 30 March 2021, and discussed them at their meetings of 7 April 2021. Certified auditors reported to the Committee and the Supervisory Board.

The 'Corporate Governance Statement' forms a part of the *2020 Annual Report*. It illustrates key aspects of governance at Krka, particularly the composition and operations of the Company bodies, external audit, internal controls and risk management related to financial reporting, internal audit, corporate compliance, diversity policy related to representation in the management and supervisory bodies, and governance in the Group. The Supervisory Board had no comments on this statement.

Based on the draft annual report, the independent auditor's report, and the review by the Audit Committee, the Supervisory Board assessed that the annual report of the Management Board gave a true and fair account of the events and presented a comprehensive view of the 2020 performance of Krka and the Krka Group, and provided detailed information that was otherwise regularly sent to the Supervisory Board throughout the financial year. As the Supervisory Board had no comments or reservations about the draft annual report, the independent auditor's report, and the Audit Committee report, it unanimously approved the *2020 Annual Report* at their meeting of 7 April 2021. **The annual report was thereby formally adopted in accordance with Article 282 of the Companies Act and Krka's Articles of Association.**

Together with the annual report, the Supervisory Board also approved **the proposal for the appropriation of distributable profit**. In 2020, Krka generated profit of €258,473,731.06, of which €25,504,335.93 was allocated to reserves for treasury shares and €0.00 to other profit reserves. The remaining profit of €232,969,395.13, profit due to merger effect of €1,777,841.82, retained earnings of €67,270,600.18, and retained earnings due to merger effect of €35,501,993.87 comprised distributable profit, which amounted to €337,519,831.00 as at 31 December 2020.

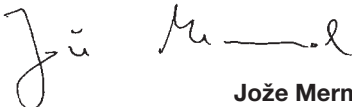
The Management Board and the Supervisory Board proposed to the AGM that distributable profit be appropriated as follows:

- Dividends €156,106,155.00 or €5.00 gross per share;
- Other profit reserves €90,706,838.00; and
- Retained earnings €90,706,838.00.

The proposal was drawn up by considering the number of treasury shares as at 7 April 2021. As the number of treasury shares changes, the number of shares paying dividends is revealed on the day of the AGM, and the total amount to be allocated to dividends, other profit reserves, and retained earnings are to be adjusted accordingly.

Conclusion

Day-to-day, Krka ensures an uninterrupted supply of quality, safe, and effective medicines to more than 50 million patients in over 70 countries worldwide. This is owing to our vertically integrated business model encompassing development, quality assurance, production, supply chain, promotion, sales, and other activities. Sound cash flow and no debts represent an additional advantage in risk management. The Supervisory Board members assess the performance of Krka and the Krka Group over the past year as highly successful.



Jože Mermal

President of the Supervisory Board

A person in a white lab coat, blue gloves, and a hairnet is working on a large industrial machine in a factory setting. The machine is made of stainless steel and has various pipes and valves. The person is focused on their work, and the background shows other industrial equipment and a clean, well-lit environment.

Diversity Policy Adopted

The policy aims to provide a balanced gender structure, suitable interdisciplinarity and age structure allowing for the transfer of know-how.

The policy addresses primarily diversity of the Management and Supervisory Boards, but the Company intends to apply it rationally to all management levels.

At a Glance

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 30 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 in 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 carry out marketing and/or sales of Krka products but do not have production capacities.

Terme Krka, d. o. o., Novo mesto deals with health resorts 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.

Pursuant to the Contract on Merger by Acquisition, Krka, d. d., Novo mesto merged the acquired subsidiary Farma GRS, d. o. o. Merger by acquisition was entered into the business register on 2 October 2020. As at this date, the merged company ceased to exist.

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.biz
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

Krka Group Business Model

Socio-Economic Situation

- Ageing population • Measures for better accessibility of medicines •
- Technological and scientific progress • Available resources for health-care expenditure •
- Increasing expectations and requirements of governments, regulators, and shareholders •
- Growing competition in the pharmaceutical industry (originator and generic segment) • Geopolitical tensions

Resources

- Human potential
- Research and technological capacities
- Intellectual capital
- Financial resources
- Incoming materials
- Environment and natural resources

**Flexibility,
independence
and
competitiveness**

**Quality
management and
quality control
at all stages**

**Marketing and
sales**

**Following
patient and
direct client
satisfaction**

**Recording
patient and
client needs and
requirements**

**The vertically
integrated
business
model
of the
Krka Group**

**Introducing
new and
managing
existing
products**

**Development,
production
and evaluation
of finished
products**

**Development,
production and
evaluation of
APIs**

Generating Value for Stakeholders

- Quality, safe, and efficient medicines based on innovative solutions
- Affordable treatment
- Investment in further development
- Stable dividend policy
- Safe and healthy work environment
- Opportunities for employment and development of knowledge, skills, and talents
- Efficient management of natural resources
- Improvement of life in the community
- Purchase of materials and services

Prescription Pharmaceuticals

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

Non-Prescription Products

Animal Health Products

Health Resorts and Tourist Services

Krka Group Organisational Chart

Slovenia

KRKA, d. d.,
Novo mesto

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

East Europe

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

Overseas Markets

USA
Krka USA LLC

Overseas Markets

China
Ningbo Krka Menovo
Pharmaceutical Co. Ltd.

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

South-East Europe

- **Croatia**
KRKA-FARMA d.o.o.
- **Romania**
KRKA ROMANIA S.R.L.
- **Serbia**
KRKA-FARMA DOO BEOGRAD
- **Republic of 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.

Central Europe

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

- Production and distribution companies
- Other subsidiaries outside Slovenia
- Health-resort and tourist services company
- Joint venture for development, production, and distribution

The chart includes companies in operation as at 31 December 2020. Short company names are used in the remainder of this document.

2020 Highlights

Events

- At the beginning of the year, fifteen worker assemblies were held at Krka in Slovenia, where the President and members of the Management Board briefed employees on performance results, plans for the current year, strategy, and other current issues.
- The 14th traditional meeting with Krka's sponsorship recipients was held online this year. Three extraordinary young people received the 2019 Talent-of-the-Year award for their accomplishments in sports and culture.
- This year's *Excellence of Slovenian businesses and managers* review, carried out by a specialised external company, showed that in the eyes of the business community and the general public alike, Krka ranked above average in terms of renown, prominence, and social responsibility. The review also showed that the President of the Management Board and CEO Jože Colarič is considered the most highly regarded director in Slovenia.
- Krka Awards are a way to reward employee loyalty, and in particular committed and creative work. Despite the changed circumstances in 2020, we managed to find a way to continue our long-standing tradition. We presented plaques to employees who celebrated their many years of service, best coworkers, best managers, and those who excelled in the field of innovation.
- The 26th Annual General Meeting was held on 9 July 2020 with strict preventive measures in place. The proposed dividend per share of €4.25 gross, up 32.8% on the previous year, was approved.
- At the Krka Group level, an organisational climate survey was conducted at the end of 2019. Krka employees in Slovenia and abroad gave high marks to the company's organisational climate, employee satisfaction and employee dedication.
- For the 21st consecutive year, Marketing Awards were conferred on the best employees in marketing. The top performing employees in regulatory affairs were also awarded.
- In September, as part of European Mobility Week, we organised the 5th consecutive Krka Car-Free Day. Once again, Krka employees in Slovenia and 15 subsidiaries and representative offices abroad demonstrated that green mobility is an excellent alternative to cars.
- In their 50-year tradition, Krka Prizes have created strong bonds between Krka and many young researchers, educational and research institutions, at the secondary school, graduate, and postgraduate levels. In 2020, we continued this unique tradition by organising a symposium and announcing the recipients of Krka Prizes online.
- In mid-October, Krka passed the 25th audit of its integrated management system conducted by the Slovenian Institute of Quality and Metrology (SIQ). During an online audit, the auditors inspected five management systems adapted to the requirements of various standards. The audit was successful: no non-compliances were identified and the validity of all certificates we hold was confirmed.
- At an online event celebrating useful proposals and improvements, we thanked 463 creative employees who put forward 560 proposals and improvements in 2019.

Awards

- Krka received the Platinum Ounce award in the Dynamics of the Year category. This is a national pharmaceutical industry award in the Russian Federation. At the 20th award ceremony, we were recognised as the most successful company in the commercial sector in the Russian Federation. This award is a recognition of Krka's strong business performance by the professional pharmaceutical public.
- At an online conference organised by IQVIA in Moscow as part of the 2020 IQVIA Rx Awards, Krka won the No. 1 Rx company in Retail award for the second year in a row.
- Once again, Krka researchers proved they are among the very best. At the innovation ceremony of the Chamber of Commerce of Dolenjska and Bela Krajina (GZDBK), Krka's innovations received nine awards, five of which were gold.
- At the end of November, the Slovenian Chamber of Commerce and Industry (GZS) bestowed two awards for best innovations on Krka: the gold award for a substitute medicine with a triple combination used in the treatment of high blood pressure (amlodipine/valsartan/hydrochlorothiazide), and the silver award for an improved production process of the active ingredient valsartan.
- In November, the Slovenian business daily *Finance* held its best annual report contest, and announced the Krka 2019 Annual Report as the winner in the large company category.
- The professional public attending the *Slovenia and Croatia Investor Day* conference organised jointly by the Ljubljana and Zagreb Stock Exchanges recognised Krka's efforts and strong business results, and awarded us the Prime Market Share of the Year award for the third consecutive year. For the second consecutive year, of all companies listed on the Ljubljana Stock Exchange, Krka received the Best Investor Relations Award.

Subsequent Events

- At its meeting of 27 January 2021, the Supervisory Board appointed the current President of the Management Board and Chief Executive Officer Jože Colarič for another six-year term commencing on 1 January 2022 and authorised him to draw up a proposal for appointing other members of the Management Board by November 2021 at the latest. The six-year term of office of the members of the Management Board expires on 31 December 2021.
- From 1 January 2021 to 15 April 2021, we acquired 30,443 treasury shares. At the end of this period, Krka held 1,572,217 treasury shares, accounting for 4.794% of total shares.

Corporate Governance Statement

Corporate governance of Krka is based on a two-tier system. The Management Board runs the Company and is controlled 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 the:

- Annual General Meeting (AGM);
- Supervisory Board; and
- Management Board.

Annual General Meeting

Pursuant to the provisions of the Slovenian *Companies Act*, the Company's highest body is the Annual General Meeting (AGM). This is where shareholders participate in the Company's governance and where all fundamental and statutory decisions are taken. Each share, except for treasury shares, carries 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 one month before the due date. Upon request, all the materials for each AGM can be viewed at the Company's registered office from the day of the call.

All shareholders entered in the shareholder register as at the record date, which is published in the notice, have the

right to attend the AGM and vote. The same applies to their representatives and proxies.

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

In the AGM notice, in accordance with Item 6.2 of the *Corporate Governance Code*, the Company requests all major shareholders to publicly disclose their investment policies as regards the stakes they are holding in the Company, in particular their voting policy, the type and frequency of their engagement in the Company's governance, and the dynamics of their communication with the Company's managerial and supervisory bodies.

At the **26th AGM** of **9 July 2020**, the shareholders:

- Received information about the 2019 annual report from the Management Board, including the remuneration of Management and Supervisory Board members, the auditor's report, and the report of the Supervisory Board on its verification and approval of the *2019 Annual Report*;
- Adopted the resolution on the appropriation of accumulated profit for 2019;
- Discharged the Management and Supervisory Boards of liability for 2019;
- Elected Jože Mermal, Matej Lahovnik, Julijana Kristl, and Boris Žnidarič Supervisory Board members for a five-year term commencing on 21 August 2020;
- Authorised the Management Board for a period of 36 months to acquire treasury shares. Total treasury shares, however, must not exceed 10% of share capital. The Company can acquire treasury shares on the regulated market at respective market prices, or outside the regulated market. The purchase price must not fall below the book value of the share and must not exceed 25-fold earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group. Treasury shares can be withdrawn under a simplified procedure to debit other profit reserves.

According to the 2021 financial calendar, the AGM is due on 8 July. The call, including the proposed resolutions, the meeting venue and eligibility conditions will be published in the SEOnet system of the Ljubljana Stock Exchange,

the ESPI system of the Warsaw Stock Exchange, the newspaper *Delo*, and on the Krka website.

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 management of the business, and selects and appoints members to the Management Board. The body meets at least four times a year. In accordance with the provisions of the *Articles of Association*, the Supervisory Board 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* (ZGD-1). It primarily approves (i) the appointment, removal, and remuneration of the Head of Internal Audit; (ii) the act regulating the purpose, meaning, and duties of Internal Audit; and (iii) the annual and multi-year plans of Internal Audit. It is also informed about the annual report of Internal Audit. The President of the Supervisory Board concludes a contract with an external auditor.

The **composition** of the Supervisory Board is stipulated by the Company's *Articles of Association*. The Supervisory Board is composed of nine members: six are elected by the AGM, and three employee representatives are elected by the Company's Works Council. 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.

The 26th regular AGM was held on 9 July 2020. As the terms of office of Jože Mermal, Andrej Slapar, Julijana Kristl, and Boris Žnidarič had expired, the AGM elected Jože Mermal, Matej Lahovnik, Julijana Kristl, and Boris Žnidarič to a new five-year term of office. There are another two Supervisory Board shareholder representatives. Borut Jamnik was elected by the AGM on 6 July 2017, and Mojca Osolnik Videmšek on 4 July 2019.

The President of the Supervisory Board is Jože Mermal. His deputies are Matej Lahovnik, the shareholder representative, and Franc Šašek, the 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, especially the Slovenian Directors' Association, and other

good practice recommendations, particularly the *Slovenian Corporate Governance Code*.

The remuneration, reimbursement, and other

benefits of Supervisory Board members do not directly depend on Company performance and are disclosed in the financial report under the Note entitled 'Related Party Transactions'. In addition to attendance fees, members receive fixed amounts for exercising their functions. Amounts of all remuneration types were determined by the resolutions of the 16th regular AGM in 2011.

Members report to the Company and competent institutions on any acquisitions or disposals of Company shares. Krka makes the information public. Please find the disclosure on how many Krka **shares** are held by Supervisory Board members in 'Related Party Transactions' in the financial report.

Members of the Supervisory Board must consider the Company's objectives in their work and subordinate any personal interests or interests of third parties accordingly. All members have completed the questionnaire on conflicts of interest, which is available on the Krka website. The *Rules of Procedure of the Supervisory Board* outline members' conduct in any case of a **conflict of interest**. The document is available at <http://www.krka.biz/en/for-investors/documents/corporate-governance-documents/>.

The work of the Supervisory Board and the related committees in 2020 is detailed in the report of the Supervisory Board.

Shareholder Representatives

Jože Mermal

President of the Supervisory Board

Jože Mermal, born in 1954, is from Ljubljana. He holds a university degree in economics. Since 2019, when BTC introduced the one-tier management system, he has been acting as the president of the company's management board. He had been successfully managing BTC for over 26 years before that. He has worked in many management positions since 1978.

He initiated and managed the project of restructuring and transforming public warehouses into a successful, dynamic, and rapidly expanding company that has also become one of the largest international business, shopping, sports, and entertainment centres: BTC City. As the founder and strategist of BTC, an advanced company, 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 management, the company has established connections

with long-term business partners through various activities and is becoming a unique business ecosystem, seeking new opportunities and finding challenges in a wide society, globalisation, innovation and sustainable development.

Partnering 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. Three projects – the Crystal Palace, the Radisson Blu Plaza Hotel, and Ikea – have already been completed. 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 main function is the development of a start-up business ecosystem. He also holds key managerial functions in various sports organisations and at international sporting events.

BTC itself has received many awards and prizes for various projects in its wider environment under Mermal's management, as he participates in cultural, sporting, educational, humanitarian, and scientific events, which he supports and is personally involved in due to his wide range of interests.

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 supporter of culture and received the title of 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 the south-eastern Europe. In 2013, the Municipality of Ljubljana conferred the Marjan Rožanc Award on Mermal for achievements in sports. In 2014, the Chamber of Commerce and Industry of Slovenia awarded him for exceptional business and entrepreneurial achievements in the category of large companies for the year 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, followed by the highest managerial lifetime achievement award, the Best Manager of Southeast and Central Europe 2016 award, which is bestowed by the Independent Agency for the Selection and Promotion of Managers. He 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 selection of 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 the Lifetime Achievement Award in Management to Jože Mermal.

Prof. Dr Matej Lahovnik

Deputy President of the Supervisory Board

Matej Lahovnik holds a PhD in economics. He is a full professor at the School of Economics and Business at the University of 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. He was twice appointed Minister of Economic Development and Technology to the Government of the Republic of Slovenia. During negotiations for Slovenia's accession to the OECD, he was leading the negotiation teams for corporate governance and investments.

He took part in several scientific and research projects on business behaviour and financial institutions in the transition period, the strategy of the Slovenian economic development and competitive strategies of Slovenian and Croatian companies, company acquisitions in the countries in transition, and market regulation after accession to the EU. He has authored or co-authored many papers on strategic management, company acquisitions and mergers published in scientific and research journals and at conferences. He has co-authored a scientific monograph, and authored or co-authored two university textbooks. He is also vice-president of the supervisory board of Mercator.

Dr Boris Žnidarič

President of the Human Resource Committee

Boris Žnidarič holds a PhD in social sciences and a master's degree in law. Until his retirement, he served on the management board of Kapitalska družba, d. d., Ljubljana. Earlier he held various roles at the Triglav Group insurance company. He was the deputy 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 in 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 department for prevention and detection of insurance fraud. Before taking up that position, he was an adviser to the member of the management board for the strategic human resource management in the Triglav Group, and an assistant director for legal, human resources, and general affairs at the Ljubljana unit.



Jože Mermal

President of the
Supervisory Board



Prof. Dr Matej Lahovnik

Deputy President of the
Supervisory Board



Franc Šašek

Deputy President of the
Supervisory Board



Borut Jamnik

President of the
Audit Committee



Prof. Dr Julijana Kristl



Dr Boris Žnidarič

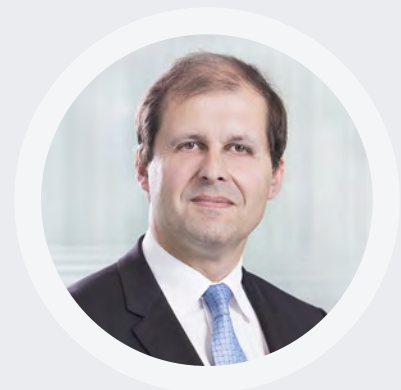
President of the
Human Resource Committee



Dr Mateja Vrečer



Mojca Osolnik Videmšek



Tomaž Sever

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.

Borut Jamnik

President of the Audit Committee

Borut Jamnik, born in 1970, is from Ljubljana. He graduated from the Faculty of Natural Sciences and Engineering at the University of Ljubljana, and started his career at the Agency of the Republic of Slovenia for Restructuring and Privatisation. After completing an internship, he led many ownership transformation projects. Later, he started working at Kapitalska družba, d. d. (Pension Fund Management), where he gained experience in IT and analysis, and was involved in establishing the First Pension Fund in Slovenia. In the periods 2003–2005 and 2008–2011, he was the chairman of the management board at Kapitalska družba and, in between, a board member at Hit and Probanka Asset Management, first as a management consultant and later as a management board member. In October 2011, he became the chairman of the management board at Modra zavarovalnica, d. d., where he is responsible for asset management, compliance, planning and controlling, as well as legal and HR matters. Until 2018, he was a member of the management board of the European Association of Public Sector Pension Institutions (EAPSPI). The Association brings together the representatives of pension fund management institutions from 16 European countries, actively involved in constructing a social Europe. They exchange experience and good practices regarding the development and implementation of pension schemes.

At the Slovenian Directors' Association (SDA), where he presided from 2012 until 2020, Borut Jamnik was engaged in the development of expertise and practice in corporate governance and supervisory and management board functions. Since 2020, he has chaired the Policy Committee of the SDA. He is a member of the Slovenian Insurance Association, and a Supervisory Board member at the Nova KBM bank. As an executive and member on the supervisory boards, he has been engaged in various complex corporate campaigns and contributed to resolving complex business issues with his long experience and negotiation skills.

Mojca Osolnik Videmšek

Mojca Osolnik Videmšek, was born in 1966 and holds a university degree in economics. She is director of GB Leasing, where she is primarily responsible for finance, general support services, and risk management. From 2014 to 2019 she was management board member at Gorenjska banka, d. d. in charge of risk management,

financial management and support, legal affairs, and corporate compliance.

Before taking up employment with Gorenjska banka, she was responsible for various demanding areas of work at NLB, d. d., primarily in the area of corporate governance of the NLB Group. As director of Capital Investments Management and Control she sat on several supervisory boards and audit committees in subsidiaries in Slovenia and abroad. She was also director of the Office of the Management Board and Secretary General at NLB.

She has experience in dealing with challenging tasks, also in public administration. Between 2001 and 2003, she was director of the Administrative Office of the Prime Minister of the Republic of Slovenia and, for a short period of time in 2000, Secretary General at the Ministry of Foreign Affairs. From September 1994 until April 1999, she worked as head of the Office of the Prime Minister of the Republic of Slovenia. She has extensive experience in governance and control. She holds a certificate from the Slovenian Directors' Association. For three terms of office, she sat on the Management Board of the Slovenian Directors' Association.

Prof. Dr Julijana Kristl

Juliana Kristl was born in 1953. She holds a PhD in pharmaceutical sciences and is a professor at the Faculty of Pharmacy at the University of Ljubljana, where she has been employed since 1977. In the meantime, she has upskilled in the pharmaceutical industry and at the University of Geneva.

During her career, she has served as Vice-Dean, Head of the Chair of Pharmaceutical Technology, Dean of the Faculty of Pharmacy for two terms, and for two terms as Vice-Rector at the University of Ljubljana. She has been acting as a member of many prominent commissions and committees at the state and university levels.

Her scientific career started in the area of pharmaceutical technology. Her greatest achievements include development and implementation of pharmaceutical nanotechnology in Slovenia. Her initial work focused on development and evaluation of active substance delivery systems supporting innovative modes and new mechanisms of treatment. Her notable achievements include development of lipid and polymer nanostructures, discovery of mechanisms for increasing biological availability, and understanding the correlation between the structural composition of nanoparticles and the real-time cell response after coming into contact with them. She also does research in nanofibres. Her achievements ranked her among the internationally acclaimed pharmaceutical nanotechnologists. Her acclaim is

reflected by the number of times her published works have been cited, invitations to lecture, assess doctoral theses and presentations at acclaimed universities, and projects of the European research agencies, and in many reviews of international previews.

Throughout her professional life she has been dedicated to research, gaining and sharing knowledge with students and the professional community. She has set high professional goals and always looks towards future. Her knowledge and experiences are solid foundations for working on the Supervisory Board of Krka.

Employee Representatives

Franc Šašek

Deputy President of the Supervisory Board

Born in 1967, Franc Šašek is an organisational sciences graduate. He joined Krka in 1984 and is the Head of Technical Services. He has worked in engineering and technical services since the beginning, where he was also a technologist, the Head of the Technical and Technological Preparations Department, and later served as a Senior Specialist in maintenance and project management. In 2004, he was actively engaged in implementing the business process management system (SAP) as the SAP PM-maintenance project team leader and was later appointed process owner for maintenance in the Krka Group. Since 1999, he has also worked in quality assurance as a certified quality officer and quality trainer. As a certified internal quality auditor, he also conducted internal audits in the period from 2000 to 2013. He is jointly responsible for the development and maintenance of the integrated quality system at the Company.

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

Dr Mateja Vrečer

Mateja Vrečer was born in 1966 and has worked at Krka since 1990. She started out as a pharmaceutical engineering graduate and later passed the certification examination in pharmaceutical engineering, earned a master's degree, and earned a doctorate in pharmaceutical sciences. She first worked in Research and Development, where she prepared technical documentation for proposed new products. After their approval, she managed projects leading to registrations

and product launches in Slovenia. Since 1997, she has been engaged in quality management and was appointed Deputy Director of Quality Management. Since March 2007, she has also served as the Head of International Quality Assurance. In September 2011, she was appointed Director of Quality Management.

She was an employee representative of the Krka Supervisory Board in the 2005–2009 and 2009–2014 terms. In June 2014, she was re-elected for her third term of office. The Works Council elected her 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 acquired a master's degree in management and organisational sciences. He has worked at Krka since 1995. He is Deputy Director of Sales and Director of Region Central Europe, entrusted with the following tasks: market research, proposing and developing Krka's presence in individual markets, defining product range, proposing pricing strategies for individual markets, being involved in planning sales activities, designing, developing and managing distribution channels, and taking part in the creation of sales networks abroad. Before joining Krka, he worked for IBM Slovenia from 1992 to 1995, where he was initially a sales representative for information systems, and later led information system installation projects.

He was already a member of the Krka Supervisory Board as an employee representative in the 2005–2009 term, was re-elected 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 Supervisory Board as an employee representative for another term of office, commencing on 21 June 2019.

Independent Expert, Member of the Audit Committee

In accordance with Article 280 of the *Companies Act* (ZGD-1), 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 Expert on Accounting and Auditing,
Member of the Audit Committee*

Certified auditor, Borut Šterbenc, born in 1978 in Ljubljana, holds a university degree in economics. He graduated from the School of Economics and Business, University

of Ljubljana. On 1 January 2020 he took up the role of chairman of the Management Board of Kolpa, d. d., Metlika, and chairman of Kolpa Holding, d. o. o. Up to 2011 he was a project manager at KPMG where he planned, led, and conducted complex audits at many Slovenian companies, including Krka, Intereuropa, Sava, NEK, and Lama. Borut 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 and has been entered in the register of certified auditors at the Agency for Public Oversight of Auditing (Agencija za nadzor nad revidiranjem). 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 **duties** are to:

- Manage the Company and make business decisions directly and independently;
- Adopt the development strategy of the Krka Group, with the prior approval of 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 is **composed** of five members:

- President of the Management Board;
- Three members; and
- A worker director who represents the employees' interests regarding human resource and social issues.

The **term of office** of Management Board members is six years. Members can be reappointed.

The Management Board's **operational functions and assignment of duties** are defined by the *Rules of Procedure of 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 permits direct cooperation between the Management Board and directors of organisational units.

The following bodies assist the Management Board:

- Director's Committee;
- Sales Committee;
- Development Committee;

- Quality Committee;
- Investment Committee;
- Human Resource Committee;
- Information Technology Committee;
- Economics and Finance Committee; and
- Corporate Identity Committee.

The committees bring together Management Board members, managerial staff, and experts from individual sectors at Krka. They prepare business policies and strategic guidelines by individual areas and have some decision-making responsibilities relating to the implementation of annual plans.

Emoluments, reimbursements, and other benefits

for Management Board members are defined in work contracts drawn up between the Supervisory Board and individual Management Board members. The Supervisory Board adopts the *Rules Defining the Bonus Element of Management Board Remuneration*, and also determines remuneration for Management Board members. In accordance with the *Corporate Governance Code*, the Supervisory Board adopted the **Management Board Remuneration Policy** in 2010. The Supervisory Board amends or updates the two documents in the light of business conditions.

Payments to Management Board members are made **in cash** and presented in financial statements under the Note 'Related Party Transactions', which also discloses the **ownership of Krka shares** by Management Board members.

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

Management Board members must disclose any **conflicts of interest** to the Supervisory Board, and notify other Management Board members accordingly. No member of the Management Board of Krka is a member of the management or supervisory bodies of any company outside the Krka Group.

At the 26th AGM of 9 July 2020, the shareholders adopted a resolution **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 programme of repurchase of treasury shares on the web portal of the Ljubljana Stock Exchange SEOnet (<http://seonet.ljse.si>).

**Jože Colarič**

President of the
Management Board and CEO

**David Bratož**

Member of the
Management Board

**Dr Aleš Rotar**

Member of the
Management Board

**Dr Vinko Zupančič**

Member of the
Management Board

**Milena Kastelic**

Member of the Management Board,
Worker Director

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.

Jože Colarič

President of the Management Board and CEO

Jože Colarič was born in 1955 in Brežice. After graduating from secondary school in Novo mesto, he studied at the School of Economics and Business in Ljubljana, and graduated in 1979.

He has worked at Krka since 1982, starting in the Finance Sector, where he was initially Head of Foreign Currency Payments, and then Assistant Director. In 1989, he took

charge of exports within the Import-Export Sector, and two years later became Deputy Director of Import-Export.

In early 1993, he was appointed Deputy Chief Executive for Marketing and Finance, and in September of the same year also became Director of Marketing and Sales.

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

At its meeting of 12 July 2004, the Supervisory Board appointed him President of the Management Board and Chief Executive Officer. His five-year term of office began

on 1 January 2005. The Supervisory Board appointed him President of the Management Board at its meeting of 21 January 2009 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 and built solid foundations for growth. Jože Colarič runs the Company by focusing on Krka's in-house knowledge, new product development, annual investments, recruitment, and regular dividend payments. On 21 January 2015, the Supervisory Board unanimously appointed him President of the Management Board for another six-year term of office, commencing on 1 January 2016. At its meeting of 18 November 2015, the Supervisory Board unanimously approved the Management Board proposed by Jože Colarič for the term of office from 2016 to 2021.

Dr Aleš Rotar

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

Aleš Rotar was born in 1960 in Zadar, Croatia. He 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 gained an international MBA from IEDC, Brdo. He earned his doctorate from the Faculty of Pharmacy in 2000.

He started working at Krka in the Stability Department in 1984. In 1991, he became 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 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 for the period from 31 July 2007 to 31 December 2009. He has been Director of Research and Development since 2002. At its 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. Aleš Rotar has contributed significantly to the know-how and establishment of business functions relating to research and development at Krka. Owing to his strong performance and having been put forward by Jože Colarič on 18 November 2015, the Supervisory Board unanimously appointed Aleš Rotar to the Management Board for a new term of office from 2016 to 2021.

Dr Vinko Zupančič

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

Vinko Zupančič was born in 1971 in Novo mesto. He completed his secondary education in Novo mesto. He graduated from the Faculty of Pharmacy in 1996 and gained a master's degree in pharmacy. He passed a certification examination in pharmacy in 1998 and earned a doctorate from the Faculty of Pharmacy in 2010.

He joined Krka in 1997 as an intern in Warehousing and Transport of Product Supply. In 1998, he became a warehouse technologist and then a senior warehouse technologist. In 2000, he assumed the job of assistant to the head of Warehouse and Transport Services and in 2002 became Deputy Head of Supply Chain. On 1 February 2004, he was appointed Director of Krka's representative office in Bangalore, India. He returned to Krka in Slovenia on 1 July 2005 and became Head of Supply Chain at 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 manufactures most of the active pharmaceutical ingredients and raw materials it requires, which is a great competitive advantage of the Company. Vinko Zupančič has made a key contribution to the success of this strategy. Having been put forward by Jože Colarič at the meeting of 18 November 2015, the Supervisory Board unanimously appointed Vinko Zupančič to the Management Board for a new term of office from 2016 to 2021.

David Bratož

Member of the Management Board

David Bratož was born in 1976 in Novo mesto. He holds a university degree in economics. After secondary school in Novo mesto, he enrolled at the School of Economics and Business at the University of Ljubljana, where he graduated in finance in 2000.

He began his career at Krka in 2001 in the department of Finance, where he was responsible for several major projects. In 2003, he began working in Sales, Region Central Europe, and was primarily in charge of the Polish market. Owing to his good performance, he was appointed Director of Krka - Polska in 2007, where he managed operations in marketing, sales, production, and distribution. 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, doubling its sales, quantity, and range of manufactured products. The subsidiary currently employs approximately 800 people. Krka - Polska and David Bratož received several awards during his management.

David Bratož is familiar with all the business functions of a larger enterprise. At its meeting of 18 November 2015, having been put forward by Jože Colarič, the Supervisory Board unanimously appointed David Bratož to the Management Board for a term of office from 2016 to 2021.

Milena Kastelic

*Member of the Management Board, Worker Director;
Head of Semi-Solid, Liquid and Other Products*

Milena Kastelic, born in 1968 in Novo mesto, holds a degree in food technology. After graduating from secondary school in 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 has been employed at Krka since 1992. Throughout her career, her work has been closely linked to production, herbs, herbal medicines, and non-prescription products, as well as prescription pharmaceuticals. 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 managed until April 2018. Today, Milena Kastelic is Head of Semi-Solid, Liquid and Other Products.

As Krka's internal auditor for 15 years, she has contributed to improving business processes in the Company. This function gave her the opportunity to become familiar with other organisational units, the importance of close connections between them, and the results of mutual cooperation.

Milena Kastelic is well-trusted by the employees. Consequently the Works Council put her forward as the new Worker Director at the 15th regular meeting of 28 September 2015. On 18 November 2015, the Supervisory Board unanimously appointed her to the Management Board for the term of office from 2016 to 2021.

2020 Management and Supervisory Board Diversity Policy

In 2020, the Management and Supervisory Boards adopted the *Diversity Policy* and published the document on the corporate website.

The bodies closely followed recommendations by the Slovenian Directors' Association for voluntary pursuit of gender diversity in management and supervisory bodies. By the year 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 2020, women accounted for 33% of the Supervisory Board structure and constituted 29% of the Management and Supervisory Boards.

Key areas of the *Diversity Policy* are gender, age, and qualification profile diversity. The policy aims at balanced gender structure, suitable interdisciplinarity and age structure allowing for transfer of experiences and knowledge. The policy addresses primarily diversity of the Management and Supervisory Boards, but the Company intends to apply it rationally to all management levels.

Krka provides its employees with equal opportunities, regardless of their gender, race, colour, age, medical condition or disability, religious, political or any other belief, trade union stewardship, national or social origin, family status, financial condition, sexual orientation, or other personal particulars.

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

Governance of the Krka Group

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

Uniform rules on governance, organisation, and operation apply to all companies in the Krka Group, unless otherwise required by local legislation. The controlling company sets the strategies and objectives of all individual subsidiaries in the Krka Group and monitors implementation of plans. To ensure cohesive management and supervision across the Group, the Management Board of the controlling company also act as the Annual General Meeting of all subsidiaries.

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

Corporate Compliance



Corporate integrity, compliance and transparency of operations are important for any business management and apply to all levels of business operations, employees, and third parties related to business companies.



Krka's *Code of Conduct*, containing principles and rules of ethical conduct, good business practice, and standards of conduct, is the umbrella document for this area. This framework arrangement is a guideline, while national legislation specifics and transparent business practices must be considered in subsidiaries. The *Code of Conduct* applies to all Krka employees. It emphasises that all employees must endeavour to comply with the principles of ethical, uncorrupted, and legal conduct.



At the Group level, we provide for education and employee awareness of the importance of corporate compliance and corporate integrity. Any breach of the *Code of Conduct* or potential fraudulent, corrupt, or other non-compliant activities at the expense of Krka are regulated by internal documents and relevant legislation.

We have set up the entry site at compliance.officer@krka.biz for reporting any suspected irregularities. The reports are considered by the compliance officer, who appoints a working team for each case separately by including experts on relevant issues. Anonymity is guaranteed to reporters and each report is examined thoroughly. When this stage is complete, we adopt corrective measures if necessary.

We endeavour to continue to foster the culture of ethics and protect Krka's reputation and property. When working and carrying out tasks, all employees must keep in mind the fundamental ethical principles of honesty, loyalty, professionalism and applicable regulations, and Krka's internal rules. We are working to raise employee awareness about fraud, non-compliance, and other infringements, ways of managing them, and accountability during detection and reporting.

A Chief Compliance Officer is appointed at the Krka Group level, whose autonomous and independent remit is to monitor corporate integrity. He liaises with coworkers in the areas of professional-and-administrative assistance, Legal Affairs, and employees form particular organisational

units who provide advice how to manage compliance in their respective areas.

Compliance also applies to personal data protection at the level of the Krka Group. Authorised persons are in charge of that in subsidiaries. We provide information about the importance of personal data protection and the rights of the individual via internal bulletins and websites.

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. Updates to the plan are planned every year. The plan commits us to constant improvements in the said areas.

Internal Audit

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

In line with the 2020 work plan, seventeen regular internal audits were conducted and two based on the current risk assessment. With the latter two, Internal Audit also followed the recommendations of the Institute of Internal Auditors (IIA), which suggested performing internal audits in areas that could be exposed to major risks related to the COVID-19 pandemic. All 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. 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 audits were conducted in the following areas: sales, pharmaceutical production, industrial property, biotechnology, technical services, medical research and pharmacovigilance, technical and computer system validations, information technology management, and liquidity and credit risk management. Regular internal audits were also conducted in several subsidiaries and representative offices abroad. Moreover, internal auditors provided consulting services in line with the aforementioned standards.

Internal auditors gave assurances that the audited areas had functioning and effective internal control systems in place for achieving set objectives. However, improvements

could be made, so they made recommendations, categorised them by individual risk levels, and regularly verified their implementation.

Internal auditors also work with the Krka Supervisory Board and its Audit Committee as well as with external auditors. In 2019, the third regular external quality audit was conducted with respect to Internal Audit operations. We received a positive opinion.

Internal Controls and Risk Management Relating to Financial Reporting

The Krka Group has established internal controls, i.e. guidelines and procedures that it implements at every level of operation to manage risks related to financial reporting. The purpose of internal controls is to ensure the reliability of financial reporting, and compliance with the applicable legislation and other internal and external regulations. The introduction of unified information systems in subsidiaries and business intelligence development increase the efficiency in the exchange of accounting data between subsidiaries and the controlling company, and thus the control over this information.

Accounting controls are based on the principles of veracity and segregation of duties, transaction controls, accuracy of accounting records, reconciliation of accounting balances and the actual balance, separation of recordkeeping from payment transactions, professionalism of the accounting staff, and independence. Accounting controls are closely linked to information technology controls, which, among other things, ensure restrictions and the supervision of 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 on an annual basis.

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 subsidiaries in the Krka Group.

External Audit

The audit firm Ernst & Young d. o. o., Ljubljana, audits the financial statements of the controlling company and the consolidated financial statements of the Krka Group. The external auditor reports its audit findings to the Management Board, Supervisory Board, and the Audit Committee of the Supervisory Board.

Transactions between the Company and the audit firm Ernst & Young d. o. o., Ljubljana, and transactions between Group companies and individual audit firms are disclosed in the 'Notes to Financial Statements', section 'Transactions with the Audit Firm'.

Composition of the Supervisory Board of Krka as at 31 December 2020

Name and surname	Jože Mermal	Borut Jamnik	Matej Lahovnik ¹
Function	President	Member	Deputy President
First appointed	2015	2017	2020
Term of office until	2025	2022	2025
Representative of shareholders/employees	Shareholders	Shareholders	Shareholders
Attendance at meetings	7/7	7/7	2/2, since member
Gender	Male	Male	Male
Citizenship	Slovenian	Slovenian	Slovenian
Year of birth	1954	1970	1971
Education and qualifications	University degree in economics	University degree in mathematics	PhD in economics
Independent according to <i>Corporate Governance Code</i>	Yes	Yes	Yes
Committee membership	–	President of the Audit Committee	Member of the Audit Committee
Attendance at regular committee meetings	–	6/6	1/1, since member

¹ Member since 21 August 2020

² Member of the Audit Committee until 8 September 2020

The composition and remuneration of the Supervisory Board members are disclosed in the section 'Related Party Transactions'.

Conflict of Interest in the Financial Year

In 2020, no permanent or relevant conflicts of interest were identified for any Supervisory Board member. Statements of independence are published on the Company's website.

Membership of Supervisory Bodies of Other Companies

Members of the Supervisory Board, especially representatives of shareholders, 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.

External Members of Committees as at 31 December 2020

Audit Committee

Name and surname	Borut Šterbenc
Function	Independent external expert of the Audit Committee in accordance with Article 280 of the Companies Act
Attendance at meetings	6/6
Gender	Male
Citizenship	Slovenian
Year of birth	1978
Education and qualifications	Holds a university degree in economics with experience in planning Leads and conducts complex audits, is a certified auditor Entered in the register of certified auditors at Agency for Public Oversight of Auditing
Independent according to the <i>Corporate Governance Code</i>	Yes
Membership of supervisory bodies of other companies	Member of the supervisory board of Pokojninska družba A, d. d.

Julijana Kristl	Boris Žnidarič	Mojca Osolnik Videmšek	Franc Šašek	Mateja Vrečer	Tomaž Sever
Member	Member	Member	Deputy President	Member	Member
2010	2016	2019	2009	2005	2005
2025	2025	2024	2024	2024	2024
Shareholders	Shareholders	Shareholders	Employees	Employees	Employees
7/7	7/7	7/7	7/7	7/7	7/7
Female	Male	Female	Male	Female	Male
Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
1953	1948	1966	1967	1966	1967
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
Yes	Yes	Yes	Yes	Yes	Yes
Member of the Human Resource Committee	President of the Human Resource Committee	Member of the Audit Committee	Member of the Audit Committee	Member of the Human Resource Committee	Member of the Human Resource Committee
2/2	5/5 ²	6/6	6/6	2/2	2/2

Composition of the Management Board as at 31 December 2020

Name and surname	Jože Colarič	Aleš Rotar	Vinko Zupančič	David Bratož	Milena Kastelic
Function	President	Member	Member	Member	Member, Worker Director
Area of work in 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, relations with trade unions and works council, certain administrative services	Acts as a workers' representative and represents their interests in human resources and social issues
First appointment to the Management Board	1997	2001	2010	2016	2016
Duration of current term of office	2021	2021	2021	2021	2021
Gender	Male	Male	Male	Male	Female
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1955	1960	1971	1976	1968
Education and qualifications	Holds a university degree in economics	PhD in pharmaceutical sciences	PhD in pharmaceutical sciences	Holds a university degree in economics	Holds a university degree in food technology
Membership of supervisory bodies of non-related parties	No	No	No	No	No

The composition and amount of remuneration of the Management Board members are disclosed in the section 'Related Party Transactions'.

Corporate Governance Code Compliance Statement

In 2020, Krka's code of reference was the *Corporate Governance Code* (hereinafter: the *Code*), adopted on 27 October 2016 by the Ljubljana Stock Exchange and the Slovenian Directors' Association. The *Code* entered into force on 1 January 2017 and is published on the Ljubljana Stock Exchange website.

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declare that in 2020 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 of the *Code* were not implemented in full in 2020. However, we have always worked towards realising these recommendations and providing for appropriate ways to implement them. Individual deviations from the *Code* in 2020 are explained below.

In the context of self-assessment, the Supervisory Board of Krka can establish an annual training plan for its members and determine indicative training costs. In 2020, no proposal for additional training was made, so the plan was not adopted (Item 13.1 of the *Code*).

Supervisory Board members themselves evaluate performance of the board by fully following the methods and *Supervisory Board Assessment Manual* prepared by the Slovenian Directors' Association. The evaluation procedure was carried out professionally and objectively. As there was no need for external professional support in 2020, an external assessment of the Supervisory Board's performance in collaboration with a specialised institution or other experts was not carried out (Items 14.2 and 14.4 of the *Code*). 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*.

Krka's *Rules of Procedure of the Supervisory Board* stipulate that 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 most important activities of the bodies. The *Rules of Procedure of the Supervisory Board* also state that the shareholder

representative is the first to assume the duties of the President, and only in the event of 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 15.4 of the *Code*).

In 2020, 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 5.7 of the *Code*).

Krka does not list any association of members of the Management and Supervisory Boards with any governance or supervisory bodies of non-related companies in the uniform tables (Attachments C1 and C2 to the *Code*) in section 'Corporate Governance Statement' of the *2020 Annual Report of Krka*. The information is included in members' CVs, which also state their managerial functions and duties (Items 5.5. and 29.5 of the *Code*). Data from Attachments C3 and C4 to the *Code* on the composition and remuneration are almost entirely disclosed in accordance with the recommendations of the *Code* (Items 5.6 and 29.7). Only for the purposes of comparability between the years, the Company discloses them in the same manner as before the *Code* entered into force, i.e. in the section 'Related Party Transactions' of the financial statement. The variable amount of the salaries is always disbursed in two parts, the first part is paid according to the interim results, and the second after the Supervisory Board confirms the annual report at their meeting, always together with the monthly salary for the following month (Item 21.2).

The Supervisory Board updated the criteria for the variable part of the Management Board remuneration in 2012, 2014, 2016, and 2018, when this was necessary due to additional duties of the Management Board arising either from the business strategy, change of business environment, or remuneration trends. However, the criteria were not determined every year in exactly the same way as stipulated by Item 12.10 of the *Code*, as the manner described above is better adapted to the actual needs of the Supervisory Board for monitoring work of the Management Board, which is largely related to biennial revision of the strategy.

The *Rules of Procedure of the Management Board* stipulate that members of the Management Board may become members of supervisory boards of non-related companies only after they inform the Supervisory Board of the Company accordingly and obtain the Supervisory Board's consent. This is a partial deviation from Article 19.6 of the Code, which addresses all companies, not only the non-related ones.

Krka publishes contact details for investors and the public on its website, but not the names of individuals (Item 28.2 of the Code), as several persons are in charge of various areas.

The Company also published the *Rules of Procedure of the Supervisory Board* and disclosed the composition, competences, and other aspects with regard to the operation of its bodies, and thereby all the essential information on corporate governance, in the 2020 'Corporate Governance Statement'. No other operational documents were published in 2020 (Item 29.9 of the Code).

According to the Code (Item 25.3), the company should replace the external auditor at least once in every seven years. Following a motion of the Audit Committee and the Supervisory Board, the AGM of Krka appointed the current auditor for another three-year term. The same external auditor will therefore audit Krka's business operations for more than seven years. However, the audit firm did replace the auditing partner and the coordinator responsible for audit performance in compliance with International Auditing Standards.

Two members of the Supervisory Board, i.e. employee representatives, could be regarded as members of the expanded management according to certain criteria (Item 11 of the Code), even though they cannot make decisions regarding the distribution of financial resources and employment independently, and cannot fully determine the strategy for their respective areas of work.

Krka also complied with most provisions of the code relating to companies listed on the Warsaw Stock Exchange, i.e. the Best Practice for GPW Listed Companies 2016. The discrepancies are explained in a separate document, published in the dissemination system of the Warsaw Stock Exchange.

Novo mesto, 15 April 2021

Signing 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

The Management Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declares that Krka adheres to the policies of the Krka Group relating to the **social sphere and human resources, respect for human rights and diversity, anti-corruption and anti-bribery management, and the environment.**

The Krka Group operates in accordance with the business model presented in the section 'Krka Group Business Model' and also monitors its own placement in various environments. Further information is available in the section 'Risk Management'.

Krka is committed to high ethical standards. The Krka *Code of Conduct* includes principles and rules of ethical conduct, as well as good business practices and standards of conduct in the Group, which are binding on all Krka employees. The *Code* is also the basis for all other Krka's internal rules. The guiding principle is to act in accordance with the highest moral standards, principles governing honesty, loyalty, and professionalism, and consistent compliance with regulations and guidelines provided by international organisations for the pharmaceutical industry, and with Krka's bye-laws. The *Code* is published on the Krka website. All Krka business partners are familiar with the *Code*, and we expect them to adhere to it when doing business with Krka.

The Krka Group places 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 of the entire Krka Group. Our success depends on employees' commitment, good and constructive relationships, as well as contemporary and stable management methods which guide our employees towards efficiency, proactivity, improvement, and development, and thus uphold Krka values. We try to make our overall operations reflect responsibility towards employees, the environment, and stakeholders. Krka values guide us when setting objectives, achieving results, and working with employees, as well as in managing them and developing their potential. Together, we encourage a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible, efficient, and sustainable work. Krka employees are known to be loyal, innovative, flexible, diligent, and focused on achieving business objectives and results of the Krka Group. For further information, please see the sections 'Employees' and 'Corporate Social Responsibility'.

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 health and safety at work. Smoking is prohibited at all Krka sites.

We respect human rights as defined in internationally recognised principles and guidelines. We operate in accordance with all regulatory requirements and standards relating to human rights in all countries where Krka operates. 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 threaten the dignity of another person. Any employee may report mobbing to the relevant company officer.

Krka's diversity policy applies the principle of integration and equal opportunities also in respect of the composition of the supervisory and management bodies, among others. In 2020, the Management and Supervisory Boards adopted a diversity policy, which is available to the public, in line with the recommendations of the Slovenian Directors' Association. See also 'Corporate Governance Statement', subsection '2020 Management and Supervisory Board Diversity Policy'.

The *Rules on Fraud Prevention, Detection and Investigation*, which are available to the public, govern the prevention of fraud and corruption, measures to combat it, and the responsibility of employees in its detection. Krka applies the principle of zero tolerance with regard to fraud

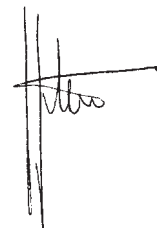
and corruption prevention, and corporate compliance. This means that no unethical, unprofessional, or unlawful conduct on the part of employees and business partners is allowed. We do not exploit Krka business opportunities, its assets, and information for personal, commercial, or third-party gain. We 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 in relation to our work. We ensure that persons who have access to inside information are aware of the confidentiality levels and sensitivity of such information. We have bye-laws governing trading in the Krka's financial instruments, and we have oversight mechanisms in place for employees and third parties that handle 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 which time they are prohibited from trading in Krka's financial instruments. You can find more on this topic in the Krka *Code of Conduct* and 'Corporate Governance Statement', subsection 'Corporate Compliance'.

We safeguard the environment and respect environmental regulations, while working in tandem with the local community and beyond. Our commitment to preserving the natural environment is set out in our environmental policy, and thereby we undertake to safeguard the environment in accordance with the newly issued ISO 14001:2015 standard, and to prevent or reduce our environmental impact to the largest extent possible. More information is available in the section 'Natural Environment'.

The non-financial risks faced by the Krka Group are addressed in the section 'Risk Management', and non-financial indicators and results of the aforementioned policies under the section 'Sustainable Development'.



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President of the Management Board and CEO


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Krka Group Development Strategy

The current development strategy of the Krka Group covers the five-year period from 2020 to 2024.

It was prepared by the Management Board, and the Supervisory Board of Krka agreed with the proposed strategy in November 2019. It includes all areas of operation within the Krka Group, focusing on the core pharmaceutical and chemical activity. The strategy considers the Krka Group as an international company, since it operates through subsidiaries and representative offices abroad, and cooperates with partners wherever it is present. It incorporates all business processes within the Krka Group, from development and production to marketing and sales, including all support processes, and is focused on reaching the highest possible added value for the Group as well as for investors. The Krka Group updates its development strategy every two years. The next update is planned in autumn 2021.

The development strategy is based on the mission, vision, and values of the Krka Group.

The foundation of the development strategy is an in-depth analysis of Krka's position in the global generic pharmaceutical industry. It presents characteristics of the originator and generic pharmaceutical industry, growth projections for the generic market, and Krka's placement in the international generic pharmaceutical industry. Based on this, possibilities and opportunities for further development and independent existence in the future were identified.

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

In addition to these starting points, it comprises three different categories: the 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. The strategy also includes a draft multi-annual development, financial, and investment business plan.

Part of the strategy concerns risk management, which is incorporated into 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 and is designed so that factors that could derail the objectives defined in the *Development Strategy* can be identified and managed in a timely fashion. Every time the *Development Strategy* is updated, the *Risk Register* is updated as well. Further information on risks is available in the section 'Risk Management'.

The achievement of strategic objectives is measured at three levels: the Krka Group, product and service groups, and business functions. The Group's performance criteria are monitored by the Management Board, while criteria at the level of product and service groups and business functions are monitored by the relevant committees (Sales Committee; Development Committee; Economics and Finance Committee; Information Technology Committee; Human Resource Committee; Quality Committee; and Corporate Identity Committee). The guiding principle in managing the system of criteria is to increase the competitiveness of the Krka Group as a whole and of individual companies within the Group.

In order to maintain and improve the Krka Group position in an international context, we use 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 quality management of all partnerships in the value-added chain.

Our Competitive Edge



Research and Development →

- Development of innovative generic medicines
- Unique strengths and new combinations, innovative pharmaceutical forms
- Highly trained researchers



Quality Management →

- Vertically integrated business model
- High quality of APIs and finished products
- Professional personnel



Marketing and Sales →

- More than 4,000 highly professional and highly skilled medical representatives
- Present in more than 70 countries
- In-depth knowledge of markets and brand recognition
- Innovative procedures for rapid market penetration



Financial Strength →

- Strong cash flow from operating activities and free cash flow generation
- Stable long-term dividend policy
- High dividend yield
- Treasury share repurchase programme

Krka Group Development Strategy for 2020–2024

Business growth and expansion

- Organic growth
- New products and therapeutic areas
- New markets
- Increased contract manufacturing
- Growth by acquisitions and through long-term partnerships

Research and development

- Up to 10% of sales revenue
- High percentage of new products
- High percentage of vertically integrated products

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Strengthened pharmaceutical and chemical research activities and an extended range of medicines

- Key therapeutic areas
- Promising therapeutic areas
- New therapeutic areas

Focus on markets and utilisation of sales potential

- Europe
- Central Asia
- China

-
- Quick product launching in selected markets
 - Penetration to the Chinese market (joint venture)

Average
annual growth
in terms of quantity
and/or value of
at least

5%

Stable dividend policy

- Taking into consideration investment and acquisition requirements
- At least 50% of net profit attributable to equity holders

Efficient development-and-production chain

- High standards of product quality
- Providing for market demand in terms of quantity
- Sales profitability
- EBITDA margin: 21%–25%
- ROE: 9%–12%

Quality

Continuous improvement of the integrated management and quality system

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Safe, effective, and high-quality products in compliance with the cGxP guidelines and regulatory requirements

Investments and financial stability

Stable and optimal investments in production, development, and infrastructure facilities

.....

- Advanced and high-quality technological equipment
- Reduced financial risks
- Stable dividend policy

Digitalisation of operations

- Effective introduction of information technologies
- High availability and information security of implemented solutions
- Automation and optimisation of processes and procedures
- Support and strengthened cooperation within the Krka Group and the supply chain
- Business intelligence support
- Added value for customers

Key Strategic Objectives of the Krka Group up to 2024

- ✓ To attain at least 5% average annual sales growth in terms of volume/value.
- ✓ To ensure high standards of product quality, safety, and efficacy.
- ✓ To ensure sufficient quantities of manufactured products through a streamlined development-and-production chain in a timely manner and in line with target sales growth and market needs.
- ✓ To focus on maximising the long-term profitability of the products sold from development and production to sales of finished products, including all other functions within the Krka Group.
- ✓ To ensure growth through long-term partnerships (including joint ventures) and acquisitions in addition to organic growth, when interesting target companies become available. The primary goals are to secure new products and/or markets.
- ✓ To ensure that new products and vertically integrated products account for the largest possible proportion in total sales in addition to the existing range of products also referred to as 'the golden standard'.
- ✓ To be among the first generic pharmaceutical companies to launch a selected product portfolio in selected key markets.
- ✓ To increase the competitive advantage of our product portfolio.
- ✓ To improve the cost-effective use of all assets.
- ✓ To drive innovation forward across all business functions.
- ✓ To maintain independence.





Key Strategic Guidelines of the Krka Group up to 2024

Markets

- To focus primarily on European, Central Asian, and Chinese markets.
- To maximise sales potential in all sales regions (Slovenia, South-East Europe, East Europe, Central Europe, West Europe, Overseas Markets).
- To focus especially on key markets (the Russian Federation, markets of Western Europe, Poland, Slovenia, Romania, Hungary, Ukraine, the Czech Republic, Slovakia, and Croatia), with an emphasis on key customers and key products.
- To include certain markets of the Region Overseas Markets among the key markets.
- To establish and strengthen our presence in Western European markets by operating through our own marketing-and-sales subsidiaries and by marketing products under our own brands (Krka and TAD Pharma).
- To seek opportunities for the acquisition of pharmaceutical companies, business acquisitions, and various types of long-term partnerships (including joint ventures) in selected markets in order to attain new products and thus enter new therapeutic areas and/or markets.

Products and services

- To strengthen the pharmaceutical and chemical sectors and increase the range of medicines in the key therapeutic areas of prescription pharmaceuticals (cardiovascular system, gastrointestinal tract, central nervous system, and pain relief) as well as in other therapeutic areas (diabetes, antiaggregant therapy, oncology, and urologicals) while entering new therapeutic areas. To introduce innovative products in key therapeutic areas (innovative combinations of two or three active ingredients, new strengths and pharmaceutical forms, and delivery systems).
- To increase the range of non-prescription products and animal health products, primarily products for companion animals, in selected therapeutic areas.
- To further develop health resorts and tourist services, and seek strategic partners outside the Krka Group.

Development and manufacture of products

- To allocate up to 10% of annual sales revenue to research and development.
- To start developing similar biological medicines and complex peptides through partnerships.
- To strengthen vertical integration from product development to manufacture.
- To ensure a permanent supply of incoming materials and optimise purchasing to continually reduce purchase prices.
- To develop generic medicines and prepare relevant registration documents prior to the expiry of data protection and obtain marketing authorisation before the product patent or marketing protection expires.
- To ensure management and further growth of established products while taking into account new regulatory requirements concerning safety and quality of medicines, and obtaining additional marketing authorisations for new markets.
- To manage and link data from various fields to provide product compliance.
- To increase outsourcing of production and development of certain active ingredients and finished products.

Quality

- To ensure functioning and improvement of the integrated management and quality systems, which provide for the manufacture of safe, effective, and quality products in accordance with cGXP guidelines and regulations on quality in the pharmaceutical industry.



Investments and financial stability

- To invest in production, development, and infrastructure facilities in a stable and optimal manner.
- To reduce the impact of financial risks on the Krka Group operations.
- To pursue a stable dividend policy and consider the Group's financial requirements for investments and acquisitions when determining the net profit share for dividend payout each year, and to allocate at least 50% of net profit of majority shareholders for dividends.

Digitalisation of operations

- To further pursue digitalisation of business operations by: i) introducing (digital) information technology into business processes in order to allow for automation and optimisation of processes and procedures; ii) supporting and strengthening cooperation within the Krka Group and the entire supply chain; and iii) ensuring appropriate data/information for making business decisions. Our aim is to offer our stakeholders added value.
- To introduce information technology efficiently and in compliance with regulatory standards, and ensure high availability (more than 99% for key information systems and services) and information security of the implemented IT solutions.

International group with responsibility to its business environment

- To strengthen all types of connections with external institutions and companies in the field of development and other fields.
- To strengthen professional and cost synergies within the Krka Group and maximise the utilisation of competitive advantages in the business environments of Krka subsidiaries abroad.
- To strengthen internationalisation within the Krka Group by managing employee potential in an international environment and ensure the activation of all human resource potential.
- To maintain our economic, social and environmental responsibilities to the environments in which we operate.
- To enhance the visibility and positive image of the Krka Group.
- To ensure corporate integrity, transparency, and corporate and business compliance.



Objectives by Markets

- To strengthen the reputable and well-known Krka brand in Krka's traditional markets (Slovenia, South-Eastern Europe, Central Europe, and Eastern Europe) among general practitioners, selected specialists and pharmacists, and to continue to market the majority of products under own brand names. To build reputation and recognition among target groups of doctors, specialists, who we will approach with medicinal products from new therapeutic areas.
- To strengthen the recognition of Krka (Krka and TAD brands) as well as its market position in Western Europe, primarily through subsidiaries and unrelated partners. To take advantage of the potential of the current range of products, expand the product range in the existing therapeutic areas while entering new therapeutic areas, and strengthen our position with pharmacists and selected target groups of doctors.
- To market Krka products under our own brands, enter new markets by acquisitions and establishing specialised local joint ventures in which Krka has the majority share (marketing authorisations, marketing, etc.), and continue with marketing through unrelated partners in overseas markets.



Product and Service Portfolio

Prescription pharmaceuticals

- To retain cardiovascular diseases, the central nervous system, the gastrointestinal tract, and the recently added new key area – pain relief – as the key therapeutic areas.
- To introduce innovative products, in addition to generic products, in the market of leading medicines (innovative combinations, new strengths and pharmaceutical forms, and delivery systems) in the key therapeutic areas.
- To supplement the range of combinations for the treatment of high blood pressure (with two or three active ingredients) and innovative combinations for the advanced concomitant treatment of high blood pressure and high cholesterol levels, and for pain relief.
- To supplement with new products the portfolio of medicines for the treatment of diabetes, medicines for antiaggregant therapy, oncology medicines, and medicines for the treatment of urinary tract diseases. We will enter the therapeutic areas of anticoagulant therapy and treatment of autoimmune diseases.
- To provide a wide range of medicines from other therapeutic areas with own products or products of unrelated partners (third parties).
- To expand our portfolio of medicines with similar biological medicines and complex peptides.
- To plan at least one new therapeutic area.
- To provide key sales products through the vertically integrated business model.
- To launch products with higher sales potential among the first generics – right after patent expiry.
- To adapt the registration of 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 launch at least one medicine with great sales potential and at least five medicines with less considerable sales potential at the Krka Group level every year.
- To start marketing at least one medicine with great sales potential on each key market every year.

Non-prescription products

- To strengthen all key therapeutic areas, including cough and cold remedies, medicines for pain relief, products for the gastrointestinal tract and metabolism, and vasoprotectives.
- To supplement the umbrella brands of cough and cold remedies, medicines for pain relief, and vasoprotectives with products with new ingredients and pharmaceutical forms.
- To supplement our portfolio with products for the treatment of diseases from the key therapeutic areas as regards prescription pharmaceuticals.

Animal health products

- To strengthen the key therapeutic areas of products for companion animals (antiparasitics and medicines for pain relief) and farm animals (antimicrobials and antiparasitics).
- To introduce new therapeutic areas and new products for companion animals (dermatologicals and medicines for the treatment of cardiovascular diseases).
- To supplement the range of products for companion animals with new combinations, pharmaceutical forms, and technologies.

Health resorts and tourist services

- To develop and improve health services, such as medical rehabilitation, programmes for maintaining and promoting health, and active leave programmes marketed under the Terme Krka brand in domestic and selected foreign markets.



Delivering on Objectives of the Krka Group in 2020

- In 2020, the Krka Group generated revenue in total of €1,534.9 million (of which revenue from contracts with customers on sales of products and services amounted to €1,530 million, while other revenue from contracts with customers on sales of material and other sales revenue constituted the difference), up 3% on 2019, which is 1% more than planned.
- Regional dispersion of sales among the sales 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%, in line with the plan.
- Prescription pharmaceuticals remained the most important product group, accounting for 85% of total sales, which is in line with our projections.
- EBITDA, EBIT and net profit were higher than planned. Their margins exceeded our plan as well.
- Although we planned 3% growth, the number of employees in the Krka Group remained at the 2019 year-end level.



Krka Group Business Objectives for 2021

- Sales of products and services are forecast to reach €1.535 billion.
- The proportion of sales in markets outside Slovenia is estimated to exceed 94%.
- Prescription pharmaceuticals will remain the most important product group, and are expected to account for more than 83% of overall sales.
- Profit is forecast to reach approximately €265 million.
- The total number of employees in Slovenia and abroad is projected to increase by just over one per cent.
- We plan to allocate €114 million to investments, primarily for expanding and modernising production facilities and infrastructure.

Macroeconomic Forecast for 2021

Dispersed international operations and a vertically integrated business model ensure stable performance at the Krka Group despite diverse macroeconomic conditions in individual key markets.

In 2020, following several consecutive years of positive macroeconomic trends, the economic activity in markets slumped due to restrictions to curb the COVID-19 pandemic, causing the gross domestic product (GDP) to fall. Macroeconomic forecasts for 2021 are favourable and expect economies to recover. In 2020, governments and central banks passed measures to stimulate economic growth and mitigate the negative impact of the pandemic. Fiscal support is expected to continue. Inflation risk remains low. Foreign exchange volatility increased due to uncertainties in financial markets, disproportionate measures for curbing the pandemic, and economic stimulus packages in individual countries.

Despite the negative economic trends in 2020 and a changing outlook, expectations with regard to the macroeconomic situation in sales markets in the upcoming years are moderately optimistic. Forecasts of the European Commission and international banks indicate that macroeconomic situation in our sales markets would stabilise in 2021.

2021 Macroeconomic Forecasts

Country	Pharmaceutical market growth (%)	Projected value of pharmaceutical market at wholesale prices (million)	FX rate (currency/€)
Slovenia	7	€820	Eurozone
Croatia	8	€1,400	7.6
Romania	8	€4,000	4.9
Russian Federation	0	€15,900	90
Ukraine	1	€3,100	33
Poland	3	€6,600	4.4
Hungary	4	€2,800	355
Czech Republic	6	€3,100	26
Slovakia	2	€1,500	Eurozone
Western Europe	2	€245,000	Primarily Eurozone
China	3–6	\$140,000	8

Sources (pharmaceutical market forecasts): internal estimates; Sources (foreign exchange rates): bank reports, internal estimates

Slovenia

In 2020, the economy saw a 5.5% drop due to the partial lockdown. All components of the demand experienced a decline, except government consumption, with private consumption plunging the most. Certain government measures were effective, as they prevented a surge in bankruptcies. The labour market was supported by public policy measures, so the fall in employment was lower than expected. Revenue from tourist services saw a steep decline. The economy is expected to recover in 2021 with projected GDP growth of approximately 5%. In 2022, GDP should return to pre-pandemic levels. Public finances recorded a substantial deficit in 2020 due to loss in revenue and additional expenses due to the measures adopted to mitigate the economic and social impact of the pandemic. Government deficit accounted for almost 9% of GDP and will decrease in the years ahead on the back of economic growth. It is expected to drop to 6.4% of GDP in 2021. Public debt rose to 82% of GDP last year and is expected fall to approximately 80% of GDP in 2021. Inflation was marginal in 2020 due to low energy prices and weak demand. In the coming years, demand is expected to rise and hence inflation as well. It is expected to increase to approximately 1% in 2021.

In 2021, we estimate the sales value of pharmaceuticals at approximately €820 million, or 7% more than the year before.

Croatia

In 2020, Croatian economy was heavily impacted by the pandemic. Economic contraction reached 9% at the annual level. In 2021, private consumption and major investment are expected to rise, causing a partial improvement of the situation and, in turn, output recovery. Domestic demand will remain the main driver of the economic recovery. Long-term travel and border crossing restrictions negatively impacted the exports and, above all, tourist services. Following the curb of the pandemic and elimination of restrictive measures, tourist industry is expected to recover in 2021, despite the significant uncertainty with regard to normalisation of the situation. In 2020, labour market conditions deteriorated, but even so there were no major lay-offs. In 2021, slow labour market recovery and approximately 5% economic growth are expected in 2021. In 2020, public finances deteriorated significantly because of the strong economic contraction and measures aimed at preserving employment and businesses. Government deficit constituted 6.5% of GDP. In 2021 and 2022, public finances are expected to improve. The government deficit is anticipated to decrease

to approximately 3% of GDP in 2021. In 2020, the public debt increased to almost 90% of GDP due to fall in the economic activity and government deficit growth. It is expected to drop to approximately 82% of GDP in 2021 and resume its pre-crisis downward path. Inflation is expected to remain stable and low. The inflation rate is anticipated to rise and settle at about 1%. In 2020, Croatia introduced the Exchange Rate Mechanism (ERM II) that provides for additional stability of the domestic currency.

We expect the value of the Croatian pharmaceutical market to grow by 8% in 2021, to approximately €1.4 billion.

Romania

In 2020, the economic situation was bad due to the COVID-19 pandemic. Even though the contraction of the economy was less severe at the annual level than initially expected, uncertainty about recovery over the upcoming years remains high. Real output is not expected to reach the pre-pandemic levels for a few years. In response to the COVID-19 pandemic, the national central bank reduced its key interest rate from 2.5% to 1.5% and purchased government securities worth more than RON 5 billion on the secondary market to support financing of the real economy and public sector. After the 5% drop in GDP in 2020, it is expected to grow by approximately 4%. The government deficit increased significantly, as fiscal expenditure rose substantially due to the crisis. In addition to that, pensions went up by 40% in September 2020. In 2020, the public debt climbed to 47% of GDP. The public debt from previous years is anticipated to increase further due to the rising government deficit. In 2020, inflation was running at 2.3% due to a slump in oil prices and is expected to remain at 2.5% in the forthcoming years.

We expect the value of the Romanian pharmaceutical market to grow by 8% in 2021 compared to 2020, reaching €4 billion.

Russian Federation

In 2020, GDP dropped by 3.1% in the Russian Federation. The recession was somewhat milder than in most other G20 countries, in particular due to a revised macroeconomic framework focused on exchange rate flexibility. This was aided by the fact that the Russian economy is relatively closed and has a large public sector, which cushions the negative impact on the employment and disposable income. Public investment came to a standstill because public resources were earmarked for public consumption. This is expected to remain elevated also in the future, while public investment is not likely to resume shortly. Due to a drop in the real disposable

income, private consumption will not contribute essentially to economic growth. Based on the assumption that fiscal stimulus is available in 2021 as well, 3% economic growth is expected. Government deficit in 2020 amounted to 4% of GDP as a result of fiscal stimulus, higher social transfers, and lower fiscal income due to the decrease in oil prices. The government deficit is expected to decrease in upcoming years. Public debt was 20.5% of GDP in 2020 and is expected to reach approximately 21% of GDP in 2021. The inflation rate went down, hitting its lowest level in February 2020 (2.3%), but rose to 4.9% by the end of the year. Consequently, real interest rates also went down. The Russian Federation nevertheless remains one of the few major economies with positive real interest rates. In the upcoming months, inflation is expected to rise even further.

We expect the value of the Russian pharmaceutical market to remain unchanged in 2021, reaching €15.9 billion.

Ukraine

In 2020, Ukrainian economy contracted by 5.1%. In 2021, economy is expected to grow by 4%, primarily on account of increased private consumption resulting from a 30-per cent rise in minimum wage. Even so, economic activity is anticipated to return to the pre-crisis level only at the beginning of 2022. How the government deals with the consequences of the slow-down in 2020 reforms will be a key factor. Political risk is rising due to the 2020 events, especially because of changes in government, the resignation of the Attorney General and reform-oriented politicians, constitutional court rulings, and management changes in the central bank. All this does not guarantee the necessary support of the International Monetary Fund and other foreign lenders to finance the government deficit. In 2020, government deficit accounted for 5.5% of GDP. It will be challenging for the government to finance the deficit projected to account for 4% of GDP in 2021. Public debt increased substantially in 2020, reaching 63% of GDP. It is expected that the public debt-to-GDP ratio will gradually reduce over the next few years. In 2020, inflation was moderate, between 1.7% and 5%, due to the slump in economic activity and lower energy prices, but started picking up towards the end of the year. In 2021, inflation is expected to stand at 5.5%, which will put pressure on the central bank to increase the policy interest rate.

We expect the value of the Ukrainian pharmaceutical market to grow by 1% in 2021, to €3.1 billion.

Poland

In the first half of 2020, the first wave of the pandemic caused a significant decrease in the economic activity due to restrictions imposed to combat the virus. In the third quarter, the economic activity rebounded rapidly due to the easing of restrictions; however, a surge of new infections cancelled out the economic recovery towards the end of the year. Real GDP dropped by 3% in 2020. In 2021, economic growth is projected to exceed 3%, which would be in line with the assumed easing of containment measures, roll-out of vaccination programmes, higher private consumption, and favourable labour market conditions. In 2020, government deficit increased considerably due to negative economic growth and measures passed to mitigate the effects of the pandemic. Government deficit accounted for almost 9% of GDP. In 2021, the government deficit is expected to drop to approximately 4% of GDP, primarily due to the anticipated economic recovery. In 2020, the public debt constituted 57% of GDP, and similar is projected for 2021. In 2020, inflation went up due to higher operating costs in the service sector, arising from COVID-19 containment measures, and higher food prices due to a poor harvest, despite lower energy costs. In 2020, inflation was running at 3.7%, while it is expected to drop to approximately 2% in 2021 due to the worsening labour market conditions.

Given the anticipated 3% growth, the value of the Polish pharmaceutical market is estimated at approximately €6.6 billion.

Hungary

Hungarian GDP dropped by 5.3% in 2020. In 2021 and the near future, gradual economic recovery is expected as a consequence of measures to stimulate the economic activity. Due to the anticipated increase in consumer confidence and disposable income, private consumption is expected to rise. In view of improved international competitiveness as a result of the forint depreciation, exports stand to benefit. Economic growth is projected to reach 4% in 2021. Public finances have deteriorated due to a slowdown in the economic activity and reduction of certain taxes and additional fiscal expenses on account of measures introduced to mitigate the economic impact of the pandemic. In 2020, the government deficit increased to 8.4% of GDP. Due to the economic recovery and lifting of the emergency measures, it is expected to drop to approximately 5% of GDP in 2021. Primarily owing to the large government deficit and revaluation of foreign currency debt, public debt increased substantially, hitting 78% of GDP last year. It is projected the public

debt-to-GDP ratio will remain at a comparable level in 2021. In the second half of 2020, the inflationary pressures eased and the annual inflation rate settled at 3.4%. The 2020 forint depreciation passed through into consumer prices, and the increasing excise duties will also fuel inflation. In 2021, inflation is estimated to get to 3.5%.

We expect the Hungarian pharmaceutical market to grow by 4% in 2021, and its value to reach €2.8 billion.

Czech Republic

Private consumption, the main growth driver in previous years, fell significantly in 2020. Consequently, GDP plunged by almost 6% last year. The economic activity is expected to return to the 2019 levels towards the end of 2022 – depending on the evolution of the pandemic, effectiveness of the government measures in support of the economy, and how quickly global demand rebounds. Economic growth is projected at approximately 3% in 2021. In 2020, public finances deteriorated significantly due to lower tax revenue and measures introduced to support economic activity. The government deficit, totalling 6.2% of GDP in 2020, will gradually decrease over the coming years, reaching approximately 5% of GDP in 2021. In 2020, public debt rose to 38% of GDP and is expected to grow even further, exceeding 40% of GDP in 2021. Inflation climbed to 3.3% in 2020 and is projected to stabilise at 2.5% in 2021 due to more moderate service price inflation and the negative impact of the recession on wage growth.

The Czech pharmaceutical market is expected to grow by 6% and its value to reach approximately €3.1 billion.

Slovakia

The 2020 pandemic pushed the Slovak economy into a deep recession. Investment, private consumption, and net exports declined substantially. GDP plunged by 6%. Several years of strong employment growth have stalled, and unemployment is expected to remain on the rise in 2021 as well. In 2021, GDP growth is projected at about 4%, owing to the anticipated growth of investment, consumer spending, and net exports. It is expected that exports will increase and that industrial production will make a rapid recovery. In 2020, public finances deteriorated considerably due to the loss in tax revenue and introduction of large-scale fiscal measures to cushion the socio-economic consequences of the pandemic. However, following the economic recovery, public finances are expected to improve in 2021. Last year, government deficit increased significantly and reached 9.6% of GDP, while it is projected to fall to 8% of GDP in 2021.

Public debt escalated to 63.4% of GDP in 2020 and is estimated to increase to 65.7% of GDP in 2021. Inflation settled at 2% in 2020 and is expected to dip as low as 0.5% in 2021, mainly due to lower energy prices, demand, and wage growth.

We expect the Slovakian pharmaceutical market to grow by 2%, to approximately €1.5 billion.

Western Europe

In view of the pandemic, the European economic growth was significantly negative in 2020, and GDP dropped by 7%. The easing of COVID-19 restrictions and roll-out of vaccination programmes will stimulate economic growth, especially in the second half of 2021. Stronger economic growth in China is anticipated to have a highly positive impact on the export-oriented European economy, which is expected to rise by 3.6%. Government deficit is set to drop from 8.3% of GDP in 2020 to approximately 5% of GDP in 2021. Fiscal support will not be ended. The European Central Bank maintains very accommodative financing conditions also in 2021. Public debt is expected to reduce somewhat in 2021, reaching 98% of GDP. The risks of higher public debts and government deficits will continue in the future. The inflation rate remains at record lows and totalled 0.3% in 2020. Inflation is expected to be low in 2021, as spending will be limited until all COVID-19-related restrictions are lifted. A large output gap, which is likely to cap wage growth, and potential strengthening of the euro are expected to slow down inflation in the coming quarters. However, inflation may increase in the view of supportive monetary and fiscal policies. The 2021 inflation rate is projected to stand at 1.4%.

We expect the value of the Western European generic market to reach €46.8 billion in 2021, a 3% increase year on year. The total value of the Western European pharmaceutical market is forecast to increase by 2% to €245 billion in 2021.

China

The outbreak of the pandemic in China in the first quarter of 2020 resulted in a strict lockdown of economy and public life as well as in reduced external demand, causing an unprecedented decline in the economic activity. Economic growth recovered in the second and third quarters, primarily due to the rise in industrial production, investment, and exports. The macroeconomic policy response was less intense and more focused than during the Great Financial Crisis in order to prevent the exacerbation of existing domestic imbalances.

In addition to monetary and fiscal support, infrastructure investment financed by local authorities contributed significantly to the economic recovery in 2020. Due to supply chain interruptions and a substantial decrease in activities, a decline was recorded in exports of goods and services. Slower recovery of domestic consumption also affected the fall in imports. Despite weaker activity in services, the Chinese economy expanded by 2.3% in 2020, recording a record low growth rate in the past decades. In 2021, economic growth is expected to reach approximately 8%, due to the anticipated recovery of the global growth and external demand. Projections include many uncertainties due to various disputes escalating between China and the USA, potentially protracted global economic downturn, and fear of another potential pandemic outbreak in China. In the case of a sharp decline in the economic outlook, China still has room for implementation of additional policy support.

Total value of the Chinese pharmaceuticals market is estimated at approximately \$140 billion, of which the generic market accounts for approximately 65% or \$91 billion. Annual growth of the pharmaceutical market in the near future is forecast at between 3% and 6%.

2021 Objectives

€1,535
million
revenue

Approx.
€265
million
net profit

We intend to deliver on them through

- Strengthening our position in key therapeutic areas
- Developing innovative products
- In-house development and rapid penetration on markets
- Penetrating new markets and strengthening our position on traditional markets
- Capacity building

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.

Their risk management work is described in the section '2020 Supervisory Board Report'. The Krka Group monitors its exposure to various forms of risk on a daily basis and adopts measures to manage those risks.

Risk management is integrated into all business processes in the Group. The controlling company manages financial risks centrally at the Group level, while subsidiaries manage business risks independently in accordance with guidelines of the controlling company. We apply over

2700 standard operating procedures and other bye-laws and instructions which determine the type of activities and responsibilities that allow for uninterrupted operations and mitigate risks.

We use the Krka Group *Risk Register* as a risk management support tool. The *Risk Register* provides a comprehensive overview of risks at the Group level and serves to the timely identification and management of factors that may derail efforts to deliver on the objectives defined in the current *Krka Group Development Strategy* and the *Quality Manual*. The *Integrity Plan* complements the *Risk Register* and addresses ethics, integrity, and compliance. In cooperation with relevant departments, the Chief Compliance Officer drew up the *Integrity Plan* in accordance with the *Corporate Governance Code for State-Owned Enterprises*. The *Integrity Plan* is adopted by the Management Board, reviewed annually, and updated if necessary.

Below we outline Krka's significant operating risks and how we manage them. Every risk assessment is based on assessing the extent of the damage and the probability of its occurrence. The final assessment of an individual risk is made by considering the extent of damage and the probability of occurrence at the same time, whereby the impact of control activities has already been taken into account.

OPERATIONAL RISKS AND BUSINESS CONTINUITY			
Risk area	Description of risk	Control activities	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
Supply of APIs and finished products	Delays in the supply of raw 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 raw 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, 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 raw materials and finished products	High
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 quality practices	Moderate

OPERATIONAL RISKS AND BUSINESS CONTINUITY			
Risk area	Description of risk	Control activities	Risk assessment
Technical services	Inadequate supplies of production media to processes and inadequate technical maintenance	Redundant power supply resources, robustly planned media supply systems, redundant capacities and planned maintenance processes	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
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
	Issues arising from the epidemiological situation in the country, unplanned increase in absences, and shortages of personnel on 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
BUSINESS RISKS			
Risk area	Description of risk	Control activities	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
Marketing and sales	Unfavourable situations in sales markets and inadequacy of marketing activities, also due to difficulties with or inability to make personal contacts	Responding to changing business conditions in markets, establishing standardised, compliant, and transparent sales and marketing activities, continuously educating and testing employees' knowledge, using modern communication tools	Moderate
Intellectual property protection	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
	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 failing to maintain validity of manufacturing authorisations and GMP certificates	Timely implementation of new regulatory requirements, precise implementation and control of prescribed quality management and quality control procedures in all key development, control, and production processes	Moderate
Environmental protection	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, 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
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
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
Legal matters	Inadequate legal regulation of business relations and non-compliance with or incorrect interpretation of the 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

FINANCIAL RISKS			
Risk area	Description of risk	Risk management method	Risk assessment
Foreign exchange risk	Potential major financial losses due to unfavourable changes in exchange rates	Financial market tracking; monitoring currency exposure; working with leading global financial institutions; use of financial instruments; natural hedging	High
Interest rate risk	Unfavourable interest rate changes	Monitoring interest rate changes; negotiations with credit institutions; hedging with appropriate financial instruments	Low
Credit risk	Customers defaulting on payments and accrual of receivable write-offs	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
Liquidity risk	Insufficient liquid assets for settling operating and financial liabilities	Credit lines agreed in advance and planned liquidity requirements; cash pooling	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 prevention studies; arranging appropriate insurance	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
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 business costs and operating profit, and technical and organisational measures to reduce the impact of business interruption	Moderate

Operational Risks and Business Continuity

Availability of Critical Resources to Ensure the Production and Sales of Key Products

Major emergencies that halt the production and sale of products for a lengthy period could compromise the existence of the Krka Group. We analyse their impact on operations to estimate the criticality of processes and risks to operations. We apply effective measures to protect employees, property, and other key resources, and to prevent emergencies. We have designed action plans and disaster relief measures for emergencies, measures for mitigating direct damage, and emergency operations plans until normal operations can be restored. Based on the revised *Business Impact Analysis* and risk assessment in the business continuity management system, the Management Board adopted the *Krka Business Continuity Management Strategy*, which also includes measures in the event of a pandemic. 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 make sure 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 raw materials to ensure the required quantities in accordance with annual and monthly production plans. We carefully plan our inventories and maintain contingency stocks to ensure uninterrupted access to raw materials required for manufacturing finished products. We apply adopted criteria to assess and select our suppliers and regularly audit them. In addition to regulatory compliance and the guaranteed quality, we primarily focus on price competitiveness and supply reliability when selecting our contractual partners, whose supplies we also audit and control regularly.

We ensure the punctual supply of finished products by monitoring every product supply phase. Raw material inventories are planned according to sales forecasts. Inventory levels are checked regularly, and we have contingency stocks as well as several independent supply sources for strategically important raw materials.

We carefully plan optimal utilisation of production capacities and measure production efficiency. In this respect, we introduce measures for continuous process improvement. We meet sales requirements by purchasing new equipment and making new investments; we increase our own production capacities and expand contractual alliances.

We adhere to good manufacturing practices in production processes and verify that the production environment is suitable. We ensure the reliability and high-quality functioning of production equipment through regular and preventive maintenance. In the event of major emergencies, we can ensure the production of key products at several plants.

We comply with good warehousing and manufacturing practices when warehousing incoming materials, bulk products, and finished products. To deal with major emergencies, our raw material and finished product warehousing system allow us to keep goods at several standalone warehouses. We organise the transport of raw 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.

Technical Service Risks

Technical service risks include risks related to utility supplies, including power and other utilities used in processes, the reliability and availability of technical systems, and risks associated with metrology.

In order to provide an uninterrupted electricity supply, we have put in place a backup electricity system and 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, which we keep extra stocks of. Drinking water is supplied by a public utility from two pumping stations.

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 undergo regular training, and their skills and qualifications are regularly tested.

We carry out preventive and scheduled maintenance of air-conditioning systems. Our maintenance team is well organised and trained to swiftly intervene in the event of failure. The team uses a central control system to rapidly issue alerts and detect faults. It also keeps inventories of spare parts. Non-critical equipment is dispersed to ensure that a single breakdown does not have a major impact on production capacities. 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 reliability and availability of technical systems by continuously monitoring performance, conducting preventive checks, servicing, improving the equipment, and introducing new maintenance approaches. 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 and maintain technical systems undergo regular training. Their qualifications and skills are regularly tested.

We have a management system in place for monitoring and measuring devices. We regularly measure, calibrate, and maintain weighing equipment.

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

Information Technology Risks

We manage information security risks through an ISO 27001-certified information security management system. The Management Board also appointed Information Security Officer.

Krka specifies the criticality of information resources (information systems and services) according to criticality assessments of business processes and information resources (services) for the implementation of the business process. The criticality level of business services is summarised by all infrastructural systems on which the information services and applications depend.

We have identified threats and risks to all critical information resources. We take steps to eliminate unacceptable risks according to risk assessments. Another method of threat detection involves independent security inspections of our information resources.

To mitigate risks of major emergencies, we introduced duplicated computer capacities for all critical information resources in two separate locations: back-up server rooms at the headquarters (i.e. the Disaster Recovery Centre – DRC) and an adequately distant location, where critical data is backed up daily.

We also mitigate information security risks using modern tools such as advanced threat protection (ATP), security information and event management (SIEM) system, and

vulnerability management. Krka has taken out cyber insurance to cover any damages caused by cyber attacks.

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

Employee Risks

In relation to health and safety at work, we use our own methods to assess the probability of a specific incident and its consequences, as well as any probable health implications for individual workplaces. Risks are assessed periodically, and security measures are taken to keep them at acceptable levels. In addition to assessing risks in a specific workplace, we also assess the risks related to individual technological procedures. 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(s), while making sure not to disrupt work processes. We promote health among our employees and constantly raise awareness of the importance of health and safety at work.

Identifying key employees and their potential 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 large-scale absences or increased work load.

Protection of Property

The exposure of individual buildings and property is subject to regular and systematic assessments in accordance with 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 in order to prevent emergencies or act appropriately if they occur.

Business Risks

Research and Development Risks

Krka's products must be of a high quality, safe, and effective. The required properties have to be confirmed by relevant studies and data, in compliance with regulatory requirements and standards. Risks to products and technologies comprise scientific and research risks, as well as technological and technical risks. We mitigate these by introducing contemporary approaches and methods, and by exploiting in-house and acquired knowledge and experience in research and development as well as technology.

We reduce these product and technological risks at the early stages of development through process updates, the introduction of modern technologies, and adjustments to regulatory requirements. The vertically integrated model of development and production is important, as it allows us to control the entire process, from raw materials through to the finished products.

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

- Medicines and therapeutic areas: 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. We aim to achieve the same therapeutic effect with lower concentrations of individual ingredients and reduce the number of daily doses at the same time;
- 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 capacities: we introduce the most advanced development and technological processes, and invest in research and development capacities.

Regulatory risk management, associated with changes in legislation and their interpretation, starts at the early stages of developing a new product and continues throughout its life cycle. 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 in order to actively participate in drafting legislative amendments in this field.

Sales and Marketing Risks

The Krka Group has a broad marketing-and-sales network, as it sells its products in more than 70 countries around the world. It operates in a variety of 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.

In individual markets, our key advantages over the competition are our quick response to altered business circumstances and prompt adjustment of sales and marketing activities. In 2020, we successfully adapted to new circumstances brought about by the epidemic-related measures to restrict movement and limit contacts. We continuously monitor market conditions (especially competing generic producers and the local pharmaceutical industry), the legal frameworks for 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 the work of employees in the marketing network. Our employees regularly undergo training and we frequently test their qualifications, skills, and how familiar they are with instructions for work, 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. As we place special focus on business compliance, marketing is also included in the Company's *Integrity Plan*. In this context, we revised some of the key instructions and provided employee training in 2020. We also comply with the personal data protection legislation in marketing and sales.

We monitor the risks related to entering new markets and new therapeutic areas by lowering prices of medicines in compliance with national regulations, by cross-border reference country impacts, and changing practises regarding the prescribing and/or dispensing and/or reimbursing of medicines. We pay special attention to risks related to individual market environments and economies, and risks associated with each customer, in particular the risk of their insolvency or bankruptcy, risks related to

We apply the vertically integrated development and production model, which allows us to control the entire process, from sourcing raw materials through to the finished product.

**Vertically
integrated products
account for
more than 70%
of our portfolio.**



payment terms, and other risks related to compliance with contractual provisions. Foreign currency risks and their impact on sales denominated in euros in markets where sales are conducted in local currencies, especially in the Russian Federation, have been recognised as high risks. We continuously monitor market conditions, analyse them, and adjust payment terms if necessary, and also hedge against default on payments. We systematically monitor the satisfaction level of direct and indirect customers. 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 at the tertiary level (sales to end users in pharmacies). We ensure that inventories are optimised and meet needs throughout the distribution chain. We duly monitor pharmacy networks and any changes by individual markets, and adjust our actions accordingly.

We regularly evaluate the market potential of individual therapeutic areas and the products within them. We use a range of external data sources and our own market research and analyses to monitor global, regional, and local trends as well as product supply in the market. Based on these, we define both the product portfolio and our activities according to current market positions of particular active ingredients and the vision of their development. The number of important new active ingredients available for marketing to generic manufacturers at present and in the future has been declining, so we are seeking opportunities in new innovative combinations of existing active ingredients and in new therapeutic areas, and are striving to further improve the establishment of our products that contain existing active ingredients in less developed markets. 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.

Intellectual Property Risks

Respect for the intellectual property rights of third parties, especially patent-related rights, is one of the fundamental principles of Krka Group operations. We therefore start the development of a new product by analysing the extent of third party property rights related to the new product and determine which solutions are protected. We define and direct our development work on the basis of these findings and assess whether the solutions produced by our own development infringe the applicable rights of third parties. The current situation and any potential changes in the 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 when 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 form appropriate provisions for potential damages and adopt relevant measures.

If we believe that the results of our research work are new and innovative, we apply for patent protection.

The same method of risk management applies to distinguishing marks and industrial designs, and to other relevant intellectual property rights.

Quality Management Risks

The Krka Group evaluates quality management risks from the aspects of product quality, product safety, and Group operations. We apply well-known methods to assess risks and implement them in accordance 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 follow standard procedures and requirements throughout the production process, from the purchase of various incoming materials, other purchases, and manufacturing processes to the manufacture of finished products, quality control, warehousing, and distribution, and ensure that the pharmaceutical product manufacturing complies with the relevant quality standards and the product's marketing authorisation documents. When the 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 medicines. We apply a special system to process customer feedback and pursue constant internal improvements according to the PDCA 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 perform risk assessments to classify material- and supplier-related risks. Based on the identified risks, 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 in order 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.

We focus in particular on ensuring data integrity in quality management and thus mitigate the risk of improper use of test results when determining the suitability of raw materials, packaging, processes, and finished products.

Continuous monitoring of new developments in legislation and timely implementation of new requirements reduces the risk of quality system inadequacy and consequently the risks related to maintaining manufacturing and marketing authorisations and GMP certificates.

We regularly raise awareness and provide 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 the requirements of 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 in order to prevent any other non-compliance.

With regard to quality risk management, we assess the risks related to maintaining manufacturing authorisation, GMP certificates, and other management systems applied in Krka manufacturing and distribution units for every quality assurance element separately.

We regularly and systematically check the efficiency and effectiveness of the quality assurance 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 related to product and service quality.

Vertical integration of quality allows us to effectively manage risks related to product and process quality.

Quality is vertically integrated through know-how, experience, understanding of the entire product life cycle – from an active ingredient to the finished product – through planning, development, quality assurance throughout the manufacturing process, and through the organisational structure of the Company, which supports the integration of quality into all processes.

The risk management process includes the regular identification, analysis, and evaluation of risks as well as operational strategy upgrades. Due to COVID-19, we introduced additional measures to our regular procedures, strategies and risk assessments so as to ensure business continuity in the event of a pandemic.

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 impact on the environment. We mitigate environment-related risks and provide for efficient actions in the event of emergency by using the best available techniques in manufacturing, warehousing, wastewater treatment, waste air treatment, waste management, 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.

In 2020, we recorded no extraordinary events with a negative impact on the environment.

We reduced the risk that might arise if our contractual partners did not collect our waste on time or at all by providing additional warehousing facilities for waste solvents and dividing our waste streams and cooperation among several contractual partners dealing with waste collection and removal.

Investment Project Risks

Investment project risks primarily include risks related to planning investments and their value, the purchase of equipment, works, schedules, quality, and changes to the original plan. We reduce these risks through document planning and preparation, and implementing the established system for selecting contractors and equipment suppliers, and regularly reviewing them. We supervise all 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 pay special attention to key personnel who are crucial to attaining the objectives of the Krka Group and are also highly sought after by our competitors.

We regularly plan and monitor the training and development of our employees and at the same time assign them new work responsibilities, encourage them to take on new duties, and delegate them to new job positions. We offer them a range of other incentives to foster their loyalty to the Krka Group and minimise employee turnover.

We manage risks related to the lack of experts on the labour market by being actively present in the labour market, bolstering Krka's image as a reputable employer, working with faculties and schools, and by awarding scholarships. This allows us to attract new employees required to meet our strategic, development, and sales plans. Due to the scarcity of suitably qualified workers on the labour market, 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. Financial departments of 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 main market risk is foreign exchange risk. We regularly monitor interest rate risk; however, we do not take any active measures due to low interest rate exposure. The risk of changes in market values of raw materials and the risk of changes in market value of shares and bonds do not have a major impact on the net Krka Group's financial result, which is why we monitor changes in exposure to these risks, but do not implement any risk management measures.

Foreign Exchange Risk

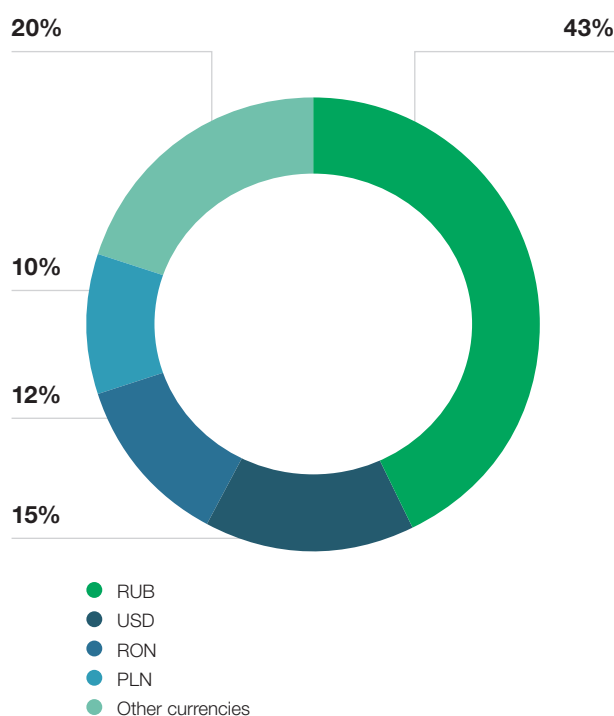
The Krka Group operates in diverse international environments and is exposed to foreign exchange risk in a few sales and purchase markets.

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, and subsidiary funding by the controlling company.

Currency Position Structure of the Krka Group

Percentage of the Currencies in the Krka Group Currency Position Structure



At the end of 2020, the Russian rouble accounted for the largest, 43%, share of the Krka Group currency position. The position in the rouble arises from trade receivables in the Russian market, and partly from the controlling company's funding of manufacturing capacities in the Russian Federation.

The importance of the Russian sales market, level of currency exposure, and volatility of the Russian rouble are the reasons why we pay special attention to Russian rouble risk management.

Exposure to the U.S. dollar accounts for 15% of the Krka Group total currency position and is related primarily to the acquisition of products and production materials. Purchases in U.S. dollars have been increasing, so we have been actively managing the exposure related to the U.S. dollar also by use of derivatives. Unlike with other currencies, a surplus of liabilities over assets has accrued from exposure to the U.S. dollar, or in other words, the currency position is short.

The exposure to the Romanian leu accounts for 12% of the currency position and arises from trade receivables accrued due to extended payment terms in Romania. Exposure to the Polish zloty is the result of trade receivables and manufacturing facilities held by the Group in Poland and represents 10% of the currency position. Other currencies, among them the Croatian kuna, Swedish krona, North Macedonian denar, Kazakh tenge, Serbian dinar, British pound, Czech koruna, Ukrainian hryvnia, and Hungarian forint, account for 20% of the Krka Group currency position.

2020 Currency Markets

Wild fluctuations of individual exchange rates to which the Krka Group is exposed continued in 2020. The COVID-19 pandemic significantly affected the value of currencies and deteriorated the macroeconomic situation in many countries, bringing uncertainty to global capital and currency markets.

The 2020 fluctuation in the Russian rouble was unfavourable for us. The value of the rouble expressed in the euro dropped by 23.5%. The average 2020 value of the Russian rouble was 12.4% lower compared to 2019.

The Brent oil price expressed in U.S. dollars declined by 22% in 2020. Due to the importance of the oil industry in the Russian economy, the value of the Russian rouble relies heavily on oil price movements. In currency markets, the rouble came under additional pressure as a developing country currency. The value of the rouble was also adversely affected by the Central Bank of the Russian Federation gradually lowering its interest rate. Interest rate reduction in the Russian Federation led to a gradual decrease in the cost of hedging Krka's position in roubles in 2020.

The Polish zloty was more unstable in 2020 compared to previous years, as its value dropped by 6.6% from the beginning to the end of the year, while the average exchange rate was 3.3% lower than in 2019. In 2020, the macroeconomic situation in Poland was better than the Economic and Monetary Union (EMU) average. The value of the Polish zloty expressed in the euro decreased, primarily owing to a lower interest rate difference between the two currencies.

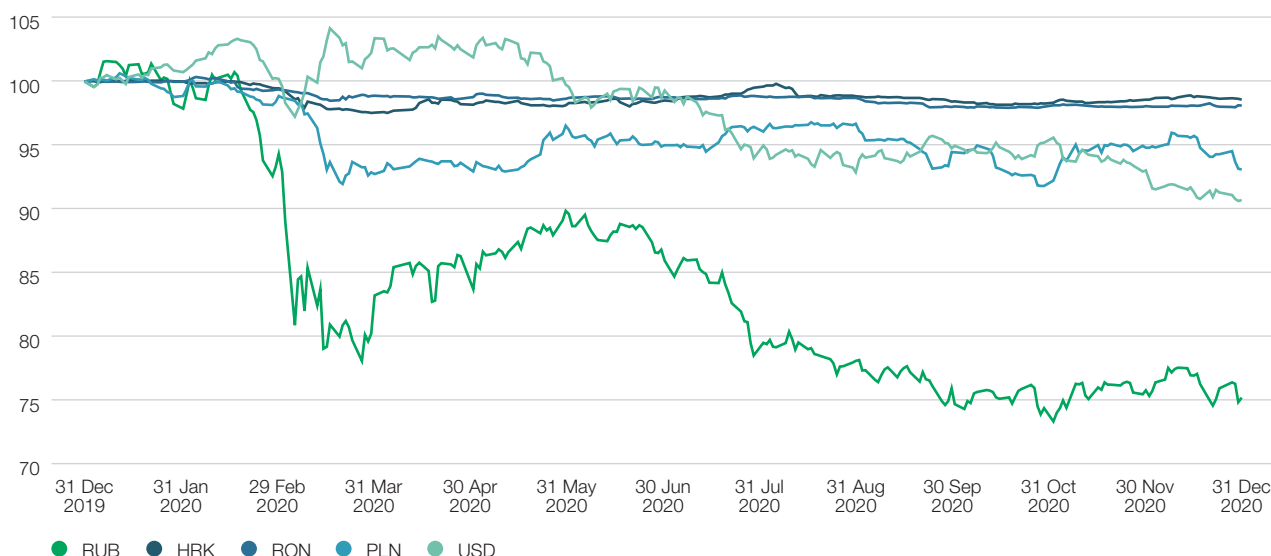
Over the course of 2020, the value of the Romanian leu expressed in the euro dropped by 1.8%.

The Croatian kuna remained stable in 2020. In 2020, Croatia introduced the Exchange Rate Mechanism (ERM II), which provides for additional currency stability. High volatility of the British pound prevailed throughout 2020, owing to uncertainties associated with Brexit. Over the course of the year, the value of the British pound expressed in the euro declined by 5.4%. The Krka Group holds long positions in the Croatian kuna and the British pound. However, the volatility of the two exchange rates does not significantly affect the net financial result of the Group.

The value of the U.S. dollar expressed in the euro fell by 8.5% over the course of the year, and the average value of the dollar expressed in the euro was down by 2% on 2019. In the first half of the year, it was affected by uncertainty resulting from the COVID-19 pandemic impact on global economic growth. However, as the economy was expected to recover fast, the exchange rate remained stable. After the U.S. Federal Reserve announced that interest rates would remain low for longer than anticipated, the value of the dollar expressed in the euro began to slide in the second half of 2020.

Strong growth of the Ukrainian hryvnia in 2019 was followed by a 22% drop in 2020. Macroeconomic trends in Ukraine continue to deteriorate, and the country's political stability faces great uncertainty.

2020 Movement of Currencies Expressed in Euro (Index 31 Dec 2019 = 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 not possible, we use derivatives or do not hedge the risk. Generally, forward contracts are used for hedging.

In 2020, Krka continued its policy of partial hedging against rouble-related risk. Less than 50% of the risk exposure to the Russian rouble was hedged through forward contracts. Due to the drop in the rouble value, we generated exchange rate losses, which were partly offset through net revenue from the rouble hedging instruments. The fall in the rouble value is the main reason for the Group's total negative net financial result.

High balance sheet exposure and an interest rate difference between the euro and the U.S. dollar that is favourable for Krka are two key reasons that contributed to partial hedging of the exposure in the U.S. dollar with forward contracts in 2020. Due to the short currency position, the dollar slump had a positive financial impact on the Krka Group result, which was partially offset by financial expenses from the U.S. dollar hedging instruments.

We generated net foreign exchange losses from other currencies in 2020. Exposure to other currencies was not hedged. These currencies are generally subject to less marked fluctuations against the euro.

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.

The currency risk balance in 2020 was negative, totalling -€52.7 million. Net financial result of the Krka Group, which also included currency risk result, interest income and expenses, and other financial income and expenses, totalled -€51.8 million.

2021 Objectives

In 2021, we intend to retain partial hedging for the exposure to the Russian rouble and the U.S. dollar by using derivatives, primarily forward contracts. We will focus on activities to offset currency exposure through natural hedging.

2020 Foreign Exchange Rates

	31 Dec 2019	31 Dec 2020	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation*
RUB	69.96	91.47	68.04	93.75	82.68	7.68	9.3%
HRK	7.44	7.55	7.44	7.63	7.54	0.05	0.7%
RON	4.78	4.87	4.76	4.88	4.84	0.03	0.6%
PLN	4.26	4.56	4.22	4.62	4.44	0.10	2.3%
CZK	25.41	26.24	24.79	27.81	26.45	0.75	2.8%
HUF	330.53	363.89	329.66	369.36	351.17	9.74	2.8%
UAH	26.35	34.14	26.35	34.79	30.83	2.50	8.1%
RSD	117.38	117.53	117.20	118.00	117.53	0.09	0.1%
USD	1.12	1.23	1.07	1.23	1.14	0.04	3.9%
GBP	0.85	0.90	0.83	0.93	0.89	0.02	2.6%

* 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 2020. Non-current investments are not related to reference market interest rates, which is why the Krka Group was not exposed to the reference interest rate risk.

2021 Objectives

In the event of growing interest rate exposure, we will consider all options to mitigate the risk using relevant financial instruments.

Credit Risk

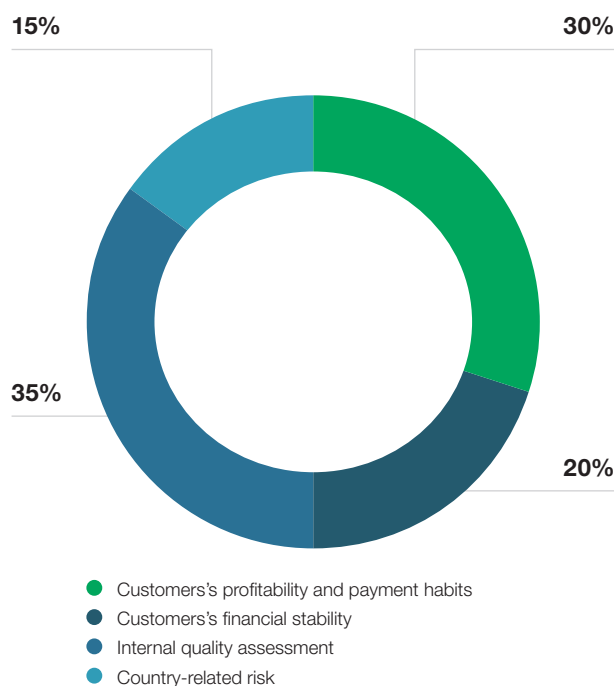
The key credit risk of the Krka Group arises from trade receivables. This is the risk of customers failing to settle their liabilities by maturity dates.

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 500 at the end of 2020, they accounted for more than 95% of total trade receivables. Receivables due from small customers accounted for less than 5% of total Krka Group 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; each with a different weight in the final assessment.

Credit Risk Assessment Indicator Categories



Each customer is assigned a customised credit limit according to their 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 Krka Group customers. Due to specifics of individual sales markets, additional local controls have been introduced in individual subsidiaries. Credit control processes are regularly adjusted to changes in the sales markets.

Credit Risk Management Results

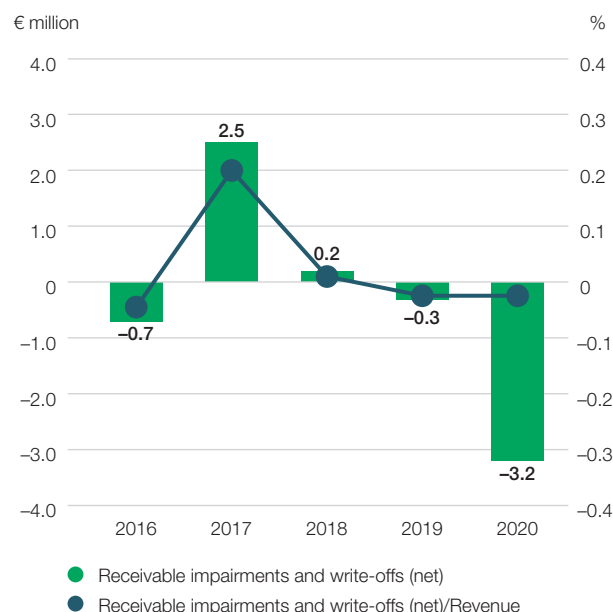
Credit control guarantees permanent control over the quality of the trade receivables portfolio. The result of the credit control process is a low proportion of receivable write-offs and impairments in total Krka Group sales.

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

Despite the risks arising from the COVID-19 pandemic, receivables were well managed in 2020. Even though sales grew in 2020, trade receivables dropped by 12% over the course of 2020. This is primarily due to favourable outcome of receivables collection.

The amount of the newly formed receivable allowance was lower than the amount of the reversed receivable allowance; therefore, net impairments and write-offs had a positive impact on the Krka Group final result in 2020.

Receivable Impairments and Write-Offs (Net)



Trade Receivable Insurance

Since 2009, the Krka Group has insured a part of its trade receivables with a credit insurance company. In the second quarter of 2020, trade receivable insurance was extended and supplemented. At the end of 2020, more than 98% of Krka Group trade receivables were insured with the credit insurance company. Bank guarantees and letters of credit are used only exceptionally to secure payments.

Insured and Uninsured Receivables

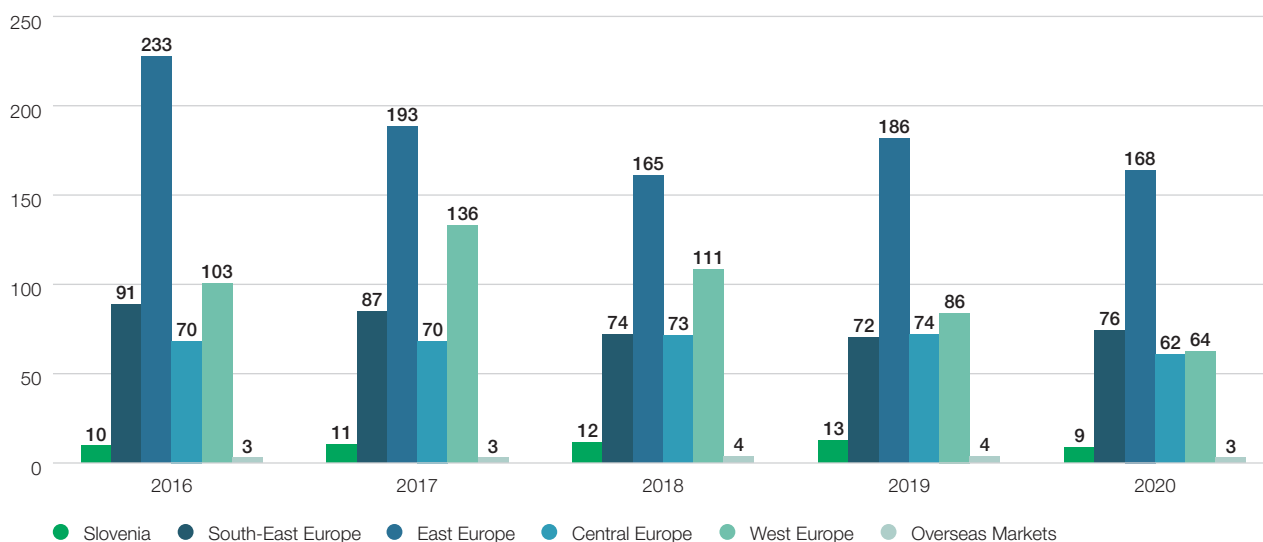


Trade Receivables by Region

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

€ million



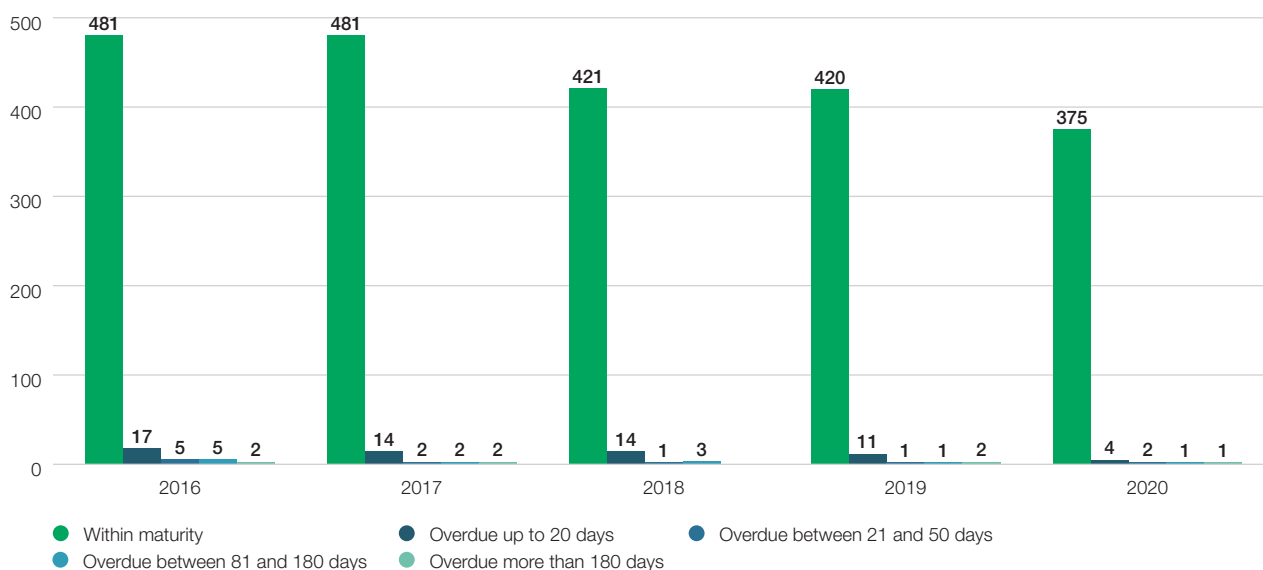
Maturity Structure of Trade Receivables

The maturity structure of receivables remained stable.

The percentage of overdue receivables compared to total trade receivables remained low at the end of 2020.

Receivables by Maturity

€ million



2021 Objectives

We will continue standard credit risk management activities in 2021. The insurance contract for our trade receivables expires in the middle of 2021. Once renewed, we plan to further optimise the conditions for receivable insurance. As before, we plan to step up 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. Where individual customer exposure above the acceptable levels is established, we will introduce individual measures to gradually reduce the exposure.

Our goal remains low receivable impairment and write-off total at the Group level.

Liquidity Risk

Business partners value Krka for its excellent financial discipline, low indebtedness, and stable cash flows. In 2020, we settled all financial liabilities regularly. Krka Group exposure to liquidity risk was low last year.

We did not use any current credit lines in 2020. In accordance with internal rules on diversification of investments and taking account of banks' credit risks,

we deposited a part of the cash surplus with banks during the year. Due to excess liquidity in the EMU money markets, opportunities to invest liquid assets in low-risk money deposits were limited in 2020.

At the end of 2020, the Krka Group recorded excess liquid assets, primarily as cash at bank. This was a result of growth of positive cash flow from operating activities, also due to a decrease in the value of trade receivables, and lower investments in fixed assets due to the COVID-19 situation.

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

The Krka Group reports favourable and stable liquidity ratios, which further improved in 2020. The COVID-19 pandemic did not increase liquidity risk in 2020.

Krka Group Liquidity Ratios

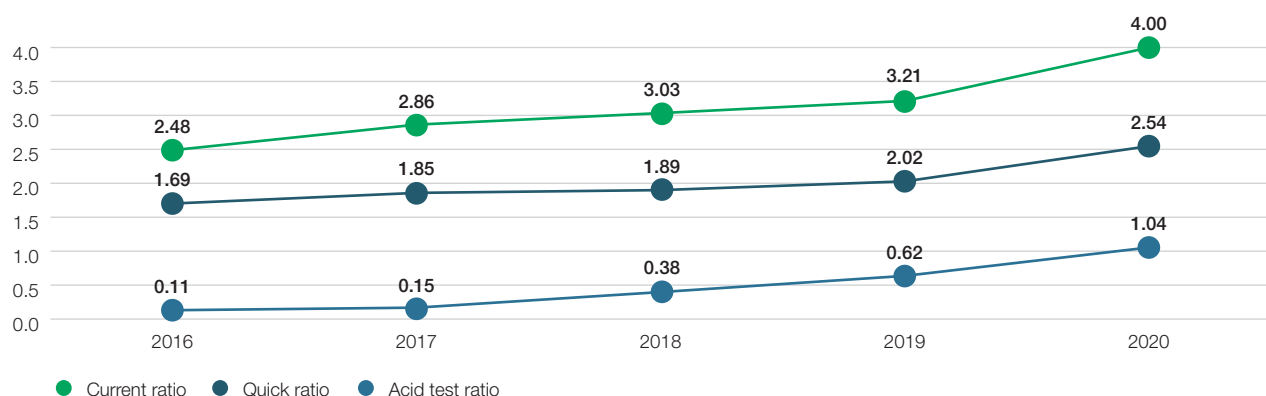
	2020	2019	2018	2017	2016	Five-year average
Current ratio	4.00	3.21	3.03	2.86	2.48	3.12
Quick ratio	2.54	2.02	1.89	1.85	1.69	2.00
Acid test ratio	1.04	0.62	0.38	0.15	0.11	0.46
Receivables turnover ratio	3.50	3.21	2.68	2.36	2.33	2.82

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



Property, Liability, and Business Interruption Insurance

The Krka Group holds insurance policies with domestic and foreign insurance companies to insure property, liabilities, and financial losses; the latter particularly in the event of business interruption and IT risks. We adjust the scope and type of insurance coverage to account for business growth, property value, risks, and the recommendations made by insurance inspectors.

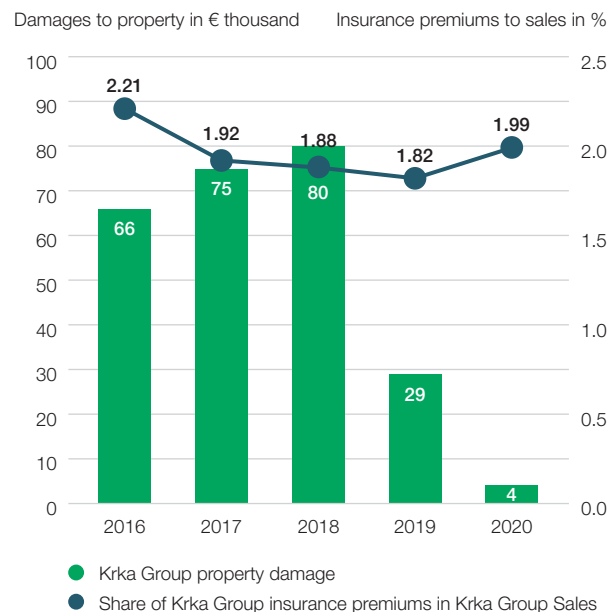
The controlling company manages the insurance policies of all Krka Group companies, except local car insurance policies. The entire Krka Group is insured in compliance with uniform principles that remained unchanged in 2020. The competitiveness of individual insurance companies is reviewed every year. When selecting insurance companies, we consider the quality of coverage, premium rates, references, and national legal requirements. Insurance premiums exclusive of car insurance amounted to 1.99‰ of sales in 2020 and accounted for 2.21‰ of total sales over the past five years.

Krka makes gradual improvements every year and at the same time assumes part of the risk, either through excess or by cancelling low-risk insurance policies. In 2020, we introduced a new method for insuring freight in transit, whereby the process of consignment insurance was automated and individual insurance policies were discontinued. This step helped to reduce the volume of documents and administrative tasks as well as minimise physical contacts in logistics.

Krka has been investing systematically in damage prevention. Our buildings are designed so that their hazard exposure is kept to a minimum. They are equipped with active fire protection systems, for example fire and smoke alarms, sprinkler systems, fire flaps, and safety lighting. Preventive inspections and fire drills are arranged regularly. Employees undergo theoretical and practical emergency response training.

Planned preventive actions and relevant insurance coverages have reduced the extent of property damage over the last five years, and all insurance claims were resolved promptly.

Share of Insurance Premiums in Sales



Note: This chart does not include car or personal insurance.

Investor and Share Information

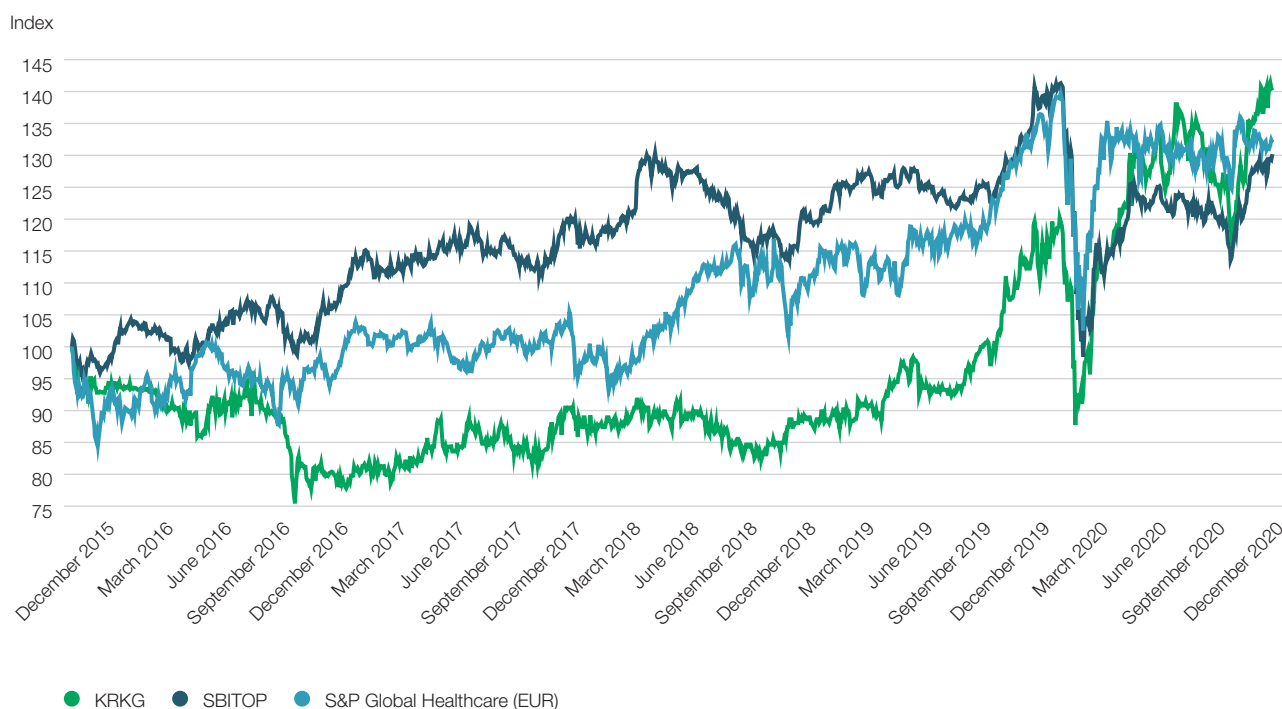
Shareholder Return

Krka Share Price on the Ljubljana Stock Exchange

€	2020	2019	2018	2017	2016
Year high	92.60	74.60	59.80	58.00	64.50
Year low	54.00	56.80	53.60	50.75	49.21
31 December	91.40	73.20	57.80	57.50	52.90
Annual change (%)	25	27	0.5	9	-19

In 2020, the Krka share price rose by 24.9%. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) dropped by 2.8%.

Krka Share Price Performance Compared to Selected Share Indices (Beginning of 2016 = 100)



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

Dividend Policy

The Annual General Meeting decides on the proposed dividend amount. In 2020, we allocated 54.3% of the consolidated net profit attributable to equity holders of the controlling company generated in 2019 for the payout of dividends. Gross dividend per share increased by 32.8%. When determining the net profit share for dividend

payout each year, the Group's long-term dividend policy is considered, and at least 50% of the net profit of the controlling company's equity holders is allocated for dividends. The Group's financial requirements for investments and potential acquisitions are also taken into account.

Dividends and Dividend Yield

	2020	2019	2018	2017	2016
Earnings per share ¹ (€)	9.27	7.73	5.46	4.74	3.35
Gross dividend per share ² (€)	4.25	3.20	2.90	2.75	2.65
Dividend payout ratio ³ (%)	54.3	58.2	60.8	81.7	54.3
Dividend yield ⁴ (%)	4.7	4.4	5.0	4.8	5.0

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

² Dividends paid for the previous period in accordance with the AGM resolution

³ Total dividends paid/Net profit attributable to equity holders of the controlling company

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

Share Trading and Shareholding

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 freely traded through brokerage companies and banks that are members of the Ljubljana or Warsaw stock exchanges.

Krka Share Trading



Sources: The Ljubljana Stock Exchange and the Warsaw Stock Exchange

Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2020, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.7 million.

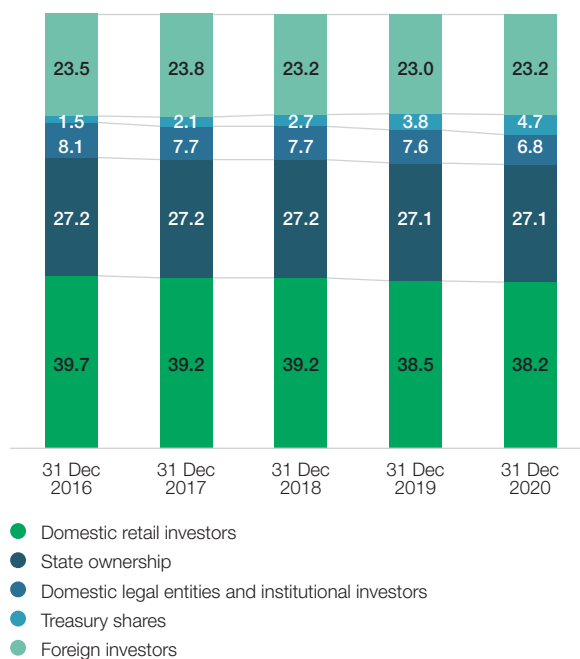
Ten Largest Shareholders as at 31 December 2020

Shareholder	Number of shares	As a percentage of total shares issued (%)
1 Kapitaliska družba, d. d.	3,493,030	10.65
2 Slovenski državni holding, d. d. (SDH)	2,949,876	9.00
3 Republic of Slovenia	2,366,016	7.21
4 OTP banka, d.d.*	1,545,272	4.71
5 Addiko Bank d.d. Pension Fund 1	1,199,638	3.66
6 Clearstream Banking SA*	833,884	2.54
7 Luka Koper d. d.	433,970	1.32
8 Addiko Bank d.d. Pension Fund 2	351,594	1.07
9 Smallcap World Fund Inc.	335,262	1.02
10 KDPW*	291,898	0.89
Total	13,800,440	42.08

* The shares are on custody accounts with the above banks and are owned by their clients.

At the end of 2020, Krka had 47,369 shareholders, or just short of 3% less than at the end of 2019.

Shareholder Structure (%)



Source: KDD

Holdings of domestic legal entities and institutional investors as well as retail investors declined slightly, while holdings of foreign investors advanced by 0.2 percentage points and treasury shares by 0.9 percentage points.

In 2020, the company acquired 307,522 treasury shares, valued at €25,505 thousand on the regulated market and held 1,541,774 treasury shares as at 31 December 2020.



Shareholder Information

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Slovenia

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Fax +386 (0)7 332 15 23
E-mail finance@krka.biz

For the third subsequent year, we received the Prime Market Share of the Year Award for best investor relations from the Ljubljana Stock Exchange. The Slovenian business daily *Finance* announced our 2020 Annual Report the winner of the best annual report contest in the large company category again this year.



David Bratož, member of the Management Board of Krka

We adapted our investor relations to the prevailing circumstances.

We participated in **11 online investment conferences** where we met investors from many countries.

We arranged **4 webcasts** to present our quarterly business reports.

Attendance increased by **50%** compared to the average 2019 attendance.



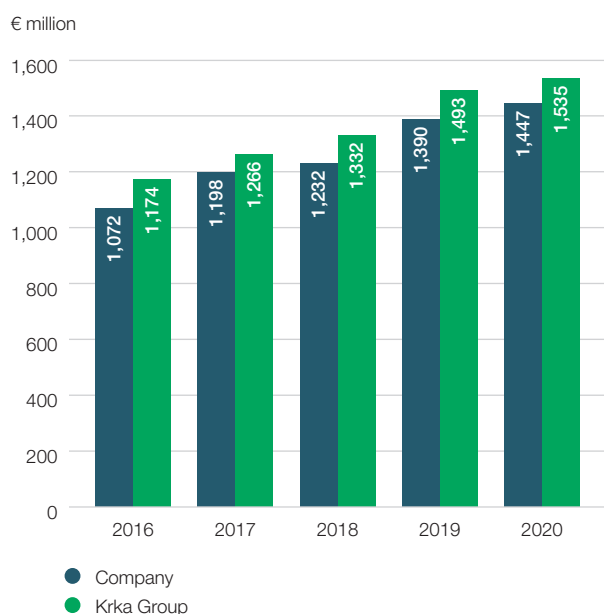
We hosted more than **120 investors** on many conference calls, **20%** more than a year ago.



Business Performance

Operating Income

Revenue



In 2020, the Krka Group generated sales of €1,534.9 million, of which revenue from contracts with customers on sales of products and services amounted to €1,530.0 million. Revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Sales grew by €41.5 million and were up 3% on 2019. Over the past five years, average annual sales growth reached 5.3% in terms of volume and 5.7% in terms of value. Other operating income of the Krka Group amounted to €10.5 million.

In 2020, the Company's sales amounted to €1,447.1 million, of which revenue from contracts with customers on sales of products and services reached €1,222.0 million. Revenue from contracts with customers on sales of materials accounted for €218.9 million and other revenue from sales totalled €6.2 million. Compared to 2019, sales grew by €56.9 million or 4%. Other operating income totalled €5.1 million.

Operating Expenses

The Krka Group operating expenses amounted to €1,154.7 million, down €78.2 million or 6% on 2019. The Company incurred operating expenses totalling €1,113.4 million, down 1% on 2019.

The Krka Group operating expenses comprised costs of goods sold totalling €623.6 million, selling and distribution expenses of €291.2 million, R&D expenses of €153.4 million, and general and administrative expenses totalling €86.4 million. Operating expenses accounted for 75% of sales and, over the past five years, ranged from 75% in 2020 to 90% in 2016.

Costs of goods sold, which dropped by 3% compared to 2019, represented the largest item in the Krka Group operating expense structure. Expressed as a percentage of sales, they accounted for 40.6% in 2020 and 43.3% in 2019. Compared to 2019, selling and distribution expenses decreased by 17% and accounted for 19.0% of total sales, 4.5 percentage points less than in 2019. R&D expenses accounted for 10.0% of total sales, down 0.2 percentage points on 2019 and up 1% year on year. General and administrative expenses amounted to 5.6% of total sales, up 3% on 2019, while expressed as a proportion of sales they remained at the 2019 level.

The Company's operating expenses included costs of goods sold totalling €624.1 million, selling and distribution expenses of €263.2 million, R&D expenses of €150.7 million, and general and administrative expenses totalling €75.4 million.

Costs of goods sold, which rose by 4% compared to 2019, represented the largest item in the Company's operating expense structure. They accounted for 43.1% of total sales, a 0.1 percentage point increase on 2019. Selling and distribution expenses were down 15% on 2019 and accounted for 18.2% of total sales, a drop of 4.0 percentage points on 2019. R&D expenses accounted for 10.4% of total sales (down 0.8 percentage points on 2019) and dropped 3% year on year. General and administrative expenses accounted for 5.2% of sales, up 9% on 2019, increasing as a proportion of sales by 0.2 percentage points.

Financial Income and Expenses

€ thousand	Krka Group					Company				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Financial income	23,259	24,987	5,935	24,041	65,679	31,786	34,410	17,382	24,908	78,225
Financial expenses	-75,011	-14,814	-36,048	-46,608	-71,816	-72,837	-14,751	-33,891	-46,599	-72,733
Net financial result	-51,752	10,173	-30,113	-22,567	-6,137	-41,051	19,659	-16,509	-21,691	5,492

In 2020, the net financial result of the Krka Group amounted to -€51.8 million, and net financial result of the Company totalled -€41.1 million.

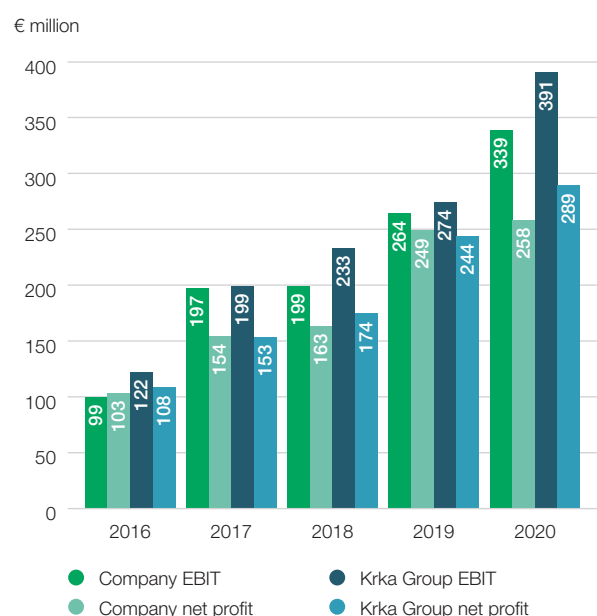
The Krka Group operates in diverse international environments and is exposed to foreign exchange risks in certain sales and purchase markets. The Group's currency risk incurred a loss of €52.7 million in 2020. You can find more on foreign exchange risk on page 74.

The Krka Group financial income comprised derivatives income totalling €20.3 million, interest income of €2.1 million, income from dividends and other profit shares worth €0.7 million, and other financial income totalling €0.1 million. Financial expenses consisted of net foreign exchange gains of €58.6 million, derivatives expenses of €14.4 million, interest expenses of €0.3 million, and other financial expenses of €1.7 million.

The Company's financial income comprised derivatives income totalling €20.3 million, income from dividends and other profit shares worth €7.2 million, interest income of €0.4 million, and other financial income totalling €3.8 million. Financial expenses consisted of net foreign exchange gains of €56.4 million, derivatives expenses of €14.4 million, interest expenses of €0.5 million, and other financial expenses of €1.5 million.

Operating Results

Operating Profit and Net Profit for the Year



The Krka Group's EBIT totalled €390.7 million, up €116.5 million or 43% on 2019. The increase is attributable to relatively higher sales growth in comparison to operating expenses. The Krka Group's EBITDA totalled €502.4 million, which was a €117.0 million or 30% climb.

The Company's EBIT amounted to €338.9 million, while its EBITDA reached €424.0 million.

In 2020, the Krka Group's profit before tax grew by €54.6 million or 19% and totalled €339.0 million. The Krka Group's effective tax rate was 14.8%. The Company's profit before tax amounted to €297.8 million.

The Krka Group recorded net profit of €288.9 million, up €44.7 million or 18% on 2019. The Company's net profit reached €258.5 million.

Assets

€ thousand	Krka Group					Company				
	2020	Share (%)	2019	Share (%)	Index 2020/19	2020	Share (%)	2019	Share (%)	Index 2020/19
Non-current assets	990,998	44.3	1,041,833	47.7	95	1,032,949	46.8	1,069,616	50.2	97
Property, plant and equipment	807,824	36.1	862,848	39.5	94	605,164	27.4	613,210	28.8	99
Intangible assets	107,371	4.8	109,082	5.0	98	27,893	1.3	28,410	1.3	98
Investments and loans	25,796	1.2	20,589	0.9	125	385,055	17.4	375,238	17.6	103
Other	50,007	2.2	49,314	2.3	101	14,837	0.7	52,758	2.5	28
Current assets	1,244,544	55.7	1,142,785	52.3	109	1,175,430	53.2	1,060,344	49.8	111
Inventories	453,690	20.3	421,578	19.3	108	389,178	17.6	367,007	17.2	106
Trade receivables	383,560	17.2	434,695	19.9	88	415,286	18.8	443,840	20.9	94
Other	407,294	18.2	286,512	13.1	142	370,966	16.8	249,497	11.7	149
Total assets	2,235,542	100.0	2,184,618	100.0	102	2,208,379	100.0	2,129,960	100.0	104

At the end of 2020, the Krka Group's assets were valued at €2,235.5 million, up €50.9 million or 2% on year-end 2019. The ratio of non-current to current assets in the overall asset structure was different to that recorded at year-end 2019, as non-current assets dropped 3.4 percentage points, accounting for 44.3%.

At the end of 2020, the Company's assets were valued at €2,208.4 million, up €78.4 million or 4% on year-end 2019. The ratio of non-current to current assets in the overall asset structure was different to that recorded at year-end 2019, as non-current assets dropped 3.4 percentage points, accounting for 46.8%.

The Krka Group's non-current assets were valued at €991.0 million, down €50.8 million or 5% on year-end 2019. The most important item in the asset structure of the Krka Group was property, plant and equipment (PP&E). It was valued at €807.8 million and accounted for 36% of total Group assets (of which the Company's PP&E accounted for €605.2 million or 75% of the Krka Group's PP&E). Intangible assets were worth €107.4 million and accounted for 5% of total assets (of which the Company's assets accounted for €27.9 million or 26% of total Krka Group intangible assets). The Krka Group's non-current loans totalled €15.4 million or 0.7% of total Krka Group assets.

The Krka Group's current assets were valued at €1,244.5 million, up €101.8 million or 9% on year-end 2019. Trade receivables due from customers outside the Krka Group totalled €383.6 million and inventories €453.7 million. Trade receivables declined by €51.1 million or 12%. In order to ensure sufficient quantities of various products for over 70 markets, inventories saw a rise of €32.1 million or 8%. The Krka Group's current loans totalled €54.8 million or 2% of total

Krka Group assets. They comprised bank deposits of the controlling company maturing in 90 days or more, totalling €53.0 million. Cash and cash equivalents were valued at €313.6 million, up €94.9 million or 43% on year-end 2019, accounting for 14% of total Krka Group assets.

The Company's non-current assets were valued at €1,032.9 million, down €36.7 million or 3% on year-end 2019. The most important item worth €605.2 million or 27% of total Company assets was PP&E. Investments in subsidiaries totalled €339.6 million or 15% of total Company assets. Intangible assets amounted to €27.9 million and accounted for 1% of total assets. The Company's non-current loans totalled €35.0 million or 2% of total Company assets.

The Company's current assets were valued at €1,175.4 million, up €115.1 million or 11% on year-end 2019. Trade receivables totalled €415.3 million or 19% of Company assets (of which trade receivables due from customers outside the Krka Group totalled €174.5 million), and inventories amounted to €389.2 million or 18% of total Company assets. Trade receivables went down 6% and inventories up 6%. The Company's current loans totalled €57.8 million or 3% of total Company assets. Cash and cash equivalents were valued at €296.4 million, up €101.2 million or 52% on year-end 2019, accounting for 13% of total Company assets.

Equity and Liabilities

€ thousand	Krka Group					Company				
	2020	Share (%)	2019	Share (%)	Index 2020/19	2020	Share (%)	2019	Share (%)	Index 2020/19
Equity	1,751,812	78.4	1,667,516	76.3	105	1,791,850	81.1	1,664,178	78.1	108
Non-current liabilities	172,796	7.7	160,905	7.4	107	136,380	6.2	119,789	5.6	114
Current liabilities	310,934	13.9	356,197	16.3	87	280,149	12.7	345,993	16.3	81
Total equity and liabilities	2,235,542	100.0	2,184,618	100.0	102	2,208,379	100.0	2,129,960	100.0	104

As at 31 December 2020, the Krka Group equity was up €84.3 million or 5% on year-end 2019. The increase was attributable to the Krka Group's net profit totalling €288.9 million and acquisition of non-controlling interests valued at €7.5 million. Equity was decreased owing to other comprehensive income net of tax totalling €53.4 million, dividend payout totalling €133.3 million, and repurchase of treasury shares totalling €25.5 million.

The Krka Group's provisions totalled €134.7 million (of which post-employment and other non-current employee benefits accounted for €129.5 million, provisions for lawsuits €2.2 million, and other provisions €3.0 million). In comparison to the end of 2019, they rose by €14.3 million or 12%, primarily due to an increase in provisions for post-employment and other non-current employee benefits totalling €13.6 million. Other provisions saw a €0.6 million rise.

Among the Krka Group's current liabilities, trade payables decreased by €21.4 million (of which payables to suppliers abroad by €14.1 million and payables to domestic suppliers by €7.3 million). Current liabilities from contracts with customers decreased by €17.0 million, of which bonuses and volume rebates by €15.3 million, right of return by 0.1 million, and payables from advances by €1.6 million. Other current liabilities dropped by €3.6 million (of which payables to employees increased by €2.5 million, while other liabilities decreased by €6.1 million).

As at 31 December 2020, the Company's equity increased by €127.7 million or 8% on year-end 2019. The increase was attributable to the Company's net profit totalling €258.5 million, other comprehensive income net of tax amounting to €26.2 million, and net profit as a result of the acquisition of a subsidiary totalling €1.8 million. The decrease was a result of dividend payouts amounting to €133.3 million and repurchase of treasury shares totalling €25.5 million.

The Company's provisions totalled €119.8 million (of which post-employment and other non-current employee benefits accounted for €117.7 million and provisions for lawsuits €2.1 million). Provisions rose by 13% compared to year-end 2019 due to a net increase in provisions for post-employment and other non-current employee benefits totalling €14.2 million.

Of the Company's current liability items, trade payables dropped by €39.1 million. Current liabilities from contracts with customers rose by €2.0 million and other current liabilities by €1.3 million. At the end of 2020, the Company's current borrowings from subsidiaries totalled €46.3 million.

Cash Flow Statement

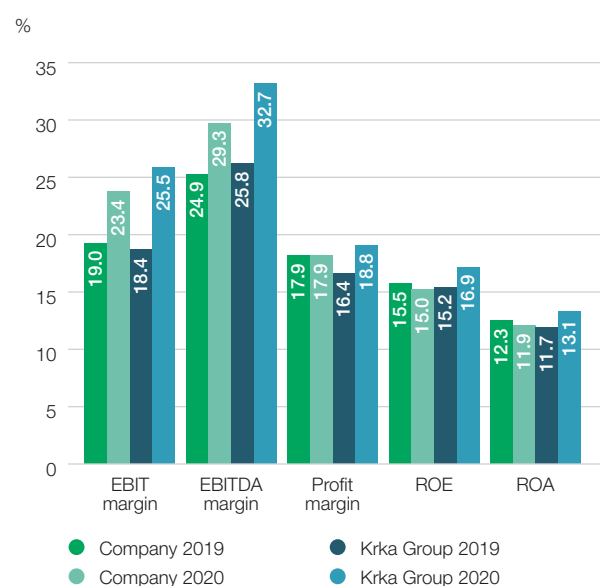
€ thousand	Krka Group		Company	
	2020	2019	2020	2019
Net cash from operating activities	360,759	349,523	352,510	276,996
Net cash from investing activities	-109,594	-124,807	-87,552	-88,540
Net cash from financing activities	-154,609	-124,274	-162,301	-92,262
Net change in cash and cash equivalents	96,556	100,442	102,657	96,194

Net change in cash and cash equivalents (exclusive of exchange rate fluctuations) of the Krka Group totalled €96.6 million in 2020, since the positive cash flow from operating activities exceeded the negative cash flows from investing and financing activities.

The Krka Group generated profit from operating activities before changes in net current assets of €424.7 million. Changes in current assets that positively influenced cash flow included changes in trade receivables and provisions, while changes in trade payables, inventories, deferred revenue, and other current liabilities had a negative impact.

Negative cash flows from investing activities totalling €109.6 million were primarily accrued due to the acquisition of PP&E, net payments in connection with current investments and loans, payments in connection with derivatives, acquisition of intangible assets, and non-current loans. Negative cash flows from financing activities of €154.6 million primarily resulted from payouts of dividends and other profit shares totalling €133.3 million and repurchased treasury shares of €25.5 million.

Performance Ratios



All 2020 performance ratios of the Company and the Krka Group are among the best in the past five years.

Operating Figures of the Krka Group and the Company for the Past Five Years

€ thousand	Krka Group					Company				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Revenue	1,534,941	1,493,409	1,331,858	1,266,392	1,174,424	1,447,112	1,390,248	1,231,784	1,197,756	1,071,709
EBIT ¹	390,744	274,195	232,686	198,741	122,435	338,882	263,852	199,305	196,953	98,920
– EBIT margin	25.5%	18.4%	17.5%	15.7%	10.4%	23.4%	19.0%	16.2%	16.4%	9.2%
EBITDA ²	502,432	385,437	343,280	306,638	228,238	424,028	345,929	282,493	278,627	180,685
– EBITDA margin	32.7%	25.8%	25.8%	24.2%	19.4%	29.3%	24.9%	22.9%	23.3%	16.9%
Net profit	288,949	244,272	174,008	152,576	108,456	258,474	249,411	163,329	153,730	102,872
– Net profit margin	18.8%	16.4%	13.1%	12.0%	9.2%	17.9%	17.9%	13.3%	12.8%	9.6%
Assets	2,235,542	2,184,618	1,985,069	1,919,131	1,911,518	2,208,379	2,129,960	1,916,065	1,837,482	1,837,703
ROA ³	13.1%	11.7%	8.9%	8.0%	5.8%	11.9%	12.3%	8.7%	8.4%	5.7%
Equity	1,751,812	1,667,516	1,540,270	1,487,699	1,444,444	1,791,850	1,664,178	1,552,300	1,493,325	1,440,448
ROE ⁴	16.9%	15.2%	11.5%	10.4%	7.6%	15.0%	15.5%	10.7%	10.5%	7.2%

¹ The difference between operating income and expenses

² The difference between operating income and expense increased by accumulated depreciation

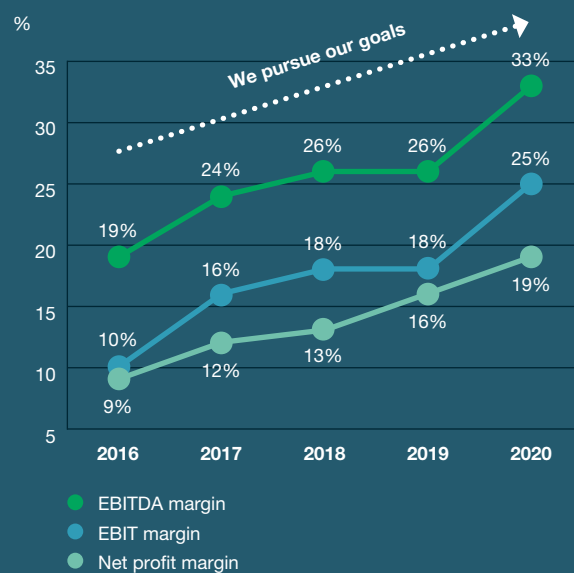
³ Net profit/Average total asset balance in the year

⁴ Net profit/Average shareholders' equity in the year



Improved Profitability Ratios

Annual EBITDA growth rate averaged 10.4% in the period from 2016 to 2020. In the same period, average EBITDA margin reached 25.6%.



Marketing and Sales

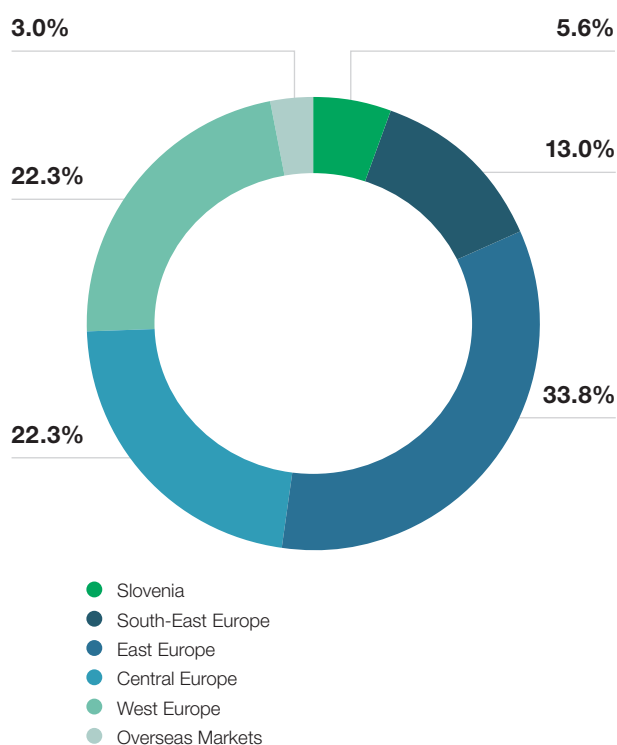
In 2020, the Krka Group generated €1,534.9 million from sales, a 3% year-on-year rise.

Of that, revenue from contracts with customers on sales of products and services amounted to €1,530 million, while other revenue from contracts with customers on sales of material and other sales revenue making up the remainder. Sales in markets outside Slovenia reached €1,444.8 million and accounted for 94% of overall Krka Group sales. Product sales volume increased by 7%.

Sales by Region

Region East Europe recorded the highest sales, €517.2 million, or 33.8% of total Krka Group sales. Region Central Europe followed with €341.5 million, or 22.3% of total Krka Group sales. Region West Europe ranked third in terms of sales with €341.1 million, or 22.3% of total Krka Group sales. Sales by Region South-East Europe totalled €199.4 million (13% of total sales) and by Region Overseas Markets €45.7 million (3% of total sales). Region Slovenia generated sales of €85.1 million accounting for 5.6% of total Krka Group sales.

2020 Krka Group Sales by Region



Krka Group and Krka, d. d., Novo mesto, Sales by Region

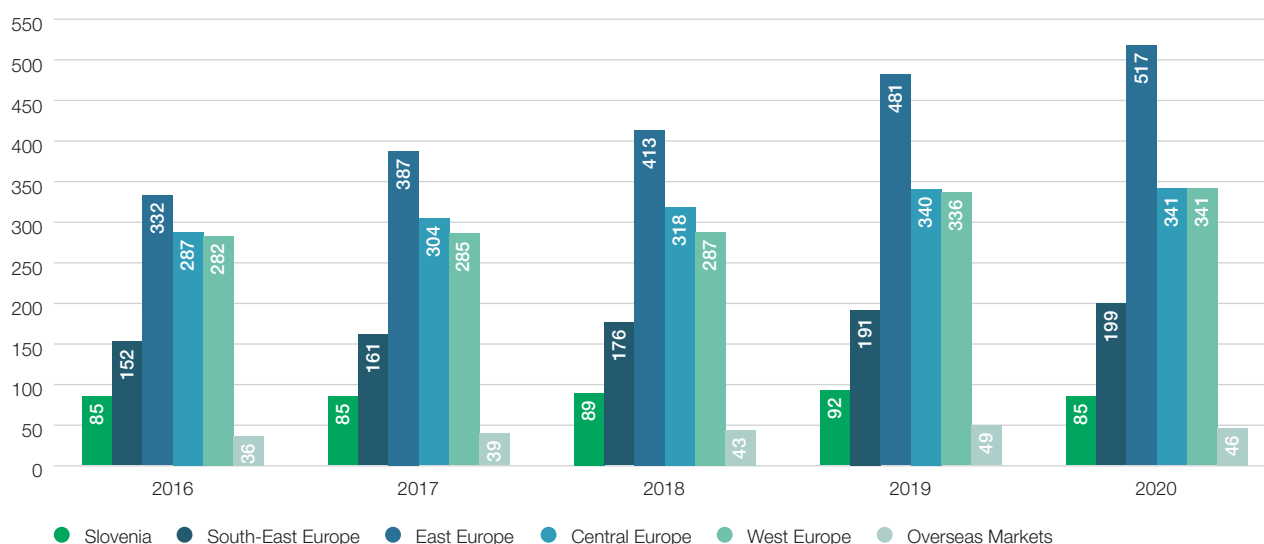
€ thousand	Krka Group			Company		
	2020	2019	Index 2020/19	2020	2019	Index 2020/19
Slovenia	85,138	92,375	92	55,385	52,902	105
South-East Europe	199,406	191,320	104	197,185	187,068	105
East Europe	517,231	481,155	107	289,471	298,053	97
Central Europe	341,463	339,574	101	325,793	323,501	101
West Europe	341,057	336,098	101	313,365	290,401	108
Overseas Markets	45,664	48,558	94	40,812	43,752	93
Total	1,529,959	1,489,080	103	1,222,011	1,195,677	102

Krka Group Quarterly Sales by Region

€ thousand	2020				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Slovenia	23,325	15,022	26,207	20,584	22,006	22,994	24,914	22,461
South-East Europe	63,794	39,740	48,279	47,593	50,409	48,300	46,849	45,762
East Europe	153,082	118,606	105,495	140,048	122,091	129,434	88,151	141,479
Central Europe	113,706	68,969	79,328	79,460	85,862	83,246	82,880	87,586
West Europe	94,312	87,260	81,458	78,027	84,285	86,158	72,648	93,007
Overseas Markets	13,510	10,521	13,951	7,682	12,635	11,916	12,792	11,215
Total	461,729	340,118	354,718	373,394	377,288	382,048	328,234	401,510

Krka Group Sales by Region over the Past Five Years

€ million



Revenue from sales since 2017 is presented in compliance with IFRS 15.

Region Slovenia

Sales of products and services in Slovenia, one of Krka's key markets, amounted to €85.1 million in 2020. Product sales reached €55.4 million accounting for 5% growth in value. Prescription pharmaceuticals made up a major share of sales, or 74%. Non-prescription products accounted for 20%, and the remaining 6% were generated by sales of animal health products. Holding a 7.8% market share, we maintained the leading position among medicine providers in Slovenia in terms of sales value. Health resort and tourist services generated €29.8 million, which was down on the previous year, with total sales on the local market experiencing a decline.

Medicines for the treatment of cardiovascular diseases, central nervous system, pain, and the gastrointestinal tract accounted for the highest percentage of prescription

pharmaceutical sales. Market shares of all key therapeutic classes of prescription medicines increased.

The highest volume of sales was recorded by medicines for the treatment of cardiovascular diseases, most notably Prenewel (perindopril/indapamide), Prenessa (perindopril), Amlessa (perindopril/amlodipine), and Amlewel (perindopril/amlodipine/indapamide). Of our cholesterol-lowering agents, sales of Sorvasta (rosuvastatin) were most substantial. We strengthened recognition of the Roxiper brand, the only brand on the market that contains perindopril, indapamide and rosuvastatin. We introduced a new pharmaceutical, Sorvitimb (rosuvastatin/ezetimibe).

From our range of medicines for the central nervous system, our most prominent brands were Kventiax (quetiapine), Parnido (paliperidone), Dulsevia (duloxetine), and Memaxa (memantine). Pregabalin Krka (pregabalin), Nalgesin Forte (naproxen), Doreta (tramadol/paracetamol),



Krka Group Market Position in Slovenia

We retained the leading position among providers of medicines, holding a 7.8% market share. Of all prescription medicines sold in Slovenia, one in four was made by Krka.

We were the leading provider of:

- Non-steroidal anti-inflammatory and antirheumatic medicines, accounting for more than a 65% market share;
- Proton pump inhibitors, accounting for approximately a 60% market share;
- Statins, accounting for approximately a 55% market share;
- Agents acting on the renin-angiotensin system, accounting for approximately a 45% market share;
- Products with effect on pharynx, accounting for approximately a 40% market share;
- Antipsychotics, anti-dementia medicines, and antidepressants, accounting for approximately a 30% market share.

We were the leading provider of medicines containing alprazolam, atorvastatin, ciprofloxacin, dexamethasone, doxazosin, enalapril, esomeprazole, gliclazide, indapamide, carvedilol, quetiapine, losartan, including the combination with hydrochlorothiazide; memantine, naproxen, omeprazole, pantoprazole, perindopril, including combinations with amlodipine and indapamide; ramipril, rosuvastatin, sertraline, simvastatin, tramadol in combination with paracetamol; and valsartan.

We were the leading provider of generic medicines containing duloxetine, etoricoxib, imatinib, perindopril in combination with amlodipine and indapamide; pregabalin, and valsartan in combination with hydrochlorothiazide.

We were the leading provider of non-prescription products as follows: products with effect on pharynx, non-steroidal anti-inflammatory drugs (NSAIDs), group B vitamins, proton pump inhibitors, and magnesium-containing products.

Nalgesin (naproxen), Nolpaza (pantoprazole), Sorvasta (rosuvastatin), Prenewel (perindopril/indapamide), Prenessa (perindopril), and Doreta (paracetamol/tramadol) were among medicines that generated strongest sales.

and Roticox (etoricoxib) topped the list of analgesics. Among medicines for the treatment of the gastrointestinal diseases, Nolpaza (pantoprazole) and Emozul (esomeprazole) were our most notable agents. Our range of urological agents was supplemented by Dutamyz (dutasteride/tamsulosin). Dasatinib Krka (dasatinib) and Erlotinib Krka (erlotinib) were added to our range of oncology medicines.

Sales of non-prescription products continued to be driven by Nalgesin S (naproxen), followed by Magnezij Krka 300 and our newly launched VITAMIN D3 Krka (cholecalciferol). Of animal health products, our disinfectant Ecocid S generated the highest sales. It was followed by Fypryst Combo (fipronil/S-methoprene) and vitamin-and-mineral feed supplement Grovit.

Region South-East Europe

Region South-East Europe achieved product sales of €199.4 million, a year-on-year increase of 4%. The growth was driven by most regional markets, except Croatia, where sales mirrored those of 2019. Serbia recorded the highest absolute sales growth, with sales up €1.8 million year on year. In terms of absolute sales growth, it was followed by Romania, where sales went up by €1.7 million on the 2019 figure, and North Macedonia, where sales rose by €1.6 million year on year.

Prescription pharmaceuticals accounted for 86% of regional sales and were followed by non-prescription products at just shy of 10%. Animal health products accounted for slightly less than 4% of total regional sales. Year on year, prescription pharmaceuticals and animal health products grew 5% and 10%, respectively. Sales of non-prescription products mirrored those of 2019.

In **Romania**, our key and largest regional market, sales were up 3% year on year, to €58.1 million. Holding a 1.8% market share, we ranked fifth among foreign providers of generic pharmaceuticals on the market. Sales of prescription pharmaceuticals were strongest, exceeding a 7% market share in terms of volume. The most important medicines in terms of sales were Atoris (atorvastatin), Co-Prenessa (perindopril/indapamide), Doreta (tramadol/paracetamol), Roswera (rosuvastatin), Nolpaza (pantoprazole), and Oprymea (pramipexole). Among non-prescription products, Bilobil (ginkgo leaf extract), Nalgesin (naproxen), and Vitamin D3 Krka (cholecalciferol) excelled. Sales of animal health products were up 9% driven by strong sales of products for companion animals, in particular Fypryst (fipronil) and Milprazon (milbemycin/praziquantel).



Krka Group Market Position in Romania

We ranked fifth among foreign providers of generic medicines, holding a 1.8% market share.

We were among the leading providers of:

- SNRI antidepressants, accounting for approximately a 55% market share;
- Statins, accounting for approximately a 25% market share;
- Antimicrobials (fluoroquinolones), accounting for more than a 20% market share;
- Prescription analgesics and antipyretics, accounting for approximately a 20% market share;
- Angiotensin-II antagonists, also combinations with diuretics, accounting for more than a 15% market share;
- ACE inhibitors, also combinations, accounting for approximately a 15% market share.

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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, and tramadol, including the combination with paracetamol.

We were the leading provider of generic medicines containing aripiprazole, esomeprazole, ivabradine, ginkgo leaf extract, candesartan and pantoprazole, combination of perindopril and indapamide, and combination of perindopril, indapamide, and amlodipine.

In terms of sales, **Croatia**, one of our key markets, ranked second in the region. Sales totalled €35.3 million and remained at the 2019 level. We ranked fifth among all providers of generic medicines and second among manufacturers of animal health products. Year on year, animal health products achieved sales growth. Sales of prescription pharmaceuticals mirrored those of 2019, while sales of non-prescription products were down year on year.



Krka Group Market Position in Croatia

We ranked third among foreign providers of generic medicines, holding a 3.5% market share.

We were the leading provider of:

- Angiotensin II receptor antagonists, also in combination with diuretics, accounting for approximately a 60% market share;
- Antimicrobials (fluoroquinolones), accounting for more than a 40% market share;
- Antitussives, accounting for approximately a 40% market share;
- Statins, accounting for approximately a 30% market share;
- ACE inhibitors, also in combination with diuretics, accounting for approximately a 25% market share;
- Antidepressants, accounting for more than a 15% market share.

We were among the leading providers of:

- Typical antipsychotics, accounting for more than a 25% market share;
- Proton pump inhibitors, accounting for more than a 25% market share;
- Sulphonamide antidiabetics, accounting for more than a 20% market share;
- Anxiolytics, accounting for more than a 15% market share;
- ACE inhibitors, also combinations with calcium antagonists, accounting for approximately a 15% market share;
- Angiotensin-II antagonists, also combinations with calcium antagonists, accounting for more than a 10% market share.

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We were the leading provider of medicines containing alprazolam, atorvastatin, butamirate, ciprofloxacin, dexamethasone, escitalopram, esomeprazole, clarithromycin, lansoprazole, loperamide, norfloxacin, perindopril, including the combination with indapamide; rosuvastatin, telmisartan, and valsartan, including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing desloratadine, duloxetine, gliclazide, perindopril in combination with amlodipine; perindopril in combination with amlodipine and indapamide; and simvastatin.

As expected, prescription pharmaceuticals recorded strongest sales in terms of value, in particular Atoris (atorvastatin), Co-Perineva (perindopril/indapamide), Emanera (esomeprazole), Helex (alprazolam), Roswera (rosuvastatin), Valsacombi (valsartan/hydrochlorothiazide), and Dexamethasone Krka (dexamethasone).

Of non-prescription products, Nalgesin (naproxen) and Septotele brand products were the leading non-prescription products in terms of sales. In the animal health range, Fypryst (fipronil) and Enroxil (enrofloxacin) recorded the highest sales.

Serbia generated €27.8 million in sales and recorded 7% growth, ranking it third among regional markets. The continued fast market share growth was driven mainly by strong sales of prescription pharmaceuticals, accounting for almost 8% growth in value and 86% of total sales. Nalpaza (pantoprazole), Roxera (rosuvastatin), Co-Amlessa (perindopril/amlodipine/indapamide), Atoris (atorvastatin), Co-Prenessa (perindopril/indapamide), and Ampril (ramipril) were key medicines from this group. Nalpaza (pantoprazole) with 5.2 million packs sold and 19% year-on-year sales value growth remained one of the five strongest selling medicines in Serbia. Sales of non-prescription products slipped by 11%. Nalgesin (naproxen), Bilobil (ginkgo leaf extract), and Septotele brand products generated the strongest sales. Sales of animal health products were up 30% compared to 2019. Fypryst (fipronil), Dehinel, Enroxil (enrofloxacin), and Calfoset were at the forefront.

In **Bulgaria**, sales climbed for the seventh consecutive year, primarily due to the successful expansion of our product range in several therapeutic areas, and rapid adaptation to the state of play on the market in the country. Prescription pharmaceuticals climbed by 7% to €23.6 million, the largest contributor to overall sales. Co-Valsacor (valsartan/hydrochlorothiazide), Valsacor (valsartan), Roswera (rosuvastatin), Dexamethasone Krka (dexamethasone), Co-Amlessa (perindopril/amlodipine/indapamide), Nalpaza (pantoprazole), and Wamlox (valsartan/amlodipine) generated the strongest sales. Sales of non-prescription products lagged behind, whereas animal health products sales mirrored those of 2019.

We have recorded sales growth in **North Macedonia** for sixteen consecutive years. In 2020, sales totalled €22.2 million, up 8% compared to 2019. Krka remained the leading foreign provider of generic medicines in the country. Prescription pharmaceuticals were the largest contributor to overall sales, in particular Roswera (rosuvastatin), Nalpaza (pantoprazole), Enap (enalapril), Tanyz (tamsulosin), Lorista (losartan), and Atoris (atorvastatin). The leading non-prescription products in

terms of sales were Bilobil (ginkgo leaf extract), Daleron (paracetamol), Septanazal (xylometazoline/dexpanthenol), Septotele Total (benzylamine/cetylpyridinium chloride), and the Herbion brand products. In 2020, we launched several medicines in the country. Etoxi (etoricoxib), Apleria (eplerenone), Valtricom (amlodipine/valsartan/hydrochlorothiazide), and Wamlox (amlodipine/valsartan) excelled among our prescription pharmaceuticals, and Vitamin D3 Krka (cholecalciferol) and Herbion Ivy lozenges among non-prescription products.

In **Bosnia and Herzegovina**, sales climbed by 3%, reaching €20 million for the first time. We maintained the leading position among foreign providers of generic medicines in the country. Sales were driven by prescription pharmaceuticals, in particular Enap H/HL (enalapril/hydrochlorothiazide), Roswera (rosuvastatin), Lexaurin (bromazepam), Enap (enalapril), Atoris (atorvastatin), Nalpaza (pantoprazole), Naklofen (diclofenac), and Valsacombi (valsartan/hydrochlorothiazide). Non-prescription products saw a slight dip in sales compared to 2019. Nalgesin (naproxen), the Septotele brand products, Bilobil (ginkgo leaf extract), and B-Complex were the largest contributors to sales in this segment. Sales of key animal health products rose, with Fypryst (fipronil), Calfoset, and Rycarfa (carprofen) at the forefront.

In **Kosovo**, we recorded €7.1 million in sales or 9% sales growth, placing us among the leading providers of medicines in the country. Year-on-year sales in **Albania** were up 14% to almost €3.4 million. As anticipated, sales of prescription pharmaceuticals were highest. In **Montenegro**, sales totalled €1.9 million, up 9%. In **Greece**, we rolled out our own product promotion campaign in December 2020 and launched Esolib (esomeprazole) and Zoletad (lansoprazole).

Region East Europe

Region East Europe remained our leading sales region in 2020, with €517.2 million in sales, up 7% year on year. The two key regional markets contributed most to the result. We also recorded growth in all other regional markets, except in Mongolia.

The **Russian Federation** has retained the position as our leading regional and largest individual market. Sales reached €326.9 million, up €16.4 million on 2019, accounting for 5% growth. Growth denominated in the Russian rouble totalled 17%. We were the leading provider of prescription pharmaceuticals in the pharmacy segment.

The leading product group were prescription pharmaceuticals, accounting for 85% of total sales, achieving 9% year-on-year growth. Lorista (losartan), Valsacor (valsartan), Lorista H/HD (losartan/hydrochlorothiazide), Atoris (atorvastatin), Nolpaza (pantoprazole), Vamloset (valsartan/amlodipine), Co-Perineva (perindopril/indapamide), Valsacor H/HD (valsartan/hydrochlorothiazide), Roxera (rosuvastatin), and Perineva (perindopril) recorded the strongest sales. We started marketing two new products, Telmista AM (telmisartan/amlodipine) and Roxatenz (rosuvastatin/perindopril/indapamide). We are the leading provider of prescription pharmaceuticals for the treatment of cardiovascular diseases in the Russian Federation.

Non-prescription products generated sales of €32.2 million in 2020, mostly on the back of Septotele Total (benzylamine/cetylpyridinium chloride) and the Herbion brand products. We successfully marketed our recently launched Panatus (butamirate), Ulcavis (bismuth), and Sleepzone (doxylamine).

Sales of animal health products were valued at €17.8 million, representing 5% growth. Trisulfon (sulfamonomethoxine/trimethoprim), Floron (florfenicol), and Milprazon (milbemycin/praziquantel) sold best.

We have been successfully increasing the percentage of products we manufacture in the Russian Federation. Our Russian plant Krka-Rus manufactures more than 80% of Krka products on demand in the Russian Federation.

In **Ukraine**, another key Krka market, sales of pharmaceuticals have stagnated in recent years. Despite this we again recorded sales growth in 2020. We generated €86 million in product sales and recorded an 8% increase, giving us a 2.6% market share, which ranked us second among foreign providers of generic pharmaceuticals. Prescription pharmaceuticals were again the leading product group and recorded the strongest growth, 12%, with Dexamethasone (dexamethasone),



Krka Group Market Position in the Russian Federation

We ranked third among foreign providers of generic medicines, holding a 1.9% market share.

We were the leading provider of prescription pharmaceuticals for the treatment of cardiovascular diseases. We were the leading provider of prescription pharmaceuticals in the pharmacy segment.

We were the leading provider of:

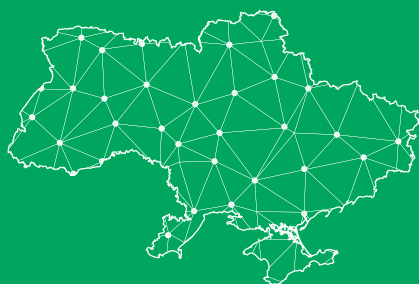
- Angiotensin-II antagonists, also combinations, accounting for approximately a 40% market share;
- Statins, accounting for more than a 20% market share.

We were among the leading providers of:

- ACE inhibitors, also combinations, accounting for approximately a 20% market share;
- Proton pump inhibitors, accounting for more than a 15% market share;
- Atypical antipsychotics, accounting for approximately a 15% market share;
- Platelet aggregation inhibitors (ADP receptor antagonists), accounting for more than a 10% market share;
- Appetite suppressants, diet products excluded, accounting for approximately a 10% market share.

We were the leading provider of medicines containing atorvastatin, enalapril, including the combination with hydrochlorothiazide, losartan, naproxen, norfloxacin, olanzapine, orlistat, pantoprazole, and valsartan, including combinations with amlodipine and hydrochlorothiazide.

We were the leading provider of generic medicines containing esomeprazole, ivabradine, clopidogrel, perindopril, including all combinations with amlodipine and indapamide; rosuvastatin, risperidone, and telmisartan.



Krka Group Market Position in Ukraine

We ranked second among foreign providers of generic medicines, holding a 2.6% market share.

In 2020, we outperformed the entire market with respect to sales growth.

We were the leading provider of:

- Parenteral corticosteroids, accounting for more than a 40% market share;
- Statins, accounting for approximately a 40% market share;
- Angiotensin-II antagonists, also combinations, accounting for approximately a 35% market share;
- ACE inhibitors, also combinations with diuretics, accounting for more than a 20% 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 medicines containing atorvastatin, dexamethasone, enalapril in combination with hydrochlorothiazide, ginkgo leaf extract, carvedilol, clarithromycin, naproxen, pantoprazole, rosuvastatin, simvastatin, and valsartan, including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing betamethasone and perindopril, including all combinations with amlodipine and indapamide.

Co-Prenessa (perindopril/indapamide), Nolpaza (pantoprazole), Co-Amlessa (perindopril/amlodipine/indapamide), and Valsacor (valsartan) leading the way. Herbion brand products, Nalgesin (naproxen), and Septotele brand products were sales leaders among non-prescription products, which recorded a 14% drop. Year-on-year sales of animal health products climbed by 17%.

Subregion East Europe B

In Subregion East Europe B, which includes Belarus, Mongolia, Armenia, and Azerbaijan, product sales reached €36.4 million, up 13%. Year on year, sales experienced growth in Belarus, Armenia, and Azerbaijan.

Sales in **Belarus** totalled €17.6 million, up 24% on 2019. We increased our market share by above-average growth dynamics in terms of value and volume, and ranked second among foreign providers of generic medicines. Our key product group, prescription pharmaceuticals, grew by 28%, mainly on account of Co-Amlessa (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), and Lorista H/HD (losartan/hydrochlorothiazide). In the non-prescription product range, Septotele and Herbion brand products led the way. Sales of our animal health products generated €0.7 million. Of prescription pharmaceuticals, we started marketing Co-Valodip (valsartan/amlodipine/hydrochlorothiazide) and Mirzaten (mirtazapine). New developments in the non-prescription product range included an additional flavour of Septotele Total (benzylamine/cetylpyridinium chloride) lozenges.

In **Mongolia**, we maintained our position as the leading foreign provider of medicines, despite a year-on-year drop in sales to €8.5 million. Sales of prescription pharmaceuticals almost mirrored those of 2019, while non-prescription products saw a 25% drop attributed to lower sales of vitamins and minerals in the spring. A significant proportion of sales was generated by our new medicines Nolpaza (pantoprazole), Lorista (losartan), Amlessa (perindopril/amlodipine), and Vamloset (valsartan/amlodipine). We launched Dilaxa (celecoxib), Co-Amlessa (perindopril/amlodipine/indapamide), Lortenza (losartan/amlodipine), and Telmista (telmisartan). Strong sales of non-prescription products were driven mainly by Septotele Total (benzylamine/cetylpyridinium chloride) and Nalgesin (naproxen).

In **Azerbaijan**, our product sales reached €5.8 million or 11% growth on 2019. Our 3% market share placed us among the leading generic manufacturers in the country. Sales of prescription pharmaceuticals, our key product

group, climbed 18%, while non-prescription products lagged behind 2019 sales figures.

In **Armenia**, sales increased by 20% to €4.5 million. By increasing our market share to 3.7%, we ranked second among producers of generic medicines in the country. Prescription pharmaceuticals accounted for the majority, or 89%, of sales, primarily Co-Amlessa (perindopril/amlodipine/indapamide), Atoris (atorvastatin), and Captopril (captopril). We recorded a 2% increase in sales of non-prescription products. Septotele brand products and Nalgesin (naproxen) sold best.

Subregion East Europe K

Product sales in Kazakhstan, Moldova, and Kyrgyzstan were valued at €31 million, up 11% compared to 2019. We recorded growth in all markets of the subregion.

In **Kazakhstan**, we generated product sales of €15.4 million, an 8% year-on-year increase. Prescription pharmaceuticals accounted for the majority, 71%, of sales totalling €10.9 million, in particular Atoris (atorvastatin), Enap (enalapril), Nolpaza (pantoprazole), Valodip (valsartan/amlodipine), and Valsacor (valsartan). We launched a new prescription pharmaceutical, Telmista (telmisartan). Non-prescription product sales amounted to €4 million. Products sold under the Herbion, Duovit, and Pikovit brands recorded the strongest sales. Animal health products generated €0.6 million in sales, up 58%.

Product sales in **Moldova** generated €10.6 million, up 8% on 2019. Holding a 5.5% market share, we ranked third among all providers of medicines in the country. Sales of prescription pharmaceuticals accounted for 77% of total sales, up 18%. Lorista (losartan), Ampiril (ramipril), and Rawel (indapamide) were the leading medicines. We started marketing Valodip (amlodipine/valsartan). Non-prescription product sales amounted to €2.2 million. The leading non-prescription products were Septanazal (xylometazoline/dexpanthenol), Septotele Total (benzylamine/cetylpyridinium chloride), and Nalgesin (naproxen). Sales of our animal health products generated €0.2 million.

In **Kyrgyzstan**, sales grew by 27%. We remained third among all providers of medicines in the country, while total sales of €5 million saw us achieve a 3.5% market share. Prescription pharmaceuticals accounted for the majority (72%) of total sales. Lorista (losartan), Atoris (atorvastatin), and Nolpaza (pantoprazole) generated the strongest sales. We started marketing Co-Amlessa (perindopril/amlodipine/indapamide). Sales of non-prescription products were up 43%. Products sold under the Pikovit, Septotele, and Herbion brands were at the forefront.

Subregion East Europe U

Subregion East Europe U, consisting of Uzbekistan, Georgia, Tajikistan, and Turkmenistan, generated €36.9 million in product sales, up 21% year on year. All markets of this subregion recorded growth.

Product sales in **Uzbekistan** totalled €26.5 million, up 18% compared to 2019. We earned a place among the most important providers of medicines in the country, especially medicines for the treatment of cardiovascular diseases. Prescription pharmaceuticals were our leading product group in terms of sales, in particular Amlessa (perindopril/amlodipine), Lorista (losartan), Lortenza (losartan/amlodipine), and Valodip (valsartan/amlodipine). Septotele and Pikovit brand products led sales of non-prescription products. We successfully launched Herbion Ivy lozenges.

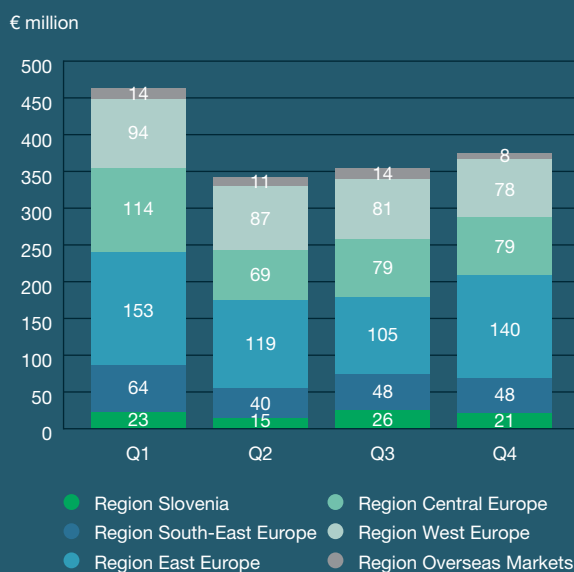
In **Georgia**, we generated €6.1 million in product sales, a 42% year-on-year increase. Our 3.9% market share ranked us fifth among all providers of medicines in the country. The most important products in terms of sales were prescription pharmaceuticals, especially Lorista H/HD (losartan/hydrochlorothiazide), Enap H/HL (enalapril/hydrochlorothiazide), and Co-Amlessa (perindopril/amlodipine/indapamide). Key non-prescription products were Nalgesin (naproxen), Panzynorm, and Herbion brand products.

In **Tajikistan**, sales reached €2.4 million, up 26% year on year. Pikovit, a non-prescription product, remained our best-selling product in the country. Primary drivers of sales growth were our new products Nolpaza (pantoprazole), Lorista (losartan), Co-Amlessa (perindopril/amlodipine/indapamide), and Roxera (rosuvastatin).

In **Turkmenistan**, product sales climbed by 7% year on year to €1.8 million. Nolpaza (pantoprazole) and Amlessa (perindopril/amlodipine) from our leading product group of prescription pharmaceuticals, and products sold under the Pikovit and Herbion brands from the non-prescription product group generated the strongest sales.

Krka Group Quarterly Sales in 2020

Sales volatility increased due to the COVID-19 pandemic.



Q1: The COVID-19 pandemic saw high demand for our products. Sales increased in all regions.

Q2: Sales of medicines saw a drop in the first quarter due to increased inventories. Access to doctors and pharmacies was restricted due to preventive measures taken to curb the spread of infections.

Q3: Sales volume and growth returned to the level planned before the outbreak of the pandemic.

Q4: Sales volume increased by 7%, and sales value by 3% on 2019. Marketing activities were hindered by the second pandemic wave.

Region Central Europe

Region Central Europe generated product sales of €341.5 million, up 1% year on year. Sales growth was recorded in Poland, Latvia, and Estonia. In terms of value, growth was most significant in Poland and in relative terms in Latvia.

In **Poland**, the largest regional market and our key market, product sales reached €163 million, up 2% on 2019, ranking us third among foreign providers of generic medicines. Sales were driven by prescription pharmaceuticals, most notably pharmaceuticals from the reimbursement list. New medicines that we placed on the market over the past number of years also contributed significantly to sales.

We focused on medicines for the treatment of cardiovascular diseases. Despite market pressures, sales of sartans held steady at the 2019 level, maintaining our leading position among providers of products from the sartan family. Valtricom (valsartan/amlodipine/hydrochlorothiazide) was one of our most notable new medicines launched in recent years because it was the first generic medicine put on the reimbursement list in 2020. Through sales of our lipid lowering agents, notably Atoris (atorvastatin) and Roswera (rosuvastatin), we achieved 3% sales volume growth despite stiff competition and price pressure. In the analgesic group of tramadol and paracetamol fixed-dose combinations, we retained a 55% market share, with Doreta (tramadol/paracetamol) at the forefront. There was also a noteworthy 30% plus increase in sales of antidiabetic agents. Among them, Gliclada (gliclazide) contributed significantly to sales figures of this group. We retained the leading position among all providers as regards prescription pharmaceuticals for patients aged 75 years and older, as we had more medicines on the reimbursement list than any other producer.

Sales of non-prescription products slid compared to 2019. The leading non-prescription products were those of the Septolete brand and Bilobil (ginkgo leaf extract). Year on year, sales of animal health products grew 10% to €6.6 million. Milprazon (milbemycin/praziquantel) and Dehinel generated the strongest sales.

Hungary, another key Krka market, generated sales of €49.7 million, down 4% year on year, placing the country second among our regional markets. We ranked second among primarily foreign providers of generic medicines in the country with a 1.9% market share. Prescription pharmaceuticals contributed most to sales, in particular Co-Prenessa (perindopril/indapamide), Roxera (rosuvastatin), Valsacor (valsartan), Co-Valsacor (valsartan/hydrochlorothiazide), and Atoris (atorvastatin).





Krka Group Market Position in Poland

We ranked third among foreign providers of generic medicines, holding a 2.5% market share.

We were the leading provider of:

- Angiotensin-II antagonists, also combinations with diuretics, accounting for approximately a 45% market share;
- Statins, accounting for approximately a 35% market share;
- SSRI and SNRI antidepressants, accounting for more than a 10% market share.

We were among the leading providers of:

- Oral corticosteroids, accounting for approximately a 25% market share;
- Sulphonamide antidiabetics, accounting for approximately a 20% market share;
- Aminosaliclates for bowel disease, accounting for more than a 15% market share;
- Proton pump inhibitors, accounting for approximately a 15% market share;
- Antimicrobials (fluoroquinolones), accounting for approximately a 15% market share;
- ACE inhibitors, also all combinations, accounting for approximately a 15% market share;
- Antiparkinsonians, accounting for approximately a 10% market share.

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We were the leading provider of medicines containing atorvastatin, celecoxib, duloxetine, esomeprazole, etoricoxib, candesartan, including the combination with hydrochlorothiazide; lansoprazole, losartan, including the combination with hydrochlorothiazide; norfloxacin, rabeprazole, ropinirole, rosuvastatin, sulfasalazine, tramadol in combination with paracetamol; telmisartan in combination with amlodipine; and valsartan, including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing gliclazide, ivabradine and perindopril, including all combinations with amlodipine and indapamide.



Krka Group Market Position in Hungary

We ranked second among primarily foreign providers of generic medicines, holding a 1.9% market share.

We were the leading provider of:

- SNRI antidepressants, accounting for approximately a 40% market share;
- Angiotensin-II antagonists, also combinations with diuretics, accounting for more than a 35% market share;
- Platelet aggregation inhibitors, 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 approximately a 25% market share.

We were among the leading providers of:

- Antiparkinsonians, accounting for approximately a 20% market share;
- ACE inhibitors, also combinations with diuretics, accounting for approximately a 20% market share;
- Statins, accounting for approximately a 20% market share;
- Proton pump inhibitors, accounting for approximately a 15% market share;
- Sulphonamide antidiabetics, accounting for more than a 10% market share;
- Macrolide and pyranoside antibiotics, accounting for more than a 10% market share;
- Cerebral and peripheral vasotherapeutics, accounting for approximately a 10% market share.

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We were the leading provider of medicines containing amlodipine in combination with telmisartan, indapamide, ginkgo leaf extract, clarithromycin, clopidogrel, mirtazapine, pramipexole, rasagiline, and valsartan, including the combination with hydrochlorothiazide.

We were the leading generic provider of medicines containing aripiprazole and gliclazide.

Sales of non-prescription products generated €2.6 million, accounting for 73% of 2019 sales. Sales were driven by Bilobil (ginkgo leaf extract), Venter (sucralfate), and Flebaven (diosmin). Sales of our animal health products grew 46%. Fypryst (fipronil) and Milprazon (milbemycin/praziquantel) generated the strongest sales.

In the **Czech Republic**, also one of our key markets, sales of €45.8 million lagged slightly behind those of 2019. We ranked fourth among foreign providers of generic medicines, holding a 1.5% market share. Prescription pharmaceuticals retained the leading position, among them Lexaurin (bromazepam), Atoris (atorvastatin), Sorvasta (rosuvastatin), Tonanda (perindopril/amlodipine/indapamide), Valsacombi (valsartan/hydrochlorothiazide), Prenewel (perindopril/indapamide), and Doreta (tramadol/paracetamol).

Sales of non-prescription products dipped by 26% in terms of value. Nalgesin S (naproxen) and Septotele brand products generated the strongest sales. Animal health product sales were up 20%. Our key products from the group were the Fypryst and Dehinel brands.

Slovakia, Krka's key market and fourth largest regional market, generated product sales of €38.3 million, down 3%, lagging slightly behind the growth rates across the local pharmaceutical market as a whole. Prescription pharmaceuticals were the leading product group in terms of sales, with Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), Nalpaza (pantoprazole), Prenessa (perindopril), and Co-Amlessa (perindopril/amlodipine/indapamide) generating strongest sales. Sales of non-prescription products slipped by 12%. The leading products in terms of sales were Nalgesin S (naproxen) and Flebaven (diosmin). Animal health products recorded a 29% sales increase in 2020. Enroxil (enrofloxacin) and Fypryst (fipronil) led in terms of sales.

Sales in **Lithuania** totalled €20.6 million in 2020 and almost mirrored those of 2019. Prescription pharmaceuticals accounted for the majority of total sales, in particular Valsacombi (valsartan/hydrochlorothiazide), Valsacor (valsartan), Roswera (rosuvastatin), Nalpaza (pantoprazole), and Atoris (atorvastatin). Sales of non-prescription products slid 36% in 2020. Nalgesin S (naproxen) and Septabene (benzylamine/cetylpyridinium chloride) were the strongest selling non-prescription products. Animal health product sales of €1.5 million surpassed 2019 figures by 35%.

In **Latvia**, sales reached €14.2 million in 2020, a 12% year-on-year rise. On the back of this result, Krka strengthened its leading position among providers of generic medicines in the country. As expected, prescription pharmaceuticals accounted for the majority of total sales,



Krka Group Market Position in the Czech Republic

We ranked fourth among foreign providers of generic medicines, holding a 1.5% market share.

We were among the leading providers of:

- Anxiolytics, accounting for more than a 30% market share;
- Angiotensin II receptor antagonists, also in combination with diuretics, accounting for approximately a 30% market share;
- Sulphonamide antidiabetics, accounting for more than a 25% market share;
- Proton pump inhibitors, accounting for more than a 20% market share;
- Statins, accounting for more than a 15% market share;
- Mono-component products used in the treatment of benign hypertrophy of the prostate, accounting for more than a 15% market share;
- SSRI and SNRI antidepressants, accounting for approximately a 15% market share;
- ACE inhibitors, also in combination with diuretics, accounting for approximately a 15% market share.

We were the leading provider of medicines containing esomeprazole, finasteride, gliclazide, lansoprazole, sulfasalazine, valsartan, including the combination with hydrochlorothiazide; and ziprasidone.

We were the leading provider of generic medicines containing aripiprazole, atorvastatin, escitalopram, levocetirizine, pantoprazole, perindopril, including all combinations with amlodipine and indapamide, sertraline, and tamsulosin.

among them Co-Amlessa (perindopril/amlodipine/indapamide), Prenewel (perindopril/indapamide), Sorvasta (rosuvastatin), and Atoris (atorvastatin). Sales of non-prescription products were down 24% year on year. Septanazal (xylometazoline/dexpanthenol) and Septabene (benzylamine/cetylpyridinium chloride) were the leading products in the segment. Sales of animal health products climbed 31% to €0.9 million.



Krka Group Market Position in Slovakia

We ranked third among all providers of generic pharmaceuticals, holding a 2.8% market share.

We were the leading provider of:

- Angiotensin-II antagonists, also combinations with diuretics, accounting for approximately a 40% market share;
- Proton pump inhibitors, accounting for more than a 35% market share;
- Antimicrobials (fluoroquinolones), accounting for more than a 30% market share;
- Statins, accounting for approximately a 30% market share;
- Antidementives, accounting for more than a 25% market share.

We were among the leading providers of:

- Sulphonamide antidiabetics, accounting for more than a 25% market share;
- ACE inhibitors, also combinations with diuretics, accounting for approximately a 25% market share;
- Anxiolytics, accounting for approximately a 25% market share;
- Antidepressants and mood stabilizers, accounting for approximately a 20% market share.

We were the leading provider of medicines containing atorvastatin, duloxetine, emtricitabine in combination with tenofovir, escitalopram, indapamide, carvedilol, quetiapine, paliperidone, pantoprazole, tramadol in combination with paracetamol, venlafaxine, and valsartan, including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing gliclazide and perindopril, including all combinations with amlodipine and indapamide.

In **Estonia**, sales totalled €9.8 million, up 11% on 2019. Prescription pharmaceuticals again generated the highest total in-country sales, especially our new medicine Darunavir Krka (darunavir). It was followed by Roswera (rosuvastatin), Co-Prenessa (perindopril/indapamide),

Co-Dalnessa (perindopril/amlodipine/indapamide), and Atoris (atorvastatin). Sales of non-prescription products slid 22% compared to 2019. The leading products in terms of sales remained those sold under the Septotele brand and Nalgesin S (naproxen). Sales growth of animal health products reached 19%.

Region West Europe

The markets of Region West Europe are collectively regarded as one of our key markets. Sales in the region grew by 1% to €341.1 million in 2020. Germany, the Scandinavian countries, France, Spain, and Italy led in terms of sales. Sales through related subsidiaries totalled €251.5 million and lagged slightly behind those of 2019. Sales through unrelated parties increased by 11%, accounting for 26% of the regional sales.

Sales of prescription pharmaceuticals, our leading product group, slightly outperformed the 2019 sales total and accounted for 90% of total sales. Medicines containing valsartan, esomeprazole, candesartan, clopidogrel, and venlafaxine were at the forefront. We were among the leading providers of sartans and the only provider of a generic variety of paliperidone in the markets of Region West Europe.

Animal health products recorded a 7% increase and accounted for 8% of total sales. Sales through related parties saw 23% growth in 2020, accounting for more than 50% of total sales of animal health products in Region West Europe. Sales were driven by a combination of milbemycin and praziquantel and products containing fipronil.

Non-prescription products grew by 10% and accounted for slightly less than 2% of total sales. Septotele brand products and those containing paracetamol led the way.

In **Germany**, our most important regional market, we generated sales of €90.9 million, up 6% on 2019. Sales through our subsidiary TAD Pharma totalled €85 million, a 4% year-on-year rise. In terms of sales, our most important products were medicines for the treatment of cardiovascular diseases and for the gastrointestinal tract and metabolism, followed by medicines for the treatment of the central nervous system. In 2020, we strengthened our position as the leading provider of sartans in terms of sales volume. Sales were driven by medicines containing candesartan, valsartan, duloxetine, and esomeprazole.

In the **Scandinavian countries**, sales totalled €59.3 million. **Sweden** remained our leading market, followed by **Finland**, **Norway**, **Denmark**, and **Iceland**. The strongest growth of 17% was recorded by Iceland.

Sales through our subsidiaries Krka Sverige and Krka Finland fell by 16% and 3%, respectively. Overall sales through subsidiaries reached 97%. Sales were driven by medicines containing losartan, candesartan, venlafaxine, and sertraline. In Norway, we retained our status as leading provider of several medicines, in particular those containing esomeprazole, pantoprazole, losartan, valsartan, candesartan, enalapril, and venlafaxine.

In **France**, sales amounted to €37.4 million, constituting growth of 22% year on year in terms of value. More than 70% of sales came from unrelated parties and were generated primarily by medicines containing esomeprazole, clopidogrel, and gliclazide, and a combination of milbemycin and praziquantel – an animal health product. Sales through our subsidiary Krka France recorded a 35% year-on-year rise in terms of value. The majority of sales was generated from prescription pharmaceuticals, most notably those containing tadalafil, dasatinib, and emtricitabine in combination with tenofovir. In the non-prescription product group, medicines containing paracetamol excelled, making them the related party's second best-selling product in 2020. Among animal health products, those for protection of companion animals against parasites were the best selling, in particular the combination of milbemycin and praziquantel.

In **Spain**, year-on-year sales in terms of value slipped by 12% to €36.2 million. While the termination of tender sales in Andalusia adversely affected our prescription pharmaceutical sales, we strengthened sales of our products from the animal health and non-prescription product ranges. Medicines containing donepezil, quetiapine, pramipexole, and bisoprolol generated the strongest sales.

Sales in **Italy** recorded a 10% rise in terms of value and stood at €34.6 million. Products marketed under our own brand names saw 6% growth and accounted for 66% of sales. Sales across almost all product groups contributed to the growth, with prescription pharmaceuticals recording the highest absolute growth. The leading prescription pharmaceuticals were products containing clopidogrel, esomeprazole, pantoprazole, gliclazide, and paliperidone.

In **Portugal**, sales totalled €24.4 million, up 7% year on year. Sales of products marketed under our own brand names were the same as in 2019 and accounted for 66% of our total in-country sales. This saw us retain more than a 6% generic market share. The leading prescription pharmaceuticals were products containing esomeprazole, olanzapine, pramipexole, and a single-pill combination of perindopril and indapamide.

In **Benelux**, sales were up by 29% to €16.8 million. Products sold under our own brands recorded the strongest sales, up 50% compared to 2019. Sales through unrelated parties were up by 9%. Medicines containing valsartan, esomeprazole, and a combination of milbemycin and praziquantel sold best.

Sales in the **United Kingdom** fell by 30% year on year to €12.9 million. Antihypertensives containing irbesartan and perindopril generated the strongest sales. Our subsidiary Krka UK increased sales by 30% compared to 2019, claiming a 32% share in Krka overall in-country sales.

In **Ireland**, we generated €10.3 million in product sales and surpassed the 2019 sales figures. Sales through our subsidiary Krka Pharma Dublin were up by 3% and accounted for 87% of total in-country sales. We remained the leading provider of generic medicines containing galantamine, tadalafil, venlafaxine, and duloxetine.

In **Austria**, sales grew by 19% to €10 million. Medicines containing pregabalin, duloxetine, and valsartan were at the forefront in terms of sales. Sales through our subsidiary Krka Pharma Wien accounted for 94%, up 18%.

In **other European countries**, we still make most of our sales through unrelated parties. Overall, product sales were up 29% on 2019 to €8.3 million.

Region Overseas Markets

Region Overseas Markets generated sales of €45.7 million, a 6% year-on-year drop, attributed mainly to lower sales in Iran resulting from long-term international sanctions imposed on the country. Most other regional markets recorded sales growth. Prescription pharmaceuticals contributed 89% to sales and were primarily marketed under our own brand names.

In the markets of the **Middle East**, sales of €17 million lagged behind 2019 figures by 30%. In **Iran**, our largest regional market, sales dropped by more than 40%.

Saudi Arabia recorded sales growth of more than 60%, recording the strongest sales growth in absolute and relative terms. This trend is expected to continue.

Lebanon and **Yemen** benefited from 30% sales growth despite the challenging situation. We started selling prescription pharmaceuticals in the **United Arab Emirates**. In the markets of the Middle East, Aseentra (sertraline), Emanera (esomeprazole), Zylt (clopidogrel), Yasnal (donepezil), and Nolpaza (pantoprazole) generated the strongest sales.

Product sales in the markets of the **Far East** and **Africa** reached €27.2 million, up 18% compared to 2019. The strongest sales were generated from medicines containing lansoprazole, saw palmetto extract, doxazosin, gliclazide, esomeprazole, and amlodipine. In **Vietnam**, which remained our largest individual market in this region and the second largest market in the region, sales increased by 12%. Sales in the **Republic of South Africa**, our third most important regional market in terms of recorded sales, grew by 12%. The highest relative sales growth of more than 70% was recorded in **China** and **Malaysia**, and of more than 40% in **Ghana**. We started selling prescription pharmaceuticals in the **Philippines**.

Our **Americas** sales office remained focused on the countries of Central America, where overall product sales reached €1.4 million, up 14% compared to 2019. Valsaden (valsartan/hydrochlorothiazide), Valsacor (valsartan), Yasnal (donepezil), and Rawel (indapamide) generated the strongest sales.

Milestone Reached

Approval Received for Our First Product Intended for the Chinese Market

We were granted approval for the antiepileptic pregabalin in hard capsule dosage form, in two strengths with two equal indications as the originator. We started manufacturing the product early in 2021 at Ningbo Krka Menovo, our joint venture established with a local partner.

We were granted the exclusive right to sell pregabalin to hospitals and pharmacies in seven provinces of China.



Michelle Liang, director of Ningbo Krka Menovo, our joint venture

Developing a Range of Quality Generic Pharmaceuticals

Prescription Pharmaceuticals

Key Therapeutic Categories

- Cardiovascular diseases
- Central nervous system
- Digestive tract
- Pain relief

Innovative Generic Pharmaceutical Products

- Combinations
- New strengths
- New pharmaceutical forms
- New delivery systems

Therapeutic Areas in Development

- Antidiabetics
- Antiplatelet agents
- Anticoagulants
- Oncology
- Autoimmune disorders

New Therapeutic Areas

- Similar biological medicines and complex peptides

Non-Prescription Products

Key Therapeutic Areas

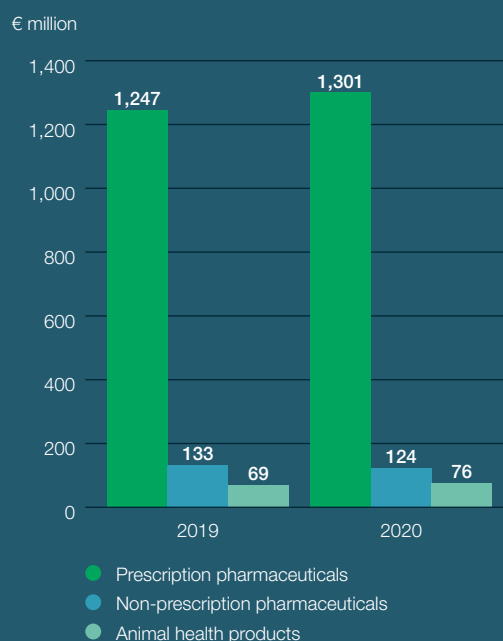
- Cough and cold
- Pain relief
- Gastrointestinal tract and metabolism
- Vasoprotectives

Animal Health Products

Key Therapeutic Areas

- Antiparasitics
- Antimicrobials
- Pain relief

Krka Group Sales by Product Group

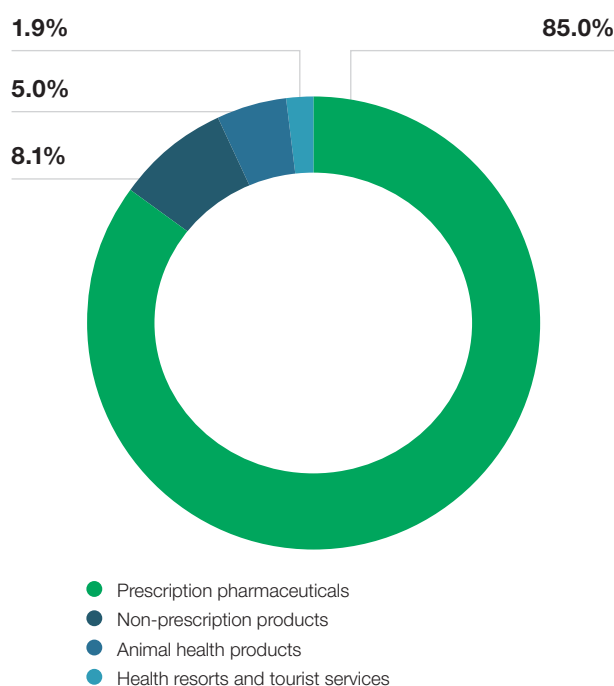


Product* and Service Groups

In 2020, sales of prescription pharmaceuticals accounted for 85% of total sales, followed by non-prescription products with 8.1%, animal health products with 5%, and health resort and tourist services with 1.9%.

Sales revenue of the Krka Group increased by 3% in 2020. Sales of prescription pharmaceuticals increased by 4%, non-prescription product sales declined by 7%, sales of animal health products increased by 10%, and sales of health resort and tourist services declined by 25%.

2020 Krka Group Sales by Product Group



Krka Group and Krka Sales by Product and Service Group

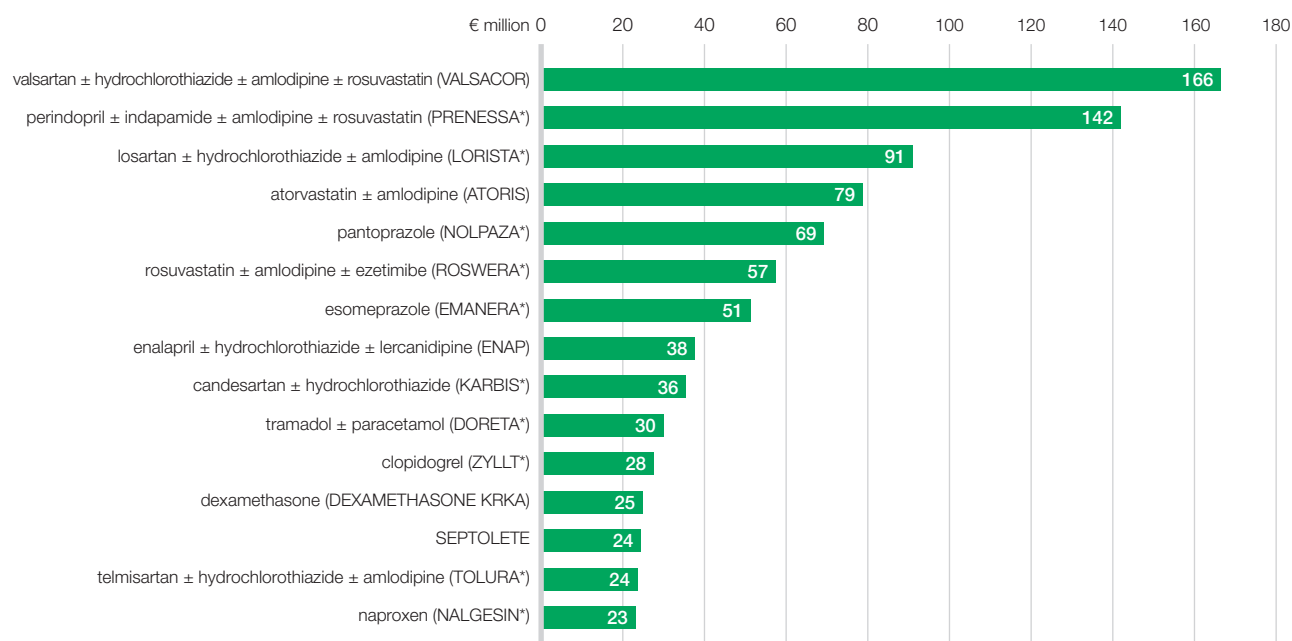
€ thousand	Krka Group			Company		
	2020	2019	Index 2020/19	2020	2019	Index 2020/19
Human health	1,424,292	1,380,512	103	1,149,667	1,130,434	102
– Prescription pharmaceuticals	1,300,640	1,247,250	104	1,039,105	1,008,125	103
– Non-prescription products	123,652	133,262	93	110,562	122,309	90
Animal health products	75,913	69,094	110	72,344	65,243	111
Health resorts and tourist services	29,754	39,474	75			
Total	1,529,959	1,489,080	103	1,222,011	1,195,677	102

Krka Group Quarterly Sales by Product and Service Group

€ thousand	2020				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Human health	432,600	320,574	325,240	345,878	351,142	353,957	301,485	373,928
– Prescription pharmaceuticals	389,389	302,291	299,184	309,776	314,367	328,195	272,303	332,385
– Non-prescription products	43,211	18,283	26,056	36,102	36,775	25,762	29,182	41,543
Animal health products	22,221	16,459	17,139	20,094	17,646	18,176	15,234	18,038
Health resorts and tourist services	6,908	3,085	12,339	7,422	8,500	9,915	11,515	9,544
Total	461,729	340,118	354,718	373,394	377,288	382,048	328,234	401,510

* 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.

2020 Sales of Main Products**



** Sales of leading products are presented by the main active ingredient. Single-pill combinations that incorporate this active ingredient are also included.

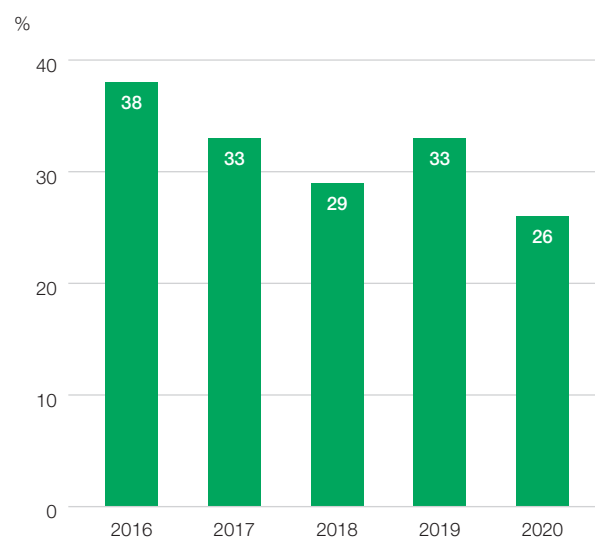
New Products

In 2020, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 26% of the Krka Group overall sales, or 7 percentage points less than the year before. The COVID-19 pandemic slowed the launch of new products.

In 2020, the following new products were most important in terms of absolute sales growth: Dasatilen* (dasatinib), Vitamin D3 Krka (cholecalciferol) and Camlocor* (candesartan/amlodipine) that were placed on the market in 2020, and Valtricom* (valsartan/amlodipine/hydrochlorothiazide), which was launched in 2018. Our animal health product Tuloxin (tulathromycin) launched in 2019 is also among the products that accounted for the strongest sales growth.

In 2020, we launched several new products containing new generic active ingredients and their combinations, and added new pharmaceutical dosage forms or pack sizes to the existing range, and began marketing them on new markets.

Share of New Products** in Krka Group Sales



** The share of new products includes products launched on individual markets in the past five years.

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New Products in 2020

Prescription Pharmaceuticals	
Cardiovascular system	Pitavastatin Krka (pitavastatin) Roxampex (perindopril/amlodipine/rosuvastatin) Olsitri, OlmeAml HCT (olmesartan/amlodipine/hydrochlorothiazide) Camlocor, Candecam (candesartan/amlodipine) Nolibeta, Nebivolol Krka (nebivolol)
Urologicals	Tadusta, Dutastam, Dutamyz, Tadustix (dutasteride/tamsulosin) Sidarso, Silbesan (silodosin)
Blood and blood-forming organs	Xerdoxo (rivaroxaban)
Oncology	Dasatilen, Dasatinib Krka (dasatinib) Erlotev, Erlotinib Krka (erlotinib)
Other medicines	Cinacabet (cinacalcet)
Non-Prescription Products	
Vitamins and minerals	Vitamin D3 Krka (cholecalciferol)
Animal Health	
Antiparasitics for companion animals	Prinocate, Imoxicate (imidacloprid/moxidectin)

Our Key Therapeutic Classes of Prescription Pharmaceuticals



Cardiovascular Agents



- Statins and other hypolipemics
- Angiotensin-converting enzyme (ACE) inhibitors
- Sartans
- Other antihypertensives
- Other cardiovascular agents



Central Nervous System



- Antidepressants
- Antipsychotics
- Anti-Parkinson agents
- Anti-Alzheimer agents



Gastrointestinal Tract



- Proton pump inhibitors
- Other medicines for acid-related disorders



Pain Relief



- Non-steroidal anti-inflammatory and antirheumatic drugs (NSAIDs)
- Opioids
- Other agents for treating neuropathic pain

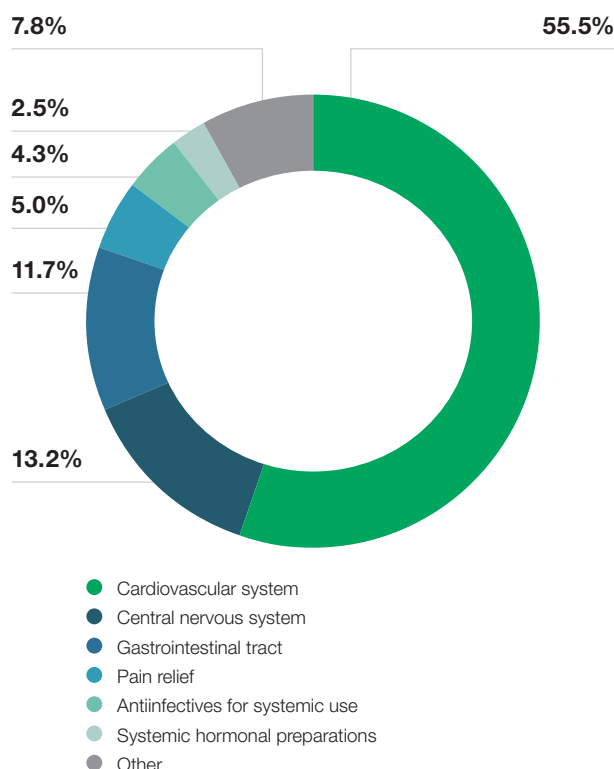
Prescription Pharmaceuticals

In 2020, the Krka Group sales of prescription pharmaceuticals amounted to €1,300.6 million, up 4% year on year. The Russian Federation, France and Ukraine contributed the most to growth. The COVID-19 pandemic impacted our sales, and the impact varied by quarter. In the first quarter, sales increased substantially as inventories with buyers and users were being increased. In the second quarter, sales decreased due to large inventories and returned to normal in the second half of the year. Strong annual sales results were driven by our established prescription pharmaceutical brands in key therapeutic areas, achieving considerable market shares.

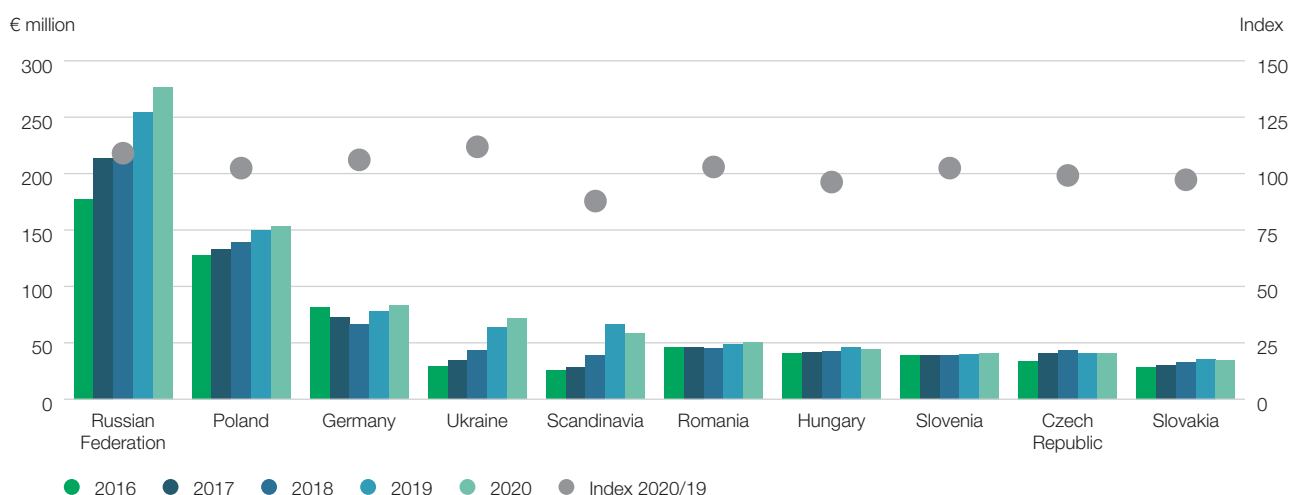
Top-ranking therapeutic categories of prescription pharmaceuticals in 2020 included medicines for the treatment of cardiovascular diseases, the central nervous system, and gastrointestinal tract.

In most European markets, we market our prescription pharmaceuticals under our own brands through our own marketing-and-sales network. In countries where we have a long-standing presence, our marketing-and-sales network is one of the strongest of all pharmaceutical companies. We have been managing most markets of Region West Europe using our own network. We use it to communicate with the expert community, especially physicians and pharmacists.

2020 Prescription Pharmaceuticals Sales by Therapeutic Class



Prescription Pharmaceuticals Sales by 10 Major Markets



Revenue from sales since 2017 is presented in compliance with IFRS 15.

Cardiovascular System

Statins and Other Hypolipemics

2020 highlights

- As in previous years, we remained the leading generic producer of hypolipemics in the markets of Regions Slovenia, Central, East, and South-East Europe.
- The market share of statins in these regions accounted for over 25% and we further increased it in 2020.
- The leading statins were Atoris (15% market share) and Roswera* (11% market share).
- We sold more than one billion tablets of Atoris.
- One in four patients in these regions on statin therapy took Krka statins.

Hypolipemics and single-pill combinations

- We market statins and other hypolipemics, also in single-pill combinations, and single-pill combinations of statins and antihypertensives.
- In 2020, our portfolio of hypolipemics was complemented with a sixth statin, pitavastatin.
- We launched a new single-pill combination of rosuvastatin, perindopril and amlodipine.

Statins and other hypolipemics	Combinations of hypolipemics	Combinations containing antihypertensives
rosuvastatin (Roswera*)	rosuvastatin/ezetimibe (Co-Roswera*)	perindopril/indapamide/rosuvastatin (Roxiper*) perindopril/amlodipine/rosuvastatin (Roxampex) ● valsartan/rosuvastatin (Valarox*)
atorvastatin (Atoris)		atorvastatin/amlodipine (Atordapin*)
simvastatin (Vasilip)	simvastatin/ezetimibe (Ezesimin*)	
lovastatin (Holetar)		
pitavastatin (Pitavastatin Krka) ●		
ezetimibe (Ezoleta*)		

● A new product in 2020

Atoris (atorvastatin) is our flagship statin and ranks among our top five medicines. In 2020, we sold more than one billion Atoris tablets. In Regions Slovenia, Central, East, and South-East Europe, it was the leading statin, and accounted for a market share of more than one third on many markets. In 12 markets, including the largest ones (the Russian Federation, Poland, Romania), of all statins doctors most often prescribed Atoris. Of all producers in the area, our atorvastatin is available in the greatest variety of strengths, as we are the only supplier of 30 mg and 60 mg tablets.

Roswera* (rosuvastatin) is our second best-selling statin and also ranks among our top medicines. In 2020, it contributed the most to the growth of sales of our hypolipemics, as sales increased by almost 8%. Roswera* was our leading rosuvastatin in the markets of Regions Slovenia, Central, East, and South-East Europe. We increased its market share to a more than 11%, its sales rose the most among all statin products. With a market share of more than 30%, Roswera* was the leading among all statin products in several markets.

In 2020, we started marketing a new statin. We launched **Pitavastatin Krka** (pitavastatin) in Spain and as the first generic pitavastatin in Portugal. We ranked among the leading generic producers of pitavastatin in Europe.

We also market a hypolipemic not classified as a statin.

Ezoleta* (ezetimibe) supplements the statin range and may be used in the treatment of patients with hyperlipidemia. It was the leading ezetimibe among all competitors in Slovenia, Serbia, and the Baltic States. In 2019, we launched two single-pill combinations of ezetimibe and statins: **Ezesimin*** (simvastatin/ezetimibe) and **Co-Roswera*** (rosuvastatin/ezetimibe). In 2020, we started marketing Co-Roswera on new markets of Portugal, Slovenia, Estonia, and as the first generic producer in Lithuania. We made available a new strength of 40 mg/10 mg that we market on several markets as the only producer.

Medicines combining ingredients for the treatment of hyperlipidemia and high blood pressure supplement our portfolio of statins. They include **Valarox*** (valsartan/rosuvastatin), **Roxiper*** (perindopril/indapamide/rosuvastatin) launched in 2019, and the latest **Roxampex** (perindopril/amlodipine/rosuvastatin) that we placed on the market in 2020.

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Angiotensin-Converting Enzyme (ACE) Inhibitors

2020 highlights

- We were the leading generic producer of ACE inhibitors in the markets of Regions Slovenia, Central, East, and South-East Europe.
- We were the first producer in Europe to place a triple combination of ACE inhibitor, amlodipine and rosuvastatin on the market.
- We sold more than 1.4 billion tablets containing perindopril.
- We were the leading generic producer of perindopril-based products in Europe.

Angiotensin-converting enzyme inhibitors and ACE combinations

- We market 15 medicines from the ACE-inhibitor class that contain five different angiotensin-converting enzyme inhibitors.
- We market four ACE-inhibitor combinations with a diuretic, three with a calcium channel blocker, one with active ingredients of all three classes, and two combinations containing a statin.
- Krka is a generic pharmaceutical company with the most comprehensive perindopril-based range of medicines in Europe.

Angiotensin-converting enzyme (ACE) inhibitors	Combinations containing a diuretic	Combinations containing a calcium channel blocker	Combinations containing a diuretic and a calcium channel blocker	Angiotensin-converting enzyme inhibitors
perindopril (Prenessa*)	perindopril/indapamide (Co-Prenessa*)	perindopril/amlodipine (Amlessa*)	perindopril/amlodipine/indapamide (Co-Amlessa*)	perindopril (Prenessa*)
enalapril (Enap)	enalapril/hydrochlorothiazide (Enap-H*)	enalapril/lercanidipine (Elernap*)		enalapril (Enap)
ramipril (Ampiril*)	ramipril/hydrochlorothiazide (Ampiril HL*)	ramipril/amlodipine (Rameam*)		ramipril (Ampiril*)
lisinopril (Laaven*)				lisinopril (Laaven*)
cilazapril (Cazaprol)	cilazapril/hydrochlorothiazide (Cazacombi)			cilazapril (Cazaprol)

Our most important medicines in this class are perindopril-based products and rank second in terms of sales of all Krka products. They contribute the most to its growth. Sales of these medicines were up by more than 15% in 2020. In 2020, we sold more than 1.4 billion tablets containing perindopril, almost 180 million more than a year ago. Our range comprised **Prenessa*** (perindopril), **Co-Prenessa*** (perindopril/indapamide), **Amlessa*** (perindopril/amlodipine), and triple single-pill combinations **Co-Amlessa*** (perindopril/amlodipine/indapamide), and **Roxiper*** (perindopril/indapamide/rosuvastatin). We started marketing our sixth perindopril-based product, **Roxampex** (perindopril/amlodipine/rosuvastatin). We are the only producer of this combination in Europe. It is used for the treatment of lipitension, coexisting hypertension and hyperlipidemia. It combines three active ingredients in a single pill, two antihypertensives and a statin. We launched Roxampex in Lithuania and Latvia, and intend to launch it elsewhere in the future. In 2020, we introduced another single-pill combination on new markets and we are the only one to offer it in Europe. We started marketing Roxiper* in the Russian Federation, Bulgaria, Estonia, and Bosnia and Herzegovina. As the only producer in Croatia, we launched a new strength (the lowest so far) of Amlessa* for the initial treatment of hypertension. We made Co-Amlessa* available in Mongolia and Kyrgyzstan.

Even though Krka has focused lately on promoting newer ACE inhibitors, **Enap** (enalapril) and its combinations remain among the leading Krka medicines in terms of sales. In the markets of Regions Slovenia, Central, East, and South-East Europe, Enap held more than a 30% market share and was the leader among medicines containing enalapril. We ranked as one of the leading generic producers in Germany.

Our angiotensin-converting enzyme inhibitor range also comprises **Ampiril*** (ramipril), and ramipril combinations with hydrochlorothiazide, which took top place among all ramipril products in several countries. We also market the combination containing a calcium channel blocker, **Rameam*** (ramipril/amlodipine), which placed us among the leading generic producers in Germany.

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Sartans (Angiotensin II Receptor Antagonists)

2020 highlights

- We were the leading producer of sartans in the markets of Regions Slovenia, Central, East, and South-East Europe. Almost one in three sartans prescribed in that area is made by Krka.
- We sold more than 1.2 billion tablets containing valsartan and losartan.
- Close to nine million patients took our sartans.
- We were one of the leading generic producers of candesartan in Europe.

Sartans and sartan-based combinations

- Two new single-pill combinations were added to our sartan range in 2020.
- We market 20 sartan-based products. The range comprised six different sartans, and combinations of sartans with a diuretic, a calcium channel blocker, and a statin.
- Our sartans are available in 60 markets across the world.

Sartans	Combinations containing a diuretic	Combinations containing a calcium channel blocker	Combinations containing a diuretic and a calcium channel blocker	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*)			

● A new product in 2020

Valsacor (valsartan) and valsartan in combinations with hydrochlorothiazide, amlodipine, and rosuvastatin became our best-selling medicines. In 2020, we sold more than 1.2 billion tablets of valsartan. In the markets of Regions Slovenia, Central, East, and South-East Europe, Krka was the leading producer of valsartan and its combinations. After recalls in 2019, most competitor products returned to the markets in 2020, but even so we retained more than a 50% market share. We successfully marketed valsartan also in countries of Region West Europe. Krka was the leading generic producer of combinations comprising valsartan and amlodipine in Europe. We were the leading generic producer of medicines containing valsartan in Germany, Austria and Ireland. In 2020, we launched medicines containing valsartan on new markets. We launched **Wamlox*** (valsartan/amlodipine) on seven new markets including France, and as the first generic manufacturer to Serbia and North Macedonia, and as the only producer to the Czech Republic. We launched **Valtricom*** (valsartan/amlodipine/hydrochlorothiazide) on eight new markets, also as the first generic in Slovakia and the Czech Republic, and as the only producer in Belarus. We also marketed **Valarox*** (rosuvastatin/valsartan) for treating lipitension and we were the only producer of this combination in Europe.

Lorista* (losartan) and losartan combinations with hydrochlorothiazide and amlodipine ranked second among our most important sartans in terms of sales and third among our most important products. In 2020, we sold more than 1.3 billion tablets containing losartan. In the markets of Regions Slovenia, Central, East, and South-East Europe, we retained more than a 40% market share in 2020 and were the leading producer of medicines containing losartan. **Lorista*** and losartan-based combinations ranked third in these regions aforementioned regions. We were among the leading generic producers of medicines containing losartan in Germany. We marketed **Tenloris*** (losartan/amlodipine) there as the only supplier of this combination. In 2020, we placed Tenloris* on the market in Mongolia and as the only producer in Kyrgyzstan.

Tolura* (telmisartan) and telmisartan in combination with amlodipine and hydrochlorothiazide was the leading generic variety of telmisartan in the markets of Regions Slovenia, Central, East, and South-East Europe. We further consolidated our leading position by increasing our market share. We were the leading producer of telmisartan-based products in Croatia and Latvia. In 2020, we placed Tolura* on the market in Kazakhstan and Mongolia, and **Teldipin*** (telmisartan/amlodipine) in the Russian Federation and as the only producer in Ukraine.

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We also successfully marketed **Karbis*** (candesartan) and candesartan in combinations especially in the markets of Region West Europe, and in Poland and Romania. The sales of our medicines containing candesartan were up by more than 30% in 2020. In 2020, we started marketing a new combination of candesartan and a calcium channel blocker. We placed **Camlocor*** (candesartan/amlodipine) on the market in Poland, Germany and Austria. Krka was among the leading generic manufacturers of medicines containing candesartan in Europe.

In the markets of Region West Europe, sales of **Olimestra*** (olmesartan) and olmesartan-based combinations were strong as well. We were the leading generic manufacturer of olmesartan in Germany. In 2020, we added a new single-pill combination to our olmesartan range. We started marketing **Olsitri*** (olmesartan/amlodipine/hydrochlorothiazide) in Germany, Spain and Portugal.

Other Antihypertensives

In addition to medicines acting on the renin-angiotensin-aldosterone system (RAAS), we have also been marketing other medicines for lowering high blood pressure. All together, we supply almost 50 medicines for this indication in more than 150 strengths. They include a calcium channel blocker **Tenox*** (amlodipine), a diuretic **Rawel SR** (indapamide), and several adrenergic receptor blockers, among them **Coryol** (carvedilol), **Bloxazoc*** (metoprolol)

and **Niperten*** (bisoprolol) that is supplemented by a single-pill combination **Sobycombi*** (bisoprolol/amlodipine). We were the only generic pharmaceutical company to supply a combination of bisoprolol and amlodipine to Poland, Hungary, and Bulgaria. In Germany, we were among the leading producers of this combination and also of carvedilol. In 2020, we launched a new adrenergic receptor blocker **Nolibeta*** (nebivolol) that we placed on the markets of Spain, France, Poland and five other countries.

Other Cardiovascular Agents

Bravadin* (ivabradine) reduces the increased heart rate and is indicated for the treatment of stable angina pectoris and chronic heart failure. In the markets of Regions Slovenia, Central, East, and South-East Europe, Bravadin* increased its market share in 2020, thereby consolidating its position as the leading generic ivabradine. It remained the most commonly prescribed ivabradine among all competitors in the Russian Federation. In Germany, Krka was among the leading generic producers of ivabradine.

Apleria* (eplerenone) classifies as a diuretic and one of the new aldosterone receptor antagonists. It is used in combination with other medicines for the treatment of heart failure. In 2020, we were the first generic pharmaceutical company to place it on the market in North Macedonia.

Central Nervous System

Antidepressants

2020 highlights

- We were the leading generic producer of antidepressants in the markets of Regions Slovenia, Central, East, and South-East Europe.
- Of all competitor products, doctors there most frequently prescribe Krka's antidepressant.
- We ranked among the leading manufacturers of duloxetine in Europe.

Antidepressants

- We market six advanced antidepressants from different groups.
- We were the only supplier of 90 mg duloxetine in Europe.

duloxetine (Dulsevia*)	agomelatine (Lamegom*)
escitalopram (Elicea*)	venlafaxine (Alventa*)
sertraline (Asentra)	mirtazapine (Mirzaten)

Dulsevia* (duloxetine) was among our most important antidepressants. Its sales were up by more than 15% in 2020. In the markets of Regions Slovenia, Central, East, and South-East Europe, Dulsevia* was the leading duloxetine accounting for more than a 30% market share. It outperformed all competitor products in Croatia, Slovakia, and some other markets. We recorded strong sales of Dulsevia* in Western Europe, while in Germany

we ranked among the leading generic manufacturers of duloxetine. In 2020, it was launched in Spain, Azerbaijan and Kosovo.

There, **Elicea*** (escitalopram) was the leading generic variety of escitalopram. It is available in tablets and orodispersible tablets, of which we are the only producer on several markets. In 2020, Elicea* outperformed all competitor products in Slovakia, Croatia and Serbia.

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In the markets of Regions Slovenia, Central, East, and South-East Europe, **Asentra** (sertraline) was the leading generic variety of sertraline, and **Mirzaten** (mirtazapine) the leading mirtazapine-containing antidepressant among all competitor products. **Alventa*** (venlafaxine) is the leading venlafaxine-containing antidepressant in Hungary, Romania, and certain other countries.

We started marketing our latest antidepressant **Lamegom*** (agomelatine) in 2019. In 2020, Krka was one of the leading generic producers of agomelatine in Germany, and one of the leading among all generics in Slovakia and Estonia.

Antipsychotics

2020 highlights

- We were the leading generic producer of antipsychotics in the markets of Regions Slovenia, Central, East, and South-East Europe.
- We further increased our market share among producers of antipsychotics.
- We were the leading generic producer of paliperidone in Europe.

Atypical antipsychotics

- We market six atypical antipsychotics, including all five leading oral medicines in this class in Europe.

aripiprazole (Aryzalera*)	paliperidone (Parnido*)
olanzapine (Zalasta*)	risperidone (Torendo*)
quetiapine (Kventiax*)	ziprasidone (Zypsilan*)

Kventiax* (quetiapine) is our flagship antipsychotic and the leading medicine containing quetiapine in the markets of Regions Slovenia, Central, East, and South-East Europe. Among all competitors in these regions, it recorded the strongest sales growth and increased its market share to almost 15% in 2020. **Aryzalera*** (aripiprazole) and **Zypsilan*** (ziprasidone) were also the leading generics in this area. We successfully marketed Zypsilan* in Western Europe. It was among the leading generic varieties of ziprasidone in Germany. **Torendo*** (risperidone) was also among the leading generics in Western Europe.

Zalasta* (olanzapine) is one of our atypical antipsychotics. In 2020, we began marketing it in Ukraine, where we also launched Kventiax* and Aryzalera*.

Parnido* (paliperidone) is our newest antipsychotic and was the leading generic variety of paliperidone throughout Europe. In 2018, we began marketing Parnido* as the only generic variety in Europe. In 2020, we remained the only generic producer of paliperidone in the markets of Region West Europe and several other markets.

Anti-Parkinson Agents

Krka's portfolio comprises three medicines for the treatment of Parkinson's disease: **Opryme**a (pramipexole), **Rolpryna SR*** (ropinirole) and **Rasagea*** (rasagiline). We were the leading generic producer of these medicines in the markets of Regions Slovenia, Central, East, and South-East Europe. In Poland, we were the leading generic manufacturer in this class of pharmaceuticals, and ranked first among all competitors in Hungary.

Oprymea (pramipexole) is our flagship medicine in this class. We sold more than one half of pramipexole in the countries of Region West Europe, and were the leading generic manufacturer of pramipexole prolonged-release tablets in Germany. In Poland, Portugal, the Czech Republic, and several other markets, we outperformed all our competitors. In Region West Europe, Rolpryna SR and Rasagea* ranked among the leading generic varieties, and we remained the leading provider among all competitors with more than a 40% market share in Poland, Romania and some other countries.

Anti-Alzheimer Agents

We supply medicines containing all four active ingredients for the treatment of Alzheimer's disease:

Yasnal* (donepezil), **Marixino*** (memantine), **Galsyo*** (galantamine), and **Nimvastid** (rivastigmine). Our product range also includes Yasnal* orodispersible tablets. We are the only producer that also supplies rivastigmine in that form to the markets of Regions Slovenia, Central, East, and South-East Europe. There, Krka was the leading generic producer of medicines for the treatment of Alzheimer's disease. We successfully marketed them in the countries of Region West Europe, where we sold more than half of these medicines. We were the leading among all manufacturers of donepezil and galantamine in Slovenia, Slovakia and Ireland. As for several years, Krka was one of the leading generic manufacturers of prolonged-release galantamine in Europe in 2020.

* 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.

Gastrointestinal Tract

Proton Pump Inhibitors

2020 highlights

- We have been the leading manufacturer of proton pump inhibitors for more than a decade in the markets of Regions Slovenia, Central, East, and South-East Europe.
- We further increased our market share.
- We were among the leading manufacturers of esomeprazole and rabeprazole in Europe.
- In many countries, we were the leading manufacturer of proton pump inhibitors.

Proton pump inhibitors

- We have been marketing proton pump inhibitors for more than thirty years.
- Krka was the first company in Europe to present a range of five medicines in this class.
- Krka proton pump inhibitors are available in more than 60 countries worldwide.

pantoprazole (Nolpaza*)	rabeprazole (Gelbra*)
esomeprazole (Emanera*)	omeprazole (Ultop)
lansoprazole (Lanzul*)	

Nolpaza* (pantoprazole) is our flagship proton pump inhibitor, and ranks among top five products in terms of sales. It is also among the leading medicines as regards absolute sales growth. In 2020, sales increased by 7%. We sold almost one billion tablets of Nolpaza or 150 million more than in 2019. In the countries of Region Slovenia, Central, East and South-East Europe, we consolidated our position as the leading proton pump inhibitor provider. Nolpaza* increased its market share to more than 10% among medicines from this group. It achieved large market shares among pantoprazoles. In many markets, Nolpaza* held more than a 50% market share among pantoprazoles, in the Russian Federation it was more than 75%. We market pantoprazole also as a non-prescription medicine.

Our second most important medicinal product in this class was Emanera*(esomeprazole). It also ranked among the leading Krka products in terms of sales. In 2020, **Emanera*** was among our leading products as regards absolute sales growth, its sales were up by more than 15%. We sold almost 200 million capsules more than in 2019. In 2020, as over the past several consecutive years, Krka has been one of the leading generic manufacturers of medicines containing esomeprazole in Europe. In Germany, Emanera* was the leading generic variety of esomeprazole, while in Poland, Slovakia, Croatia and several other markets, we were the leading among all competitors.

Other Medicines for Acid-Related Disorders

Ulcavis* (bismuth subcitrate) is indicated for the treatment of gastritis. In combination with antibiotics and proton pump inhibitors, it is indicated for the removal of *Helicobacter pylori* bacteria. In particular in the markets of Region East Europe, it is also available as a non-prescription product. In the markets of Regions Slovenia, Central, East, and South-East Europe, Ulcavis* was the leading generic variety and it is the only such bismuth-based medication on many markets.

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Pain Relief

2020 highlights

- Krka was among the leading generic manufacturers of the tramadol/paracetamol single-pill combination in Europe.
- In the markets of Regions Slovenia, Central, East and South-East Europe, this single-pill combination headed all competing products.
- We were among the leading generic manufacturers of etoricoxib in Europe.

Pain relief

- We have a broad range of medications for relieving various types and strengths of pain.
- We market non-steroidal anti-inflammatory and antirheumatic medicines (NSAIDs), opioids and opioid-based combinations, and medicines indicated for alleviating neuropathic pain.
- Our non-prescription products complement the range of prescription analgesics.

Non-steroidal anti-inflammatory and antirheumatic drugs (NSAIDs)	Opioids and opioid-based combinations	Other agents for treating neuropathic pain
naproxen (Nalgesin*)	tramadol (Tadol) tramadol/paracetamol (Doreta*)	pregabalin (Pragiola*)
diclofenac (Naklofen Duo*)	oxycodone/naloxone (Adolax*)	duloxetine (Dulsevia*)
dexketoprofen (Dekenor)		
etoricoxib (Roticox*)		
celecoxib (Aclexa*)		

Doreta* (tramadol/paracetamol) is our flagship analgesic that was among top 10 Krka medicines in terms of sales, and was among our leading products, with the highest absolute sales growth. In 2020, sales increased by 14%. We sold 50 million tablets more than in 2019. Doreta* belongs to the group of opioid analgesics. In 2020, Krka remained among the leading generic producers of tramadol and paracetamol combination in Europe. In Germany, Romania, Poland and several other markets, we were the leading supplier of this combination among all competitors, and further increased our market share. We market two strengths of Doreta*, and in Hungary and Bulgaria we were the only producer that supplied the single-pill combination of 75 mg tramadol and 650 mg paracetamol.

Adolax* (oxycodone/naloxone) is another opioid analgesic. In 2020, we began marketing it in Slovakia and as the only producer of this single-pill combination in Hungary. We remained the only producer also on some other markets.

Roticox* (etoricoxib) of the coxib medicine class is a non-steroidal anti-inflammatory and antirheumatic medicine (NSAID). In 2020, we launched it on new markets and began marketing it in North Macedonia, and as the only generic in Serbia and Moldova. We remained the only generic on the market in the Czech Republic and some other countries. Roticox* was the leading generic etoricoxib in Uzbekistan, Slovenia, Georgia and Lithuania, while in Poland and Hungary it held more than a 40% market share and outperformed all competitors. We ranked among the leading generic producers of etoricoxib in Germany and in all markets of Region West Europe.

That class of analgesics also comprises **Aclexa*** (celecoxib) that was the leading generic celecoxib in the markets of

Regions Slovenia, Central, East and South-East Europe. In Poland, the Czech Republic, Slovakia and Estonia it ranked first among all competitors. In 2020, Aclexa* was launched in Mongolia as the first generic.

The range of non-steroidal anti-inflammatory and antirheumatic medicines also comprises **Naklofen Duo*** (diclofenac) and **Nalgesin*** (naproxen), which is also marketed as a non-prescription medicine. Nalgesin* was the leading medicine containing naproxen in the markets of Regions Slovenia, Central, East, and South-East Europe. In 2020, we further consolidated our leading position, having increased our market share to over 60%. On several markets it was among the most frequently prescribed non-steroidal antirheumatic medicines, while in Slovenia it was the most frequently prescribed. Our latest analgesic of this class is **Dekenor** (dexketoprofen). We began marketing it in 2018.

Pragiola* (pregabalin) is another analgesic. This agent of the antiepileptic class is primarily used to treat peripheral and central neuropathic pain. Pragiola* was the leading generic variety of pregabalin in Austria with almost a 30% market share and the leading generic in Slovenia. In Estonia, it was the market leader. We also market **Dulsevia*** (duloxetine), an antidepressant also indicated to treat neuropathic pain.

Antiinfectives for Systemic Use

Antibacterials for Systemic Use

Our portfolio of antibiotics comprises medicines from different classes. We supply macrolides, β -lactam antibiotics, fluoroquinolones, and other antibiotics.

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Fromilid (clarithromycin) is our flagship antibiotic from the macrolide class. For years, it has been the leading generic clarithromycin in the markets of Regions Slovenia, Central, East, and South-East Europe. Fromilid was among the leading macrolide brands in Ukraine, Croatia and several other markets. **Azibiot** (azithromycin) is another antibiotic from the same class. It was the leading generic azithromycin in Slovenia and Latvia, while in Moldova it is the market leader.

Our range of β -lactam antibiotics comprises **Furocef*** (cefuroxime) and **Betaklav*** (amoxicillin/clavulanic acid) launched in Armenia in 2020.

Our fluoroquinolone range comprises four medicinal products: **Levalox*** (levofloxacin), **Moloxin*** (moxifloxacin), **Ciprinol** (ciprofloxacin) and **Nolicin** (norfloxacin). Moloxin* was the principal moxifloxacin in Slovakia, Poland and Slovenia. Levalox* was the leading levofloxacin in Lithuania. Ciprinol and Nolicin were the leading products among competitor products on several markets. In 2020, Krka retained its position as the leading producer of fluoroquinolones on the markets of Regions Slovenia, Central, East, and South-East Europe.

HIV Infection and Other Antivirals

We market four medicines for the treatment of HIV infection. These are **Darunasta*** (darunavir), **Entenovo*** (emtricitabine/tenofovir), **Efavemten*** (efavirenz/emtricitabine/tenofovir) and our latest **Atazam*** (atazanavir) that we began marketing in 2019. Our antiviral range also includes **Entecavir Krka*** (entecavir), indicated for chronic hepatitis B treatment.

In 2020, we began marketing these medications on new markets. Darunasta* was launched in Ukraine as the first generic darunavir, Entenovo* was placed on the market in Estonia, Atazam* in Austria, North Macedonia and Finland, while we placed Entecavir Krka* on the markets of France, Romania, Slovenia and Belgium.

In 2020, Darunasta became the leading generic medicine in Slovenia and Ukraine, and in Slovakia it remained the market leader among all competitor products. Entenovo* was the leading emtricitabine/tenofovir combination in Slovenia, Slovakia, and the Baltic States, while Efavemten* was the leading generic product in Austria. Antivirals are successfully marketed in Germany, where we were among the leading generic manufacturers of atazanavir and both combinations.

Urologicals

Medications used in erectile dysfunction are our most important therapeutic class of urologicals. Our portfolio comprises **Vizarsin*** (sildenafil), **Tadilecto*** (tadalafil), and **Viavardis*** (vardenafil). In Poland and Slovenia, Viavardis* was the leading vardenafil, and in Germany we ranked among the main generic producers of vardenafil. In 2020, we began marketing it in Italy.

Tanyz/Tanyz* ERAS (tamsulosin), **Dutrys*** (dutasteride), and **Finpros*** (finasteride) are used for the treatment of benign prostatic hyperplasia. In 2020, we added a new single-pill combination for treating this disease **Tadusta*** (dutasteride/tamsulosin). We began marketing it in Germany, Spain, Hungary and elsewhere, and as the first generic in Slovenia, Lithuania and Estonia. In Europe, we ranked among the leading generic manufacturers of this combination. In 2020, we launched **Sidarso*** (silodosin) also used for the treatment of benign prostatic hyperplasia. We placed it on six markets, including Spain and Germany. In Germany, we ranked among the leading generic manufacturers of silodosin. In 2020, we launched Tanyz/Tanyz* ERAS on new markets, and began marketing it on several Western European markets, including France, Italy and Spain.

Our range of urologicals includes the medicines for the treatment of urinary incontinence **Asolfena*** (solifenacin) and **Loxentia*** (duloxetine). **Loxentia*** was the leading duloxetine for this therapeutic indication in the markets of Regions Slovenia, Central, East, and South-East Europe.

Blood and Blood-Forming Organs

Our most important medicinal product in terms of sales from this class is **Zyllt*** (clopidogrel). Zyllt* was the leading generic variety of clopidogrel in the Russian Federation. It was the leading clopidogrel product also in Hungary, Kyrgyzstan and Uzbekistan. For several years, Krka has been among the leading generic manufacturers of clopidogrel in Europe.

Our latest medicine in this therapeutic class is **Eliskardia*** (prasugrel) launched in 2019. In 2020, we made it available as the first generic in Slovenia.

Our latest medicine in this class is **Xerdoxo** (rivaroxaban), one of most advanced anticoagulants. It is used concomitantly with other medicines to prevent atherothrombotic events in adults with cardiovascular diseases. We began marketing it in 2020 among the first generics in Europe, giving us a foothold in a new and extremely important area. We made it available in Slovakia

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as the first generic and plan to launch it on other markets in the future.

Antidiabetics

Our most important medicine in this class was sulphonylurea **Gliclada*** (gliclazide). In the markets of Regions Slovenia, Central, East and South-East Europe, we were the only producer that supplied three strengths of gliclazide modified-release tablets: 30 mg, 60 mg, and 90 mg. In the area, Gliclada* was the leading generic gliclazide and Krka the leading generic producer of sulphonylureas. In 2020, sales of Gliclada* were up by more than 25%. Gliclazide is successfully sold in the markets of Region West Europe. We ranked among the leading generic producers of this modified-release antidiabetic in Europe.

Our antidiabetic range comprises **Glypviso** (vildagliptin), a dipeptidyl peptidase-4 (DPP-4) inhibitor. We first launched it in 2018, and in 2020 made it available in Bosnia and Herzegovina.

Another antidiabetic agent, **Enyglid*** (repaglinide), placed us among the leading generic producers of repaglinide in Germany.

Oncology

In 2020, our portfolio of agents used in oncology was supplemented by two medicines. We began marketing **Dasatilen*** (dasatinib) that is used to treat Philadelphia chromosome-positive acute lymphoblastic leukemia, and **Erlotev*** (erlotinib) indicated for the treatment of patients with lung cancer or pancreatic cancer. We began marketing Dasatilen* in Germany, France, Finland and Portugal, and as the first generic manufacturer in Slovenia, Slovakia and Sweden. In Germany and Sweden, we ranked among the leading generic producers of dasatinib, and as the only generic producer in Slovakia and Slovenia. In Germany, we began marketing Erlotev* among the first producers of generic erlotinib, and made it available also in France, Finland, Sweden and Slovenia. Krka ranked among the leading generic manufacturers of erlotinib in the markets of Region West Europe.

Our portfolio of agents used in oncology also includes **Gefitad*** (gefitinib) and **Ecansya*** (capecitabine), which placed us among the leading generic producers in Germany. The portfolio is supplemented by **Meaxin*** (imatinib), **Everofin*** (everolimus), **Lortanda** (letrozole), **Escepran*** (exemestane) and others.

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For the second year in a row we won the

No. 1 Rx Company in Retail award

as part of the 2020 IQVIA Rx Awards.

At the 20th award ceremony we received the Platinum Ounce award in the Dynamics of the Year category and were recognised as the

most successful company in the commercial sector in the Russian Federation.



From left: Inna Gutman – Deputy Director of Key Market Russian Federation in charge of marketing, Marko Stadler – Deputy Director of Key Market Russian Federation in charge of sales, and Natalya Radchenko – Director of Krka Farma LLC.

Other Medicines

Dexamethasone Krka is used in oncology and haematology, but also in other therapeutic areas. It plays an important role in treating COVID-19 patients, which saw demand for it increase significantly in 2020. It is available in tablet form and as an injection. In 2020, Krka remained the only producer that supplied 20 mg and 40 mg dexamethasone tablets in many markets. We began marketing them in Hungary and Spain. We made dexamethasone injections available in Portugal, Ireland and Poland. In 2020, Krka was the leading producer of dexamethasone in the markets of Regions Slovenia, Central, East and South-East Europe.

Febuxodor* (febuxostat) is indicated for the treatment of gout and for the treatment of high levels of uric acid in the blood in initial chemotherapy for leukaemia. We began marketing it in 2019, and in 2020 we made it available in the Czech Republic.

In 2020, we made a new medicine **Cinacabet** (cinacalcet) available. It regulates levels of parathyroid hormone and is used in patients with kidney disease on dialysis therapy, patients with cancer of the parathyroid glands or with primary hyperparathyroidism. We began marketing it in Germany, where it ranked among the leading generic cinacalcets.



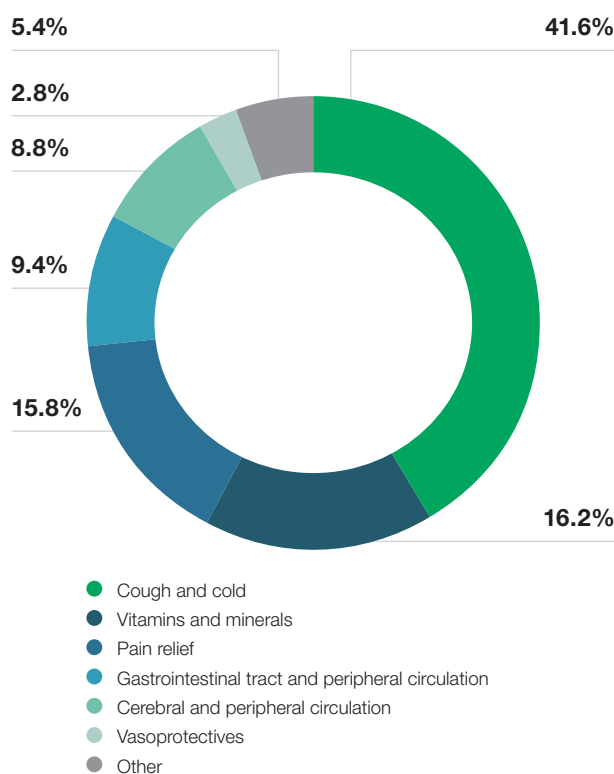
Non-Prescription Products

In 2020, the Krka Group sales of non-prescription products totalled €123.7 million, a 7% year-on-year drop. Uzbekistan saw the strongest sales increase, while the most considerable fall in sales was recorded in the Russian Federation. The COVID-19 pandemic negatively affected our sales. The incidence of common cold and flu declined due to the measures associated with the pandemic, which decreased demand for cough and cold products. They are our most important group of non-prescription products.

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

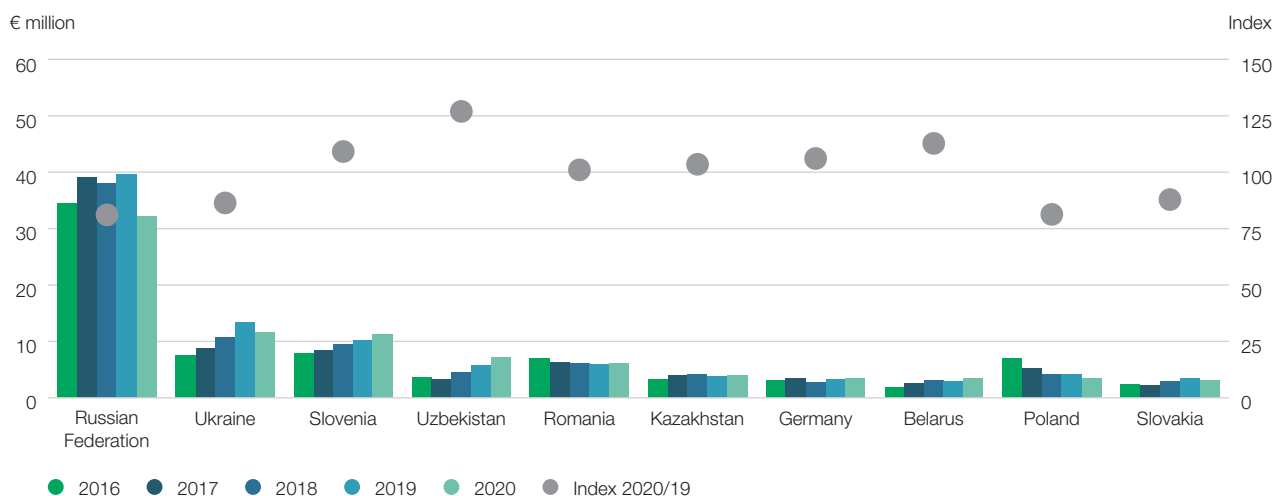
Septolete, Herbion*, Nalgesin*, and Bilobil* are our most important non-prescription product brands in terms of sales.

2020 Non-Prescription Product Sales by Therapeutic Classes



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Non-Prescription Product Sales by 10 Major Markets



Revenue from sales since 2017 is presented in compliance with IFRS 15.

As in the previous year, Septotele* from the cough and cold product group was our leading non-prescription product brand in terms of sales in 2020. **Septotele Total*** (benzylamine/cetylpyridinium chloride) accounted for almost 95% of sales. The product is available as spray and lozenges in three flavours. We market Septotele Total* eucalyptus, elder-and-lemon flavoured lozenges in over 30 markets. We also offer honey-and-lemon flavoured lozenges that we began marketing in Slovakia, Lithuania, Belarus and elsewhere in 2020. In Slovenia, Lithuania, Uzbekistan, and several other markets, Septotele Total* was the best-selling non-prescription throat product.

Herbion*, our second most important non-prescription product brand, is available in more than 30 markets. It includes herbal cough 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 and hoarseness, and relieves dry, irritating coughs. **Herbion Ivy Lozenges** act much like the syrup and help expectoration. Lozenges are especially suitable for adults. We launched them in 2019, and in 2020 we began marketing it on six new markets, including the Czech Republic, Serbia and Uzbekistan. In several countries, it is the first product containing ivy leaf extract in the form of lozenges. As in 2019, Herbion remained the leading of all natural syrup brands in the markets of Regions Slovenia, Central, East, and South-East Europe.

The nasal decongestant **Septanazal*** (xylometazoline/dexpantenol) is also among Krka's non-prescription products for cough and cold. It is available as spray

for adults and spray for children. In 2020, we began marketing it in Finland, where we are the only producer of the spray with such composition.

Our third most important non-prescription product brand is an analgesic, **Nalgesin*** (naproxen). The medicine is available on prescription as well. For several consecutive years it has been the principal naproxen in the markets of Regions Slovenia, Central, East, and South-East Europe. In 2020, we sold almost 130 million tablets of Nalgesin*. Nalgesin* is the leading non-steroidal anti-inflammatory drug in Slovenia. In 2020, it further increased its market share and strengthened its leading position.

Bilobil* belongs to the group of products improving cerebral and peripheral circulation. It contains ginkgo extract and is indicated for improving concentration and memory. We began marketing it 30 years ago, and in 2020 it was Krka's fourth best-selling non-prescription product brand. In the markets of Regions Slovenia, Central, East, and South-East Europe, Bilobil* was the second ginkgo-based product in terms of sales volume, while in Ukraine, Belarus, Hungary and certain other markets it was the leading ginkgo product.

In 2020, we launched our new non-prescription product **Vitamin D3 Krka** (cholecalciferol) from the vitamin and mineral product group. It is indicated for the treatment and prevention of vitamin D deficiency, and as adjunctive therapy in specific treatment of osteoporosis. On some markets, the demand for vitamin D3 increased significantly due to the COVID-19 pandemic as it contributes to the functioning of the immune system. In 2020, we began marketing Vitamin D3 Krka in Romania, and as the only cholecalciferol classed as a non-prescription medicine in

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Slovenia and North Macedonia. In Slovenia, Vitamin D3 Krka became the leading non-prescription cholecalciferol sold in pharmacies within several months of its launch.

Pikovit and **Duovit** are our brands of vitamins and minerals. Duovit products are intended for adults, while Pikovit products are for children. Pikovit is one of the leading brands of vitamins and minerals for children in Region East Europe, and is the market leader in Uzbekistan, and Kyrgyzstan.

We also market our food supplement **Magnezij Krka 300** water soluble granules. In 2020, it remained the market leading magnesium-containing product in Slovenia, holding an almost 40% market share.

Flebaven* belongs to the group of vasoprotectives. It is used for the treatment of chronic venous insufficiency, and acute haemorrhoidal syndrome. On some markets, it is available on prescription as well. Flebaven* contains a combination of diosmin and hesperidine. We also market Flebaven* diosmin 500 mg or 1 000 mg tablets. In 2020, we began marketing it on markets of the Czech Republic, Portugal and Ukraine.

Noctiben Mea (doxylamine) is one of the new non-prescription product brands of Krka. It is indicated for adults with occasional insomnia. In 2020, we began marketing it in Ukraine.

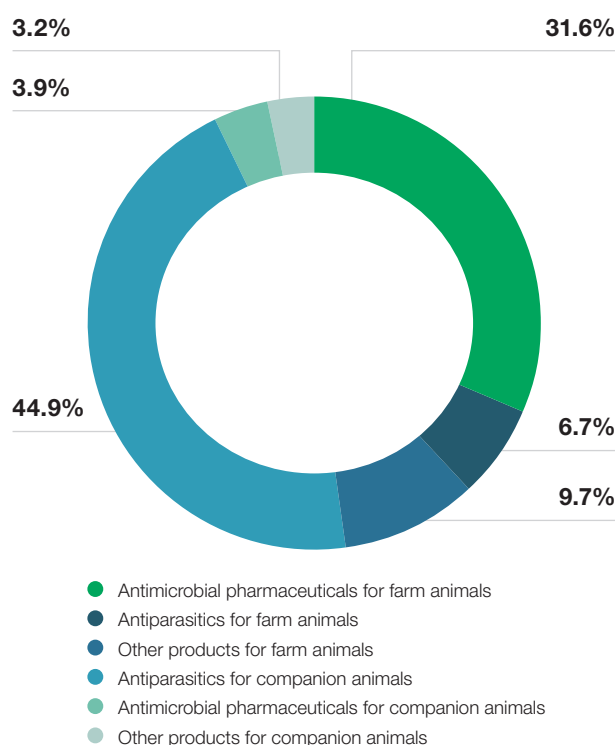
Animal Health

In 2020, the Krka Group sales of animal health products amounted to €75.9 million, up 10% on 2019. Spain, the Russian Federation and Hungary contributed to sales growth the most.

We market animal health products through our own marketing-and-sales network in regions Slovenia, Central, East and South-East Europe. This approach has also been successful in a large part of Western Europe: in Germany, United Kingdom, Belgium, France, Italy, Portugal, Finland, and the Netherlands. In other Western European and Overseas markets, animal health products are sold through our partner companies.

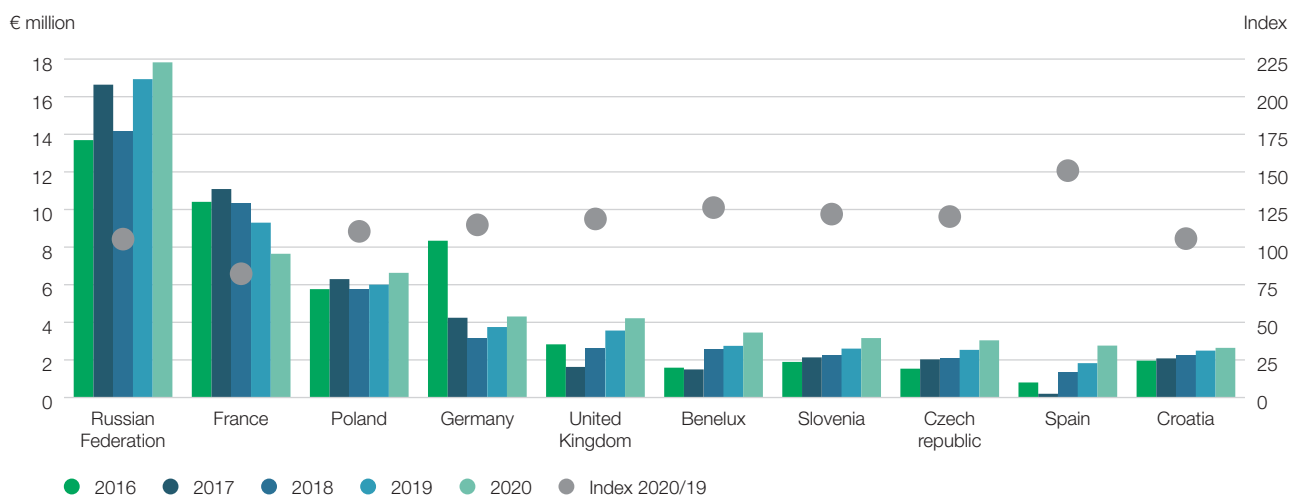
The combination of milbemyacin and praziquantel (Milprazon*) was our best-selling animal health product in 2020. It was followed by products containing fipronil (Fypryst*, Fypryst* Combo), florfenicol (Floron), and enrofloxacin (Enroxil*), and products combining pyrantel and praziquantel (Dehinel*, Dehinel* Plus).

2020 Animal Health Product Sales by Therapeutic Class



* 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.

Animal Health Product Sales by 10 Major Markets



Revenue from sales since 2017 is presented in compliance with IFRS 15.

Krka produces animal health products for farm animals and companion animals. The market share of products for companion animals now accounts for more than 50% of total animal health product sales.

Our most important companion animal product is the antiparasitic **Milprazon*** (milbemycin/praziquantel), which is also our leading animal health product. Its sales were strongest in France, the United Kingdom and Germany. More than 60% of sales of this product were generated in Region West Europe. In Slovenia, Hungary and Serbia, Milprazon* is the leading product that combines the active ingredients milbemycin and praziquantel.

Spot-on solutions represent a significant proportion of the companion animal product range. Fypryst* is the most important brand. It includes **Fypryst*** (fipronil) and the combined medicine **Fypryst* Combo** (fipronil/S-methoprene). Fypryst* is one of our leading animal health brands and among the top three leading animal health brands in terms of absolute sales growth. Its marketing in 2020 was especially successful in the United Kingdom and in the Czech Republic. Fypryst* is also available as cutaneous spray.

Another spot-on solution is **Selehold*** (selamectin). This is our antiparasitic agent for the treatment of companion animals and our first endectocide active against endo- and ectoparasites. We began marketing it in 2019, and launched it in 2020 as the first generic producer in Ukraine, Serbia, and Montenegro.

In 2020, we added **Prinocate*** (imidacloprid/moxidectin), a second endectocide, to our range of animal health products. We began marketing it on 13 markets, and as the first generic producer in Germany, Slovenia,

Poland, and the Baltic States. We also made it available in the United Kingdom, the Netherlands, and elsewhere. Prinocate* is available as a spot-on solution.

Another of our spot-on solutions is **Ataxxa** (imidacloprid/permethrin), an antiparasitic agent and a combination of two active ingredients used to treat infestations with ectoparasites in dogs. In 2020, we launched Ataxxa in Serbia, where it is the only product that competes with a similar product.

The **Dehinel*** brand is one of our leading animal health brands. It comprises a range of antiparasitic agents for the treatment of companion animals. **Dehinel Plus*** (febantel/pyrantel/praziquantel) is indicated for small dogs, and **Dehinel Plus* XL** for large dogs. We also market **Dehinel Plus* Flavour** tablets for dogs and **Dehinel*** tablets (pyrantel/praziquantel) for cats.

Our range of animal health products for companion animals also includes **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone) ear drops for dogs.

An important part of our animal health product range for farm animals are antimicrobials and parasiticides. Our leading antibiotic and one of our leading animal health products in terms of sales is **Floron*** (florfenicol), followed by **Enroxil*** (enrofloxacin). One of our newest antimicrobials for farm animals is **Tuloxxin** (tulathromycin) solution for injection. We began marketing it in 2019, and launched it in 2020 as the first generic producer in Slovenia and the United Kingdom. Tuloxxin contributed the most to the growth of sales of our animal health products in 2020.

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Krka's range of animal health products for farm animals is supplemented by antimicrobials **Amatib** (amoxicillin), **Doxatib** (doxycycline) and **Trisulfon** (sulfamonomethoxine/trimethoprim), as well as antiparasitics **Flimabend*** (flubendazole) and **Toltarox*** (toltrazuril). Doxatib, Trisulfon, and Flimabend* are among Krka's top ten leading products in terms of sales. Based on its absolute sales growth, Trisulfon was one of our leading animal health products in 2020.

Catobevit (butafosfan/cyanocobalamin) solution for injection is our new animal health product. It is indicated as a supportive therapy for various metabolic and reproductive disorders in farm and companion animals. We began marketing it in 2019, and launched it on the markets of the Russian Federation, Belarus, and Kazakhstan in 2020.

Our portfolio of animal health products includes **Ecocid* S**, a disinfectant whose use has been expanded and can now be used for disinfection of surfaces to prevent spreading of COVID-19. In 2020, Ecocid* S was one of the most important animal health products in terms of sales growth, and currently ranks among Krka's top ten animal health products.

Health Resorts and Tourist Services

The COVID-19 pandemic had a profound impact on 2020 operations at Terme Krka and its business units in Dolenjske Toplice, Šmarješke Toplice, Strunjan, and Otočec. In spring 2020, the government issued a decree ordering hospitality businesses to lock down from 16 March to 31 May 2020 to curb the pandemic. To comply, we had to stop medical rehabilitation (except long-term nursing care in Terme Šmarješke Toplice), tourist and catering services. Our hotels, wellness and sports centres, restaurants and catering facilities had to close down. In autumn and winter, from 23 October 2020 until the end of the year, COVID-19 surged for the second time. In accordance with the government decree, our three natural spas accepted only referred patients, and were closed to tourists.

Revenue from tourist and health resort services totalled €29.8 million in 2020. Terme Krka recorded 254,390 overnight stays in Šmarješke Toplice, Dolenjske Toplice, Strunjan, and Otočec. A vast majority of our guests were from Slovenia. Guests from other countries accounted for 6% of total overnight stays. We recorded annual occupancy rates as follows: Terme Dolenjske Toplice recorded 61% – the highest, our Talaso Strunjan seaside resort followed with 60%, followed by Terme Šmarješke Toplice with 52%, and Hoteli Otočec with 17%.

Products Marketed under Different Brands in Individual Markets

Active ingredient	Brands
Prescription Pharmaceuticals	
agomelatine	Lamegom, Agomaval
amlodipine	Tenox, Hipres, Alneta
amoxicillin/clavulanic acid	Betaklav, Hiconcil Combi
aripiprazole	Aryzalera, Aripipan, Arisppa, Zylaxera
atorvastatin/amlodipine	Atordapin, Atorcombo
bisoprolol	Niperten, Sobyacor, Sobyac, Zonsiloc
bisoprolol/amlodipine	Sobycombi, Niperten Combi, Bisodipin
bismuth subcitrate	Ulcavis, Ulcamed
cefuroxime	Furocef, Ricefan
celecoxib	Aclexa, Dilaxa
diclofenac	Naklofen Duo, Naklofen
donepezil	Yasnal, Yasnoro
duloxetine	Dulsevia, Duloxalta, Duloxenta, Loxentia, Dulvas
dutasteride	Dutrys, Dutascar, Dortilla, Dutaster
dutasteride/tamsulosin	Tadusta, Dutastam, Dutamyz, Tadustix
exemestane	Escepran, Etadron
enalapril/hydrochlorothiazide	Enap-H, Enap-HL, Enap-HL 20
enalapril/ercanidipine	Elernap, Elyrno, EnaCanpin

* 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.

Active ingredient	Brands
eplerenone	Apleria, Enplerasa
escitalopram	Elicea, Ecytara, Escitalex, Anxila
esomeprazole	Emanera, Emozul, Escadra
etoricoxib	Roticox, Bericox, Etoxib, Etoriax
ezetimibe	Ezoleta, Ezetad
finasteride	Finpros, Finascar TAD
galantamine	Galsya SR, Galnora
gliclazide	Gliclada, Glyclada, Diacronal
imatinib	Meaxin, Neopax, Itivas, Imanivec
irbesartan	Ifirmasta, Irabel, Iracor
irbesartan/hydrochlorothiazide	Ifirmacombi, Co-Irabel, Irbecor
ivabradine	Bravadin, Bixebra, Brivecor, Ivabalan
candesartan	Karbis, Candecor, Canocord
candesartan/amlodipine	Camlocor, Candecam
candesartan/hydrochlorothiazide	Karbicombi, Cancombino, Canocombi
capecitabine	Ecansya, Cansata
clopidogrel	Zyllt, Kardogrel
quetiapine	Kventiax, Quentiax
lansoprazole	Lanzul, Lansoptol
letrozole	Lortanda, Likarda
levofloxacin	Levalox, Levnibiot, Levaxela
losartan	Lorista, Lavestra
losartan/amlodipine	Tenloris, Alortia, Lortenza
losartan/hydrochlorothiazide	Lorista H, Lavestra H, Lorista HL, Lavestra HL, Lorista HD, Lavestra HD
memantine	Marixino, Memando, Maruxa, Memaxa, Mentixa, Maryzola
metoprolol	Bloxazoc, Metazero
moxifloxacin	Moloxin, Moflaxa, Moxibiot, Moflaxya
naproxen	Nalgesin, Analgesin, Naldorex
oxycodone/naloxone	Adolax, Oxycaloxon, Oxynador
olanzapine	Zalasta, Zolrix
olmesartan	Olimestra, Olmecor
olmesartan/amlodipine	Olssa, Olmeamlo, Olmira
olmesartan/amlodipine/ hydrochlorothiazide	Olsitri, OlmeAmlo HCT
pantoprazole	Nolpaza, Appryo
perindopril	Prelessa, Perineva
perindopril/amlodipine	Amlessa, Dalnessa, Tonarssa, Dalneva, Amlessini, Predalneva
perindopril/amlodipine/indapamide	Co-Amlessa, Co-Dalnessa, Co-Dalneva, Amlewell, Tonanda
perindopril/indapamide	Co-Prelessa, Co-Perineva, Prenewel
perindopril/indapamide/rosuvastatin	Roxiper, Triemma, Roxatenz-inda
prasugrel	Eliskardia, Prasilt, Sigrada
pregabalin	Pragiola, Pregabador, Pregabio
rabeprazole	Gelbra, Zalbex
ramipril	Ampril, Amprilan
ramipril/amlodipine	Rameam, Ramidipin
ramipril/hydrochlorothiazide	Ampril HL, Amprilan HL, Ampril HD, Amprilan HD
rasagiline	Rasagea, Ralago, Raglysa
risperidone	Torendo, Rorendo
ropinirole	Rolpryna SR, Ralnea SR
rosuvastatin	Roswera, Rosuvador, Roxera, Sorvasta
rosuvastatin/ezetimibe	Co-Roswera, Coroswera, Sorvasta Plus, Rosazimib, Roxera Plus, Sorvitimb

Active ingredient	Brands
sildenafil	Vizarsin, Sildegra
silodosin	Sidarso, Silbesan
simvastatin/ezetimibe	Ezesimin, Vasitimb
solifenacin	Asolfena, Solifemin
tadalafil	Tadilecto, Tadagis
tamsulosin	Tanyz, Tadin
telmisartan	Tolura, Telmista
telmisartan/amlodipine	Telassmo, Tamloset, Teldipin, Telmista Am
telmisartan/hydrochlorothiazide	Tolucombi, Telmista H, Telmista HD
tramadol/paracetamol	Doreta, Tramabian
valsartan/amlodipine	Wamlox, Vamloset, Valodip, Amlo-Valsacor
valsartan/amlodipine/hydrochlorothiazide	Valtricom, Valsamtrio, Co-Vamloset, Co-Valodip
valsartan/hydrochlorothiazide	Valsacombi, Co-Valsacor, Valsacor H, Valsacor HD, Valsaden
valsartan/rosuvastatin	Valarox, Ravalsyo
varденаfil	Viavardis, Vardegin
venlafaxine	Alventa, Olwexya
ziprasidone	Zypsilan, Zipsilan, Zypsila, Ypsila

Non-Prescription Products	
benzylamine/cetylpyridinium chloride	Septolete Total, Septabene, Septolete Extra, Septolete Omni, Septolete Ultra, Septolete Duo, Septafar
diosmin; diosmin/hesperidin	Flebaven, Flebazol, Flabien
doxylamine	Noctiben Mea, Sleepzone
ginkgo leaf extract	Bilobil, Gingonin
Iceland moss extract	Herbion Iceland moss, Herbisland
xylometazoline/dexpanthenol	Septanazal, Septanasal
magnesium citrate	Magnezij Krka 300, Magnesol B2
naproxen	Nalgesin S, Analgesin, Analgesin Dolo, Nalgedol, Nalgesin Mini, Nalgesin Relief

Animal Health	
enrofloxacin	Enroxil, Enrox, Enroxal
febantel/pyrantel/praziquantel	Dehinel Plus, Anthelmin Plus, Wormscreen
fipronil	Fypriest, Amflee, Fyperix, Fleaway, Fleascreen
fipronil/S-methoprene	Fypriest Combo, Amflee Combo, Fyperix Combo, Fleascreen combo
florfenicol	Floron, Fenflor
flubendazole	Flimabend, Flimabo
imidacloprid/moxidectin	Prinocate, Imoxicate
milbemycin/praziquantel	Milprazon, Milquantel
pyrantel/praziquantel	Dehinel, Anthelmin
selamectin	Selehold, Selafort, Selames
toltrazuril	Toltarox, Tolzesya, Bovicox
biocide	Ecocid, Oxidid

Research and Development

Research and development are part of our vertically integrated business model and key elements in designing and upholding a competitive portfolio of products.

Our development strategy with its key advantages related to vertical integration and connectivity of development and production processes enables us to achieve goals and deliver added-value products on markets among the first generic manufacturers. We guarantee uninterrupted supplies of new and established competitive medicines to various markets by comprehensive and professional monitoring of products throughout their life cycles.

We are able to respond quickly and appropriately to development challenges, marketing requirements, potentials, and opportunities by following trends and scientific achievements in various expert fields (medicine, pharmacy, chemistry, etc.). In order to develop and introduce advanced medicines on time, we adopt an optimal approach when researching and developing new medicines and set optimal patent strategies. We use the vertically integrated model to manage patent, development, legislative, production, and marketing requirements and risks. By managing the entire process, we are able to research, develop, evaluate, authorise, and manufacture in-house active pharmaceutical ingredients (APIs), and finished products. In-house development and effective integration of development and production phases guarantee timely delivery of high quality, effective, safe and competitive products to markets and their continuous availability in the market.

We have adopted the development strategy and project approach to manage products in all phases of their life cycles. Research-and-development results and practical understanding of legislative requirements enable us to draw up and manage complex registration documentation and obtain marketing authorisations for products on time. Increasingly complex regulatory requirements force us to introduce new, additional and improved approaches and

methods in development and conduct new studies, which we constantly upgrade and use in our research.

We regularly introduce new products and maintain their competitiveness in over 70 countries.

When entering new and technologically challenging areas, for example similar biological medicines and complex peptides, we reach out to and collaborate with other companies and institutions, while conducting our own development studies in key areas of finished product development. Our experts actively monitor products and technologies that are in different development phases at our potential partners. We assess potentials of various therapeutic segments, in particular medicines for the treatment of diabetes, and establish business cooperation. We conduct diligent expert and business reviews of particular products that serve as the basis for business cooperation and complement them with our own development-related activities.

To enter the new strategic market of China and obtain approval for our first product in 2020, we leveraged our own expertise, adjusted development activities properly, linked our development and manufacturing operations, and collected information about regulatory and marketing requirements. Establishment of suitable development and production processes and connections allows us to comprehensively manage products at all stages of their development, production, evaluation, marketing authorisation, and introduction to new markets.

Investments and Achievements

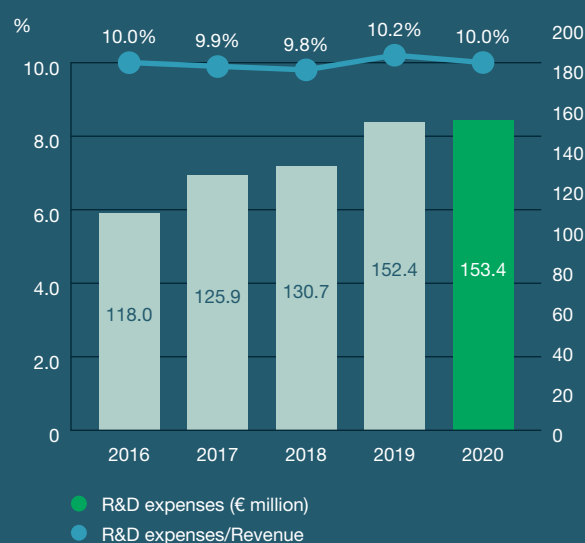
Investments in research and development are essential for innovative approaches, the introduction of new products, and maintenance of their competitiveness on all markets. As scientific and technological discoveries are rapidly advancing and markets are increasingly complex landscapes, we must constantly invest in expertise and equipment to deliver advanced new products on time, while maintaining the highest quality.

Research-and-development processes involve comprehensive and complex technological, analytical, preclinical, clinical, and bioequivalence studies and procedures for the production of innovative pharmaceutical forms in new therapeutic areas. We use state-of-the-art equipment to deliver the most demanding projects in terms of techniques and technologies.

Committed to Ongoing Development

We are currently developing over **170 new products**.

More than **700 experts** working on research and development.



In 2020, we made a big step forward in terms of digitalisation as we transferred the management of the huge amount of research and development data into an electronic system. This allows us to include, and more importantly, scientifically analyse a larger volume of information to further our research work. Robotisation of some analytical and finishing processes has been another important contribution to our work. It significantly improves repeatability of performance/operation/execution, while in the next phase it will boost cost effectiveness.

We look for our own research-and-development solutions to develop new products and use them to overcome patent obstacles, while filing our own patent applications to ensure patent protection. We introduce many new technologies and analytical techniques to deliver on our goals, especially to develop innovative products with benefit and enter new markets as the first generic manufacturer.

We develop complex pharmaceutical forms with benefit for patients (e.g. modified-release forms, dispersible tablets, and bi-layer tablets). The implementation of solid dispersion technology helped to circumvent successfully the numerous patent protections, while innovative solutions boosted the development of new Krka products.

Comprehensive development studies on existing medicines supported our first medicinal product approval in China and paved the way for applying for new marketing authorisations on the Chinese and other markets.

We kept investing in laboratory equipment for cytological analysis and physico-chemical analytics to allow for in-house development of analytical methods and other development projects in the field.

We cooperate with external research-and-development institutions to mutually improve and broaden our know-how and development results. Our own research-and-development processes generate innovations, which we protect by filing patent applications.

The achievements of our researchers have also been noticed by the wider community. Last year, we received prestigious awards for chemical synthesis of active ingredients and for developing finished dosage forms. We received several awards for innovation: nine regional awards from the Chamber of Commerce of Dolenjska and Bela Krajina and two national awards conferred by the Slovenian Chamber of Commerce and Industry. The Chamber of Commerce of Dolenjska and Bela Krajina awarded our researchers for innovative solutions in the development of several products. We won gold awards for innovations *Medicine substitute with a triple combination used in the treatment of high blood pressure; Single-pill form of perindopril, indapamide and rosuvastatin*



in the treatment of high blood pressure and high cholesterol levels; Solid dosage form for the prevention of atherothrombotic events in adult patients with acute coronary syndrome; Single-pill form of ezetimibe and simvastatin for reducing risk of cardiovascular events and the treatment of increased serum lipid levels; and Improved production process of active ingredient valsartan and its batch size increase.

We received silver awards for innovations *Innovative selamectin topical dosage form for veterinary use; Single-pill form of rosuvastatin and ezetimibe for the treatment of increased cholesterol levels; Improved production process of active ingredient esomeprazole magnesium salt; and Improved production process of the active ingredient rabeprazole sodium salt.*

The Slovenian Chamber of Commerce and Industry conferred two national awards on Krka for innovations in the field of pharmaceutical form development and finished product technologies: a gold award for a *Substitute medicine with triple combination used in the treatment of high blood pressure*, and the silver award for innovation *Improved production process of active ingredient valsartan and its batch size increase.*

Protecting Our Know-How and Industrial Property

In 2020, we filed eight patent applications for new technological solutions we had developed in 2020 and evaluated them as inventions at global ranking level. Based on priority applications from 2019, we submitted six international and one regional patent application. We were granted eight patents in various countries. In total, Krka's technological solutions are protected by over 200 valid patents.

We filed 55 applications for Krka trademarks in Slovenia and 41 international and 51 national trademark applications. In total, we have registered more than 1,100 trademarks in several countries.

In addition to protecting our own accomplishments, inventions, and trademarks, the strategy for achieving most economical and at the same time acceptable technological solutions with respect to patent protection includes recourse to available legal measures (nullity or opposition proceedings against the grant of invalid patents or defending Krka's patent rights). This contributes to a high-level legal security.

New Products and Marketing Authorisations of the Krka Group

In 2020, we were granted marketing authorisations for 20 new and revised products. More than 200 registration procedures ended with the granting of marketing authorisations for new products and established ones for sale in new markets.

We obtained marketing authorisations for the following prescription pharmaceuticals:

- medicinal products with new active ingredients **Xerdoxo** or **Rivarolto** (rivaroxaban); **Ticabril** or **Atixarso** (ticagrelor); **Erlotinib Krka** (erlotinib); **Lenalidomide Krka** (lenalidomide); **Efigalo** or **Fingod** (fingolimod); **Lacosabil** or **Lydraso** (lacosamide); **Anastrozole Krka** (anastrozole); and **Hydroxychloroquine sulfate Krka** (hydroxychloroquine);
- **Olsitri** (olmesartan/amlodipine/hydrochlorothiazide) our new single-pill cardiovascular agent, and an antidiabetic **Maymetsi** (sitagliptin/metformin);
- **pregabalin** as our first medicinal product in China;
- established active ingredients in new pharmaceutical forms **Dekenor** or **Dexfenia** or **Dexketia** (dexketoprofen) and **Algominal** (metamizole);
- **Doreta SR** (tramadol/paracetamol) had been proven safe, so we obtained marketing authorisations again.

We added a new formulation of **B-Complex** and new pharmaceutical form of **Flebaven 1000** to our non-prescription range.

We added new products to our animal health portfolio, including **Tuloxxin** or **Tulaxa** (tulathromycin) 25 mg/ml solution for injection and **FlorFlu** or **Flovuxin** (florfenicol/flunixin) fixed-dose combination.

We adopted the new product registration legislation that entered into force in the Eurasian Economic Union (EAEU) and obtained marketing authorisations under this procedure for two products for the first time.

Based on our own preparation procedures for APIs, we obtained the Certificates of Suitability to the monographs of the European Pharmacopoeia (CEP) from the European Directorate for the Quality of Medicines (EDQM), which prove that quality of APIs complies with the latest requirements of the European Pharmacopoeia. By obtaining CEPs for **rabeprazole** and **rosuvastatin**, both manufactured by Krka, we were able to authorise several finished products containing these two active ingredients.

We continuously upgrade, improve, and bring our established products up in line with the latest trends

MA Grants for 20 New Products in 2020



We allocate up to 10% of annual sales revenue to research and development.

and requirements. We submit marketing authorisation applications with regulatory authorities as regulatory variations for our revised products. Our commitment to the highest quality of products is also demonstrated by the number of submitted variations. In 2020, we applied for more than 30,000 variations. In view of such development, we were granted marketing authorisations for dexamethasone in tablets and solution for injection indicated in patients with COVID-19 needing oxygen support.

We obtained new marketing authorisations in more than 60 countries from all our regions for the established products from all our product groups.

Prescription Pharmaceuticals

In 2020, we were granted marketing authorisations for 16 new products, and introduced established products to new markets with first-time authorisations.

In our important new therapeutic area of antithrombotic agents, we were granted marketing authorisations for two important active ingredients. We developed and obtained approval for **Xerdoxo** or **Rivarolto** (rivaroxaban) film-coated tablets in four strengths, indicated for prevention of atherothrombotic events in adults with various cardiovascular diseases. The vertically integrated model of development was followed for the product. API synthesis and formulation development were the results of our in-house expertise and could be patent protected. Tablets are lactose- and gluten-free. They can be taken whole or crushed and suspended in water, making it easier to swallow or administer via a nasogastric tube. The timely marketing authorisation in EU countries paved the way for its launch on selected European markets, and we were also granted authorisations in Serbia and North Macedonia.

Marketing authorisation was also granted for **Ticabril** or **Atixarso** (ticagrelor), an advanced platelet aggregation inhibitor in film-coated tablets. Ticagrelor is a reversible platelet aggregation inhibitor indicated in patients with complex cardiovascular conditions. It decreases the risk of cardiovascular events, such as myocardial infarction and stroke. In combination with acetylsalicylic acid, it is used for prevention of atherothrombotic events. Film-coated tablets are sugar-free, starch-free and lactose-free and can be taken whole or crushed and mixed into water. The medicinal product is made according to the vertically integrated production model. We manage the development and manufacture of the active ingredient and the finished product based on our in-house development of the API synthesis and formulation. The marketing

authorisation is the base to launch this medicine as one of the first generics.

We extended the range of our cardiovascular medicines with a new single-pill combination **Olsitri** (olmesartan/amlodipine/hydrochlorothiazide) film-coated tablets in five strengths. We concluded the European decentralised procedure and obtained all necessary authorisations for entering the market as one of the first generic pharmaceutical companies immediately after the patent expiry. The medicine is indicated for lowering high blood pressure in patients with resistant hypertension.

We supplemented our range of medicines for the treatment of diabetes with **Maymetsti** (sitagliptin/metformin) film-coated tablets, the first fixed-dose combination with metformin. The combination medicine is an important antidiabetic agent for the treatment of type II diabetes. The two active substances exert synergistic action and regulate blood sugar levels. A patent independent formulation of sitagliptin developed in-house is used for the finished product and gives way to its own developmental and production processes. We will organise production of the medicinal product at various production sites to ensure uninterrupted supply.

We added three new products to our range of oncology medicines.

We obtained marketing authorisations for our **Erlotinib Krka** (erlotinib) film-coated tablets in three strengths. The medicine is indicated for the treatment of patients with metastatic non-small cell lung cancer and in combination with another medication also for the treatment of pancreatic cancer. This medicine is the result of our own research and development, and we launched it on selected markets immediately after originator's patent expired.

Procedures for obtaining marketing authorisation for **Lenalidomide Krka** (lenalidomide) from the European Medicines Agency (EMA) are concluded. It is used independently or in combination with other medicines used to treat various forms of blood cancer, its key indication being maintenance treatment of disseminated plasmocytoma in adult patients.

Marketing authorisation was granted for **Anastrozole Krka** (anastrozole) film-coated tablets, our new oncology medicine indicated for the treatment of various types of breast cancer.

We added to our central nervous system range a new medicine for the treatment of epilepsy, **Lacosabil** or **Lydraso** (lacosamide) film-coated tablets in four strengths. Lacosamide has demonstrated efficacy and safety in different types of patients with epilepsy. In comparison to

other antiepileptics, it has a more favourable safety profile and produces fewer undesirable effects and lesser risk of interactions. It can be combined with other antiepileptic agents. It is the result of our own development, integration of development and production processes.

We obtained marketing authorisations under the European decentralised procedure for **Efigalo** or **Fingod** (fingolimod) hard capsules. Fingolimod is Krka's first medicine for the treatment of multiple sclerosis, the chronic autoimmune disease affecting the central nervous system. The agent alters the course of the disease in the highly active relapsing-remitting MS. It is our first in-house developed medicinal product in this therapeutic group of medicines for autoimmune diseases.

In addition to the established dextetopfen solution for injection, we were also granted marketing authorisations for **Dekenor** or **Dexfenia** or **Dexketia** (dextetopfen) film-coated tablets for the symptomatic treatment of mild to moderate pain. The medicine is authorised as a prescription pharmaceutical or as over-the-counter medicine in different countries.

Supported by scientific evidence regarding the treatment of pain with the fixed-dose combination of active substances in prolonged-release tablets, we obtained marketing authorisation for **Doreta SR** (tramadol/paracetamol) prolonged-release tablets in selected European markets. The updated directions for use make it safer to use. The medicine that in the past already played a major role in the treatment of moderate to severe pain will be back on our markets in 2021.

We obtained marketing authorisation under the European decentralised procedure for **Algominal** (metamizole) film-coated tablets. Tablets are scored on one side to allow for adapted dosing. The medicine is indicated in the management of severe and cancer pain in patients older than 15 years.

We obtained CEP for rosuvastatin and were granted marketing authorisations for products with this active ingredient in our key markets. Rosuvastatin, our in-house API is incorporated in **Roswera** (rosuvastatin) and fixed-dose combinations **Co-Roswera** (rosuvastatin/ezetimibe), **Roxiper** (perindopril/indapamide/rosuvastatin), **Valarox** (valsartan/rosuvastatin), and **Roxampex** (perindopril/amlodipine/rosuvastatin). They all come in film-coated tablet dosage form.

We also obtained CEP for our active ingredient rabeprazole and were granted marketing authorisation renewal for the established medicine **Zulbex** gastro-resistant tablets for the treatment of stomach problems.

In Slovenia we obtained marketing authorisation for **Hydroxychloroquine Sulphate Krka** (hydroxychloroquine) film-coated tablets.

In all regions, we expanded marketing opportunities, and obtained renewed marketing authorisations for our established products.

An important milestone in 2020 was the first marketing authorisation granted to us in China. We were granted approval for the antiepileptic **pregabalin** in hard capsule dosage form, in two strengths with two equal indications as the originator, i.e. for the treatment of postherpetic neuralgia and fibromyalgia. Successful R&D, business acumen and regulatory activities saw approval being granted for both, the active ingredient and finished product. Inspections that were successfully concluded paved the way for entering the Chinese market.

Approvals for our single-pill cardiovascular agents were important. We obtained a marketing authorisation in Croatia for our single-pill combination **Roxiper** (perindopril/indapamide/rosuvastatin) film-coated tablets.

The first approval for **Rosuvastatin-K** (rosuvastatin) film-coated tablets in four strengths in Eastern Europe was obtained according to the new product registration legislation that entered into force in the Eurasian Economic Union (EAEU).

In the Russian Federation we were granted marketing authorisation for the single-pill combination **Telmista AM** (telmisartan/amlodipine) and added it to our telmisartan portfolio. In Ukraine, we concluded the registration procedure for our single-pill combination **Co-Valodip** (valsartan/amlodipine/hydrochlorothiazide) film-coated tablets before the planned term.

In Region South-East Europe, marketing authorisations granted for our single-pill combinations **Valtricom** (valsartan/amlodipine/hydrochlorothiazide) and **Wamlox** (valsartan/amlodipine) were important. The two medicines will extend our valsartan cardiovascular agent range.

New MAs for established medicinal products

Therapeutic area	Brand or registered name	Active ingredient	Dosage form	Country
Cardiovascular diseases				
	Valtricom, Co-Valodip	amlodipine/valsartan/hydrochlorothiazide	film-coated tablets	Ireland, Portugal, Serbia, North Macedonia, Bosnia and Herzegovina, Kazakhstan, Ukraine, Uzbekistan, Belarus
	Roxiper	perindopril/indapamide/rosuvastatin	film-coated tablets	Croatia, North Macedonia, Bosnia and Herzegovina, Uzbekistan
	Co-Amlessa	perindopril/amlodipine/indapamide	tablets	Tajikistan
	Valraxet, Valarox	valsartan/rosuvastatin	film-coated tablets	Russian Federation, Kyrgyzstan, Belarus
	Lortenza	losartan/amlodipine	film-coated tablets	Mongolia, Tajikistan
	Kandoset	candesartan/amlodipine	tablets	Hungary
	Wamlox	valsartan/amlodipine	film-coated tablets	Montenegro, United Arab Emirates
	Alsamod, Polaplom, Olssa	olmesartan/amlodipine	film-coated tablets	Cyprus, Greece, Albania
	Telmista AM	telmisartan/amlodipine	tablets	Russian Federation
	Telmista H, Tolucombi	telmisartan/hydrochlorothiazide	tablets	Belarus, Mongolia, Aruba
	Co-Roswera, Roxera Plus	rosuvastatin/ezetimibe	film-coated tablets	Serbia, Albania, Ukraine, Armenia
	Tolura, Telmista	telmisartan	tablets	North Macedonia, Mongolia
	Olimestra	olmesartan	film-coated tablets	Saudi Arabia
	Riolma	eplerenone	film-coated tablets	Russian Federation
	Roswera, Rosuvastatin K	rosuvastatin	film-coated tablets	Kazakhstan, Trinidad and Tobago
	Pitavastatin TAD	pitavastatin	film-coated tablets	Portugal
	Atoris	atorvastatin	film-coated tablets	Montenegro, Jamaica
	Ezoleta	ezetimibe	tablets	Malta
	Amiokordin	amiodarone	solution for injection	Azerbaijan

Therapeutic area	Brand or registered name	Active ingredient	Dosage form	Country
CNS diseases				
	Kventiax	quetiapine	prolonged-release tablets	Russian Federation, Ukraine
	Duloxenta	duloxetine	gastro-resistant capsules	Germany, Azerbaijan
	Pragiola	pregabalin	hard capsules	Azerbaijan, Montenegro
	Torendo	risperidone	film-coated tablets	Armenia
	Helex	alprazolam	tablets	Moldova, North Macedonia
	Zalasta	olanzapine	tablets	Armenia
	Calmesan forte, Sleepzone	doxylamine	film-coated tablets	Armenia, Bosnia and Herzegovina
	Yasnal	donepezil	orodispersible tablets	Overseas Markets
	Mirzaten	mirtazapine	film-coated tablets	Moldova
Pain and rheumatic diseases				
	Dekenor, Deksiaks	dexketoprofen	solution for injection	Kazakhstan, Uzbekistan
	Naklofen Duo	diclofenac	modified-release capsules	Azerbaijan, Montenegro, Aruba
	Nalgesin	naproxen	film-coated tablets	Uzbekistan
	Tramadol Krka	tramadol	hard capsules	Montenegro
	Paracetamol Krka	paracetamol	tablets	Slovenia, Belgium, Denmark, Finland, Sweden, Ireland, Spain
	Etoxi	etoricoxib	film-coated tablets	Montenegro, Lebanon
	Dolnada	oxycodone/naloxone	prolonged-release tablets	Bosnia and Herzegovina
	Flosteron	betamethasone	suspension for injection	Montenegro
Diabetes				
	Glypvilo	vildagliptin	tablets	Serbia, Malta
Hyperuricemia				
	Febuxostat Krka	febuxostat	film-coated tablets	Ukraine, Mongolia
Gastrointestinal disorders				
	Emanera	esomeprazole	gastro-resistant capsules	United Arab Emirates
	Zulbex	rabeprazole	gastro-resistant tablets	Serbia, Armenia
Oncology				
	Meaxin	imatinib	film-coated tablets	Montenegro
	Everolimus Krka	everolimus	tablets	Bosnia and Herzegovina
Antibiotics				
	Hiconcil Combi	amoxicillin/clavulanic acid	film-coated tablets powder for oral suspension	Albania
HIV infection				
	Tenofovir+ Emtricitabin Krka	emtricitabine/ tenofovir	film-coated tablets	Russian Federation
	Atazanavir Krka	atazanavir	hard capsules	Russian Federation
	Darunavir Krka	darunavir	hard capsules	Azerbaijan
Erectile dysfunction				
	Tadagis	tadalafil	film-coated tablets	Malta
	Vizarsin	sildenafil	film-coated tablets orodispersible tablets	Kyrgyzstan, Jamaica
Benign prostatic hyperplasia				
	Doxazosin Krka	doxazosin	prolonged-release tablets	Iceland
	Dutrys	dutasteride	soft capsules	Kosovo
	Tanyz ERAS	tamsulosin	prolonged-release tablets	Serbia

Non-Prescription Products

We expanded our range of non-prescription products with two new products and added markets for products of established brands.

We renewed the formulation of **B-Complex** (thiamine/riboflavin/pyridoxine/cyanocobalamin/calcium pantothenate/nicotinamide) film-coated tablets, our established product. Supported by revised documentation, we obtained renewed marketing authorisation in Slovenia, Bosnia and Herzegovina, Kosovo and North Macedonia. In Slovenia, where it is authorised as a non-prescription medicine, it is the only approved product with this vitamin B combination. The product is indicated for the prevention and treatment of hypovitaminosis B, avitaminosis B, increased body demand, malabsorption, and various other severe forms of vitamin B deficiency.

We have developed **Flebaven 1000** in a new pharmaceutical form. We incorporated 1000 mg of purified flavonoid fraction, corresponding 900 mg of diosmin and 100 mg of flavonoids expressed as hesperidin, into film-coated tablets. The product is indicated for the treatment of symptoms of chronic venous insufficiency in adults and for the symptomatic treatment of deteriorated hemorrhoid-related problems in adults. It is taken once daily. The product was authorised in the Russian Federation.

In Mongolia, we received marketing authorisation for **Flebaven** (diosmin/hesperidin) 450 mg/50 mg film-coated tablets.

In Eastern Europe, the first approval of a non-prescription medicinal product was obtained according to the new product registration legislation that entered into force in the Eurasian Economic Union (EAEU). We were granted marketing authorisation for **Vitamin D3 Krka** (cholecalciferol) in the Russian Federation as a reference country. We submitted an application for MA for the product in Hungary. In North Macedonia we concluded the marketing authorisation procedure.

In Slovakia, we were the first to authorise **Dasseltino** (desloratadine) 5 mg, as a non-prescription product in packages with 7 or 10 film-coated tablets.

In Moldova, we obtained marketing authorisation for **KontrDiar** (nifuroxazide) oral suspension used in acute bacterial diarrhoea.

We obtained new marketing authorisations for Septotele brand products. In Finland, we successfully presented expert information and were granted marketing authorisations for two products, **Septabene**

(benzylamine/cetylpyridinium) oral spray and **Septanazal** (xylometazoline/dexpantenol) nasal spray. Both are the only products with such a combination of active substances approved in that country under the status of a non-prescription medicine.

Septotele Total (benzylamine/cetylpyridinium) honey-and-lemon flavour lozenges were also approved in Georgia, Malta, and Kosovo.

We obtained marketing authorisations for **Herbion Ivy** (ivy leaf dry extract) lozenges in the Russian Federation, Kazakhstan, Ukraine, Belarus, Kyrgyzstan, Moldova, Uzbekistan, Serbia, North Macedonia, Bosnia and Herzegovina, Montenegro, and Kosovo, which allowed for product launches at the right moment.

In Armenia, we were granted marketing authorisation for **Nalgesin** (naproxen) 220 mg film-coated tablets.

In Region Overseas Markets, we expanded marketing opportunities by obtaining approvals for **Septotele Total** honey-and-lemon flavoured lozenges; **Pikovit Unique** chewable tablets; and **Magnesium Krka 300** (magnesium citrate) granules for oral solution.

Animal Health

We were granted marketing authorisations for two new animal health products and expanded marketing opportunities for our key animal health product brands.

We were granted marketing authorisations for the first generic fixed-dose combination **FlorFlu** or **Flovuxin** (florfenicol/flunixin) solution for injection, available in two different bottle volumes. Administered by a single injection, the combination of active substances has an antimicrobial, analgesic, and anti-inflammatory effect. It is indicated for the treatment of respiratory tract infections in cattle.

We obtained marketing authorisation for **Tuloxxin** or **Tulaxa** (tulathromycin) 25 mg/ml solution for injection in three different bottle volumes. Tulathromycin is an advanced antimicrobial used to treat bacterial infections of the respiratory tract in pigs.

We obtained new marketing authorisations for several established products in various countries.

In the Russian Federation, we obtained marketing authorisations for **Doxatib** (doxycycline) 500 mg/g oral powder for the treatment of respiratory tract infections in pigs and chicken.

In Bosnia and Herzegovina, we were granted marketing authorisation for **Tuloxxin** (tulathromycin) 100 mg/ml solution for injection indicated for respiratory tract infections

in cattle and pigs and infectious pododermatitis (foot rot) in sheep.

In the Russian Federation, we authorised **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone) suspension for ear drops for dogs. The medicine is indicated for treating bacterial or fungal otitis externa in dogs.

In Ukraine and Moldova, we were granted marketing authorisations for **Selafort** (selamectin) spot-on solution indicated for the treatment of mixed parasite infestations in dogs and cats.

In Georgia, we received marketing authorisation for **Dehinel** (pyrantel/praziquantel) film-coated tablets for cats, used as dewormer in intestinal parasitic infections.

Catobevit (butafosfan/cyanocobalamin) solution for injection was authorised in Kazakhstan, Moldova, Bosnia and Herzegovina, and North Macedonia. It is indicated as vitamin and mineral supportive therapy for various metabolic or reproductive disorders in cattle, horses, dogs, and cats.

Health Resorts and Tourist Services

We at Terme Krka follow our orientation and offer services, programmes and activities for a healthy lifestyle and wellness. In 2020, despite the unprecedented circumstances, we allocated approximately €2.7 million to the renovation, modernisation, development and extension of our healthcare services, accommodation, wellness, and catering.

In the two periods when no guests were allowed, we carried out minor and major repair and maintenance jobs, and thoroughly cleaned and refurbished buildings and the surrounding grounds.

In mid-June, we opened a widely popular beach in Strunjan that had been revamped. We replanted more than 4,600 square metres with greenery, and planted new trees offering natural shade. We also extended deck chair areas for rest and relaxation. The beautifully maintained beach in a charming setting adds value to our services. The amenities of the Cavedin bar and the Pinija restaurant, both close to the sea, make for the ultimate seaside pampering experience for hotel guests and day-trippers.

At our Vitarium Spa & Clinique wellness centre in Terme Šmarješke Toplice, we developed a new immune system boosting programme dubbed ImmunoRebalance. It is designed for people who need to regenerate and revitalise after a tiring and stressful period. The programme allows for active relaxation in nature and provides a retreat from

disturbing stimuli, electronic and others, that cloud the mind and consume energy. Regaining balance is aided by the pleasant natural environment of Šmarješke Toplice, healthy food, primarily organically grown, and healing thermal springs. Guests are also introduced to immune system boosting methods and guided by experts in an understandable manner as to how to improve ways of living, including exercise, diet and the relationship with self.

At the beginning of the 2020 golf season, we revamped our Otočec golf course facility by constructing a new building with a reception room, small golf equipment shop, and a function room. We call it The 19th Hole (Devetnajstica in Slovene). The building has expansive glass windows and offers a good view of the attractive golf course. The country house of the Grad Otočec castle offers culinary specialities from the Dolenjska region and welcomes guests staying at the premises and others.

Hotel Šport, also in Otočec, was renovated in 2020 to give it a more urban look. We overhauled the reception area and bar and redesigned the kitchen and restaurant. Our guests like the sport-themed rooms, the thermal-water pool, saunas and terrace for relaxation. A setting that encourages an active way of life and a selection of cosmopolitan foods sourced from locally grown produce leave no guest unimpressed.

Quite a few new items have been added to Terme Krka's range of services. We are increasingly focusing on active holidays, medical wellness, programmes for maintaining health, and boosting the immune system. We play to our competitive advantages. These include the pristine natural environment, our employees, guest service with a personal touch, and locally grown seasonal foods.

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 rapidly respond to changing market demands, improve processes to reduce flow time along the entire supply chain, and integrate supply processes across all Krka Group companies and other contractual production sites.

We comply with new product manufacture requirements and relevant laws by promptly introducing advanced technological processes to manufacturing active pharmaceutical ingredients and finished products. We have been increasing production capacities and improving the cost effectiveness of processes in Slovenia and in our subsidiaries abroad. We control all stages of a product life cycle, which allows us to adapt to new challenges in individual markets more easily and effectively.

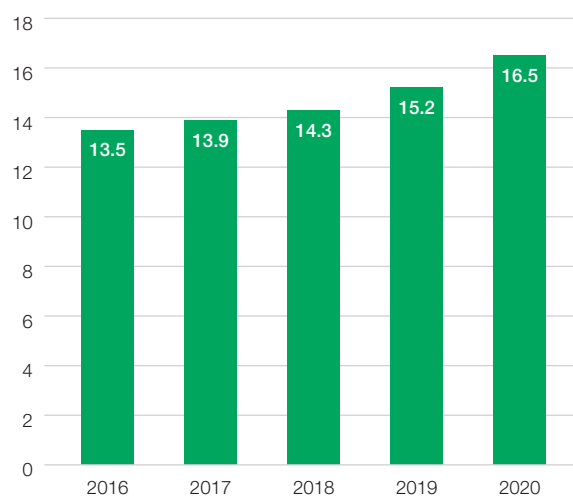
Effective connection between research and development and the production of active pharmaceutical ingredients and pharmaceuticals resulted in fast and smooth transfer of new products from development to regular production. We accelerated technological problem solving, optimised technological processes, and ensured uninterrupted production.

The COVID-19 pandemic left us facing some major challenges. However, sound organisation of work, the prompt introduction of numerous preventive measures, and a focus centred on the most important tasks and products helped us keep our capacities at the pre-pandemic levels.

By optimal use of available resources in the controlling company and subsidiaries and through cooperation with contractual partners, we manufactured and packed a record quantity of 16.5 billion products in 2020, up 9% on 2019. We once again reached the highest monthly and quarterly production volume ever.

Finished Product Manufacturing

In billion pieces



The increasing number of products and productions sites, changing market requirements, requirements for text on packaging to be in national languages, and other demands resulted in a growing number of bulk and finished products. Despite this, we managed to increase the total number of manufactured units by exact planning and efficient production.

We continuously improved post-registration procedures for the preparation of packaging materials and technological documents for production in Slovenia, subsidiaries abroad, and at contract manufacturers in order to ensure timely provision of products and response to sales requirements.

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. We also increased the use of production documentation in e-format and process automation.



Planning

By implementing continuous process improvements, we considerably reduced the average lead time from an order to delivery and, consequently, increased our responsiveness and process flexibility throughout the supply chain. We continue to optimise inventories of raw materials and finished products.

Supply Process

We mostly use self-produced raw materials for our products but also buy some in the market. In 2020, the number of raw material manufacturers further decreased, primarily due to environmental and financial reasons and those related to good manufacturing practices. Despite the ever-changing circumstances, significant lack of incoming materials, slow downs in partners' production capacities, and transport issues during the COVID-19 pandemic, we provided enough raw materials for uninterrupted production of finished products at the same prices. We improved the transparency of the process for purchasing raw and packaging materials and upgraded the system for managing purchase agreements and coordinating raw material specifications with suppliers.

We continued to introduce alternative sources of active pharmaceutical ingredients, excipients, and packaging of equal quality but at better prices. This helped mitigate risks posed by the changing circumstances effecting supply.

We increased integration and optimised purchasing processes with Krka subsidiaries. We also improved established partnerships with suppliers.

Production of Active Pharmaceutical Ingredients

A high level of vertical integration in the production process generates high added value. This means that we produce and technologically control a large proportion of active ingredients, which we incorporate into our finished products, at various production sites in Slovenia and abroad. In doing so we reduce the dependency on external suppliers in this key segment of the supply chain.

We improve the cost effectiveness of the production of key intermediates and raw materials by optimising production processes at all production sites. We transferred additional technologies (products) to increase the capacity of our Sinteza 1 plant in Krško and therefore considerably expanded the capacity to produce active ingredients for our vertically integrated products. We plan to expand our capacities even further. We continued with intensive production of active ingredients and intermediates at our own production sites in Novo mesto and Krško. In 2020, we increased their production volume by 18%.

Our business operations were uninterrupted.



The average daily production volume of finished products at the Krka Group did not change much during the COVID-19 pandemic.



Raw and production material purchasing continued with minimal disruption.



Quality assurance and quality control were uninterrupted.



No insurmountable problems arose with logistics.



Departments engaged in promotion of products increased their use of e-tools.



Production of Pharmaceutical Products

We have been introducing additional equipment and modern high-tech solutions into the pharmaceutical production. The Noto 2 plant started operating at the end of 2015 and was upgraded in 2020 with several packaging lines. The plant represents an important part of production capacities, utilising cutting-edge technology and a high level of automation and robotisation supported by advanced computerised systems. This approach helps us reinforce our competitive edge on demanding global markets. In 2020, over 30% of total products manufactured in the Krka Group came from Noto 2.

In 2020, we also increased production in the newly extended and upgraded production and distribution centre in the Russian Federation, to which we transferred new technologies and products of major importance for the Russian market. This further consolidated our position as a local manufacturer. The plant in the Russian Federation manufactures over 80% of all our products intended for the Russian market.

We responded to dynamic developments in the pharmaceutical market and rising demand for pharmaceutical products in a timely manner and supplied our products in line with our customers' expectations and in compliance with increasing regulatory requirements. We were able to meet the challenges by optimising technologies optimisation, increasing product batch sizes, and launching new products, all while maintaining a high level of quality standards required by laws, regulations, and inspections, and upgrading process management in terms of environmental care and health and safety at work.

In order to respond more quickly to the rising demand for our products, strengthen our presence in international markets, and reduce risks in the production process, we continued with activities related to transfers of production technologies to contractual partners and expanded the network of contract manufacturers. We completed the transfer of several products to our joint venture Ningbo Krka Menovo, which we established together with our Chinese partner. The regular production of five products began in 2020.

In 2019, we were among the first generic manufacturers to introduce technical and systemic solutions that help us comply with the new *Falsified Medicines Directive (FMD) 2011/62/EU*, which requires an original seal on secondary packaging and introduction of unique identifiers for each finished product package. Despite the changes, the production capacities in 2020 remained unchanged.

As one of the few manufacturers in 2020, we began to implement all requirements related to production and technical and IT processes to ensure unique identification and aggregation required by the Russian legislation. The changes did not affect our production capacities, and we managed to keep them at comparable levels.

To raise awareness and the quality of work, we upgraded the training centre in Pharmaceutical Production, where our employees receive practical training for safe work on the equipment used in most key production processes. This system proved extremely useful, as the introduction process is faster and more efficient, while the quality of regular work improves.

Warehousing and Transport

We improved warehouse capacity utilisation through process optimisation, introduction of new computer system options, and optimisation of supplies in conjunction with other organisational units. A new multipurpose warehouse was put into operation.

We increased the number of environmentally friendly cargo vehicles for distribution of our products and decreased operating costs. We augmented transport by sea and continued to use transport by rail in compliance with temperature requirements. We also looked for new transport options and successfully performed test road transports, which serve as an alternative to established transport routes. We effectively utilised all necessary modes of transport to meet increased 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 obtaining authorisations to use simplified declaration procedures. The updated customs procedure and additional authorisations helped us to prepare for any changes in customs clearance post-Brexit.

We are a registered exporter under the Registered Exporter system (REX).



Investments

In 2020, the Krka Group allocated €76.6 million to investments, €61.3 million to the controlling company, and €15.3 million to subsidiaries.

We primarily invested in extending and upgrading our production and development plants, quality management, and our own production-and-distribution centres across the world.

We funded new production equipment and infrastructure upgrades in Slovenia, Croatia, and the Russian Federation, which further increased our production capacities and improved quality.

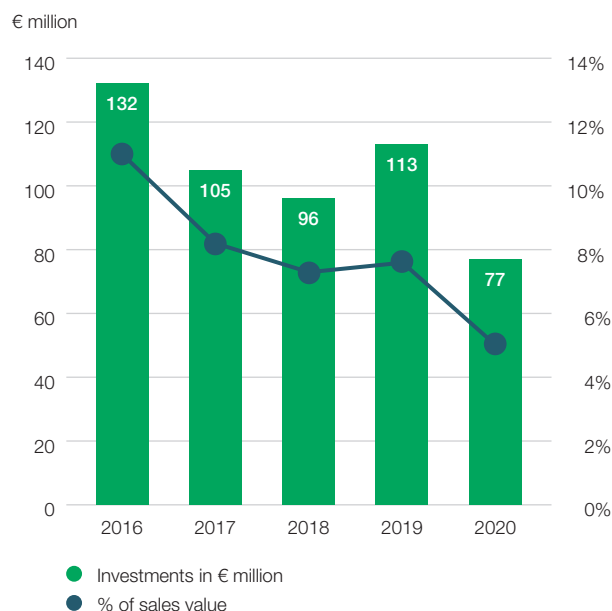
Our investments fell behind schedule due to the COVID-19 pandemic and the situation in certain countries. In spring, all investment works were stopped for more than a month at all production sites in Slovenia. Since March 2020, all foreign contractors have had limited access to our subsidiary Krka-Rus. Works have been carried out by Russian contractors also.

Departments throughout the Krka Group continue to adjust their work to the current circumstances in individual countries.

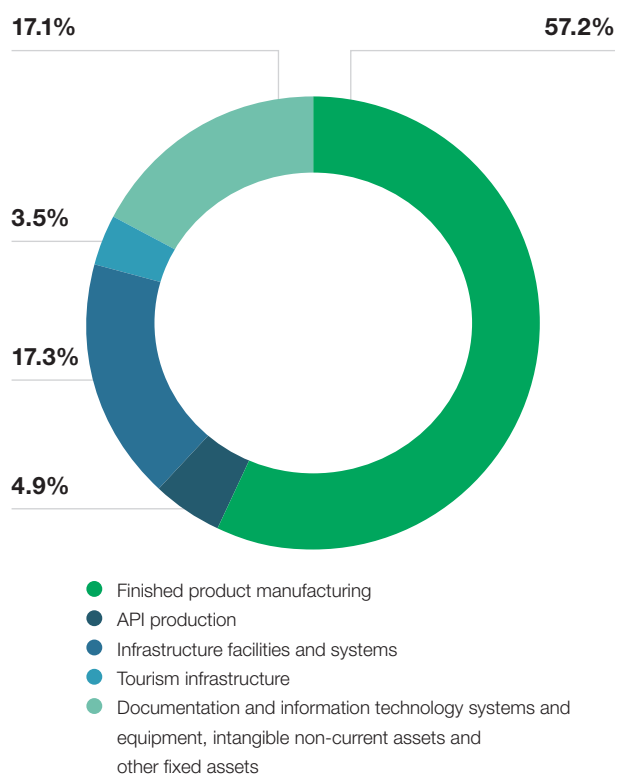
All projects comply with environmental standards and take account of direct and indirect environmental impacts. The approved equipment corresponds to the best available technology as regards environmental protection and energy efficiency, and guarantees safe and efficient operations.

In 2020, we invested primarily in finished product manufacturing and increasing and upgrading research-and-development infrastructure. Infrastructure facilities and systems, including the multi-purpose warehouse under construction in Ločna (Novo mesto) and the raw material warehouse in Krško, will support business functions across the Krka Group. Investments accounted for 5.0% of sales revenue generated in 2020.

2016–2020 Krka Group Investments



Structure of 2020 Krka Group Investments



2020 total investment amount: €77 million

We primarily invested in technological upgrades to our production, research and development, and quality management.

Our investments lagged behind plan because of the pandemic's impact on the construction industry. This, however, will not affect the implementation of our strategic guidelines.

2021 total investment amount: €114 million

Multi-Purpose Warehouse for Finished Products, Raw and Packaging Materials

At the end of 2017, we started construction on a multi-purpose warehouse in Ločna (Novo mesto) to provide additional storage room for incoming materials and finished products. This improved production speed and flexibility, product availability and market supply.

The €34.6-million warehouse was constructed in two phases. The first phase included setting up a new facility with expanded handling areas next to the raw material warehouse, laboratories, and sampling rooms. The second phase involved construction of a multi-purpose warehouse and joining it to the raw material warehouse with space for additional weighing rooms.

At the beginning of 2020, the JAZMP (Agency for Medicinal Products and Medical Devices of the Republic of Slovenia) granted us an operating permit, meaning all requirements for operating the multi-purpose warehouse and sampling rooms had been met. By the end of August 2020, we had built and equipped a room in the raw-material warehouse for a two-way flow between the multipurpose warehouse, warehouse for raw materials, and weighing rooms. This increased the flow capacity between the buildings.

Construction of Raw Materials Warehouse Finished in Krško

In Krško, we constructed a new warehouse for raw materials used in chemical and pharmaceutical production. Storage complies with the guidelines of the *Technical Rules for Hazardous Substances* (TRGS).

Construction started in June 2019. In July 2020, we obtained an operating permit, and in September also JAZMP's operating permit for the plant. The building has 5,000 square metres of usable surface and natural ventilation. We erected a container warehouse next to it and a sheltering roof for the storage of materials that require separate storage and special temperature conditions.

The €8.2-million investment provided facilities for storage and sampling of raw materials for current and future needs.



Notol 2 Plant

We have been acquiring new technological equipment because of the growing demand for new production capacities. In 2019, we started equipping the new packaging facility at our plant for manufacturing solid dosage forms, Notol 2. We installed several highly automated and robotised packaging lines. In the coming two years, we plan to increase their number. The investment was estimated at €41 million.

In 2020, we allocated €17 million for equipping the new packaging facility and purchasing production equipment.

Expanding Facilities for Development and Manufacturing of Active Ingredients

We plan to build new facilities for development and production of active pharmaceutical ingredients (APIs) in Krško. We are preparing the project documentation and are in the process of obtaining the required consent to build the Sinteza 2 production plant for manufacturing active pharmaceutical ingredients and laboratories for chemical analyses (Kemjsko-analitski center in Slovene). The Sinteza 2 plant will be our second plant for production of active pharmaceutical ingredients in Krško. We plan to build other small facilities for technology and infrastructure required for uninterrupted production process. The investment was estimated at €163 million. The project is in line with our strategy of vertical integration, from development of a product to its production.

Increasing and Upgrading Manufacturing Capacities

The purchase of a high-capacity packaging line for lozenges and tablets provides for higher packaging output in the Ljutomer plant. The warehousing section of the plant was repurposed into a temporary storage room in compliance with the standards of good warehousing practice and health and safety at work. We apportioned €5.7 million to the investments.

We installed a €1.5-million high-capacity coating machine in the Notol plant to optimise the film-coating process and increase the production batch yield.

A €2.5-million investment in the Beta department in Šentjernej is drawing to a close. We upgraded the systems and equipment in compliance with ATEX standards and installed another mixer to increase the production capacity for preparation of dry granulate.

We are investing €21 million in additional capacities for compression mixture preparation and granulation in the double-layer tableting process, and in logistic capacities in the Solid Dosage Form Production Plant (Slovene abbreviation: OTO).

Investments Outside Slovenia

The Krka-Rus plant in the Istra industrial zone in north-west Moscow is one of the key investments in Krka subsidiaries abroad. The Krka-Rus plant manufactures more than 80% of products intended for the Russian market giving us the status of a domestic producer in the Russian Federation. Investments made over the next few years will increase production and laboratory capacities of the plant to 3.5 billion tablets annually. The investment was estimated at €35 million. In 2020, we allocated €5 million for this.

We apportioned €652 thousand to optimising production at our production-and-distribution centre in Jastrebarsko, Croatia.

At the end of 2017, we established a joint venture Ningbo Krka Menovo with a local partner Menovo in the city of Ningbo, China. We obtained an EU GMP certificate for the production rooms taken on long-term lease. In 2019, we further equipped the rooms with manufacturing and laboratory-and-control equipment and started manufacturing several products for markets outside China. The ultimate goal is to manufacture products for the Chinese market. We continued purchasing the manufacturing equipment in 2020 and invested €3.1 million in the acquisition of fixed assets.

Commercial manufacture of the first product intended for markets outside China started at the end of 2018, when we also filed all marketing authorisation documents required for its sale on the Chinese market. Receiving our first marketing authorisation in China for our antiepileptic in hard capsules marked an important milestone in 2020.

Terme Krka

Several small investments were in progress in business units of the subsidiary Terme Krka. In spring 2020, we allocated €554 thousand to the modernisation and refurbishment of the kitchen and restaurant at Šport Hotel.

In mid-June, we opened the newly revamped beach in Strunjan, one of the most frequented and popular beaches in Slovenia. In accordance with the lease for a 600-metre beach concluded with Okolje Piran, a public utility company, we allocated €418 thousand for its makeover. All works complied with the legal regulations and specifics of the beach located in the Landscape Park Strunjan.

In 2020, we prepared project documentation for reconstruction of the Mihevc Villas, a replacement building for Rdeča hiša (the Red House), and a revamp of the catering facility at Hotel Laguna in Strunjan. The investment aims to improve quality of our tourist services and increase satisfaction of our guests.

In 2020, the subsidiary Terme Krka apportioned €2 million for investments.

Integrated Management System and Quality

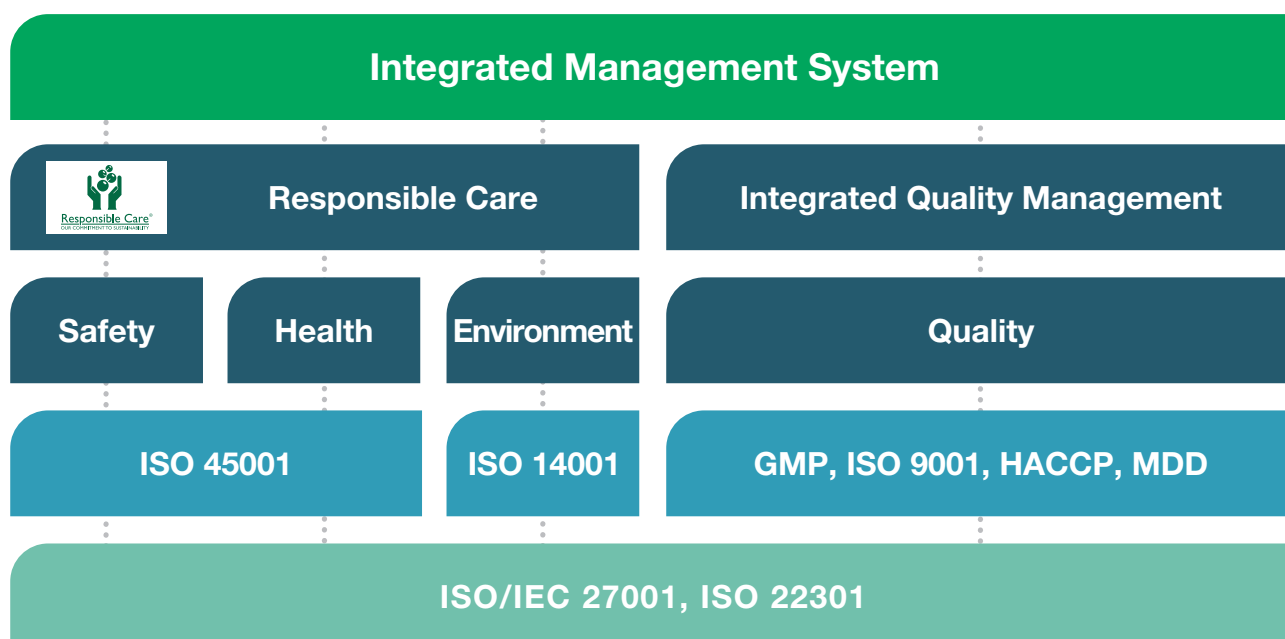
Our fundamental strategy in terms of quality is to ensure quality by continuously improving our products, processes and services.

We deliver on this goal through an effective performance of the integrated management system (IMS) and quality system and compliance with the principles of good pharmaceutical practices (GXP) and regulations governing the quality in pharmaceutical industry. We maintain flexibility, respond quickly to new developments and market needs, adapt rapidly to legislative requirements, improve our processes, make investments, and apply advanced work systems and proper control methods in order to meet the requirements of various clients and demonstrate the on-going suitability of processes for achieving the set goals. We therefore address quality-related risks and opportunities in all processes systematically. Our aim is to achieve sustainable development. We carefully plan and continuously develop our processes and services to meet the expectations of our internal and external clients and create opportunities for further improvements.

Management System and Quality

Various aspects of our operations are managed in a uniform way with our integrated management system (IMS) aimed at achieving optimum business targets. The IMS determines our attitude to quality, environment, health and safety at work, food safety, medical device safety, information security, and business continuity. It is structured as required by ISO 9001 standard, GXP and HACCP principles, Council Directive 93/42/EEC (Medical Device Directive (MDD)) and ISO 14001, ISO 45001, ISO/IEC 27001 and ISO 22301 standards. In 2020, we further upgraded our management systems to comply with the relevant legislation and guidelines. The compliance of the established management system was confirmed by the renewal of certificates of good pharmaceutical practice. We also confirmed the validity of certificates of other management systems (ISO 9001, ISO 14001, ISO/IEC 27001, ISO 45001, MDD, and HACCP). To ensure the credibility of our IMS and increase the trust of our partners, we have the IMS regularly certified by SIQ (Slovenian Institute of Quality and Metrology) and demonstrate its compliance with regulatory and legal requirements in inspections and audits.

The operation of the IMS 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 transparency as regards our processes and products. With this approach, we are able to prepare analyses and observe trends that readily support improvements in process efficiency and product quality and fulfilment of all necessary requirements. Our data management system is built on ethical principles of personal integrity and responsibility of individuals to diligently perform their work and on framework quality guidelines, operating procedures and controls integrated in IT systems and organisational processes.

Continuous improvements dictated by standards, quality guidelines, and the PDCA (Plan-Do-Check-Act) approach are the driving force of progress and upgrades in all areas of Krka Group 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 observing vertical integration of quality. Customer satisfaction and sustained business success remain our key objectives for the future.

Inspections and Audits of the Management and Quality System

The quality assurance system is supervised by certification bodies and in domestic and foreign inspections, internal audits and audits by our partners.

Krka manufactures a variety of medicinal products and is therefore subject to monitoring by several Slovenian supervisory authorities or institutions. The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) monitors medicinal products and medical devices. The Health Inspectorate of the Republic of Slovenia (ZIRS) monitors self-medication products and food supplements. Biocidal products are controlled by the Chemical Office of the Republic of Slovenia, and feed additives, food and wood packaging materials by the Administration of the Republic of Slovenia for Food Safety, Veterinary Sector and Plant Protection (UVHVR). The Metrology Institute of the Republic of Slovenia conducts supervisions of measuring devices put into use and placed on the market as well as prepacked products.

In 2020, slightly fewer inspections were conducted compared to 2019, while the number of audits remained at a similar level. The JAZMP regularly inspects medicinal product and API manufacturing processes, clinical trials, and the implementation of pharmacovigilance. In 2020, it carried out one pharmacovigilance inspection and four

verifications of new production and control capacities. Based on regular inspections, Krka maintains the validity of GMP certificates confirming that the manufacture of medicines and APIs complies with the GMP principles and guidelines applicable to medicinal products and APIs. Successful verifications were the precondition to start regular work activities in our new and renovated capacities. The JAZMP conducted a regular pharmacovigilance inspection, required by the European Medicines Agency (EMA), and confirmed that our pharmacovigilance system for medicinal products for human use complies with pharmacovigilance requirements.

As our medicinal products are also marketed in non-EU states, we were inspected by certain regulatory bodies from those countries. Following successful inspections by the Russian institute GILSINP in 2020, we were issued with new Russian GMP certificates, which allow us to sell our products in the Russian market, giving us the ability to operate and the flexibility to deliver our key products in the Russian Federation. We also passed a regular inspection conducted by the Agency for Medicinal Products and Medical Devices of Croatia (HALMED) to verify the local pharmacovigilance system and processes and the link between the global and local processes.

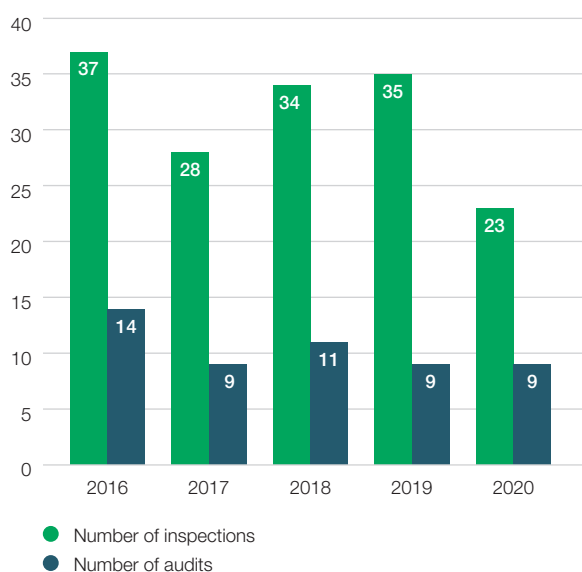
Our experts took part in European and Russian inspections conducted at our main contractors because we are aware that the control of operational compliance and of quality management in the production and testing of Krka products (active pharmaceutical ingredients, bulk products, and finished products) at our contractors is key to integrated quality management and quality-related risk management.

In 2020, we implemented the new Federal Law No. 449, which amended requirements for importing medicinal products to the Russian market. The Law abolished the procedure for declaring individual batches of medicinal product and introduced requirements for a prior notification of planned termination of products to relevant state bodies, entry of data on individual batches of released products into a state database, and submission of a certificate confirming that the imported medicinal product complies with the registration documentation. Another requirement was introduced, i.e. to test the first three batches of a new product and one batch of an existing product on the Russian market each year.

Ningbo Krka Menovo undertook regulatory activities to obtain marketing authorisations for products in China and was granted its first regulatory approval at the end of 2020. In line with new legislative requirements applicable in China, the marketing authorisation could only be obtained after a successful GMP inspection at the manufacturer of the active ingredient and the finished product.

In 2020, Krka medicinal products were subject to 184 controls and analytical tests by agencies from Slovenia, Croatia, Poland, Germany, France, Belgium, Austria, the Czech Republic and other countries. We passed all testing procedures, confirming the quality, safety, and efficacy of our pharmaceutical products in the market.

Number of Inspections and Audits in the Krka Group



The Administration of the Republic of Slovenia for Food Safety, Veterinary Sector and Plant Protection (UVHVR) conducted four inspections of food safety and compliance with HACCP requirements and one inspection of traceability management for active ingredients used in biocidal products. All inspection procedures were completed successfully.

The Health Inspectorate of the Republic of Slovenia (ZIRS) conducted an inspection of online sales of food supplements, presented and marketed by Krka on its website, to verify compliance with the Regulation on Nutrition and Health Claims Made on Foods. An identified irregularity related to a health claim interpretation on one product was resolved promptly.

Successful inspections and related GMP certificates are a prerequisite for maintaining the marketing authorisation status of our products and submitting marketing authorisation applications for new products, guaranteeing uninterrupted access to our products in various markets.

Our partners conduct audits every year to check compliance with good manufacturing practice, the suitability of the pharmacovigilance system, and compliance with contractual requirements.

All inspections and audits successfully passed

We successfully passed inspections and the audit of the integrated management system (IMS), confirming the validity of all certificates we hold (GXP, ISO 9001, ISO 14001, ISO 45001, HACCP, ISO/IEC 27001).

Our partners audited us for compliance with good pharmaceutical practices, the suitability of the pharmacovigilance system, and compliance with contractual requirements. We passed all partner-conducted audits. Their findings confirm that we strictly comply with regulations and meet all their requirements.

Owing to this, our products are available on various markets with no restrictions.



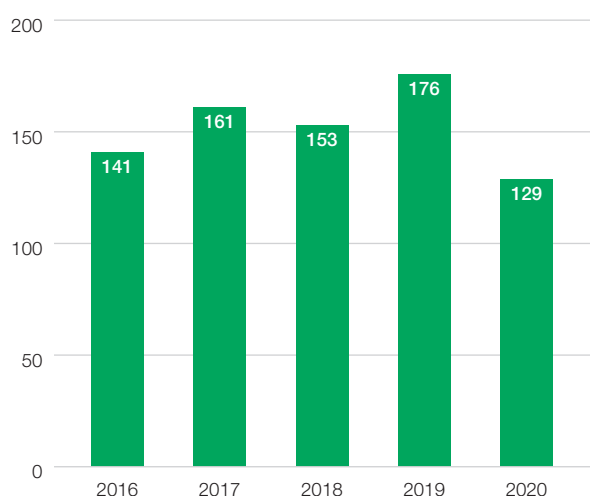
Members of the SIQ Ljubljana audit group at the meeting with Krka representatives

In 2020, Krka was subject to nine audits and passed all of them. Their findings confirm that Krka meets the requirements of its partners.

The Krka Group auditors carried out further audits of quality management systems at our GXP partners, i.e. suppliers and contractual partners, focusing on legislative requirements related to good manufacturing practice and requirements of good practice in other fields, environmental protection, human resources and social responsibility. Subject to the findings on quality assurance, safety, and efficacy of products and raw materials manufactured by partners, we implement measures to reduce the relevant risks to an acceptable level. Suitable quality and timely delivery of products and raw materials manufactured by partners provide for the optimum planning of production processes.

Due to the COVID-19 pandemic and related restrictions on travel and personal contacts, audits and inspections are now conducted remotely. We adapted our procedures and started using various online communication channels.

Number of Audits of Suppliers and Contractual Partners



Quality Assurance Processes

Underlying principles for the set-up and development of the quality system are defined in the Quality Policy of the Krka Group, the umbrella document on quality, which builds on legislation, good practices and standards. Developments in the field are closely followed and systematically implemented in all processes and management systems. The document outlines a uniform quality policy for all Krka Group subsidiaries. Krka has introduced six key processes to implement its policies

and deliver on strategic objectives. These are: company management; pharmaceutical research, development and production; API research, development, production and supply; marketing; sales; and engineering and technical services. Quality management processes are integrated into corporate management processes and facilitate the implementation of the basic rules of all process operations. Our permanent duty is to upgrade the quality system in order to increase process efficiency and the quality and competitiveness of products and services. To achieve this, it is vital that our employees are aware of the importance of the quality system, undergo continuous training, and constantly upgrade their knowledge in quality management. They cooperate with experts from various fields to identify possible improvements and introduce new developments into processes. We promote a high level of awareness of the importance of quality in all processes. We encourage and solicit new innovative approaches on our corporate internal web site, and incorporate them into work procedures.

Laws on the prevention of the entry of falsified medicinal products on the market, which apply to all medicinal products for human use, entered into force in the Russian Federation in July 2020. The laws lay down requirements on unique identification of medicines (serialisation), recording individual packaging units in a transport box (aggregation), the introduction of the Crypto Code, and transmission of information to the Russian governmental information system called Markirovka. Our processes, procedures, computerised systems and packaging lines were upgraded to comply with the serialisation, aggregation, and transmission requirements.

To produce a high-quality, safe and effective product, quality is integrated into the earliest stages of research and development. We apply the latest principles of good practice in the development phase of a product by incorporating new legislative developments in our work processes in a timely manner. Thanks to in-depth expertise and introduction of new tools in the production of medicinal products for clinical trials, we can ensure an appropriate level of safety for the patients and volunteers as required by law. We employ new technologies in product development to gain a competitive edge on the market and increase acceptance of our medicines among patients and their adherence.

The quality management system is established for active ingredients, excipients, packaging materials, and finished products, and complies with the standards of good manufacturing practice. Incoming materials and active ingredients comply with registration documents for the chemical and pharmaceutical production of medicines

for human use and animal health products. We have augmented our capacity for quality control of incoming materials. In 2020, additional facilities for incoming material sampling were arranged and appropriate equipment acquired. We always devote effort into minimising instances of non-compliant incoming materials, which is evidenced by the small number of complaints for incoming material batches over the last five years.

Share of Complaints for Incoming Material Batches



In 2020, various medicines agencies conducted comprehensive testing on all relevant products for possible contamination by genotoxic nitrosamine impurities at all marketing authorisation holders. Owing to adequate quality, safety and efficacy, the situation represented a business opportunity for the Krka Group, rather than a setback in the delivery of products experienced by many of our competitors. To seize the opportunity, the Krka Group used all available production capacities, complying with the current marketing authorisations.

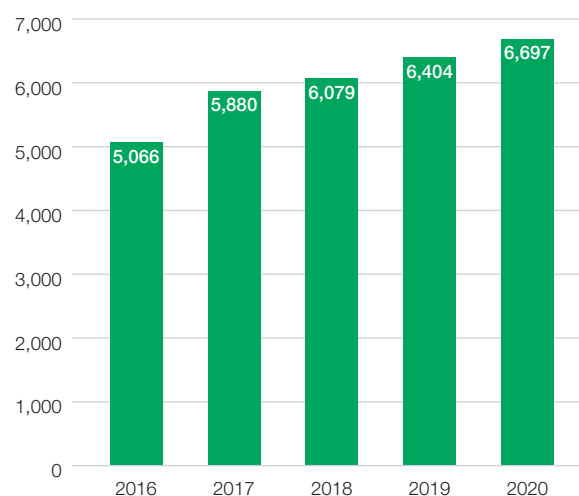
The European Medicines Agency requested all marketing authorisation holders to test all their medicinal products on the market for the possible presence of nitrosamine impurities and prepare an evaluation by the end of March 2021. We have intensified the preparation of underlying documents and evaluations of our medicinal products by taking advantage of our vertically integrated production model (covering all stages from the purchase of raw materials used in the API production, to finished products and their testing and market release) and by employing our know-how, qualified expert personnel, and experience in vertical integration of quality in all our processes. Most evaluations were completed in 2020 and confirmed the safety of all our medicinal products on the market.

We have been upgrading the quality system with respect to good manufacturing and distribution practices in Krka subsidiaries.

We produce strategically important active ingredients in accordance with technological procedures developed through our research and development. They are produced at our chemical production plants or by our contractual partners and covered by the quality assurance processes, which we further improved in 2020. We adapted successfully to changes that the COVID-19 epidemic brought about without any impact on the quality of active substances. The reliability of supply remained unchanged throughout the year despite the challenging situation. Our communication with regulatory authorities in the aftermath of the detection of genotoxic impurities in medicinal products of other producers was appropriate and effective.

The qualifications and validations of investment and computer projects, technological and laboratory equipment, utilities, air-conditioning systems, technological procedures, cleaning processes, calibrations and maintenance processes contribute to quality assurance in production and control processes. Due to the acquisition of additional equipment and introduction of new systems, the number of qualifications has increased over the years. Process and packaging validations ensure the compliance of technological procedures applied in bulk product manufacturing and packaging of finished products. Validation processes are also applied to confirm the suitability of transport conditions. Improved approaches are evident from the successful implementation of annual plans and objectives. They have also been confirmed by permanent controls performed by internal and external auditors and inspectors.

Equipment and Systems



When a new investment project is launched or a reconstructed building is made operational, the compliance of the new or reconstructed building is verified against all applicable requirements of good manufacturing practice. New investment projects and certain major reconstruction projects require a verification by the JAZMP prior to being put into operation. The quality of project implementation in 2020 was verified in production plants for active ingredients and finished products, warehouses, control and development laboratories, and chemical and pharmaceutical pilot plants. The high number of quality certificates for investment and reconstruction projects illustrates the intense investment activity around new plants and departments, new or reconstructed buildings, new production and laboratory equipment and other projects. The high-bay warehouse C in Ločna and the hazardous material warehouse in Krško were two major projects that have been completed and certified.

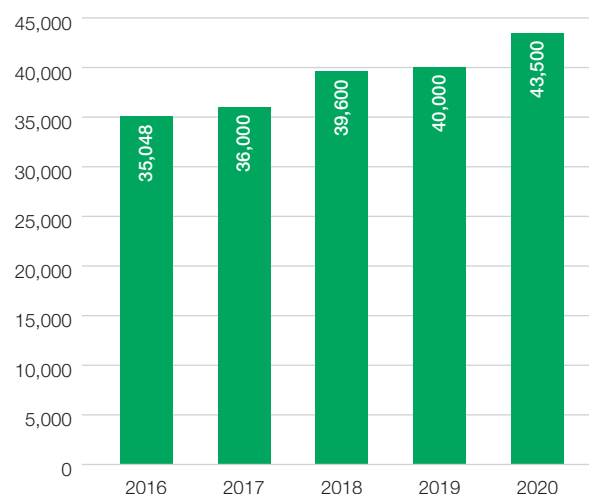
We devote much attention to data integrity by ensuring compliance with regulatory requirements for data completeness, persistence, availability, legibility, accuracy, origin and descriptiveness throughout the prescribed data retention period. The principle of data integrity is considered in the development, production, control, distribution, product quality assurance, and pharmacovigilance. Particular 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 by performing validations and qualifications of equipment, change control and management of any process deviations.

In addition to safety and efficacy, quality is one of the key features of medicinal products. Quality checks are conducted on starting materials before their inclusion in the production process, on intermediate products during production, on bulk products at the end of the production process, and on finished products in the quality control stage. We monitor the quality of our vertically integrated products and those manufactured by our contractual partners. We continuously improve and optimise analytical processes in Quality Control to ensure timely analyses of appropriate quality and uninterrupted supply of products to the market. The quality of our products is monitored throughout their shelf lives.

We improve the quality and safety of laboratory work by educating employees and raising their awareness, and quality of analytical processes by implementing new analytical techniques and modifying the existing ones. We closely monitor new legislative developments related to pharmaceutical industry and implement them accordingly.

We use properly calibrated and qualified laboratory equipment, which complies with relevant regulations and standards, for all testing. All analytical documentation is managed in compliance with good manufacturing practice, good control laboratory practice, good documentation practice and all other requirements that provide for data integrity. Data archiving is an important task, as it contributes to data integrity, data protection and high responsiveness in data retrieval. By transferring expertise and experience to laboratories of our subsidiaries and contractual partners, we ensure comparable quality of analytical processes and reliability of testing results.

Number of Analysed Samples



We control production processes, active ingredients, and finished pharmaceutical products. We also control the critical stages of the production process, and examine and assess documents for every product batch separately. Therefore we can confirm that our medicinal products are manufactured in compliance with the prescribed procedures and good manufacturing practice guidelines. In particular, we improved quality assurance of sterile, liquid and semi-solid dosage forms by introducing new organisational measures, which provide for more effective cooperation with production departments in order to provide quality, safe and effective medicinal products. Additional quality control arrangements were introduced to augment microbiological aspects of production environment and processes. Microbiological conditions in sterile production have been steadily improving since 2013 and have reached a level that guarantees a permanent safety of sterile products. Microbiological conditions of environment, equipment, personnel, and utilities have also improved in non-sterile production. Several disinfection

procedures for rooms, air-conditioning systems and surfaces were introduced during the COVID-19 epidemic.

All organisational units involved in the production, control and distribution of our products are covered by quality assurance processes. A well-organised structure adds to process efficiency. We continuously monitor the quality of our products. By assessing trends in quality attributes of incoming raw materials and products, we identify possible quality-related risks. We conduct stability studies to confirm the quality of our products until their expiry date. We evaluate our work performance by regularly monitoring various quality indicators, in particular responses of our customers (patients, healthcare professionals, distributors and partners). We observe them closely as they are the decisive quality indicator. Any complaints, opinions or suggestions related to quality are seriously considered and all cases thoroughly investigated to provide our customers with a prompt response. Multi-annual results show that the ratio of the number of batches with complaints to the number of released batches is marginal and shows no upward trend despite increased production volumes. This indicator confirms that the quality system operates effectively and ensures the currently high and an ever improving quality of our products.

We monitor alerts and complaints by national medicines verification organisations. Experience to date and an exceedingly small number of alerts from the market substantiate the effectiveness and suitability of the medicine authentication system established at Krka.

Ratio of the Number of Complaints to the Number of Released Batches



Qualified persons for the release of medicinal products authorised by the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) confirm the quality, safety and efficacy of each product batch before its release to the market. This is followed by issuing certificates and producing batch documents for clients.

In view of sales and production requirements, we carefully plan and coordinate activities for the timely release of incoming materials, bulk products, and finished products.

We monitor the quality of products in the market throughout their life cycles. We also monitor the safety of medicines within our pharmacovigilance system. Data on the safety of a medicinal product are collected and evaluated throughout the entire life cycle of the product, before and after marketing authorisation has been obtained, and during its daily use. Through the pharmacovigilance system, we assess the risks and benefits of a product, implement risk management measures and provide appropriate information for doctors and users.

Quality System Orientation

A key objective of the IMS is our clients' satisfaction with Krka products and services. Our quality system addresses our clients' demands and expectations in accordance with the legislative requirements and the guidelines on good manufacturing practice. We continuously monitor indirect indicators to obtain information about customer satisfaction with our products and further improve processes. We provide for customer satisfaction with our products and services through regularly updated quality assurance contracts and product quality reviews. Partner satisfaction can also be inferred from successful inspections and audits of product manufacturing compliance with standards of good manufacturing practice and registration documents.

Our Quality Committee periodically reviews all major processes against our IMS and performance criteria, and proposes strategic guidelines for their further development. Quality is measured against five criteria: quality-related costs, complaints, deviations, response times, and inspection and audit findings. The Quality Committee checks every year whether they have been attained and approves the objectives for the next year. The set objectives have always been met. We regularly conduct monthly reviews of quality indicators for Krka's key processes that affect the quality, safety and efficacy of products in order to check whether objectives are fulfilled and whether any additional improvements are necessary. In 2020, six such reviews were carried out.

Quality indicators are also subject to monthly reviews in our subsidiaries. We analyse the objectives and their achievement on a quarterly basis and prepare guidelines for the next period. A report on quality indicators is submitted to the Quality Committee twice a year. We regularly monitor monthly reviews of quality indicators at our key contractual partners.

Krka places a strong emphasis on environmental protection and health and safety at work (also by considering the requirements of ISO 14001, ISO 45001, and Responsible Care Guidelines), and on open and fair public relations. We regularly report to and inform the public of improvements. We have upgraded the environmental management system and the system for health and safety at work in recent years to improve their effectiveness. As a result, we have been granted the right to use the 'Responsible Care' logo every year.

Quality management begins with the daily work in each organisational unit, with all processes and products, and with every employee. There is always room for improvement, so we continuously promote quality (also in relation to efficiency, safety, economising, knowledge, useful proposals, and the environment), for example by publishing a series of professional and motivational articles on our internal portal *Krkanet*, in our internal magazine *Utrip*, and our weekly bulletin *Bilten*. In this way, we inform our employees and raise their awareness about changes made in relation to IMS and the impact of quality work on the results of the Krka Group.

Our standing aim is to improve the flexibility of our operations, in particular the understanding of changes, cooperation and consultation, adaptation to market requirements and needs, coordinated and coherent work of organisational units, and integration and streamlining of management and quality systems in the processes of all Krka Group companies. In view of this, we upgrade systems and pursue their optimisation. We also share information, introduce new developments, and provide assistance to subsidiaries, where we regularly audit their quality systems.

The steady growth of production volumes, new product launches and timely implementation of legislative changes require us to promptly upgrade and control our capacities and introduce improvements in order to manufacture and release onto the market larger volumes of products and lots, and ensure that they are produced according to both regulatory and Krka's requirements. Quality issues are important also in relation to expansion to new markets, as we must understand, implement, and adapt to regulatory requirements on the new markets and ensure our processes are adjusted accordingly.

Information Security and Personal Data Protection Systems

Our information security management system (ISMS) is ISO/IEC 27001 certified. We successfully completed its recertification audit in 2020. We regularly assess risks related to information sources. The ISMS is regularly reviewed in self-inspections, audits, and external security inspections. In 2020, we applied measures identified during the external security inspection in 2019, conducted the security inspection and implemented the recommendations. We employed most advanced technologies to protect our systems from external attacks. All Krka subsidiaries adopted the guidelines of the controlling company set out in the Information Security Policy.

Certain processes in personal data processing were reviewed and adapted to comply with the latest practices required by supervisory authorities in Slovenia and other EU states, for example those related to regular updates of personal data in databases of all Krka subsidiaries in the EU, processing geolocation data for certain groups of employees and use of cookies on websites. A system was established for internal control of compliance with GDPR requirements. Our aim is to minimise the risk of violations and ensure compliance with the applicable legislation and practice.

Regular and continuous training courses for our employees and raising their awareness are key elements for successful implementation of the ISMS. All relevant rules, in particular those on safe communication practices and data protection, were updated and all employees were informed about their modifications. In 2020, we devoted special attention to raising awareness of all Krka employees about phishing attacks by adapting simulation examples to correspond to real-life situations.

We maintain high availability of critical systems including the business system, production system, documentation system, e-mail, control systems, and others. The expected minimal availability of critical systems is 99.5%. To support system availability and data safety, Krka has implemented various measures and duplicated its data centre. Together with the basic data centre, they ensure a high level of redundancy, meeting the requirements of high-level availability and data safety. Backups are produced in real time for all computer systems, applications and databases at a remote location outside Novo mesto.

Annual Availability of Critical Systems

	Annual availability (%)				
	2020	2019	2018	2017	2016
Production system	99.9	99.9	99.9	99.9	99.9
Documentation system	100.0	99.6	99.8	99.9	99.9
E-mail	99.9	99.9	99.3	99.8	99.8
Business system	100.0	99.9	99.9	99.9	99.8

Business Continuity Management System

The purpose of the business continuity management system (BCMS) is to prepare measures and procedures for uninterrupted production and sales of our key products in the event of major incidents and disasters. We implement BCMS on the basis of the adopted strategy and policy, and make improvements according to the ISO 22301 standard (Business Continuity Management Systems). Important parts of the BCMS are procedures for optimising Krka's resilience to damaging incidents, procedures for incident management, and business continuity plans for crisis management. The BCMS is an integral part of Krka's comprehensive risk management. In 2020, we revised Business Impact Analysis and Risk Assessment and updated the BCMS strategy by adding measures that provide for uninterrupted business operations during the epidemic. We conducted periodic practical verifications of the feasibility and efficiency of business continuity measures in all critical processes and used the findings to partly update our business continuity plans.

Sustainable Development

Sustainability is becoming an important global trend which mobilises governments, civil society, investors, and companies to give equal priority to progress in the areas of sustainability in addition to economic development. It urges companies to apply strategic and operational thinking to numerous environmental, social, and corporate governance issues (ESG). ESG includes ideas and concepts comparable to those of the company's corporate social responsibility.

ESG-related activities are an important factor of Krka's ability for a long-term value creation and effective implementation of business strategy. We realise that managing sustainability issues, reaching sustainability

goals, and maintaining reporting transparency on these matters are becoming increasingly important for various stakeholders of the Krka Group.

ESG aspects and indicators are disclosed in various segments of the annual report. At the end of the report, you will find a content index of sustainability topics and indicators according to the Global Reporting Initiative (GRI) standards.

As a responsible and sustainability-oriented company, Krka continuously strives to implement sustainability aspects into its strategy and business processes. We intend to further upgrade these activities in the future.

Krka Group Key Stakeholders



We are committed to producing high-quality products and motivated by the desire to care for people's health. We believe that only excellence will suffice when it comes to health, and with this in mind we carefully plan the development of our products and all processes that affect lives and the environment in which we operate. We have earned the trust of our patients and partners thanks to our know-how, professional and ethical approach, and high quality standards in all spheres of our operations.

Our actions are socially and environmentally responsible in order to further improve our performance with regard to nature conservation, health and safety, and to co-design our social environment. We incorporate these aspects in our research work, our actions to improve production processes, investments in technology and employees, in providing a safe, healthy, stimulating, and pleasant working environment, and in our cooperation with business partners, suppliers, scientific and educational institutions,

non-governmental organisations, and other institutions. We operate in line with the highest ethical standards.

Cognisant of the fact that social responsibility contributes to financial performance of a company, we pursue social, environmental, and economic goals with equal fervour. We deliver on sustainable business targets in line with annual plans and programmes, and include economic, social and environmental impacts into reporting. Financial and non-financial information related to sustainability is covered in various sections of our annual report and on our website www.krka.biz.

The needs of our stakeholders and the social environment as well as impacts of our business are addressed through a constant, proactive dialogue, which improves interpersonal relations and allows us to rapidly adapt to market changes. Our stakeholders and key areas are set out and examined below.

Stakeholder Engagement

Stakeholder group	Engagement modality
Employees	<ul style="list-style-type: none"> • International conferences for employees (on various topics) • Measuring organisational climate • Works Council • Worker assemblies
Investors	<ul style="list-style-type: none"> • 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
Customers	
Institutions (supervisory authorities, health insurance companies, government bodies, etc.)	<ul style="list-style-type: none"> • Long-term cooperation and provision of reliable documents • Work with specialised development institutions and companies • Cooperation with universities and scientific institutes • Involvement in reshaping professional, scientific, and regulatory environments by participating in various professional and industry associations in Slovenia, the European Union, and other markets
Direct customers (wholesalers, pharmacy chains, hospitals, other pharmaceutical companies)	<ul style="list-style-type: none"> • 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
Indirect customers (doctors, veterinarians, pharmacists)	<ul style="list-style-type: none"> • 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 opinion obtained through daily contact and market research
Patients and other end users	<ul style="list-style-type: none"> • Responsible, professional communication about products through various media, including social networks and digital channels
Local community and social environment	<ul style="list-style-type: none"> • Identification of needs of local and social environments through various activities related to sponsorships and donations, annual meeting for clubs and associations, Krka's Week of Charity and Volunteering, Krka Prizes Fund for young researchers • Open dialogue and exchange of views with residents (inclusion of their views when planning environmental goals and sustainable environmental protection) • Cooperation with environmental organisations
Suppliers	<ul style="list-style-type: none"> • Participation in tenders and competitions • Working meetings • Auditing
Media	<ul style="list-style-type: none"> • 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

Employees

The contribution of employees to the company's success is acknowledged in the Krka Group.

The Krka Group operates in diverse cultural settings from Vladivostok to Lisbon that give us a wider perspective, broaden our understanding, and provide an opportunity to achieve common company goals as partners. Together, we foster a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible and efficient work. We strive to ensure that all our activities reflect a duty of care towards employees and Krka values. Our values – speed and flexibility, partnership and trust, creativity and efficiency – guide us in setting our goals, delivering results, cooperating and working with employees.

In 2020, we relied more than ever on the flexibility and safety of our employees and adapted well to the unprecedented circumstances while delivering on our goals.

Special attention is paid to attracting, identifying and developing young talent, so as to ensure that the company remains successful in the future.

We maintain a working environment that promotes the professional and personal development of employees because we are aware that successful market presence, development and marketing of new products and investments in modern production capacities are only possible with the help of highly trained personnel. We believe that an individual's success depends on the desire to achieve professional excellence and on continuing education, personal development and the development of interpersonal relations.

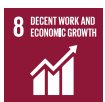
Since quality is important for us at every stage of the work process, we encourage employees to cooperate, exchange relevant information and be creative. We foster an environment in which the goals and needs of individuals may be linked to company's objectives. This is achieved through demanding and interesting work challenges, ensuring the best possible work conditions, facilitating the development of skills and competencies, and cooperating on career development. Quality is also at the centre of our educational activities as only properly trained employees can follow the requirements of all standards and processes.

The employees work in an environment where they can develop professionally and personally, and make progress by meeting the challenges arising from their tasks. They can also attend many different courses on leadership, personal and professional development, or learn foreign languages. International cooperation and communication with colleagues working abroad moved online in 2020. With digitalisation, we were able to continue to exchange experience and good practice, analyse current challenges, and agree on the delivery of common strategic goals and targets.

We appreciate commitment and respect the contribution of each employee to the achievement of the Krka Group objectives. We foster the awareness that employees play a role in shaping the working environment and organisational climate and thus contribute to business results. We regularly gauge the organisational climate in the company to learn how our employees feel about their work at the company and provide them the opportunity to express their opinions. Analyses of the findings are useful for preparing improvements, which contribute to efficient and creative environment. The most recent organisational climate survey showed that Krka employees feel loyal to the company and are eager to achieve the set goals.

The competitiveness and performance of the Krka Group are also maintained by improving internal processes and rapidly addressing market needs. A high level of responsiveness is becoming increasingly important given our intense growth and expansion to new markets. The Krka Group is becoming increasingly complex, which is why we pay special attention to our organisational efficiency. A continuous search for new solutions in the processes and structure, reorganisation and restructuring of the units in Slovenia and abroad provide us with the flexibility and the ability to respond quickly to the demands of the competitive environment. Moreover, exchanging experience in an international environment allows for the synergy of various cultural patterns and values.

Equal opportunities for all employees, regardless of their gender, race, religion, nationality or cultural backgrounds, compliance with legal norms and rules, and an ethical approach to people and the wider social community are the foundations of our work. We respect human rights as enshrined in internationally recognised principles and guidelines, including the United Nations Universal Declaration of Human Rights. We abide by all legal regulations and standards related to human rights in all countries where we operate. Krka is bound by high ethical standards, hence all employees receive training on Krka's



Code of Conduct. The Code defines the principles and rules for ethical conduct, good business practice and standards of conduct, which are binding for all employees of Krka, d. d., Novo mesto, and of its subsidiaries. We respond quickly to any identified inappropriate conduct

in interpersonal relations and prevent any forms of mobbing on the basis of clear rules and procedures. In the recent organisational climate survey, our employees acknowledged once again Krka's corporate social responsibility and adherence to high ethical standards.

Key Data about Employees

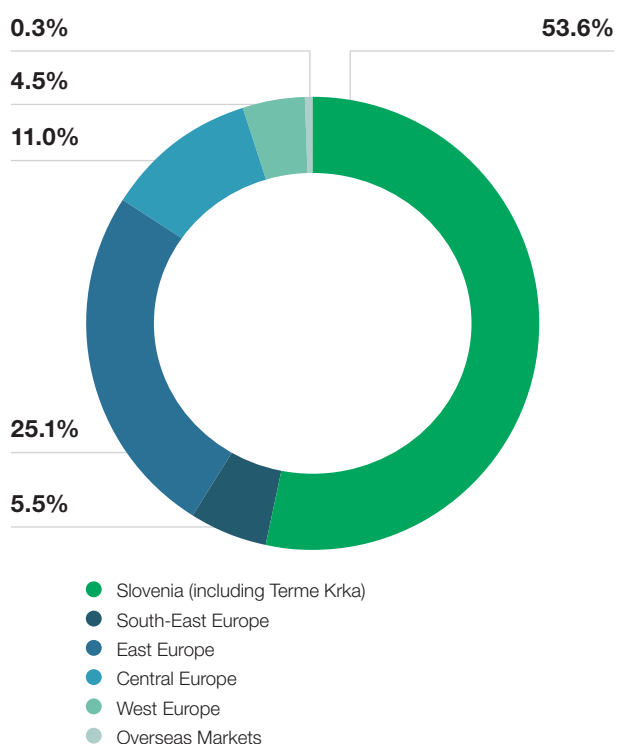
31 Dec 2020	
Number of employees	11,677 of which 53.6% in Slovenia
Average age	39.9 years
Female employees	61%
Female employees in management positions	47%
Permanent employees	90.6% (women 89.6% and men 92.3%)

Number of Employees as at 31 December 2020

	2020	2019	2018	2017	2016	Index 2020/19
Krka in Slovenia	5,679	5,386	4,995	4,514	4,343	105
Krka's representative offices outside Slovenia	512	521	501	506	546	98
Company	6,191	5,907	5,496	5,020	4,889	105
Subsidiaries outside Slovenia	4,906	5,178	5,278	5,192	5,388	95
Terme Krka	580	578	580	584	576	100
Farma GRS*	0	33	36	36	36	0
Krka Group	11,677	11,696	11,390	10,832	10,889	100

* In 2020, Farma GRS was acquired by Krka.

Employee Structure by Region as at 31 December 2020



Educational Structure

One of the pillars of Krka's human resource policy is the continuous improvement of the educational structure of its employees. We are aware that we can respond to the demands of a highly competitive market quickly and effectively only through extensive investments in development, complex technology, and a high level of qualification of our experts. The Krka Group employs 5,955 people with at least university-level qualifications, which accounts for 51% of all Krka employees. Of that, 206 employees hold a doctoral degree and 394 employees a master's degree or specialisation.

Educational Structure of the Krka Group Employees as at 31 December 2020

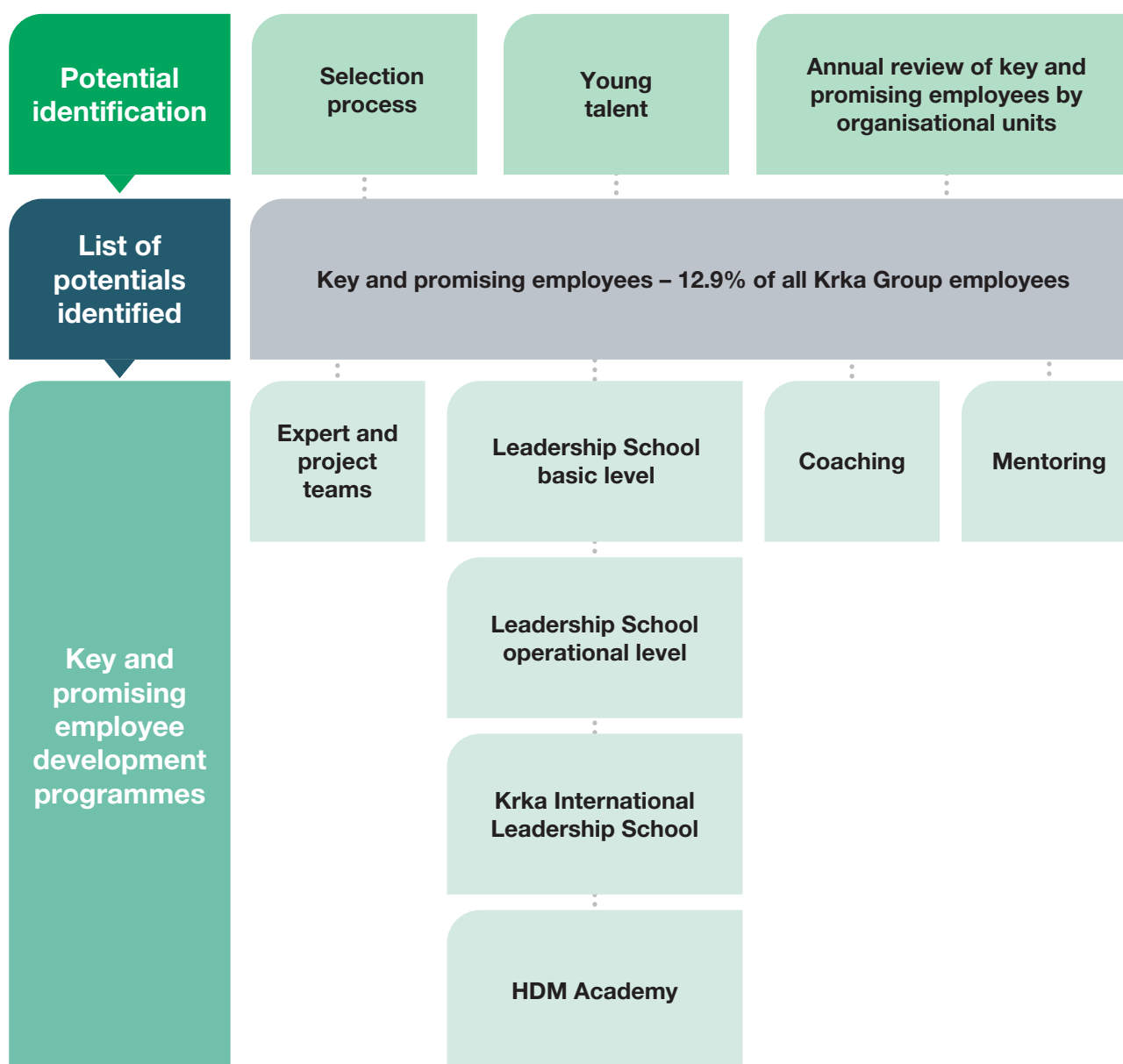
	2020	2019	2018	2017	2016
Higher professional, university degree or higher (level VII or higher)	66%	67%	68%	69%	70%
Vocational college degree (level VI)	3%	3%	2%	2%	2%
Secondary school education (level V)	23%	21%	20%	18%	17%
Other (less than level V)	8%	9%	10%	11%	11%
Number of Krka Group employees	11,677	11,696	11,390	10,832	10,889

Employee Education and Development

Know-how is highly valued at Krka. We systematically plan employee development and deliver continuing education programmes where our employees can upskill in various fields, develop professionally and personally, and advance their career.

Special emphasis is placed on attracting, identifying and developing young talent. In this way, we ensure that the company remains successful in the future.

Key and Promising Employees



We identify and systematically train key and promising employees early in their careers. We provide training, mentoring and coaching to prepare them for the most challenging and pivotal roles.

Identifying talented employees is of crucial importance and takes place early in their careers. They are invited to a workshop where we test their abilities in various individual and group tasks. By observing them, we identify their motivation, insight and capacity to cooperate. This method of talent identification is used for promising employees with less than one year of service at Krka whose proactive approach, determination and the ability to cooperate are particularly evident during the selection process or at the beginning of their career at Krka. We also use this method to select candidates for challenging roles and for internal transfers of employees to other roles.

A competence-based system for various work areas serves to identify knowledge development and upskilling needs, and to develop employee skills. Competencies are also a good starting point for recruiting new employees and for designing training and skills development programmes and their evaluation.

To support their individual development, identified key and promising employees and young talents can choose among several programmes tailored to their needs and the nature of their work.

The need to train key and promising employees and develop well-trained leaders encouraged us to start our own leadership programme. We run four programmes adapted to different levels of leadership: the Krka International Leadership School, the Krka Operational Leadership School, the basic level leadership programme, and the HDM Academy for heads of district managers. The programmes are complemented by coaching and action learning, thus contributing to the development of leaders.

We also provide an international programme for expert and project teams aimed at training professionals in communication skills, teamwork and project work, learning about and exchanging Krka's good practices, establishing links between employees from various backgrounds, as well as employees' personal development.

Mentoring, which is a goal-oriented and planned process for the exchange of experience and development of employee potential, is provided to new employees who have just started in their jobs and employees who take on new roles and roles carrying greater responsibility. A special form of mentorship at international level is used for the systematic development of promising employees. They meet renowned Krka employees, deal with hands-on

issues and develop their potentials and competencies with a specific aim.

We provide our employees with continuous education and training in various specialised fields such as management and personal growth, foreign languages, particularly English and Russian, quality management, and modern information technology.

An important tool enabling effective leadership, identification of potentials, motivation and the development of employees is Krka's Appraisal interview. The appraisal system covers all employees of the Krka Group. Managers and employees use it to review objectives defined in the previous appraisal period, discuss the main tasks and expectations relating to work and employee development, and on that basis plan the employees' future work and training.

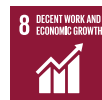
Our employees learn about the most recent developments at higher-education institutions, institutes and other organisations in Slovenia and abroad. In 2020, 523 Krka employees were part-time students, of whom 57 were pursuing postgraduate studies.

We are the only company in the country to offer six national vocational qualification programmes related to the pharmaceutical industry. These programmes are available also to employees of pharmacies and other pharmaceutical companies. In 2020, 125 Krka employees successfully completed the training programme (level IV). In total, 1,723 certificates have been awarded since 2004: 1,581 to Krka employees and 142 to employees of other companies and pharmacies.

Krka employs more than 70 in-house trainers in its marketing-and-sales network. Their task is to train the employees and their managers, implement the corporate strategy in markets, and ensure that good practices are transferred in the market and also internationally. Trainers help employees and managers at regular training sessions and by giving individual support in the field.

Combination of traditional forms of education and training and e-learning and e-testing has been an established practice at Krka and particularly important given Krka's widely dispersed organisation. It proved even more important in 2020 because we were able to adapt easily and quickly to new circumstances and continue training our employees.

We place special emphasis on preparing training programmes on people management, conflict resolution and respectful communication as we are convinced that care for the employees and good relations lead to good results. The main message of these training sessions is that good cooperation is built on self-awareness,



recognising one's strengths and weaknesses, and respecting the differences between people. We place great emphasis on quality-related training because of its importance in the pharmaceutical industry. Quality comprises a significant proportion of our educational activities and investments. In 2020, we recorded 102,778 hours of training and 14,345 participants in training courses on quality.

Key Data about Employee Education in the Krka Group for 2020

	2020
Average number of hours of training per employee	36
Proportion of revenue allocated for education	0.39%

To recruit young people, we offer scholarships to those students who demonstrate talent and high competence during their studies. We systematically work with them to provide them with the best possible opportunity to build a strong relationship with the company and gain experience. These students learn about Krka and the company's working processes during their internship, where they can also develop and prove their skills and competencies. We assist students and junior researchers with their theses on various topics. Our employees run courses at educational institutions and help design course content for undergraduate and master's study programmes. In 2020, Krka had 106 scholarship students, 12 of whom graduated and started work at Krka. We also work with secondary schools and faculties in providing obligatory work placements.

Quality of Life

Employees' quality of life has a decisive impact on the success of the company where they work. Krka is a socially responsible company, and we pursue our mission of living a healthy life in various ways. Our employees can take part in various sporting and recreational activities by becoming members of Trim Klub Krka or enjoy cultural events organised by Krka's Culture and Arts Society. However, the new circumstances in 2020 meant associations had to adapt and curb all their activities.

We advocate a healthy diet and offer varied, quality meals at all company locations.

We are also committed to charity. Volunteer work has been part of our organisational culture since the company was founded. Our employees are engaged in many volunteer activities. Those employees, whose charity and volunteer work stands out, can be nominated by

their colleagues for the best Krka volunteer. One of the nominees is recognised as the best Krka volunteer each year. While our traditional humanitarian events, such as Krka's Week of Charity and Volunteering, had to be cancelled in 2020, we conferred recognition awards on the two best Krka volunteers and thanked Krka employees who donated blood at least five times.

In cooperation with experts at Krka, professional departments and occupational medicine services, and in line with the guidelines by national and medical institutions, we adopted preventive measures for a safe work environment and uninterrupted work processes.

Employee Rewarding and Motivation

We recognise good work and encourage employees to perform well through various reward and recognition systems. Their aim is to encourage dedication and loyalty, and praise excellence and commitment.

Our best employees receive recognition awards and performance bonuses. We select and award the best employees and the best managers at organisational unit and Group levels, as well as our best employees in the sales-and-marketing network and the best employees in regulatory affairs.

Krka has been recognising the efforts of its most loyal employees for decades by conferring long-service awards and special recognition awards. The situation in general stopped us from organising our main and most important event dedicated to Krka employees, our traditional Krka Awards Day. Even so, we awarded plaques and thanked the employees who celebrated their many years of service, best employees, best managers and those who suggested the most useful proposals and improvements.

Encouraging Inventive Work

Through the inventive work system, established in Krka in 2003, all employees are included in a programme of continuous improvement, which is a part of the quality system and hence the integrated management system. We encourage our employees to always strive to improve the quality of their work. Innovations seek to resolve issues related to economy, production, logistics, technology, engineering, administration, environment, business, information science, quality, and health and safety at work. Useful proposals that are easy to implement, and complex improvements with notable effects, matter. We wish to encourage all employees to look for opportunities for improvement and draw everyone's attention to the fact

that every proposal is important and worth considering. The biggest reward for every employee who has submitted a useful proposal or improvement is the recognition that their proposal makes a difference.

We encourage inventive work by conferring awards every quarter, by a token award with a thank you letter from the President of the Management Board and CEO, announcements on the *Krkanet* and in the *Utrip* internal magazine, publications of interviews with individual proposers in the *Utrip* internal magazine, annual meetings of proposers, and awards and recognitions that the best employees receive for inventive work on Krka Awards Day.

Useful proposals and improvements have contributed to significant savings. This is also the purpose of the corporate campaign Your Effectiveness Counts.

In 2020, 465 useful proposals and improvements were submitted, and we awarded 450 proposals that were put forward by 393 employees. This year, we recognised their contributions in a video clip because it was not possible to organise the traditional meeting of the proposers of the most useful proposals and improvements.

Digitalisation in Human Resources

Digitalisation turned out to have an important impact on corporate performance, streamlining work efficiency, and management of work processes. To capitalise on its contribution, we continued to digitalise our human resource processes, mainly those that are uniform in the entire Krka Group. We also constantly optimise our processes in line with best practices and Krka's organisational culture.

Modern technologies add to the simplicity and integrity of human resource processes and ensure that they are supported by IT systems. In this way, they help managers, employees, and human resource experts in their work. We continuously upgrade our human resource information system to take account of business-related and legal requirements. We also introduce new solutions. One of them was a digitalised system of rewarding most successful employees, which was implemented in most of our markets abroad. The entire process from the submission of proposals to their approval is now paperless, transparent, and digitalised. We also deployed the e-recruitment system in certain markets abroad and at Terme Krka.

Health and Safety at Work

Krka provides its employees with a healthy and safe working environment. The latest developments in health and safety at work and fire prevention are incorporated into every new project and technology. We monitor the risk of accidents and potential health hazards for every work position and technology. In order to ensure continuous long-term improvement in the working environment, risks are assessed periodically and protective measures are taken to reduce them to acceptable levels.

Care for health is the shared responsibility of all employees, their managers, professional services and occupational medicine doctors. The Works Council and both trade unions are also incorporated into the system.

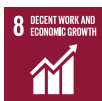
In 2020, we modernised the Health Promotion Plan and took steps to raise employees' awareness of the importance of promoting health for a quality life, among others, by encouraging them to contribute proposals and suggestions.

In our effort to prevent the spread of viral infections, we revised the risk assessment and adopted many preventive sanitary, health and organisational measures to prevent the introduction and spread of infectious diseases and to ensure uninterrupted work processes. Employee satisfaction with health and safety at work in the recent organisational climate survey was rated 4.41 on a scale from 1 to 5 (1 being the lowest).

We raise awareness about good health and well-being of employees through various health promotion activities. We have established a health promotion plan, a dynamic process to which all Krka employees can contribute by presenting their proposals and initiatives. The relevant document is published on *Krkanet*.

The Interpersonal Relations and Sick Leave project, which has helped reduce sick leave, has been in place for several years. In 2020, 5.7% of the Krka Group employees were on sick leave and 5.2% were on maternity leave.

A total of 4.9% of Krka employees have a registered disability and work in appropriate positions in accordance with the laws and regulations governing persons with disabilities and their limitations. We apply various preventive measures to reduce the risk of additional health issues and disabilities. We provide preventive and curative care to our employees and guarantee they can continue their work in positions that are adjusted to their abilities. Employees who can no longer work in their current positions are included in appropriate re-qualification programmes.



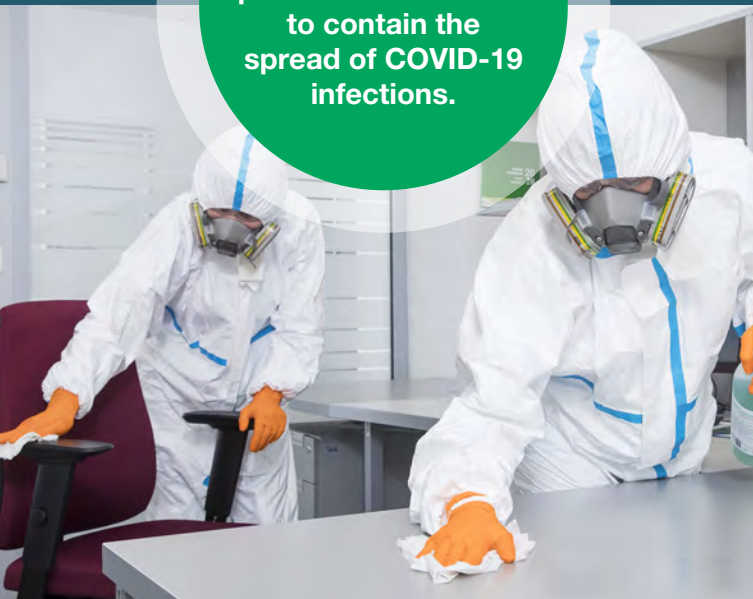
In 2020, we recorded no increase in sick leave.

2019
6.6%

2020
6.4%

- We maintained and further improved the company's health and safety at work.
- The LTAR (Lost Time Accident Rate) indicator amounted to 2.31 in 2020, down 16.6% on 2019.
- Accidents fell by 24.1%.

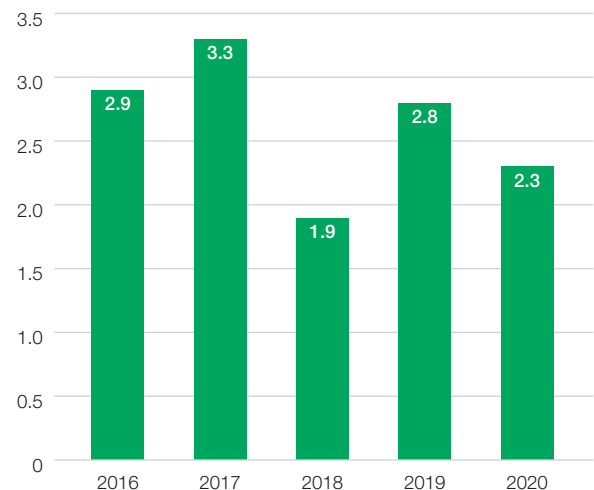
We set up the system of preventive measures to contain the spread of COVID-19 infections.



The occupational safety system complies with the ISO 45001 standard and is fully incorporated into Krka's integrated management system. A health and safety at work workgroup operates in each organisational unit at Krka and comprises, among others, a certified health and safety officer. At the company level, we have a health and safety at work team responsible for the preparation and implementation of key objectives and programmes approved by the Management Board.

We continually monitor data on workplace accidents. The LTAR (Lost Time Accident Rate) indicator in graph below indicates the number of workplace accidents requiring three or more days of sick leave per million hours of work. In 2020, the LTAR reached 2.31, down 16.6% on 2019. All accidents were minor; 57% involved men and 43% involved women, with no significant representation of any age group.

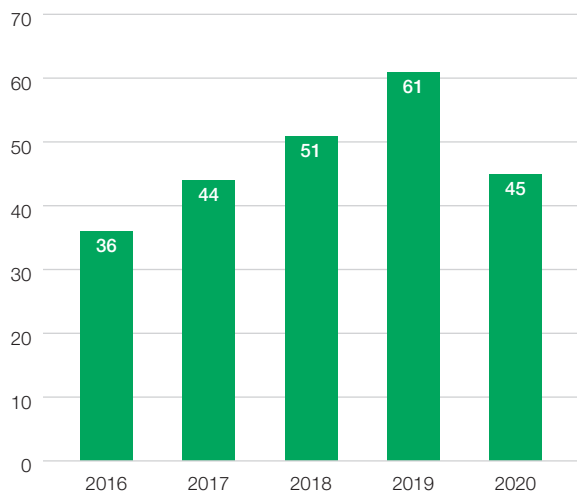
Comparison of LTAR Indicator



We recorded no major incidents such as major fires or major spillages of hazardous chemicals in 2020.

The Fire Protection Department and the Industrial Fire Service Crew are responsible for any emergency response. We conducted 45 fire drills, four of them were full scale. We worked hand-in-hand with the Novo Mesto Fire and Rescue Service, local fire departments, and emergency medical service teams. We analysed and presented the risks and realistic emergency scenarios and their possible impact on the stability of business operations in Krka. We also tested the coordination and work efficiency of internal and external intervention teams, as well as Krka first aid and medical teams.

Number of Drills and Simulations for Emergency Situations



Communicating with Employees

We promote open, regular, responsible and ethical communication between employees and the management team. This contributes to a productive working environment, increases a sense of belonging, and builds a culture of mutual trust and respect, as well as responsible and efficient work.

The Works Council is the link between employees and the management team. The body's members represent all organisational units of the company. Employees can put initiatives and questions forward through their representatives on the Works Council, the President of the Works Council or the Worker Director. Another important source of information are annual worker assemblies, where the President of the Management Board, Management Board members and representatives of the Works Council inform employees about operating results of the year past, plans for the current year, development strategy, and other news. At assemblies, employees can set questions and give proposals.

If employees wish to talk to the President of the Management Board, they can do so by sending e-mail or making an appointment to see him in person.

Internal corporate communication takes place at the same time through various internal media and tools to inform the employees quickly and effectively of the events in the company. Employees receive information via the *Bilten*, our bulletin in electronic and printed formats, and the *Krkanet*, our internal website portal. The *Utrip* is our monthly magazine, which brings news about the Krka Group, encourages teamwork, loyalty, and highlights Krka's values, vision and mission. Our employees also receive the latest information via e-mail address Krka.si,

information screens in entrance halls, and notice boards at manufacturing and other sites.

Employees learn about important corporate guidelines also in communication campaigns and at several internal events. At the Krka Group level, Your Effectiveness Counts campaign was launched in 2013 to raise awareness of the employees that even a small contribution by every individual significantly enhances attainment of our goals. We encourage employees to consider economic and responsible actions that would increase work quality, from environmental protection measures to useful proposals and improvements. We also extended the properly adjusted campaign on foreign markets. We have been encouraging our employees since 2015 in accordance with *Krka's Mobility Plan* to commute by alternative and less environmentally harmful means of transport. In the past three years, we dedicated a lot of time to our workplace health promotion programmes for raising awareness of disease prevention and a healthy life style.

We organise more than 20 events every year, including the Krka Awards Day for our long-serving employees, best employees and best managers, sports days, and award ceremonies for proposers of useful suggestions, long-standing blood donors, and others. Since the COVID-19 pandemic was declared, we have been informing our employees thoroughly on characteristics of the virus, symptoms, spreading of the disease, and instructions on protection against infections. We used all internal media and tools at the same time to serve the given employee structure in consideration of the available access to e-media. We also coordinated communications in our subsidiaries and representative offices. We asked their management teams to regularly follow and apply measures and legislation in force in their respective countries.

Internal communication abroad is organised in the same way and with the same communication tools as in Slovenia, by issues of the *Utrip (Puls)*, *Bilten (Bulletin)*, *Krkanet* and e-mailings about local and important corporate news and campaigns in respective national languages. Intranet websites (*Krkanet*) are available to employees in key markets in their national languages. Another Krka newsletter in electronic form is the *M-Bulletin* intended for our marketing and sales staff. Employees receive news important to all employees of the Krka Group by e-mail and *Krkanet*. 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.

We use surveys to monitor employee satisfaction with internal communications. According to the results, we are constantly improving and optimising the use of media and internal communication tools.



Investors

Krka's principal objective is to maximise the company's value and act on behalf of all stakeholders, including shareholders (investors).

We demonstrate our responsibility by achieving our business objectives, operating in a transparent manner, and communicating with investors.

The transparency of our operations complies with the adopted good practices of corporate governance as stipulated by corporate governance codes.

Quality and effective communication with investors and, in this context, also with financial analysts is an important aspect that contributes to the attainment of Krka's principal objective and helps to understand our business story better. We strive for open, prompt, and consistent communication with investors as much as possible as well as a mutual exchange of information. We provide them with information mainly related to our business results and the Krka Group's future strategy, while complying with the information disclosure policy. Investors and financial analysts give us feedback on the company's operations and strategic guidelines, which we always carefully consider and present to Krka's Management Board.

The main communication objectives are to:

- Achieve a fair market value for Krka;
- Gain easier and cheaper access to sources of funding;
- Create an appropriate level of liquidity in Krka shares;
- Enhance Krka's visibility in international financial markets;
- Maintain good and transparent long-term relationships with investors and professional financial community; and
- Obtain feedback from investors and financial analysts.

We deliver on these objectives through:

- Meetings with investors at the company's headquarters;
- Meetings between Krka's management and financial analysts;
- Participation in investor conferences;
- Roadshows in financial centres around the world;
- Conference calls with investors following the release of business results;
- Publications for investors (the *Utrip prihodnosti* magazine and presentation materials);
- Regular Annual General Meetings;
- Press conferences following the release of business results; and
- Communication with financial media.

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.

For more information, shareholders may contact our Finance department by phone +386 7 331 75 91 or e-mail finance@krka.biz.

Customers

Our customers are very important to us. This is why we closely follow their needs, monitor satisfaction, and build relationships based on partnership and trust.

Our customers are classified in four groups according to the nature of our operations:

1. Institutions (health-care, regulatory, industrial property, health insurance, etc.);
2. Direct customers (wholesalers, other pharmaceutical companies);
3. Indirect customers (pharmacies, hospitals, pharmacists, doctors, veterinarians); and
4. End users (patients, buyers).

Institutions

We cooperate with various institutions, health insurance companies and other bodies dealing with medicinal and other Krka products at all stages of product development, production, sales and marketing. Our cooperation calls for set procedures, with up-to-date and reliable documents being essential. Our documents are reliable and up-to-date because of correct procedures and systematic, carefully organised and complete documentation. We foster long-term cooperation with institutions and are quick and responsive in our communication with them.

We ensure compliance with our quality systems at all stages of operation. We continuously modernise and upgrade all systems, improve standard procedures and good practices. Regulatory bodies conduct periodic audits and inspections and regularly review compliance of our operations and the integrated management system with the relevant standards.

In order to attain our research and development objectives, we exchange ideas and know-how with specialised development institutions and companies. We attach special importance to target-oriented project cooperation with universities and institutes, as well as

other education and science institutions. We cooperate with them on a daily basis. Another important point of our cooperation with young people in education processes are Krka Prizes and scholarships. Our professionals receive continuous training and upgrade their knowledge as they cooperate with the said institutions and participate in the teaching process and scientific research.

Our professional, scientific and regulatory environment is changing, and we take an active part in these changes. We engage in various professional and industry associations in Slovenia, the European Union and other countries.

Direct Customers

Direct customers who buy our products are wholesalers, pharmacy chains, hospitals, and other pharmaceutical companies. We measure their satisfaction every year to improve our sales and after-sales services. We conduct online opinion polls to determine the level of customer satisfaction with most important aspects of our business operations, products, sales personnel, order processing, complaint procedures, and general level of satisfaction. In the analysis, we aim to identify best opportunities for improvement. Based on these, we set our goals, adopt relevant actions, and monitor our achievements.

Our 2020 survey included 81% of our customers. The satisfaction index climbed to a sound 89% indicating a high level of customer satisfaction.

We conducted the poll in the second half of the year due to the COVID-19 pandemic. In addition to this, we also measured satisfaction in three key areas of operations during the first outbreak of the pandemic. Results show that we maintained the high level of direct customer satisfaction with order fulfilment. We fared even better in comparison to our competitors by improving our delivery times and business evaluation scores.

Indirect Customers

One of our biggest and most important customer groups are indirect buyers of our products, i.e. health professionals. The group comprises doctors, veterinarians and pharmacists, who prescribe, recommend, and dispense our products and represent a link with the end users for whom the products are intended.

We regularly inform indirect customers about our products. This helps them make an informed decision about the most suitable products for their patients and customers. We establish direct contacts with them through our medical representatives in 42 countries. They also receive information in printed or electronic formats. We are particularly careful to ensure that the information serving as the basis for the appropriate and safe use of our products is up to date. Last year we stayed in personal contact, and when this was no longer possible, we communicated via online communication channels.

We contribute to the professional development of doctors, pharmacists, and veterinarians. Every year, we organise and support several professional and educational meetings giving them the opportunity to upgrade knowledge, learn about new guidelines, exchange opinions and experience, and establish contacts. Meetings take place in various countries where Krka is present. In 2020, most events took place online. We organised many local online events, and several international events, which attracted more than 1,200 participants from 28 countries.

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 practice, recommendations of the Medicines for Europe, and ethical code of promotion. Advertising of pharmaceutical products is subject to strict regulation and control.

Our medical representatives regularly undergo professional training so that they can inform health professionals about the latest guidelines and provide accurate and current information about therapeutic categories and our products. We also make sure that they have appropriate communication skills and are familiar with legal and other regulations, and standards of work. They use modern learning and testing methods, including our uniform and user-friendly e-learning tools.

In 2020, we extended the number of our digital tools and content for informing and educating doctors and pharmacists. We established remote communication through several different channels tailored to particular user groups. We introduced video calls to make communication more personal. We instituted new tools and approaches in organisation of online education and events, which we extended in terms of content. Digital and video content serves to better understand patients from various therapeutic areas through their stories, and graphically present results of clinical studies. In several countries, we published special web pages that include diverse content for health professionals.

Feedback and opinions obtained through daily contact and independent market research matter. IQVIA data for Poland, our second largest market, indicated that medical specialists from 18 specialist areas of medicine and general practitioners placed us among the most visible companies, and we took the leading place with cardiologists. According to Proxima Research data for our most important market, the Russian Federation, and Ukraine general practitioners and cardiologists listed us first as regards visibility, while general practitioners ranked us first and cardiologists second as regards frequency of prescribing.

We are one of the few generic pharmaceutical companies whose products have had clinical efficacy demonstrated in several clinical studies. Nearly 350,000 patients from 27 countries have participated so far in over 150 clinical studies with our medicinal products.

In 2020, the final report was drawn for PRECIOUS, an international interventional clinical study. The study and statistical data processing involved 450 patients with arterial hypertension from seven countries. The patients received single-pill combinations of perindopril and amlodipine (Amlessa*) and of perindopril, amlodipine and indapamide (Co-Amlessa*). Collected data indicate that both medicinal products effectively reduce blood pressure as after the four-month therapy 80% of patients reached target values. The data also indicate that patients tolerate both medicinal products well. In 2020, patients continued to be included in BLOSSOM, the international randomised interventional clinical study with pregabalin (Pragiola*) and duloxetine (Dulsevia*) currently in progress in five countries. We expect 280 patients with painful diabetic peripheral neuropathy to be included in the study. By the end of last year, 141 patients had been included. We expect the study to end and be statistically processed in 2021. We believe it will be possible to evaluate effectiveness and safety of the two medicinal products based on the results and to confirm their impact on pain, quality of life, symptoms of depression, cognitive function, quality of sleep at night, and daily somnolence. Another two interventional clinical studies of cardiovascular therapies are also being designed.

We monitor efficacy and safety of our products also in regular clinical practice. Monitoring starts with the launch of a medicine on the market. We follow therapeutic areas from our range. In 2020, 26 non-interventional and epidemiological studies were conducted, from that four were international. The aim of the studies, conducted in 15 countries, was to record diseases and success of the treatment of cardiovascular diseases, diseases of the central nervous system, and treatment of pain.

* Products marketed under different product brand names in individual markets are marked with an asterisk and listed on pages 124–126. Products can also be marketed under the corporate trademark in individual markets.

End Users

We care for the health of end users by providing high-quality, effective and safe products. A broad range of Krka products is used to treat the most common illnesses of modern time.

We feel a great sense of responsibility to our end users and aim to ensure high quality of our products and services. The quality of active ingredients, excipients, and all incoming materials used in finished products is examined with laboratory tests under 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 consumer protection systems according to clear guidelines incorporated into our operations. Our risk management system related to health, consumer safety and protection complies with legal requirements and regulations.

Our system for collecting information about risks to 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 adoption of measures for safe use of medicines comply with the European legislation and regulations of other countries where Krka holds marketing authorisations.

Trust is the result of a long-term relationship, which we build and nourish by correct communication. We engage in responsible and professional communication with end users, and comply with relevant legislation. We do our best to ensure that our consumers receive all necessary information about our products.

Our product, corporate, and thematic web pages in more than 30 languages provide easy access to information about our products and additional educational content. We also present our products and related information in several languages in social media. We adapt promotion to current themes and issues and follow new communication standards. We are constantly introducing diverse content and interactive tools to allow for better accessibility to and variety of information about products for end customers.

Equipment Suppliers and Contractors

Our long-term relations with business partners, including suppliers, contractors, and partners seeking new opportunities for common growth, are based on mutual respect, trust, honesty, integrity, and fairness.

At all stages of the purchasing process, employees must comply with the procedures defined in internal guidelines, international agreements, and local regulations. Roles and responsibilities in purchasing activities ranging from the identification of user needs and selection of suppliers to contracting and placing orders are precisely specified.

In line with our long-term objectives, sustainability goals, and main principles, we select potential suppliers by considering their:

- Previous performance at Krka;
- References in implementing similar projects with other clients;
- Technical facilities;
- Number of key employees and respective qualifications; and
- Financial stability and relation to sub-suppliers or sub-contractors.

We conduct supplier audits in individual projects in accordance with quality standards and Krka guidelines, and take into consideration suppliers' prices, quality, delivery terms, reliability, regulatory compliance, compliance with our guidelines, and their social responsibility.

We regularly monitor our equipment suppliers and contractors, and efficiently manage risks related to our business relations with them.

We strengthen our cooperation with the local community by following the policy and practice of addressing local suppliers and contractors, especially when – besides acceptable prices – responsiveness, flexibility and frequent or constant involvement of suppliers and contractors in investment and service processes also matter.

We fully meet our contractual obligations to suppliers, and by setting a good example aim to positively impact the renown and development of our industry.

Our long-term cooperation with reliable and competitive suppliers and contractors has contributed to our status of a reliable and trustworthy partner.

Involvement in successful development and investment projects of the Krka Group is also a favourable reference for engineers, equipment suppliers and contractors when acquiring new business deals on domestic and foreign markets.

Suppliers of Raw and Base Materials

Responsible, long-term cooperation with the suppliers of raw and base materials strengthens our partnerships and ensures good business relations, growth and progress for all parties involved and their milieus.

We cooperate with suppliers from various cultural environments; therefore, good knowledge of their cultural and business specificities plays an important role when establishing, maintaining and developing relations with them.

Continuous education provided to our employees ensures that they are able to keep up with the developments and the pace of change in international and national regulation. The entire purchasing process builds on Krka's procedures.

We regularly assess the quality of cooperation with suppliers and use these assessments to prepare proposals for improvements in our cooperation methods. One of the improvements is the introduction of the system for electronic operations with our suppliers.

Krka is committed to cooperation that builds on mutual trust, integrity, proper conduct, and compliance with the agreed terms. We understand that only cooperation of this kind can lead to reliable partnerships and ensure a timely provision of raw and base materials of required quantity and appropriate quality and value.

Corporate Social Responsibility

Social responsibility is one of Krka's main principles. We are aware that a company's contribution to the community as a whole has a direct effect on its operations and development. With this in mind, we address the needs of the community when conducting our day-to-day business.

We support projects related mainly to health and improving the quality of life by allocating sponsorships and donations in line with the set criteria.

We build partnerships through sports, culture, healthcare, science, education and humanitarian actions, and by contributing to the protection of the natural environment.

When caring for a healthy society and a better and brighter tomorrow, it is essential to promote activities that are the very foundation of a healthy society. We are steadfast in our determination to help organisations and individuals continue with their sporting, cultural, educational and other activities even in these unprecedented times. To accomplish this, we fulfilled our sponsorship and donation obligations in 2020 as much as possible given the circumstances.

In 2020, we allocated 0.19% of our sales revenue to sponsorships and donations and helped over 400 institutions, associations, and organisations achieve their goals.

Health through Sports

We promote many sporting activities which contribute to a healthy lifestyle. We support mostly local clubs and associations encouraging young people to take up recreational or professional sports. We also foster the development of young talent because we believe in the power of knowledge, work and cooperation. Long-term

sponsorship projects are an opportunity for us to get to know the sponsorship recipients and make the most out of the sponsorship.

In 2020, 17 sports and cultural clubs and associations appeared under the name of Krka, and another seven clubs and associations were supported by Krka as their main sponsor. We primarily support clubs and institutions that encourage young people to lead a healthy lifestyle, take care of their physical and personal development, build team spirit and friendship, foster persistence, and develop a healthy winning attitude. In doing so, we work together to encourage values of partnership, trust, creativity and efficiency, each the key to the development of society.

Krka conferred its inaugural award to a sports club for the most active presentation of a sponsor, for the development of sports on the local level, for working with young people and for its accomplishments at the 10th annual meeting of sponsorship recipients in 2016. A year later, we recognised the achievements of young athletes, musicians and other extraordinary individuals presenting them Talent-of-the-Year awards. Another eight successful young people from Krka's associations, clubs and institutions have since received the award. We have also presented 37 recognitions for remarkable achievements in sports and culture. In 2020, the 14th meeting with Krka's sponsorship recipients took place remotely and was designed as a video event. Three young people received the Talent-of-the-Year award and 12 young individuals were given recognitions for their achievements.

We promote walking for good physical and mental health through our campaign Caring for Your Health – Together We Scale the Heights. We have worked on the campaign together with the Alpine Association of Slovenia since 2009. In 2020, we partnered with the Alpine Association of Slovenia and mountaineering clubs to carry out maintenance work on signposted hiking trails and improve safety in the Slovenian mountains.

We deliver on our mission by supporting other sports and sporting events. Our sponsorship of the 2020 Ski Flying World Championship in Planica was an acknowledgement of the 35-year-long collaboration. We also supported the Women FIS Ski Jumping World Cup in Ljubno and events organised by the Slovenian Tennis Association.



We donated funds for the purchase of sports equipment for schools and other organisations that promote a healthy lifestyle. Two substantial donations in 2020 were made for the purchase of equipment for the Jože Gorjup Primary School gym in Kostanjevica na Krki and for the replacement of playground equipment at the Ljubo Šerčer Primary School in Kočevje attended by children with special needs.

Krka Retirees Society has been active since 2000. We have supported the Society in organising recreational and sporting activities, such as trips, hikes, visits to cultural and professional events, sports and recreational gatherings, social events, creative workshops, and other events.

Dedicated to Culture

Culture has been an essential part of the mindset of our company since its establishment 66 years ago. We support various cultural genres and activities that make an important contribution to wider society.

In honour of this year's Slovenian cultural holiday, we opened the exhibition Krka's Industrial Architecture Over Time. The exhibition featured photos of Krka production, administration, research, logistics and tourist buildings. These are not just industrial and business premises, but structures that shape the environment in which the company builds its corporate identity, creates its organisational culture, develops and manufactures its broad range of products and services, and grows and reaches out to the world. The Pihalni orkester Krka brass band performed for the first time Krka's Rhapsody, a composition in honour of Krka's 65th anniversary.

We partnered with the Association of Ballet Artists of Slovenia and prepared a ballet Pas de deux, a step for two to mark 100 years of ballet in Slovenia. Ballet dancers of the Slovenian National Opera and Ballet Theatre of Ljubljana performed excerpts from well-known classical ballets and several modern choreographies. This was Krka's tribute to the art of dance and its creators. To honour the rich artistic legacy of Pia and Pino Mlakar, we worked with the Association of Ballet Artists of Slovenia and set up four exhibition panels featuring photos and text on the artistic opus and lives of these two ballet dancers near the couple's home.

We staged the Krka Cultural Evening at the monastic church constituting the Galerija Božidarja Jakca gallery in Kostanjevica na Krki for the fourteenth year running. This performing arts event has been traditionally held since 2008 and hosted numerous world-class artists. In 2020, it had to be adapted to the new circumstances,

and yet again proved that culture holds a very special place at Krka.

We continued to support the symphony orchestra from the Glasbena šola Marjana Kozine music school, the Galerija Božidarja Jakca gallery in Kostanjevica, Pihalni orkester Krka brass band, and the Novo Mesto Anton Podbevšek Teater theater. We also supported a project organised by the Municipality of Novo mesto to mark the 100-year anniversary of the Novo mesto Spring cultural event. A series of events were organised in 2020 as a tribute to the artistic performance, which showcased the foundations of the Slovene avant-garde.

Our annual support of the artistic projects hosted by the Cankarjev dom cultural and congress centre stems from our wish to bring various cultural genres and activities to wider audiences. Last year, we played a role in arranging an exhibition of works by Henri Cartier-Bresson, often regarded as the father of contemporary photojournalism and a pioneer of street photography. The exhibition comprises 121 portraits.

At Krka, we foster reading culture. Our respect for books is reflected in Krka's book collection and our contributions to book publishing. For 42 years we have been involved in organising the Dolenjska Book Fair together with the Miran Jarc Public Library and the Mladinska knjiga publishing house. Another demonstration of our dedication to reading culture are Krka's bookcases, which are a great way for employees to exchange books among themselves. We are also continuing our support of the project behind the statue of a Krka girl with a growing book. The International Board on Books for Young People (IBBY) is celebrating its 60th anniversary this year. We teamed up with the Slovenian Reading Badge Society, which is part of the Slovenian Association of Friends of Youth, and gifted a yearly subscription to Cicido or Ciciban magazine to 50 young readers from less privileged backgrounds. We hope this will help to broaden their horizons and improve their reading literacy and culture. It is particularly rewarding that Krka is taking part in this year-long project.

At the end of the celebrations marking the 80th anniversary of the Academy of Music in Ljubljana, we supported the publication of a monograph titled *The Academy of Music of the University of Ljubljana: 80 years*. In the context of the project highlighting the literary heritage of Dolenjska and Bela Krajina regions, which was presented at an international symposium on fairy tales, we pledged our support to the future publication of a collection of fairy tales by a Slovene novelist, Ilka Vašte. We helped with the publication of two major works related to sports: a book on the history of women's volleyball in Novo mesto

titled *A Walk Through Time*, and a publication on the Inter-Municipal Football Association of Ljubljana. We also supported the publication of a book about archbishop Dr Alojzij Šuštar, published by the Faculty of Theology, University of Ljubljana.

For over 10 years, Krka has been a sponsor of the Vilenica International Literary Festival. We consolidated our long-standing partnership with the Slovene PEN Centre by supporting the virtual 52nd international PEN conference.

We continued our cooperation with the Slovenia-Russia Association in 2020 by supporting the commemoration and other events organised by the Association at the Russian chapel on the Vršič Pass.

At the beginning of the year, Krka's Culture and Arts Society organised a meeting with guests from the world of theatre at the Krka Theatre Club, two recitals by Krka's mixed choir in Strunjan and Dolenjske Toplice, two creative workshops for Krka employees, and three exhibitions at galleries in Krka business premises in Novo mesto and Ljubljana.

It later curtailed its activities due to the COVID-19 epidemic. Since then, they have organised 14 art exhibitions at Krka's galleries in Novo mesto and Ljubljana. This helped to raise awareness of the significance of art and support for its authors. The members of Krka's mixed choir also had to adapt to the new circumstances by moving their activities online.

Donations

Every year we support several non-profit, non-governmental and non-political organisations. In 2020, we allocated 0.10% of sales revenue to donations, which represents 53% of all our funds allocated for sponsorships and donations.

Krka helped ease the impact of the COVID-19 epidemic. We donated 15 tons of Ecocid S disinfectant worth €220,000 to the Agency of the Republic of Slovenia for Commodity Reserves and the Administration of the Republic of Slovenia for Civil Protection and Disaster Relief. During the most difficult times, when we met each day with uncertainty, we ensured a sustained supply of disinfectants to health centres, hospitals, and retirement homes.

We helped supply our local institutions with the necessary personal protective equipment. We donated FFP2 and 3M P3 masks, and Ecocid S disinfectant, to the Community Health Centre and the Retirement Home in Novo mesto, and protective clothing to the General Hospital and the Retirement Home in Novo mesto. Our donations to institutions in Novo mesto and other cities in Slovenia

surpassed €80,000 and enhanced the safety and care of patients, health care professionals, employees and residents in retirement homes, as well as all others working to curb the spread of the coronavirus. At the beginning of the epidemic, when the need for protective equipment was most acute, we donated a sizeable quantity of masks to a humanitarian organisation in China.

As part of our charitable campaign, and in cooperation with humanitarian organisations, we made larger donations to six families in need. We made a donation to Sonček – the Cerebral Palsy Association of Slovenia (in the Dolenjska and Bela Krajina regions) for the purchase of a van to ensure safe transport of wheelchair users. In collaboration with the local Association of Friends of Youth Mojca in Novo mesto, we gave presents to more than 5,000 children in 2020. On account of the epidemic, Santa Claus had to follow a special protocol this year. He visited the children from seven municipalities in the Dolenjska region in their local towns or at their homes. By taking this unique approach, the organisers were able to keep alive the tradition of this more than 50-year-old event.

In 2020, we donated to the Red Cross and Karitas. As part of our long-term efforts to act in a socially responsible manner, we again cooperated with the Regional Branch of Red Cross in Novo mesto and its People in Need Fund. Krka has been the Fund's main sponsor since its establishment. All this time we have endeavoured to help as many families and individuals from socially disadvantaged backgrounds as possible. In particular, we try to reach out to vulnerable groups and individuals over 65 years of age who have found themselves in an unfortunate situation, and to children from socially disadvantaged backgrounds. We purchased school supplies for primary school pupils and helped secondary school students with scholarships to give them a stepping stone to a brighter future. We donated six tablets and funds for the purchase of computer equipment to ensure that several children could attend school remotely. Krka's managerial staff also collected funds for computer equipment for two families with multiple school-age children.

In cooperation with the Government Office for Slovenians Abroad and Caritas Slovenia, we made a donation of medicinal products to Slovenian expats in Venezuela.

In 2020, we continued our association with the Chain of Good People project launched by the Association of Friends of Youth Ljubljana Moste-Polje. The funds that are collected as part of this humanitarian programme are intended for families in need in Slovenia. This charity programme offers comprehensive support to families by providing financial, material, psychosocial, legal and



learning aid, mediation services, educational and training courses, therapeutic weekend family trips, holidays for children, and various activities for social integration and restoring family relationships.

Since 2005, we have donated 48 defibrillators to medical teams in remote out-patient health centres and stations, as well as to other Slovenian organisations. They are also installed at various points in Krka premises and in Terme Krka hotels. We supported the purchase of six defibrillators in 2020.

We provided material and financial support to eight fire departments and firefighting agencies in Slovenia and contributed towards the purchase of new fire engines, equipment, and defibrillators and the renovation of fire stations.

We helped individuals facing difficult situations and persons with disabilities across Slovenia.

Charity and Volunteering

Many Krka employees are active volunteers, and we have been fostering the spirit of volunteering ever since Krka was established. Over the past 66 years, it has become an inseparable part of our organisational culture. Krka's Week of Charity and Volunteering is the central charitable campaign in Krka, which has brought together more than 8,300 Krka employees since 2012. Sadly, we had to cancel it in 2020.

Many Krka employees are involved in various charitable activities organised by the company or on their own initiative. This is the most direct way to deliver on our social responsibility and humanitarianism. Since 2012, we have been paying special attention to our volunteers. Every year, employees can nominate their colleagues, whose charity work and solidarity stands out, for the best Krka volunteer. Despite the current situation, we selected the best Krka volunteers of 2020. The award ceremony was held online. Traditionally, we took the opportunity to thank the 118 Krka employees who have been donating blood for several years. One of them has donated blood 110 times. In eight years, Krka employees donated 933 litres of blood just during Krka's Week of Charity and Volunteering. On average, more than 1,000 Krka employees donate their blood twice a year.

We have also been the biggest donor to the Novo mesto Dragotin Kette Primary School for children with special needs for several years with the aim to contribute to favourable working and living conditions at the school. In 2020, the funds we donated were used to build a climbing wall, purchase tablet devices, interactive whiteboards with projectors, feeding chairs, New Year's presents and scientific literature, and to repair water-beds.

We have been sponsoring the running of several occupational activity centres and retirement homes. We have supported the retirement home in Novo mesto since its establishment through a sponsorship board which strives to make lives of its residents as pleasant as possible. In the 40 years since its establishment, the members of the sponsorship board have broadened their commitment to sharing their time and travels with the residents. But amidst all these activities, visits, gifts, concerts, lectures and trips, the well-being of residents remains at the forefront of their humanitarian exploits. The usual activities could not be carried out in 2020. Despite this, all residents received birthday cards on their birthdays. For New Year, they received greeting cards and a gift from Krka. Usually, members of the sponsorship board and Krka's managerial staff hand-deliver the gifts to the residents. Last year, the gifts – warm blankets – were delivered to the retirement home staff. Krka also made a larger donation of personal protective equipment.

Krka also supports projects that encourage volunteering. One such project is the Elderly for the Elderly programme in the Dolenjska and Bela Krajina regions, which we have been a part of for the last 10 years. The European Parliament recognised this programme as an exceptional case of good practice in volunteering, as it helps senior citizens maintain their independence for as long as possible. They can remain in their homes, live independently, and receive the assistance they need in activities of daily living. This programme is implemented by the members of retiree associations. Older volunteers visit the elderly in their community and inquire after their living conditions and if they require any assistance. If they express a desire for assistance, the volunteers try to organise it. The programme is implemented on the level of individuals, local associations, municipalities and regions. In Slovenia, Elderly for the Elderly now includes more than 65.5% of all people over the age of 69.

Support for Healthcare Institutions

For us at Krka, health and quality of life are our top goals. It is not a coincidence that affordable treatment is the key focus of our corporate social responsibility.

We carry out quality and development activities every day. This is the basis for the manufacture of our vast range of medicinal products used to treat patients all over the world. Our experience, development-oriented mentality, innovative solutions and continuous investment in advanced technologies all contribute to this.

We dedicate the same care we commit to planning new medicinal products to following any other needs



patients may have. We try to understand them, and we collaborate with healthcare professionals to find new paths for the development of new quality medicinal products and treatments.

Health improvements require state-of-the-art, modern, and reliable technology. This is why as part of accomplishing our mission we donate modern devices that can contribute to ensuring the health of present and future generations.

Modern medicinal devices facilitate the work of healthcare professionals and ensure a high level of service. In the past year, these devices helped to save the lives of patients in Slovenia. Among others, we donated €221,000 towards the purchase of four major devices.

Hypertension is a chronic disease that affects almost one in two adults in Slovenia. To make sure that quality and effective treatment is available to as many patients as possible, we contributed to the purchase of an ultrasound device for the Department of Hypertension at the University Medical Centre Ljubljana.

We made a donation towards the purchase of a modern ultrasound device for the Paediatric Department at the General Hospital in Novo mesto. The new device can be used for hip, cardiac, vascular, and urologic ultrasound examinations, as well as ultrasound examination of other intra-abdominal organs.

To improve maternity care at the General Hospital in Brežice, we made a donation towards the purchase of a modern birthing bed for their Department of Obstetrics and Gynaecology. This modern bed ensures better access for healthcare professionals to the woman giving birth, is easier to control, and can be transformed into six different bed types.

We donated a modern incubator to the Neonatal Intensive Care Unit at the Maternity Hospital in Ljubljana to ensure that premature infants receive safer care. In the past, we have made donations to the Division of Paediatrics and seven other maternity hospitals in Slovenia of three neonatal incubators and six radiant warmer beds for the care of infants.

Support for New Scientific Discoveries

At Krka, we have known for a long time that advancement is only possible through seeking new knowledge, continuous learning, and research. Krka Prizes are our incentives for young researchers. They have gained incredible popularity during their 50-year history and have been a part of Krka's success and growth all along. The role of the Krka Prizes Fund is very important,

as it is tasked with the promotion of research work among students, pupils, and supervisors in educational institutions. Over the past 50 years, 2,911 Krka Prizes have been awarded.

In 2020, we held an online ceremony to announce the recipients of the 50th Krka Prizes for research papers. Five Krka Grand Prizes, 25 Krka Prizes, and 17 special commendations were presented to graduate and postgraduate students for their research work. Among the recipients of Krka Prizes, 11 held doctoral degrees. We also handed out 46 Krka recognitions to students who participated in this year's call for papers. The recipients of Krka Grand Prizes and Krka Prizes for the secondary school level papers were also announced online. With the help of their supervisors and co-supervisors, 99 authors prepared 61 research papers. Students and pupils presented the findings of their research at an online symposium. For the fourth year in a row, we awarded special plaques to three supervisors for their long-standing encouragement and successful supervision of pupils engaged in research work.

The year 2020 was a special year for Krka Prizes. In celebration of this special year, we published a monograph titled *Krka Prizes: 50 Years of Excellence* depicting the 50-year history of Krka Prizes. This monograph is the seventh title in Krka's book collection.

New scientific developments can only be achieved by highly qualified experts. With this in mind, we support projects at various educational and scientific institutions designed to upgrade the infrastructure and to provide scholarships, above-standard educational activities, research work, and participation at national and international competitions. Not surprising, Krka is a long-time sponsor of the Slovene Science Foundation. In 2020, the Foundation organised the 26th International Slovene Science Festival, which took place online. For more than 25 years, Krka has been a donor to the Central Medical Library of the Faculty of Medicine in Ljubljana. This is our way of helping to provide healthcare professionals, researchers and students access to the most important sources in clinical medicine and other related fields.

Our support of the Association for Technical Culture of Slovenia continued in 2020. This association has been educating young students in technical skills and natural sciences for almost 70 years. They specialise in electronics, robotics, construction, material processing technologies and computer science, as well as chemistry, biology, model construction, agriculture and other areas of interest.



Our strategy is based on sustainable development principles. We focus on the environmental, social, and governance aspects known as ESG.



E

**Environmental
aspect**

- **28.6% down**
Total environmental load units (ELU) from wastewater treatment
- **47% down**
Total rated power of outdoor lighting at our central manufacturing site in Novo mesto in Slovenia
- **2.9% down**
Cooling tower river water consumption partially replaced by rainwater



S

**Social
aspect**

- **47%** of managerial posts occupied by female employees; 61% of total headcount are women
- **51%** of at least university level qualifications; 206 PhDs and 388 master degrees or specialisations
- **89%** overall direct customer satisfaction index
- **0.19%** of revenue allocated to sponsorship and donations
We prioritise projects for healthy and quality living, especially focusing on young people, developing their talents and mass participation



G

**Governance
and
management
aspects**

- Corporate governance complies with the strictest corporate integrity standards
- Business ethics and corporate compliance
- Risk Management
- Information security and data protection
- Respect for intellectual property rights
- Respect for shareholders' and other stakeholders' rights
- Supervisory Board member independence and versatility

Natural Environment

We are aware that our attitude towards the natural environment matters. That is why we foster separation and responsible waste management; rational use of drinking water and energy; limiting greenhouse gas emissions; wastewater treatment; biodiversity maintenance; and reduction of noise, electromagnetic radiation, and light pollution.

In 2020 it became blatantly clear that human health and health of our planet are indelibly linked. If we are to protect the former, we must protect the latter. Everyone must contribute in order to keep our planet as healthy as possible for all living beings. Pollution slightly dropped last year due to health situation, but this did not reduce our efforts to keep our environment clean and healthy. We closely followed the corporate five-year strategy on environmental management and set objectives.

Our operations impact people, the community and natural environment. We implement sustainable solutions to reduce their effect and provide a sound and healthy living environment for employees and the broader community. Responsible environmental management leads to long-term competitiveness, because our customers appreciate our sustainable approach to all aspects of life. In 2001, we were granted the *ISO 14001 Environmental Management System (EMS)* certificate, which binds us to constantly reduce all our impacts on the environment. We also follow the revised edition of the *ISO 14001:2015* standard. We have therefore integrated environmental care in the earliest development stages and projects.

Employees of Environmental Protection carry our tasks at the operational level, but all employees are included in the complex environmental management system detailed in our framework document on the environment. The complex environmental management system aims at: (i) a high level of environmental protection throughout the lifecycle of a product; (ii) constant reduction of our environmental impact; (iii) fulfilment of our obligations as regards compliance; and (iv) attainment of the corporate objectives in that matter. We are aware that best effects can be achieved at the start of a process. In our case these are the product development stage (through selection of raw materials with lower environmental burden), and production. We manage by best available techniques (BAT) waste that remains after certain processes and must not be reused according to strict requirements applicable to the pharmaceutical industry. We collect and analyse data about the environmental management system by various methodological tools. We use all available resources, such as monitoring results for our processes or activities that can significantly impact the environment, findings of self-inspections and audits, internal audits, security checks, inspections, customer claims, and risk analyses. They confirm suitability and efficiency of the environmental management system and indicate opportunities for improvement.

We report to our management, national authorities (reports on monitoring environmental emissions 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.

We include in our environmental policy full responsibility for the natural environment in line with our strategic goals. All employees have been made familiar with it. The policy is available to all interested stakeholders. We review our environmental policy every year and amend it if necessary.

In line with it, we remain committed to:

- Include environmental awareness in the earliest stages of development activities and projects;
- Use water, fuels and energy, raw materials, and other resources sparingly;
- Reduce or prevent the environmental impact throughout the lifecycle of products by employing the best available technologies and other measures;



- Replace (wherever possible) hazardous substances used in technologies with less hazardous ones;
- Reduce risks of incidents and improve measures undertaken in any such events;
- Control environmental impacts regularly;
- Increase environmental awareness of employees through education and training;
- Inform employees and other interested parties about the present state and achievements related to the environmental management;
- Comply regularly with legal and other requirements adopted by Krka;
- Raise environmental awareness of contractual partners as much as possible;
- Set environmental objectives and programmes systematically to improve the current state of the environment; and
- Implement the applicable environmental policy in Krka's subsidiaries abroad.

We closely follow and comply with legislative and other requirements arising from the *Environmental Protection Act* and implementing regulations (on emissions into the air, water, noise, waste, light pollution, electromagnetic radiation, transport of hazardous substances, soil pollution, etc.). They serve as the basis for environmental protection permits issued for individual Krka production sites. We regularly account for environmental taxes and submit them to competent institutions in conformity with environmental legislation. Environmental legislation composes an extensive part of the European acquis. For easier referencing, we have collected a compendium for our own use listing 19 legal areas. They are revised at least two times each year. All lists are published on our internal web pages. The Committee for Monitoring Environmental Aspects periodically reviews compliance with legal and other requirements adopted by Krka. It appoints responsible persons and sets deadlines for implementation of any additional activities that could be required due to legal amendments. The Committee is also responsible for periodic identification of environmental aspects. These include impacts of our products and services throughout their lifecycles. The complete *Register of Environmental Aspects* for all Krka's facilities in Slovenia is reviewed once a year. Compliance with laws, expenses, public opinion, and progress are criteria for assigning the importance to aspects. We grade them by colours: red, yellow, and green. Red colour means that they are more important than those marked in yellow or green. We design measures for improving them. The Committee examines the *Register of Environmental Aspects* and prepares the annual plan of environmental goals and

programmes for approval by the company management. The responsible persons and deadlines are determined for each programme, as well as expenses. A management review deals with achievement of goals and implementation of programmes. We have also identified environmental risks that are assessed within environmental planning by Environmental Protection and the Committee. Environmental risks are integrated in business continuity, quality, and risk assessments of contractual partners.

We control compliance with legislation and environmental protection permits by regular monitoring of air and water emissions, noise, electromagnetic radiation, and waste assessments. We regularly check reservoirs and equipment which contains ozone depleting substances. In 2020, all deviations from legal threshold values were managed in compliance with internal standards, and we introduced appropriate corrective measures to ensure compliance of our operations with the existing legislation. We received two calls in writing from the Inspectorate of the Republic of Slovenia for the Environment regarding deviations from thresholds at our production plants in Ločna and Šentjernej. In our replies we presented root causes for deviations and implemented actions.

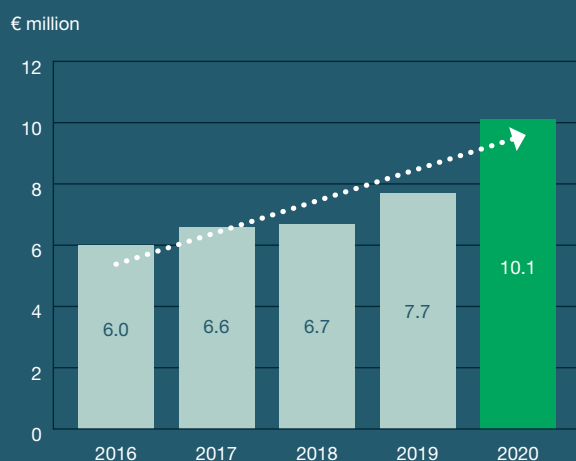
In 2020, we received no decisions or measures from the Inspectorate of the Republic of Slovenia. The Inspectorate issued a decision in 2019 ordering us an intervention for wastewater treatment at our Krško plant. We implemented the programme within our Sinteza 2 project in Krško. In 2020, we finished the review of the announcement of environmental charges for packaging materials and packaging waste management. The procedure started in 2019 and was completed when the Financial Administration of the Republic of Slovenia issued a resolution. No decision was issued. In environmental audits conducted by SIQ and contractors, no non-compliance was established. Their findings show that Krka complies with the requirements of *ISO 14001* and constantly improves the environmental protection situation.

2020 Environmental Milestones

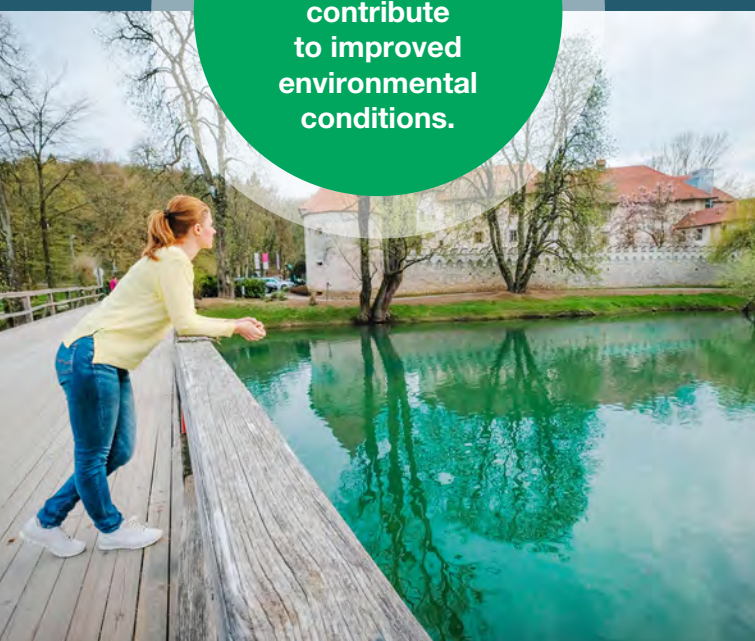
- Total wastewater environmental load units (ELU) were reduced by 28.6%.
- Consumption of river water used to supply cooling towers was reduced by 1.5% and replaced by clean rinse-water from production.
- Consumption of river water for cooling towers supply was further reduced by 2.9% and replaced by rainwater.
- A total of 420 tonnes of waste composites were handed over to processing, from which the contractor recovered 154 tonnes of aluminium and 245 tonnes of plastic.

We allocated €10.1 million to environmental protection in 2020.

Investments in environmental protection



By attaining
the objectives
we actively
contribute
to improved
environmental
conditions.



- The quantity of waste for disposal in landfills was reduced by 10 tonnes.
- CO₂ emissions were reduced by 17,000 tonnes over the past few years. The impact of the reduction is comparable to planting 85,000 trees.
- Total rated power of outdoor lighting fixtures at Ločna was decreased by 47% due to upgrades of outdoor lighting fixtures over the past 6 years.

Environmental Protection Expenditure

We allocated €10.1 million to environmental protection in 2020. Direct costs amounted to €6.4 million and included costs of wastewater discharge and treatment, waste management, waste air treatment, noise reduction, monitoring costs, environmental taxes and other direct costs of environmental protection. We invested €3.7 million in environmental protection. Investing in equipment and technologies provided for continuous improvement in all segments of environmental protection.

Use of Natural Resources

Depletion of natural resources has become plainly evident in our lifetime revealing physical limits of our planet and its vulnerability. We understand that dependence of the economic growth on use of natural resources must end. We at Krka encounter challenges responsibly by striving to use natural resources sustainably to a maximum effect. To this end, we have launched several projects and activities involving all our employees.

Water

Water is a natural resource of the strategic and vital importance for life. We tend to disregard the fact that water supply is limited. Fresh water resource availability is decreasing due to pollution, dropping ground water levels, and climate changes. Water is becoming a limiting factor and an indicator of inequality. More than 700 million people have no access to clean water. There are 28,000 km of watercourses in Slovenia, making the country rich in water. Rivers and streams have dynamic and rapid flows, abundance of species, and a great self-purification capacity. Water resources, however, are unevenly distributed and in certain places vulnerable because of the Karst terrain. We in Slovenia are privileged to have access to safe drinking water. We must therefore act responsibly, treat this most precious asset with respect, and sustain our water resources. We encourage our employees to drink tap water wherever working process makes this

possible. Drinking tap water is healthy and helps protect environment, as no plastic bottles are needed, which prevents waste accumulation.

Pharmaceutical industry is less intensive as regards water consumption than certain other industries, yet very strict water quality standards apply. As water consumption is a very important aspect of environmental protection, we consistently plan, monitor and control it. Many of our activities are aimed at maintaining the quality of water bodies at all our production sites. All water systems at Krka are managed in compliance with Good Manufacturing Practice (GMP) and the HACCP system.

Drinking and River Water Use

Our main water sources are:

- Drinking water from the municipal utility services; and
- River water.

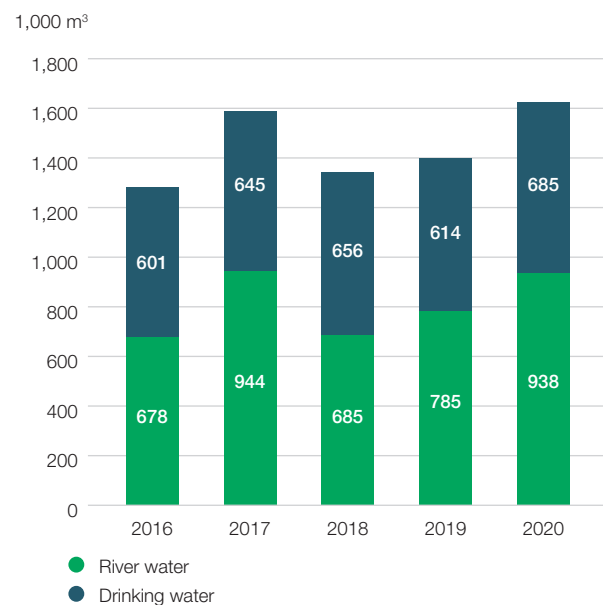
Drinking water consumption is monitored by a computerised control system, which records total flow rate and total consumption at the plant input and main user points. We can immediately identify any increase in drinking water consumption by close monitoring and investigate the underlying reasons. Drinking water supplied by municipal utility services is additionally purified depending on its purported use, most commonly using sophisticated membrane technologies. We comply with stringent requirements of pharmacopoeias. We strictly use water of officially controlled quality from the municipal water supply utility in production of pharmaceutical products. We must not use any other water despite most advanced preparation procedures. Water preparation and distribution are managed by a computerised system, which allows us to control the process and ensure that water used in our manufacturing is optimally prepared and consumed. Correct preventive maintenance, machine operation monitoring, and technological improvements ensure consistent water quality, extended useful life of the equipment, decreased water and chemical consumption, and reduced waste generation.

In 2020, we used 10.4% more drinking water than a year ago. In Šentjernej and Ljutomer, pre-treatment of drinking water was upgraded, and in Ločna (Novo mesto) reverse osmosis in central water preparation was replaced helping us to provide for more reliable system performance and increased yields. The installation of new devices required extensive cleaning jobs, disinfection, and tests of prepared water quality. This is why our water consumption in 2020 rose.

Approximately 50% of total river water is used for cooling by various heat exchangers, especially in API production, while the remaining quantity is used in the

preparation of technological waters for energy supply and production. We have been replacing adequately treated river water used in cooling towers by rainwater and clean rinsing water from production. In 2020, the river water consumption rose by 16.3% compared to 2019, mainly due to increased API production.

Drinking and River Water Use



Energy

Our main energy resources are:

- Natural gas;
- Liquid petroleum gas;
- Electric power; and
- Fuel oil as back-up fuel.

The electric power supply comes from the public utility electricity grid, from Krka's in-house generators powered by renewable sources such as the solar power station, and from the cogeneration plant operating on natural gas.

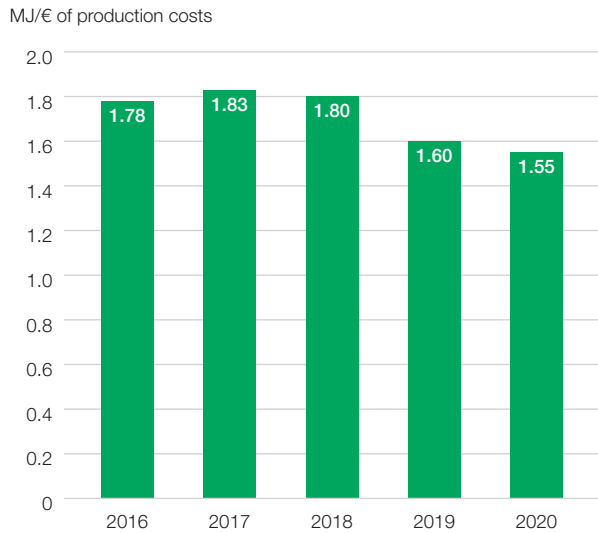
Specific Use of Energy

Specific use of energy portrays production costs in consideration of the physical volume of production.

Specific use of energy as regards production costs has not increased over the past few years. Despite the start of production in the new plants, the specific use of energy remained similar to the 2019 figure.

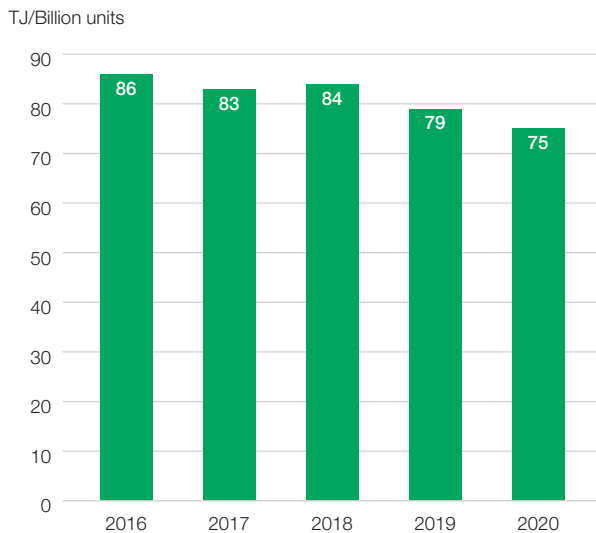


Specific Use of Energy by Production Costs



The specific use of energy in correlation to the physical production volume has not increased over the past few years thanks to many activities geared towards efficient energy use, energy efficiency investment, and energy efficient maintenance.

Specific Use of Energy by Production Volume



Energy Management

Energy management strategy is a part of the corporate strategy and comprises activities and actions for achieving cost-related and environmental objectives.

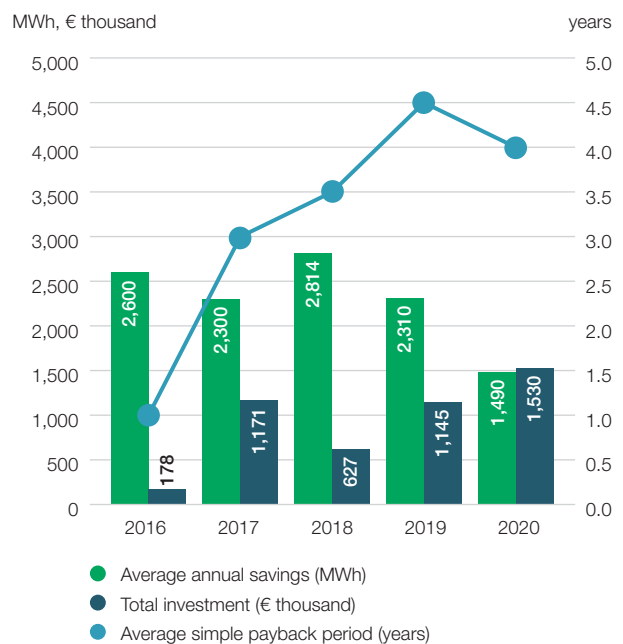
The strategy is incorporated into Krka's integrated management system and drafted in accordance with the principles of *ISO 50001 Energy Management System*. The Committee for Monitoring Environmental Aspects is responsible for periodic identification of energy-related aspects in accordance with *ISO 14001* and internal rules. In this way, we manage and refine our processes based on the principles of sustainable development and circular economy to maintain a high level of environmental protection.

Energy management system incorporates:

- Energy operators in production plants in Slovenia and abroad;
- A corporate energy manager, who supervises and coordinates the work of energy operators; and
- All employees, who are committed to an efficient and rational energy use pursuant to the environmental policy.

We continued with the implementation of the action plan and key measures identified during the comprehensive energy review at all production sites in Slovenia.

Multi-Year Survey of Implemented Measures and Their Effects on Energy Management



In accounting for an average simple payback period, only measures taken exclusively for economic viability were considered.

Besides natural processes, human activity importantly accelerates climate changes. Extreme weather and climate conditions are drastically changing our environment threatening all forms of life. Data monitored and published by the Slovenian Environment Agency (ARSO) show that climate in Slovenia has changed. Only by adapting to the new reality can we reduce our vulnerability and environmental damage due to climate changes and contribute to environmental conservation. We finished a pilot project on an in-depth analysis of efficient energy use at our production plant and building for product development and control. We pursued two basic aims: to find out viable options for more efficient energy use with end-users of power and water, and prepare guidelines for improving internal standards on project design for long-term reduction of our carbon footprint. We have been dealing with specific use of energy for years and constantly optimising our specific water and energy consumption. Even so, the pilot project showed opportunities for further improvement of the efficient energy use in technology, HVAC system design and regulation, and purified water use. In order to manage energy more actively, we intend to continuously upgrade monitoring and targeting of energy and water consumption. All project findings will help us achieve energy excellence of the company.

Energy Management Control System

Energy management control system is the key information tool for supporting the energy management system and supplementing the computer system for monitoring and control. In 2020, measurements were added to the system to increase transparency of mass and energy flows in the company. We upgraded it with new tools.

Optimisation of Air-Conditioning System Operation

The concept, planning, design, regulation, control and operation of air-conditioning (HVAC) systems are among deciding factors of an efficient end use of energy in production and non-production facilities. HVAC systems impact approximately 60% of end use of energy at Krka. In order to enhance energy efficiency, we intensified the control of operating parameters. We continued new projects on dry air preparation using dehumidification technology with glycol refrigeration, which replaced outdated and energy inefficient drying wheel systems.

Replacement of the Steam Boiler at the Bršljin Department

We refurbished the boiler room at our Bršljin production plant. When the main boiler failed, we replaced the small old boiler of inadequate capacity with a new more energy efficient boiler of higher capacity. We selected the best available technology for first and second stage heat recovery with flue gas condensation and a burner with NOx emissions under 90 mg/m³, which is below legal requirements. Energy utilisation rate went up from 89% to 99.4%, while primary energy resource consumption dropped by 250 MWh per year. The project was launched in 2019.

Replacement of the 8-Bar Air Compressor at Ločna (Novo mesto)

At the Ločna compressor station, we started replacing the high-pressure compressor in order to achieve more reliable and efficient supply of 8-bar compressed air. The old compressor was worn out failing to produce the required parameters and meet the energy efficiency requirements. Cost analysis was made in consideration of the entire lifecycle. According to it, we selected the optimal available technology for improving energy efficiency in compressed air preparation. This will help us save 200 MWh of electric power a year, corresponding to annual consumption in more than 32 average Slovenian households.

Installation of Air Cooling Unit at the Beta Department in Šentjernej

In 2018, we completed the comprehensive energy audit of the Beta Department in Šentjernej. We identified potentials for reducing energy use and cooling cost based on the audit and detailed internal analyses. In 2020, we installed a small cooling unit that cools the building in the periods of low cooling demand. It operates also during regular annual overhauls. This investment reduced our electric energy consumption for cooling by 140 MWh per year.

Replacement of FLUO Lighting with LED Lights at the Ljutomer Department

When we refurbished temporary storerooms at our plant in Ljutomer, we upgraded the lighting system. FLUO lights used a lot of energy. They required more maintenance interventions and generated higher operating costs compared to modern LED lights. This investment improved illumination of rooms and work surfaces. We recorded energy savings of 60 MWh per year, which is equal to energy consumption of more than 14 average households in Slovenia.



Recovery of Waste Heat

To comply with our environmental and energy policies and internal standards, we make constant and considerable effort to maximise the recovery of heat generated as a by-product in various processes. We use waste heat from the compressed air station, flue gases from steam boilers, vapours from the steam boiler system, and condensed heat from cooling units and cogeneration to prepare heating water. Because of this, preparation of heating water requires 54% (or 24 GWh) less natural gas.

By systematically implementing measures and investing in energy efficiency improvements in recent years, we have achieved average electricity and natural gas savings of more than 50 GWh per year. This means that we have reduced our CO₂ emissions by 17,000 tonnes. The impact of the reduction is comparable to planting 85,000 trees.

Biodiversity

Biodiversity is the variety of plant and animal species necessary for balanced functioning of all ecosystems and human life on Earth. This natural phenomenon should be maintained in terrestrial, marine, and other aquatic ecosystems and ecological complexes, within species and between species, and ecosystems. We are a part of nature and strongly depend on biodiversity, which is necessary for our food, energy, and raw material supplies. GDP depends on nature in more than 50%. Based on the *Living Planet Index* (LPI), the *Living Planet Report 2020* is a comprehensive study on the balance in nature. According to it, unsustainable ways of human activities have caused global population of mammals, birds, amphibians, reptiles, and fish to plunge by two thirds over less than half a century. In 2020, the European Commission (EC) passed *The EU Biodiversity Strategy to 2030* addressing the drastic decline in biodiversity and called for an urgent plan to protect the nature and reverse the degradation process. If the nature is to heal, each and every one of us must act immediately. Krka plans to follow and implement all guidelines and requirements of the European and national legislations governing the issue. We aim to inform employees at internal training courses on the importance of biodiversity, because every person can significantly help improve the present state.

Biodiversity in Slovenia is among the greatest in the European Union. By signing the *Convention on Biological Diversity*, Slovenia undertook to comply with international recommendations and guidelines on the protection of species and ecosystems.

Slovenia has about 22,000 registered plant and animal species. Scientists believe there are between 50,000 and 120,000 plant and animal species in Slovenia. A significant number, 850, of species is endemic to Slovenia, and cannot be found anywhere else. They need our special protection to prevent their extinction.

Much like in other parts of Europe, biodiversity of freshwater ecosystems is at greatest risk. Unfortunately, systematic biodiversity evaluation of watercourses as ecosystems in Slovenia has not been established yet. Therefore, we observe various publications and reports issued 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. In 2021, the European Environment Agency (EEA) plans to issue a new 2013–2018 assessment of biodiversity and nature in compliance with the EU *Bird and Habitats Directives*.

The area around the Krka River is important as it is a natural habitat of several water and riparian plant and animal species, especially fish, amphibians and birds. As such it is defined as an ecologically important area (EIA) and protected as a Natura 2000 site. According to the *Nature Conservation Act*, EIA is an area of the habitat or a large ecosystem unit, which importantly contributes to biodiversity. The European Union's Natura 2000 network, established under the *Decree on Special Protection Areas*, aims to ensure long-term survival of Europe's most threatened species and habitats. In Slovenia, it occupies 41.4% of the territory. Threatened species are known to live in our local Natura 2000 environment. These include several fish species such as the asp, huchen, and cactus roach, the thick-shelled river mussel, the olm, as well as the European otter and beaver, which are often spotted along the Krka watercourse. Historically, the last reports on beaver population in Slovenia date from the 18th century. Beavers reappeared in 1998 in the Radulja Stream in the Krka Basin and several years later in the Dobličica River in the region of Bela Krajina. The number of beaver couches along the Krka River has been rapidly increasing.

All Krka industrial buildings are concentrated within their respective sites and do not sprawl into ecologically sensitive areas. We comply with the strictest environmental requirements for the existing buildings and newly planned ones. The river water catchment 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 areas of our Ljutomer and Krško plants are not included in the Natura 2000 network. Nevertheless, all wastewater is treated appropriately at the municipal



wastewater treatment plant in Ljutomer and the Vipap wastewater treatment plant in Krško so that we do not endanger biodiversity with our emissions.

Our sustainable environmental protection and consistent compliance with legal requirements at all our production sites ensure the preservation of the ecological, biotic and landscape principles of the natural world.

Transport

We use all means of transport in our logistic processes. Transport is organised through our in-house transport department. We use our own vehicles or employ contractual carriers. Our products are mostly transported to European and Asian markets.

We use most modern vehicles for road transport with environmentally sound engines. By employing new vehicles with latest drive units, we reduced the average fuel consumption by 0.4% on 2019 (also by using thermal power units in trucks). We supply products to distant markets by sea or by air.

In 2020, we successfully passed road transport test drives to find the alternative routes to China. The average transport time along the route from Shanghai to Novo mesto was 20 days. We successfully carried out all transport despite reduced air and maritime transport capacities and restricted traffic in the time of the COVID-19 pandemic.

In 2020, we organised transport for 11,460 shipments of finished products, raw materials and packaging materials. Total mileage by our own vehicles reached 2,040,000 km, passing the 2 million mark for the first time. We continued to modernise our fleet of vehicles and organised training for vehicle operators.

Last year, the competent national bodies for transport control found no violations of the legislation. All our carriers and other parties involved in transport regularly attend annual training courses. We closely follow and comply with the requirements of the laws governing transport of the pharmaceutical products. We pay special attention to duly informing all our contractual carriers and their drivers about the requirements and characteristics of transporting pharmaceutical products.

Krka's fleet comprises 19 vehicles and is regularly renewed. 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 add to better traffic safety.

In 2020, we added three new electric vehicles (now totalling seven) to our personal carpool. At two sites, we have eight charging stations. New cars are used by employees for business trips, while the remaining four are used for rendering services at our sites. We intend to buy new electric cars also in the future. When possible, we substitute business travel by teleconferencing or video conferencing to minimise fuel consumption and air pollution.

For the fifth consecutive year, we participated in the European Mobility Week with our campaign Krka Car-Free Day that aims to promote sustainable mobility activities. We included them in *Krka's Mobility Plan*. It encourages the use of alternative and less environmentally harmful ways of commuting. We know that every day each Krka employee can contribute to maintaining our living environment healthy. In 2020, it was especially important to keep green mobility safe. We therefore regularly informed employees of the importance to consider guidelines and measures for health protection not only at the work place, but also when commuting. Throughout the year, we called for attention about the importance of sustainable mobility also in our internal printed and electronic media.

Emissions

Wastewater

All EU member states are obliged to keep their waters in good condition. Quality of Slovenian river water has been improving thanks to tighter legislation, construction of new and improvement of existing water treatment plants and decreasing emissions of untreated wastewater. Wastewater treatment protects surface and ground water from organic and microbiological pollution and contamination by nitric and phosphorus substances. One of our top environmental protection priorities is therefore ensuring the most comprehensive and effective treatment. We use various physical, chemical and biological processes to remove pollutants from wastewater. Our specialists in chemistry, chemical engineering, microbiology, mechanical engineering, sanitary engineering and other professions compose teams that work to preserve long-term water quality at all Krka production sites. 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 subcontractor carries out wastewater monitoring. Its frequency and scope are defined in individual permits.

Wastewater in Ločna, Novo mesto, is treated at our advanced in-house industrial wastewater treatment plant using best available technologies to meet the requirements, while wastewater from dislocated plants is treated at highly efficient municipal wastewater treatment plants. The effective treatment procedures reduce industrial wastewater quantities and pollution at all stages of the production process. We consider all environmental protection permits and legislative requirements for emissions of substances and heat in discharge water already at the development stage of a product and opt for technologies that use lowest quantities of water possible. Advanced water preparation technologies, closed cooling systems, and other methods are used for saving water in production. Whenever possible, we use raw materials and excipients that are less harmful to water. At all our production sites, wastewater is treated in compliance with all legislative parameters for effluents before discharging into rivers.

Our plant in Ločna generates industrial, municipal and cooling wastewater. We treat industrial and municipal wastewater at the in-house biological wastewater treatment plant. Over the past few years, it was upgraded and technology professionally managed, so the quality of effluents is high and in compliance with all legal requirements. Last year, we treated 779,671 m³ of wastewater. The wastewater volume increased by 5.5% on 2019. Organic pollution expressed by chemical oxygen demand was cleaned in 92.8%, while removal of organic pollution expressed by biochemical oxygen demand within 5 days reached 99%. We generated 515,590 m³ of cooling water that were not polluted and were discharged into the Krka River through a cooling-and-rainwater discharge system.

Our plant in Bršljin generates industrial and municipal wastewaters, which are discharged by the public sewerage system and treated at the municipal wastewater treatment plant in Novo mesto. In 2020, we generated a total of 21,758 m³ of wastewater.

Our plant in Šentjernej generates industrial and municipal wastewaters. Effluents are discharged by the public sewerage system and treated at the common municipal wastewater treatment plant in Šentjernej. In 2020, we generated a total of 12,605 m³ of wastewater.

Our plant in Ljutomer generates industrial, municipal, and cooling wastewaters. Effluents are discharged by the public sewerage system and treated at the common municipal wastewater treatment plant in Ljutomer. In 2020, we generated a total of 28,386 m³ of wastewater.

Our plant in Krško 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 2020, we generated a total of 29,319 m³ of wastewater. Construction of an in-house water treatment plant is planned at the site and we have already prepared project design documents. In 2020, we submitted a request for an environmental protection permit to the administrative body.

We reduced total environmental load units (ELU) of wastewater by 496 ELU or 28.6%, the most (28.8%) at the in-house wastewater treatment plant in Ločna.

According to various sources, the proportion of active pharmaceutical ingredients discharged into water from pharmaceutical industry is far lower than the proportion of these substances released into water by end users. Nevertheless, we supplemented this well managed aspect of wastewater treatment with risk assessments for individual active pharmaceutical ingredients and other substances. We assess the impact of wastewater on water environment to minimise any related risks. 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 data on the familiar water environment. Based on most recent studies and other credible technical information, we regularly control and update the calculations and apply them to wastewater and waste management. Complex analytical methods for monitoring substance concentrations in wastewater were developed together with our external partners for several active pharmaceutical ingredients that present an increased environmental risk.

Environmental load units (ELU) represent the prescribed 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.



Wastewater Management

Environmental load units (ELU)



Waste

The most important step in waste management is to prevent waste generation or reduce its volume at the source. This can be achieved by improved development of technological procedures and production, use of recovered solvents, pallet reuse, and many other measures. *Waste management plan* details the entire system of waste management in compliance with legislative guidelines and requirements.

We are committed to restricting waste generation and prioritising reusable waste preparation. Waste is an important source of raw materials and energy, so special attention is paid to separating waste at the source, i.e. at the point where it is generated. We have set up a waste management system that relies on advanced equipment for separated collection, pressing, and waste transportation. All employees take part in the process.

We achieved the set goals by constantly improving the waste management system and increasing the quantity of separately collected waste materials. We reduced the amount of waste disposed at landfills by 10 tonnes compared to 2019 despite an increase in production.

We have the system in place for separated collection of aluminium and plastic composite materials. We separately collected 420 tonnes of waste and handed it over to a waste processing plant, which recovered 154 tonnes of aluminium and 245 tonnes of plastic for further processing. In doing so, we contributed to the circular economy in waste management.

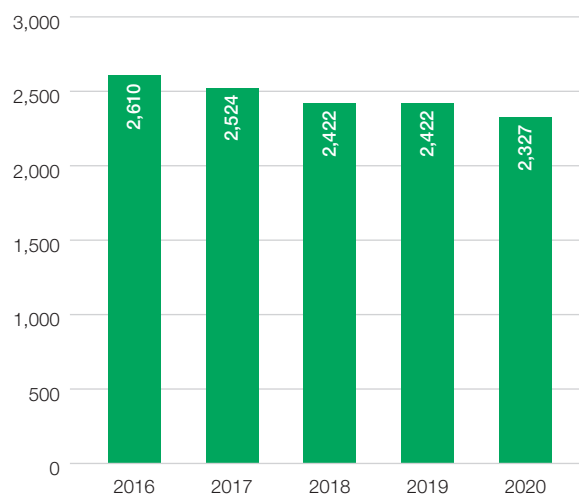
Risks related to the reception and removal of certain types of waste in Slovenia persisted in 2020. To manage the identified risks more efficiently, we diversified our waste management channels and extended cooperation to several waste collection and removal companies in Slovenia and abroad.

Good results can only be achieved if all employees work responsibly, so an important part of our activities was also providing regular waste management training.



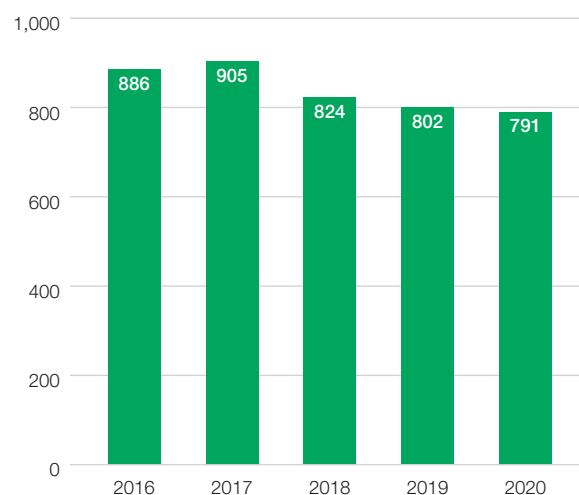
Recyclable Waste

In tonnes

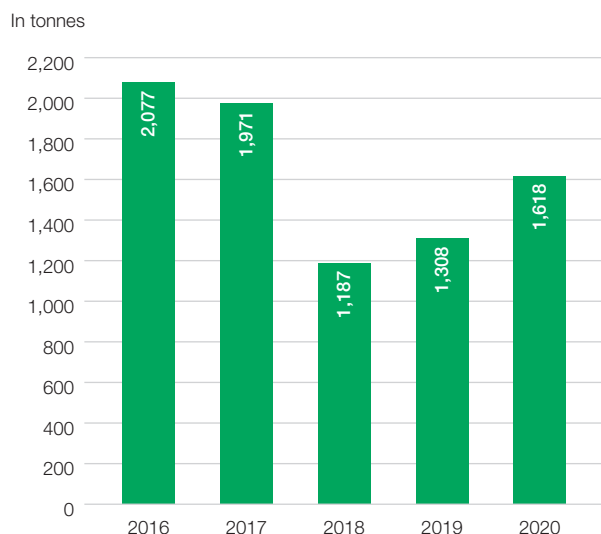


Waste Disposed at Landfills

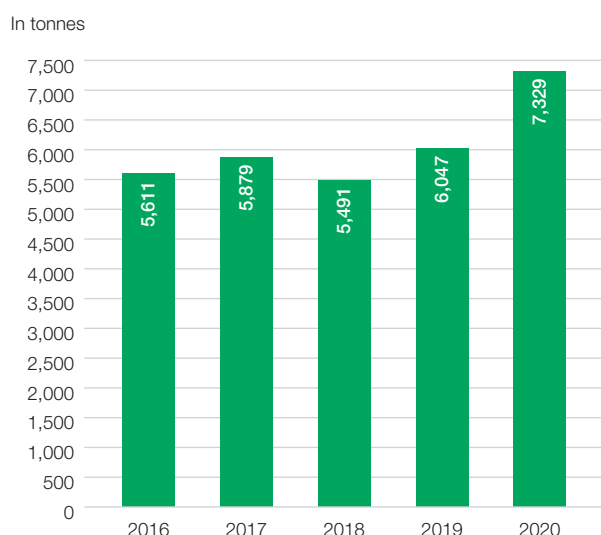
In tonnes



Waste for Biological Processing



Waste for Incineration



Noise



Noise is any disturbing, unpleasant sound that has an adverse impact on human health or well-being or on the environment. According to the estimate by the European Environment Agency (EEA), 20% of the European population translating to more than 100 million people are exposed to long-term health-damaging noise levels. Despite its versatile activities, the industry is among minor noise polluters. We minimise noise emissions by suitable equipment, installing the equipment in closed rooms, setting up noise barriers, fitting cargo vehicles with electrical cooling units, and moving cargo vehicle docks to the inner areas of the production sites. In compliance

with the regulation on environmental noise indicators, we measure noise levels every three years and when an alteration is made that could increase them. We implement all necessary measures to ensure that results comply with legal requirements. Monitoring results at all our sites confirm this.

In 2020, we received two complaints from local residents regarding excessive noise levels at our warehouse in Gotna vas and the Ljutomer Department. We did everything in our power to resolve the problem at Gotna vas and sent a reply to the party. We received no new complaints. At the Ljutomer plant, we carried out further and more extensive noise measurements in addition to regular noise monitoring. They showed that noise levels were significantly below the legal thresholds. We sent an explanation in writing to the party.

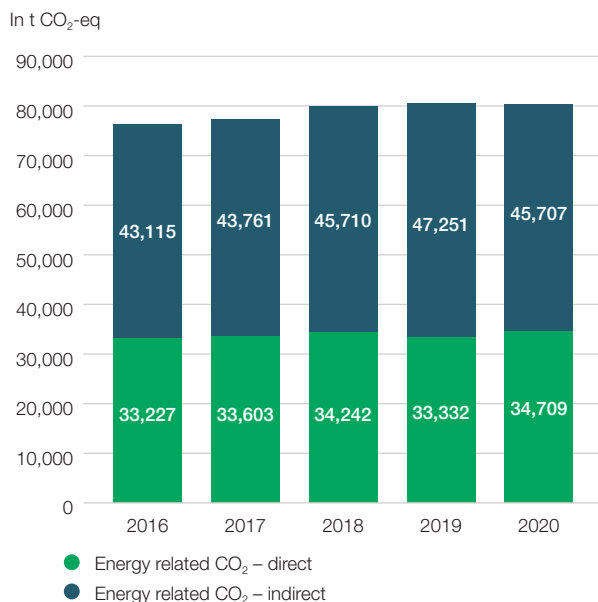
Air Emissions

Air pollution by sulphur dioxide, nitrogen oxide, carbon monoxide, ozone and particulate matter impacts our health and quality of life more than any other environmental factor. In Europe, it represents the greatest environmental health risk. European industry significantly reduced air emissions over the past decades due to stricter legislative requirements and improvements in energy efficiency. Reduction of air emissions is also our environmental protection priority. Besides legal requirements, we also comply with the strict requirements for pharmaceutical industry to prevent any cross-contamination. We reduce air emissions with treatment systems fitted to all outlets that 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 levels or levels allowed for by best available technology. We treat waste air by advanced devices for thermal oxidation. The third thermal oxidizer was installed in 2019 at our production site in Ločna. We started it up in 2020. A thermal oxidizer is also installed at our production plant in Krško. This technological solution is highly efficient in eliminating organic matter and minimises its emissions into the air.

Slovenia and certain other European countries still have the problem of bad and at times excessive air pollution with PM₁₀ and certain other pollutants, for example PM_{2.5}, nitrogen dioxide, ozone, and benzo(a)pyrene. PM₁₀ represents health hazard as particles travel deep into the lungs causing many health issues. They also adversely affect the environment and cause damage to various materials. At Krka, absolute air filtration is applied to all airborne particle emissions, making sure that all particulate

matter, or at least over 99.7% of all particles, are removed. This means that our air emissions are not polluted by particulate matter and do not increase air pollution with PM₁₀.

Air Emissions



We generate direct emissions of CO₂ by using fuels and emitting ozone depleting substances from our cooling devices, and indirect emissions by exploiting electric power from the public utility electricity grid, which is produced by burning fossil fuels at thermal power plants. Indirect and direct CO₂ emissions remained at similar levels as in 2019, even though production increased.

As our production site in Ločna is included in the EU emissions trading scheme, we report on our emissions to the Ministry of the Environment and Spatial Planning in accordance with the relevant legislation.

Electromagnetic Radiation (EMR)

Electromagnetic radiation is a natural phenomenon and is universally present in our living environment. However, extended electric power grids and appliances also emit high-level electromagnetic radiation that proves harmful for living organisms. Generally, natural electromagnetic fields are not strong enough to cause any damaging effects on health. We follow legislation that regulates EMR and carry out measurements.

At our central site in Ločna, Novo mesto, we have identified sources of high- and low-frequency electromagnetic radiation. They include base stations

for cell phones, signal amplifier systems inside buildings, transformer stations and power sources used in production, and medium-voltage power lines and connections. The results of initial measurements indicate that radiation burdens of identified sources were below thresholds set by laws.

We also follow laws on electromagnetic radiation at our other production and business sites in Slovenia, even though there are no base stations for cell phones there, making them less intense energy-wise.

Light Pollution

According to legal definitions, light pollution is emission of light from anthropogenic sources in the night environment that reduces natural darkness and causes health problems, prevents visibility of stars in urban settlements, disturbs astronomic observations, wastes energy, and affects ecological systems.

Parking areas, traffic routes (i.e. roads and pedestrian areas), transport and warehousing facilities at our production and business sites in Slovenia are lit with outdoor lighting. Our sign boards and billboards are also illuminated. Automated switching of the outdoor lighting, sign boards, and billboards is regulated by the astronomical clock. We separately measure consumption of electric power for outdoor lighting at our major sites.

Six years ago, we responsibly started upgrading outdoor lighting and have over the course of time essentially reduced total rated electric power. In Ločna, Novo mesto, we replaced old lamps in 2015 and 2016, and recorded a 47% decrease in rated power. Last year, 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

The European Union has set strict environmental standards for all member states. We comply with them to the highest possible extent on all global markets. We also incorporate the responsibility to our natural environment in various activities performed by subsidiaries abroad. We apply the 'function-for-function' principle in coordination of the environmental management systems.

We transfer good environmental protection practices to all subsidiaries by permanent cooperation, information exchange, and investment, and consider national legislation in the process. We have set up efficient separate waste collection systems, and hand waste

over exclusively to authorised waste collection and treatment companies. Wastewater generated in the production of highly potent active ingredients at our plant in Jastrebarsko, Croatia, is treated at the in-house wastewater treatment plant using advanced oxidation processes (AOP) with a 99.9% degradation of active substances. In 2019, we completed the construction of an in-house wastewater membrane biological wastewater treatment plant in Krka-Rus in the Russian Federation and started it up last year. We expanded and upgraded the wastewater treatment system in the Šmarješke Toplice resort and significantly improved quality of effluent discharged into the Toplica stream. Wastewater from other production plants and companies is discharged to modern municipal wastewater treatment plants.

To reduce emissions, we install highly efficient absolute filtration devices on units emitting particulate matter. We transfer good practices in the rational use of energy and water to subsidiaries.

We upgraded the energy management systems in our subsidiaries Krka-Rus in the Russian Federation and Krka - Polska in Poland by additional energy flow metres and implemented data in Krka's energy management control system. In Krka - Polska we replaced the obsolete cooling station. During the renovation, we built in two more energy efficient cooling units and introduced monitoring of cooling efficiency.

Environmental Communication

We know that each employee can contribute to good environmental protection results. We therefore require from them to constantly upgrade their knowledge and consciously handle the environment. We encourage them to save energy, print rationally, separate waste, etc. We notably improved response by individuals and groups by regularly raising awareness through our internal communication campaign Your Care for the Environment Counts, and further reduced our impact on the environment.

Responsible environmental management is included in the induction seminar for newly recruited employees and in the national vocational qualification programmes. We included courses on comprehensive environmental management in the *Catalogue of Training Programmes* in addition to courses on waste, wastewater, noise, air emissions, and light pollution. In 2020, the environment-related training courses were attended by 396 employees. This slight drop on 2019 was recorded because we were unable to organise all courses due to the COVID-19 pandemic. Already in the first half of 2020, we transferred

certain environment-related content online, and the remaining topics have been available online since the beginning of 2021. Articles on environmental protection are published in our internal magazine, the *Utrip*, while notices and advice on environmental issues are published in our internal bulletin, the *Bilten*, and on internal web pages. We try to transfer habits and actions reflecting high environmental consciousness to personal lives of all Krka employees. Every person can contribute much more than waste separation to clean environment. We regularly raise awareness of our employees and encourage them to adopt responsible attitude to the environment in their lifestyle, no matter where. We can decrease human imprint by saving water and electricity, recycling waste, honouring protected areas, avoiding invasive species, riding bicycles, planting trees for shade, or setting a good example to others. Every contribution counts.

We inform the public about our environmental activities via public announcements in the media and at various seminars, symposia and round tables. We actively engage in drafting environmental legislation and are also co-founders and active members of the Environment and Energy Section of the Dolenjska and Bela Krajina Chamber of Commerce and Industry. We cooperate closely with professional and scientific organisations in Slovenia and abroad.

Sustainable improvement of the environment also depends on good relationships with the representatives of the social environment, especially with our closest neighbours, because we impact their living space and the quality of life. We are responsible to the local community as we share the environment. In March 2019, we organised the traditional bi-annual meeting for local residents. We provided them with information on our activities, performance, and plans related to environmental protection. Such meetings offer an ideal opportunity for an open dialogue and exchange of opinions. We learn what the locals think and what our role in environmental protection is, and consider this when planning environmental goals and programmes. Publicly available information on environmental protection is published on www.krka.biz.

Krka's Sustainable Development Indicators

ENVIRONMENTAL DATA		2020	2019	2018	2017	2016
Water consumption (total)	m³	1,623,046	1,399,303	1,341,333	1,588,474	1,279,065
Drinking water	m ³	684,950	613,919	655,837	644,577	600,781
River water	m ³	938,096	785,384	685,496	943,897	678,284
Energy (total)	GJ¹	969,833	956,577	961,319	935,484	910,031
Electric power	GJ	344,957	356,610	344,983	330,274	313,560
Natural gas	GJ	604,287	580,048	595,739	588,121	569,831
Liquid petroleum gas	GJ	20,564	19,409	20,214	17,029	22,975
Fuel oil (extra light)	GJ	26	510	383	60	3,665
Generated electric power – alternative sources (total)	GJ	48,294	39,482	46,909	46,014	49,855
Solar power plant	GJ	280	252	223	258	238
Cogeneration	GJ	48,014	39,230	46,686	45,756	49,617
Energy intensity						
Specific use of energy	MJ/€	1.55	1.60	1.80	1.83	1.78
Specific use of energy	TJ/billion units	74.8	79.4	83.6	82.8	85.9
Wastewater (total)	m³	1,388,829	1,225,003	1,150,578	1,376,629	1,123,735
Cooling water	m ³	517,090	392,490	298,137	509,091	315,987
Industrial wastewater	m ³	871,739	832,513	852,441	867,538	807,748
– Suspended solids load	t	10.3	23.9	16.1	24.3	25.9
– Biochemical oxygen demand	t	7.0	6.9	5.0	5.8	3.7
– Chemical oxygen demand	t	42.1	57.5	38.4	43.6	67.4
– Nitrogen	t	2.9	4.9	4.8	3.9	4.1
– Phosphorus	t	0.6	0.7	0.6	0.6	0.7
Environmental load units (ELU) ²	ELU	1,241	1,737	1,286	1,359	1,977
Waste (total)	t	12,512	11,091	10,312	11,541	11,472
Hazardous waste (total)	t	7,329	6,047	5,491	5,879	5,611
– Solid waste	t	889	789	670	718	735
– Liquid waste	t	6,440	5,258	4,821	5,161	4,876
Non-hazardous waste (subtotal)	t	5,183	5,044	4,821	5,662	5,816
Disposal at landfills (subtotal)	t	791	802	824	905	886
– Mixed waste (disposal)	t	791	802	824	905	886
– Biomass (disposal)	t	0	0	0	0	0
Mixed waste (energy use and processing)	t	427	489	371	246	228
Biomass (composting)	t	1,618	1,308	1,187	1,971	2,077
Recycling waste (total)	t	2,327	2,422	2,422	2,524	2,610
– Paper	t	1,273	1,221	1,191	1,097	1,038
– Plastics	t	380	401	432	392	295
– Glass	t	135	136	125	132	118
– Metal	t	150	239	201	193	436
– Wood	t	389	425	473	710	723
Electric and electronic equipment	t	20	23	17	16	15

ENVIRONMENTAL DATA		2020	2019	2018	2017	2016
Air emissions						
Energy related CO ₂ – direct	t CO ₂ -eq ³	34,709	33,332	34,242	33,603	33,227
Energy related CO ₂ – indirect	t CO ₂ -eq ³	45,707	47,251	45,710	43,761	43,115
Energy related SO ₂	t	1	1	1	1	1
Energy related NO _x	t	27.9	26.8	27.6	27	28
Ozone-depleting substances and fluorinated greenhouse gases	t CO ₂ -eq	2,501	1,744	1,954	2,267	2,366
Compliance						
Extraordinary events related to environment		0	0	3	0	0
Environmental protection (total)	€ thousand	10,056	7,672	6,738	6,585	6,004
Environmental protection costs	€ thousand	6,357	5,517	5,107	4,882	4,540
Investments in environmental programmes	€ thousand	3,699	2,155	1,631	1,703	1,464
SOCIETY						
Number of employees		6,191	5,907	5,496	5,020	4,889
Slovenia		5,679	5,386	4,995	4,514	4,343
Representative offices abroad		512	521	501	506	546
Health and safety⁴						
Number of accidents		21	27	18	27	21
Lost time accident rate (LTAR)		2.3	2.8	1.9	3.3	2.9
Proportion of disabled employees	%	4.9	5.3	5.4	5.5	5.1
Education and training						
Number of education and training hours	hour/employee	32	41	42	42	37
Education and training cost	€/employee	667	897	881	862	854

¹ The calculation of GJ was based on net calorific values published on the website of the Slovenian Environment Agency.

² Environmental load units (ELU) indicate the annual load on the environment due to the discharge of wastewater 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 (The Rules on Initial Measurements and Operational Monitoring of Wastewater; Official Gazette of the Republic of Slovenia No. 94/14, as amended, No. 98/15).

³ The calculation of tonnes of CO₂ was based on the emission factors published on the website of the Slovenian Environment Agency.

⁴ Due to the changed evaluation methodology, we have not included the sick leave rate indicator among the 2020 indicators shown above, as the data was collected using two different methods and therefore cannot be compared. The sick leave rate indicator will be included in the 2021 Annual Report.

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Introduction to 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 related Notes of Krka, d. d., Novo mesto (hereinafter also '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 *2020 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 ERNST & YOUNG Revizija, poslovno svetovanje, 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 so as to provide the general public with a true and fair view of the financial position and the results of operations of the Company and its subsidiaries in 2020.

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 *IFRSs*, as adopted by the European Union.

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, 22 March 2021

Management Board
Krka, d. d., Novo mesto

Consolidated Financial Statements of the Krka Group

Consolidated Statement of Financial Position

€ thousand	Notes	31 Dec 2020	31 Dec 2019	Index 2020/19
Assets				
Property, plant and equipment	12	807,824	862,848	94
Intangible assets	13	107,371	109,082	98
Loans	14	15,376	10,908	141
Investments	15	10,420	9,681	108
Deferred tax assets	16	48,969	48,825	100
Other non-current assets		1,038	489	212
Total non-current assets		990,998	1,041,833	95
Assets held for sale		41	41	100
Inventories	17	453,690	421,578	108
Contract assets		1,644	1,874	88
Trade receivables	18	383,560	434,695	88
Other receivables	18	27,768	31,924	87
Loans	14	54,774	31,832	172
Investments	15	9,499	2,174	437
Cash and cash equivalents	19	313,568	218,667	143
Total current assets		1,244,544	1,142,785	109
Total assets		2,235,542	2,184,618	102
Equity				
Share capital	20	54,732	54,732	100
Treasury shares	20	-99,279	-73,774	135
Reserves	20	103,595	129,871	80
Retained earnings	20	1,684,285	1,553,489	108
Total equity holders of the controlling company		1,743,333	1,664,318	105
Non-controlling interests	20	8,479	3,198	265
Total equity		1,751,812	1,667,516	105
Liabilities				
Provisions	22	134,686	120,403	112
Deferred revenue	23	7,804	8,709	90
Trade payables	24	10,006	10,000	100
Lease liabilities	28	9,121	10,201	89
Deferred tax liabilities	16	11,179	11,592	96
Total non-current liabilities		172,796	160,905	107
Trade payables	24	107,116	128,560	83
Borrowings		0	3	0
Lease liabilities	28	2,712	2,799	97
Income tax payable		15,748	18,824	84
Contract liabilities	25	106,299	123,312	86
Other current liabilities	26	79,059	82,699	96
Total current liabilities		310,934	356,197	87
Total liabilities		483,730	517,102	94
Total equity and liabilities		2,235,542	2,184,618	102

The accompanying Notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated Income Statement

€ thousand	Notes	2020	2019	Index 2020/19
Revenue		1,534,941	1,493,409	103
– Revenue from contracts with customers	5	1,531,674	1,490,090	103
– Other revenue		3,267	3,319	98
Cost of goods sold		-623,616	-646,048	97
Gross profit		911,325	847,361	108
Other operating income	6	10,495	13,709	77
Selling and distribution expenses		-291,203	-350,327	83
– Of that net impairments and write-offs of receivables		3,206	333	963
R&D expenses		-153,447	-152,421	101
General and administrative expenses		-86,426	-84,127	103
Operating profit		390,744	274,195	143
Financial income	10	23,259	24,987	93
Financial expenses	10	-75,011	-14,814	506
Net financial result		-51,752	10,173	
Profit before tax		338,992	284,368	119
Income tax	11	-50,043	-40,096	125
Net profit		288,949	244,272	118
Attributable to:				
– Equity holders of the controlling company		290,995	245,545	119
– Non-controlling interests		-2,046	-1,273	161
Basic earnings per share (€)	21	9.27	7.73	120
Diluted earnings per share (€)	21	9.27	7.73	120

The accompanying Notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated Statement of Other Comprehensive Income

€ thousand	Notes	2020	2019	Index 2020/19
Net profit		288,949	244,272	118
Other comprehensive income for the year				
Other comprehensive income reclassified to profit or loss at a future date				
Translation reserve	20	-43,726	19,151	
Net other comprehensive income reclassified to profit or loss at a future date		-43,726	19,151	
Other comprehensive income that will not be reclassified to profit or loss at a future date				
Change in fair value of financial assets		739	292	253
Restatement of post-employment benefits	22	-11,271	-17,034	66
Deferred tax effect		873	1,644	53
Net other comprehensive income that will not be reclassified to profit or loss at a future date		-9,659	-15,098	64
Total other comprehensive income (net of tax)		-53,385	4,053	
Total comprehensive income (net of tax)		235,564	248,325	95
Attributable to:				
– Equity holders of the controlling company		237,689	249,565	95
– Non-controlling interests		-2,125	-1,240	171

The accompanying Notes are 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 for treasury shares	Share premium	Legal reserves
At 1 Jan 2020	54,732	-73,774	73,774	105,897	14,990
Net profit	0	0	0	0	0
Total other comprehensive income (net of tax)	0	0	0	0	0
Total comprehensive income (net of tax)	0	0	0	0	0
Transactions with owners, recognised in equity					
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0
Repurchase of treasury shares	0	-25,505	0	0	0
Formation of reserves for treasury shares	0	0	25,505	0	0
Acquisition of a stake in Farma GRS	0	0	0	0	0
Dividends paid	0	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0	0
Total transactions with owners, recognised in equity	0	-25,505	25,505	0	0
At 31 Dec 2020	54,732	-99,279	99,279	105,897	14,990

€ thousand	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves
At 1 Jan 2019	54,732	-52,076	52,076	105,897	14,990
Net profit	0	0	0	0	0
Total other comprehensive income (net of tax)	0	0	0	0	0
Total comprehensive income (net of tax)	0	0	0	0	0
Transactions with owners, recognised in equity					
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0
Transfer of previous period's profits to retained earnings	0	0	0	0	0
Repurchase of treasury shares	0	-21,698	0	0	0
Formation of reserves for treasury shares	0	0	21,698	0	0
Other – TAD Pharma	0	0	0	0	0
Acquisition of a stake in Golf Grad Otočec	0	0	0	0	0
Dividends paid	0	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0	0
Total transactions with owners, recognised in equity	0	-21,698	21,698	0	0
At 31 Dec 2019	54,732	-73,774	73,774	105,897	14,990

The accompanying Notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Reserves			Retained earnings			Total equity holders of the controlling company	Non-controlling interests	Total equity
Statutory reserves	Fair value reserve	Translation reserve	Other profit reserves	Retained earnings	Profit for the year			
30,000	-26,925	-67,865	1,211,292	118,350	223,847	1,664,318	3,198	1,667,516
0	0	0	0	0	290,995	290,995	-2,046	288,949
0	-8,134	-43,647	0	-1,525	0	-53,306	-79	-53,385
0	-8,134	-43,647	0	-1,525	290,995	237,689	-2,125	235,564
0	0	0	68,798	-68,798	0	0	0	0
0	0	0	0	223,847	-223,847	0	0	0
0	0	0	0	0	0	-25,505	0	-25,505
0	0	0	0	0	-25,505	0	0	0
0	0	0	0	105	0	105	-109	-4
0	0	0	0	-133,274	0	-133,274	0	-133,274
0	0	0	0	0	0	0	7,515	7,515
0	0	0	68,798	21,880	-249,352	-158,674	7,406	-151,268
30,000	-35,059	-111,512	1,280,090	138,705	265,490	1,743,333	8,479	1,751,812

Reserves			Retained earnings			Total equity holders of the controlling company	Non-controlling interests	Total equity
Statutory reserves	Fair value reserve	Translation reserve	Other profit reserves	Retained earnings	Profit for the year			
30,000	-11,918	-86,983	1,167,388	100,332	163,097	1,537,535	2,735	1,540,270
0	0	0	0	0	245,545	245,545	-1,273	244,272
0	-14,357	19,118	0	-741	0	4,020	33	4,053
0	-14,357	19,118	0	-741	245,545	249,565	-1,240	248,325
0	0	0	43,904	-43,904	0	0	0	0
0	0	0	0	163,097	-163,097	0	0	0
0	0	0	0	0	0	-21,698	0	-21,698
0	0	0	0	0	-21,698	0	0	0
0	-650	0	0	650	0	0	0	0
0	0	0	0	575	0	575	-846	-271
0	0	0	0	-101,659	0	-101,659	0	-101,659
0	0	0	0	0	0	0	2,549	2,549
0	-650	0	43,904	18,759	-184,795	-122,782	1,703	-121,079
30,000	-26,925	-67,865	1,211,292	118,350	223,847	1,664,318	3,198	1,667,516

Consolidated Statement of Cash Flows

€ thousand	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		288,949	244,272
Adjustments for:		135,729	177,690
– Amortisation/Depreciation	12, 13	111,688	111,242
– Foreign exchange differences		-19,263	8,386
– Investment income		-24,076	-6,249
– Investment expenses		15,504	21,356
– Interest expenses and other financial expenses		1,975	2,882
– Financial income		-142	-23
– Income tax	11	50,043	40,096
Operating profit before changes in net current assets		424,678	421,962
Change in trade receivables		55,699	-4,152
Change in inventories		-32,112	-56,429
Change in trade payables		-33,681	11,190
Change in provisions		1,572	374
Change in deferred revenue		-905	-1,089
Change in other current liabilities		-892	9,267
Income tax paid		-53,600	-31,600
Net cash from operating activities		360,759	349,523
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,144	1,254
Dividends received		575	358
Proceeds from sale of property, plant and equipment		516	1,465
Purchase of property, plant and equipment	12	-74,806	-104,502
Purchase of intangible assets	13	-6,017	-6,120
Acquisition of subsidiaries and a share of minority interests net of financial assets acquired		-5	-271
Non-current loans		-6,357	-2,414
Proceeds from repayment of non-current loans		1,799	2,239
Payments for acquisition of non-current investments		-593	-69
Proceeds from sale of non-current investments		39	37
Payments for current investments and loans		-29,658	-9,244
Payments for derivatives		-14,443	-7,540
Proceeds from derivatives		17,212	0
Net cash from investing activities		-109,594	-124,807
CASH FLOWS FROM FINANCING ACTIVITY			
Interest paid		-247	-490
Payments for/Proceeds from current borrowings		-3	3
Lease liabilities paid		-3,086	-2,970
Dividends and other profit shares paid		-133,283	-101,668
Repurchase of treasury shares		-25,505	-21,698
Proceeds from payment of non-controlling interests		7,515	2,549
Net cash from financing activities		-154,609	-124,274
Net increase in cash and cash equivalents		96,556	100,442
Cash and cash equivalents at beginning of year		218,667	117,801
Effect of foreign exchange rate fluctuations on cash held		-1,655	424
Closing balance of cash and cash equivalents		313,568	218,667

The accompanying Notes are 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 number 1/00097/00. Company number: 5043611000.

The consolidated financial statements for the year ended 31 December 2020 refer to the Krka Group consisting of the controlling company and its subsidiaries in Slovenia and abroad. A list of subsidiaries, members of the Group, is included in Note 32.

The Krka Group is engaged in 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 of preparation

Declaration of conformity

The consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* ('IFRS'), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ('IFRIC'), as adopted by the European Union, and in compliance with the Companies Act (*ZGD-1*).

The consolidated financial statements were approved by the Krka's Management Board on 22 March 2021.

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 other comprehensive income (OCI) for which fair value was used. Methods applied in the measurement of fair value are presented in Note 3.

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.

The 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; allowances made for inventories, receivables and financial instruments; 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 goodwill and TAD Pharma trademark. Regardless of the fact that the 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, additional information that may be available, as well as experience.

Until 31 December 2012, the Krka Group recognised the TAD Pharma trademark as an item of intangible assets with indefinite useful life, determining its assessed recoverable amount at each reporting date. As from 1 January 2013, the TAD Pharma trademark is recognised as an intangible asset with finite useful life. Krka annually verifies the need for impairment of the trademark and 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 2 'Impairment testing of non-financial 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 5 '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. To estimate the variable consideration for expected future volume rebates on the quantity of products purchased, the Krka Group 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 contract, 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 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 are subject to payment terms in excess of one year in certain markets. The Group recognises financial income and expenses on these sales using the appropriate discount rate.

- Note 13 'Impairment testing of the TAD Pharma trademark and the associated 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 Note 13.

- Note 18 '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. 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'

Several lawsuits and claims have been brought against individual companies in the Krka Group for alleged breaches of intellectual property (patent rights or competition law) and those referring to other areas. A provision is recognised when a 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 Group. The Management Board of the controlling company 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.

- Note 25 'Current liabilities from contracts with customers'

The Krka Group accrues contractually agreed discounts in its financial statements when, based on the annual sales, individual customers gain the right to discount recognition in the next financial year, i.e. when contractually agreed terms and conditions of discounts are fulfilled. The assessed rate of discount depends on the facts known at the time of the financial statement preparation, past experience in trading with individual customers, and other relevant facts.

- Notes 28 'Leases'

The controlling company recognises leases based on measurement of lease liabilities and thus its determination of the lease term, its incremental borrowing rate if the implicit interest rate is not readily determinable, and its assessment at contract inception whether a contract is, or contains, a lease.

At contract inception, 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.

As a lessee, 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 Group considers all relevant facts, circumstances, and past practices that provide an economic incentive for the Krka Group not to exercise the option of contract extension or termination.

The Group reassesses the lease term upon occurrence of any significant event or a material change in the circumstances it controls that affect its decision to exercise the option of contract extension or termination.

The Krka Group uses its incremental borrowing rate when the implicit interest rate in the lease cannot be determined.

The assessed borrowing rate is based on the average bond yield of issuers in the relevant region and the contract maturity.

2. Significant accounting policies

The Krka Group applied the same accounting policies in all periods presented in the accompanying consolidated financial statements.

The Krka Group companies apply uniform accounting policies. Accounting policies applied by subsidiaries have been changed where necessary and adjusted with policies applied by the Group.

The accounting policies and calculation methods used are consistent with those applied in the previous year, except for application of newly adopted standards and interpretations, which are noted below and were applied if relevant events occurred in the Group in the reporting period.

New standards and interpretations effective from 1 January 2020

Conceptual Framework in IFRS standards

The IASB issued the revised *Conceptual Framework for Financial Reporting* on 29 March 2018. The *Conceptual Framework* sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB also issued a separate accompanying document, *Amendments to References to the Conceptual Framework in IFRS Standards*, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised *Conceptual Framework* for companies that develop accounting policies using the *Conceptual Framework* when no *IFRS Standard* applies to a particular transaction. For preparers who develop accounting policies based on the *Conceptual Framework*, it is effective for annual periods beginning on or after 1 January 2020.

Amendments to IFRS 3 – Business Combinations

The IASB issued amendments in *Definition of a Business (Amendments to IFRS 3)* aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early adoption is permitted. The management has assessed the impact of the amendments and believes they had no impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material'

The amendments are effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted. The amendments clarify the definition of material and how it should be applied. The new definition states that information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions the primary users of general-purpose financial statements make on the basis of those financial statements which provide financial information about a specific reporting entity. Furthermore, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of 'material' is consistent across all *IFRS Standards*. The management has assessed the impact of the amendments and believes they had no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to *IFRS 9*, *IAS 39* and *IFRS 7*, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in *IFRS 9 Financial Instruments* and *IAS 39 Financial Instruments* and *IAS 39 Financial Instruments: Recognition and Measurement*, which require forward-looking analysis. The amendments provide temporary relief, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enables hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. Amendments also refer to *IFRS 7 – Financial Instruments: Disclosures* regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (exposure draft) will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate. The management has assessed the impact of the amendments and believes they had no significant impact on the consolidated financial statements of the Krka Group.

IFRS 16 Leases – COVID-19-Related Rent Concessions (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. The amendments provide a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under *IFRS 16*, if the change were not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021;
- There is no substantive change to other terms and conditions of the lease.

Early adoption is permitted. The Krka Group applied the amendments as at 1 June 2020. The management has assessed the impact of the amendments and believes they had no significant impact on the consolidated financial statements of the Krka Group.

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.

To account for a merger of a subsidiary controlled by the controlling company, the difference between the investment and the net value of the merged assets is recognised in the parent's separate financial statements within the same capital category as was recognised in the Group's consolidated financial statements prior to the merger.

Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains and losses arising from intragroup 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.

Changes within the Group

Farma GRS, d. o. o., was established as a partnership between companies operating in the pharmaceutical and pharmaceutical-processing activities. It was involved in developing new pharmaceutical products, new technological products for pharmaceutical production and contributed to a more energy efficient, environmentally friendly and enhanced business efficiency of pharmaceutical production. Pursuant to the agreement on the purchase of business stakes, in February 2020 controlling company Krka, d. d., Novo mesto acquired a 100% stake in Farma GRS, d. o. o. In October 2020, Farma GRS, d. o. o. merged with the Company, with 30 June 2020 as the effective date of the merger. The merger of Farma GRS, d. o. o. did not have any impact on the financial statements of the Krka Group since the controlling company, Krka, d. d., Novo mesto was its sole owner. The difference between the net value of the merged assets of €38,183,327 and the investment of €1,004,410 was recognised in the controlling company's separate financial statements within the same capital category as in the Group's consolidated financial statements prior to the merger. Consequently, on 2 October 2020, Farma GRS, d. o. o. was removed from the court register. In addition to the business rationalisation, the key reason for the merger is the simplification of operations and business processes.

More detailed presentation of the effects of the merger are disclosed in Notes to the separate financial statements of the controlling company Krka.

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 at the average annual exchange rate, which in view of transaction dynamics is closest to the exchange rate ruling at the date of the transaction. 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.

Financial instruments

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 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 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 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.

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.

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)

According to the SSPI test, loans issued by the Group are classified as financial assets at amortised cost, since the cash flows derived from these assets are solely payments of principal and interest on the principal amount outstanding.

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)

The Krka Group classifies its investments in debt securities as financial assets at fair value through OCI.

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)

The Krka Group classifies its investments in equity securities as financial assets at fair value through OCI. The Group elected to classify irrevocably its listed and non-listed investments in this category.

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.

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.

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').

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.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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.

As from 1 January 2009, costs of borrowings that may be directly attributable to the acquisition, construction or production of an asset under construction, are also part of the cost of an item of property, plant and equipment of the Krka Group. If borrowings raised are not earmarked and they cannot be attributed directly to the acquisition of an asset under construction, the pro-rata amount of costs is capitalised only when borrowing costs exceed 10% of the value of all investments of the accounting period. The pro-rata amount of costs is calculated using the capitalisation rate as the weighted average costs of borrowings that have not been settled in the accounting period. The pro-rata amount of costs increases the cost of significant assets under construction, i.e. assets that account for more than 10% of total investments in the period and the construction of which extends over a period of more than 6 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 are as follows:

- For buildings 15 to 60 years,
- For plant and equipment 2 to 20 years,
- For furniture 5 years,
- For computer hardware 4 to 6 years, and
- For means of transportation 5 to 15 years.

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.

Trademark

Until 31 December 2012, the Krka Group recognised the TAD Pharma trademark as an item of intangible assets with indefinite useful life, determining its assessed recoverable amount at each reporting date. As from 1 January 2013, the TAD Pharma trademark is recognised as an intangible asset with finite useful life of 50 years. Krka annually verifies the need for impairment of the trademark and goodwill that arose on the acquisition of TAD Pharma.

Research and development

All costs referring to the research and development work within the Krka Group are recognised 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').

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.

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 and other potential administrative expenses, which are usually associated with the sale.

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, direct cost of depreciation, direct cost of services, energy, maintenance, and quality management. 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.

Impairments

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).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Trade receivables that do not contain a significant financing component or for which the Group 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 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.

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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis of the asset's carrying amount.

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 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 asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates 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 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 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.

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.

Leases

At contract inception, 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

The Krka Group applied a single measurement and recognition approach for all leases, except for current leases and leases of low-value assets. In respect of those, the Krka Group applies a practical expedient of the standard and recognises lease liabilities as expenses on a straight-line basis over the lease term. The practical expedient applies to leases with a lease term of less than 1 year and leases of assets valued at less than €5,000.

The Group recognises right-of-use assets and lease liabilities at the commencement date of the lease (i.e. the date the underlying 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 on a straight-line basis over the shorter of the estimated lease term or the estimated useful lives of the assets.

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 average bond returns of issuers in relevant regions, 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. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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.

Revenue from contracts with customers

The Group is engaged in 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 Group 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 Group considers the effects of variable consideration and the existence of significant financing components.

Variable consideration

If the consideration in a contract includes a variable amount, the 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 the 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. For the goods expected to be returned instead of revenue, the Group recognises a refund liability. A right-of-return asset (and corresponding adjustment to cost of sales) 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 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.

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.

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.

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 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.

Government grants

Revenue 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. Revenue that compensates the expenses incurred 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.

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

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.

Earnings per share

The Krka Group 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 weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Krka Group belong to the same class of ordinary no-par value shares.

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 countries of the European Union), 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).

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 Krka Group will apply the new and revised standards and interpretations when they become effective. The Krka 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 address an acknowledged inconsistency between the requirements in *IFRS 10* and those in *IAS 28*, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this standard indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have so far not been endorsed by the EU. The management has assessed the impact of the amendments on the financial statements of the Krka Group and will apply them when they come into force.

Amendments to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

The amendments are effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted. In response to the COVID-19 pandemic, the IASB has deferred the effective date by one year, i.e. by 1 January 2023, to provide companies with more time to implement any changes to the classification of liabilities resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by an entity issuing own equity instruments. The amendments have so far not been endorsed by the EU. 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 3 – Business Combinations, IAS 16 – Property, Plant and Equipment, IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, as well as Annual Improvements 2018–2020

The amendments are effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted.

The IASB has issued narrow-scope amendments to the IFRS standards as follows:

- *IFRS 3 Business Combinations (Amendments)*, updated reference to *IFRS 3, Conceptual Framework for Financial Reporting* without changing the accounting requirements for business combinations.
- *IAS 16 Property, Plant and Equipment (Amendments)* prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- *IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)* specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- *Annual Improvements 2018–2020 make minor amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards, IFRS 9 – Financial Instruments, IAS 41 – Agriculture and the Illustrative Examples accompanying IFRS 16 – Leases.*

The amendments have so far not been endorsed by the EU. The management has assessed the impact of the amendments on the consolidated financial statements of the Krka Group and will apply them when they come into force.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

In August 2020, the International Accounting Standards Board (IASB) published *Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*, completing its work in response to the Interest Rate Benchmark Reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). They provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationship including a temporary relief from having to meet the separately identifiable requirements when an RFR instrument is designated as a hedge of a risk component. *Amendments to IFRS 7 – Financial Instruments: Disclosures* to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021. Early adoption is permitted. While application is retrospective, an entity is not required to restate previous periods. 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. Determination of 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 values 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.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on an estimate of discounted future value of royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is determined as the present value of assessed future cash flows expected to be derived from the use and potential sale of the assets.

Investments in equity 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.

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.

4. Segment reporting

The Krka Group reports in terms of certain geographical segments. Revenues generated by individual segments are presented in terms of customers' geographical location. The United Kingdom, which in the past belonged to the European Union segment, was at the start of 2020 moved to the Other segment. Consequently, the 2019 data have been revised accordingly.

Segment reporting

€ thousand	European Union		South-Eastern Europe	
	2020	2019	2020	2019
Revenue from external customers	866,521	860,045	82,447	77,339
– Revenue from contracts with customers	863,524	857,088	82,447	77,339
– Other revenue	2,997	2,957	0	0
Sales between Group companies	250,981	228,998	47,746	42,959
Other operating income	10,161	10,881	96	21
Operating costs	-717,723	-726,175	-55,605	-54,562
Operating expenses to Group companies	-376,183	-394,998	-51,996	-48,942
Operating profit	158,959	144,751	26,938	22,798
Interest income	152	861	0	1
Interest income from Group companies	414	481	-1	0
Interest expense	-169	-253	-15	-17
Interest expense to Group companies	-308	-317	0	0
Net financial result	-5,933	-2,408	-191	-192
Income tax	-20,560	-22,309	-3,182	-3,047
Net profit	132,466	120,034	23,565	19,559
Investments	67,672	98,069	131	253
Depreciation of property, plant and equipment	72,765	70,220	1,982	1,929
Depreciation of the right-of-use assets	2,116	1,868	107	96
Amortisation	4,461	4,266	322	297
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Total assets	1,743,793	1,649,671	49,641	47,494
Goodwill	42,644	42,644	0	0
Trademark	35,788	36,659	0	0
Total liabilities	338,453	358,417	15,444	13,685

Eastern Europe		Other		Eliminations		Total	
2020	2019	2020	2019	2020	2019	2020	2019
517,348	481,272	68,625	74,753	0	0	1,534,941	1,493,409
517,242	481,170	68,461	74,493	0	0	1,531,674	1,490,090
106	102	164	260	0	0	3,267	3,319
301,391	283,405	3,879	17,665	-603,997	-573,027	0	0
238	2,805	0	2	0	0	10,495	13,709
-327,483	-396,251	-53,881	-55,935	0	0	-1,154,692	-1,232,923
-599,288	-536,229	-10,982	-8,057	1,038,449	988,226	0	0
190,103	87,826	14,744	18,820	0	0	390,744	274,195
1,926	387	70	5	0	0	2,148	1,254
4	4	7	9	-424	-494	0	0
-132	-200	-3	-9	0	0	-319	-479
-8	-67	-1	-3	317	387	0	0
-44,879	12,074	-749	699	0	0	-51,752	10,173
-24,751	-12,621	-1,550	-2,119	0	0	-50,043	-40,096
120,473	87,279	12,445	17,400	0	0	288,949	244,272
6,652	10,425	2,158	3,821	0	0	76,613	112,568
24,690	27,834	2,232	1,435	0	0	101,669	101,418
587	668	120	110	0	0	2,930	2,742
2,055	2,246	251	273	0	0	7,089	7,082
31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
404,474	451,371	37,634	36,082	0	0	2,235,542	2,184,618
0	0	0	0	0	0	42,644	42,644
0	0	0	0	0	0	35,788	36,659
110,326	116,143	19,507	28,857	0	0	483,730	517,102

5. Revenue from contracts with customers

Breakdown of revenue from contracts with customers

€ thousand	2020	2019
Revenue from contracts with customers (products)	1,500,205	1,449,606
Revenue from contracts with customers (health resort and tourist services)	29,754	39,474
Revenue from contracts with customers (materials)	1,715	1,010
Total revenue from contracts with customers	1,531,674	1,490,090

Revenue from contracts with customers by region

€ thousand	2020	2019
Slovenia	55,384	52,901
South-East Europe	199,406	191,320
East Europe	517,231	481,155
Central Europe	341,463	339,574
West Europe	341,057	336,098
Overseas markets	45,664	48,558
Total	1,500,205	1,449,606

Revenue from contracts with customers by product groups

€ thousand	2020	2019
Prescription pharmaceuticals	1,300,640	1,247,250
Non-prescription products	123,652	133,262
Animal health products	75,913	69,094
Total	1,500,205	1,449,606

Contract balances

Trade receivables are described in Note 18 and liabilities from contracts with customers are explained in Note 25. Contract assets are reported in the consolidated statement of financial position.

Right-of-return assets and liabilities

The Krka Group recognised right-of-return liabilities in contracts that include the right of return on account of the goods that are past the expiry date, and accrued bonuses and volume discounts on products sold to other customers.

Performance obligations

The Krka Group is engaged in development, production, marketing and sales 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.

Transfers of risks and rewards depend on terms and conditions of an individual contract. Generally, the transfer occurs when the customer accepts the goods in accordance with INCOTERMS 2020 or when the relevant services are 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.

6. Other operating income

€ thousand	2020	2019
Reversal of non-current provisions	2,290	1,183
Deferred revenue reversal	1,286	1,401
Gains on sale of property, plant and equipment and intangible assets	959	1,335
Other operating income	5,960	9,790
Total other operating income	10,495	13,709

Detailed information on reversal of non-current provisions is included in Note 22.

Other operating income includes €2,817 thousand of State grants aimed at curbing the COVID-19 pandemic. State grants are unconditional and as such are recognised in the 2020 financial statements in the full amount.

7. Costs by nature

€ thousand	2020	2019
Cost of goods and materials	370,142	399,600
Cost of services	219,594	257,850
Employee benefits	438,412	428,248
Amortisation and depreciation	111,688	111,242
Inventory write-offs and allowances	–	27,894
Inventory write-offs and allowances (net)	23,019	–
Receivable impairments and write-offs (net)	-3,206	-333
Formation of provisions for lawsuits	50	0
Other operating expenses	34,479	48,627
Total costs	1,194,178	1,273,128
Change in the value of inventories of finished products and work in progress	-39,486	-40,205
Total	1,154,692	1,232,923

8. Employee benefits

€ thousand	2020	2019
Gross wages and salaries and continued pay	336,920	331,108
Social security contributions	24,822	24,724
Pension insurance contributions	45,972	44,806
Payroll tax	847	970
Post-employment benefits and other non-current employee benefits	8,285	7,593
Other employee benefits	21,566	19,047
Total employee benefits	438,412	428,248

Post-employment benefits and other non-current employee benefits are detailed in Note 22. Other employee benefit costs include primarily vacation bonuses and commuting allowances.

9. Other operating expenses

€ thousand	2020	2019
Grants and assistance for humanitarian and other purposes	1,456	1,944
Environmental protection expenditures	5,019	4,451
Other taxes and levies	22,886	26,940
Loss on sale and write-offs of property, plant and equipment and intangible assets	1,503	9,922
Other operating expenses	3,615	5,370
Total other operating expenses	34,479	48,627

Other levies include €19,244 thousand of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries for pursuing promotional activities (2019: €23,338 thousand).

10. Financial income and expenses

€ thousand	2020	2019
Net foreign exchange differences	0	23,353
Interest income	2,148	1,254
Derivatives income	20,319	0
– Realised revenue	17,212	0
– Fair value change	3,107	0
Income from dividends	650	358
Other financial income	142	22
Total financial income	23,259	24,987
Net foreign exchange differences	-58,563	0
Interest expenses	-319	-479
– Interest paid	-30	-93
– Interest expenses on lease liabilities	-289	-386
Derivatives expenses	-14,443	-11,921
– Incurred expenses	-14,443	-7,540
– Fair value change	0	-4,381
Other financial expenses	-1,686	-2,414
Total financial expenses	-75,011	-14,814
Net financial result	-51,752	10,173

11. Income tax

Adjustment to effective tax rate

€ thousand	2020	2019
Income tax	50,421	47,299
Deferred tax	-378	-7,203
Total income tax	50,043	40,096
Profit before tax	338,992	284,368
Income tax calculated at the rate of 19% (the same as in 2019)	64,408	54,030
Income tax from increased expenses	-2,385	-2,720
Income tax from non-exempt expenses	4,297	-789
Income tax from tax incentives	-17,322	-19,208
Income tax from adjustment of revenue decreasing the tax base	-1,365	-545
Income tax from adjustment of revenue increasing the tax base	780	1,291
Effect of different tax rates	480	469
Other	1,150	7,568
Total income tax	50,043	40,096
Effective tax rate	14.8%	14.1%

Investments in R&D and investment relief represent the major share of tax incentives.

12. Property, plant and equipment

€ thousand	31 Dec 2020	31 Dec 2019
Land	40,345	39,796
Buildings	376,130	402,275
Equipment	338,059	361,743
Property, plant and equipment being acquired	38,042	43,113
Advances for property, plant and equipment	3,685	3,082
Right-of-use assets	11,563	12,839
Total property, plant and equipment	807,824	862,848

In 2020, the controlling company Krka invested €10,058 thousand, the most substantial investment last year, in setting up the additional packaging facility Pakirnica 2 at the Notal 2 Plant (2019: €18,001 thousand). Another €7,025 thousand (2019: €25 thousand) was invested in the relocation of the small-batch production and increasing the production capacity for bulk products at the Notal 2 Plant; €3,268 thousand was invested in the construction of a warehouse in Krško (2019: €2,579 thousand); the replacement of a coating machine at the Notal Plant amounted to €1,477 thousand (this project was introduced in 2020, hence no 2019 data is available); and €1,247 thousand was spent on the construction of the Sinteza 2 Plant in Krško (2019: €153 thousand). A total of €4,279 thousand was spent on various projects in the area of information technology and telecommunications (2019: €3,932 thousand).

Major investments in subsidiaries included investment in subsidiary Krka-Rus in the Russian Federation amounting to €5,068 thousand (2019: €5,914 thousand). An additional €2,001 thousand was invested in subsidiary Terme Krka (2019: €1,866 thousand); €610 thousand was invested in subsidiary Krka-Farma Zagreb (2019: €641 thousand); €173 thousand was invested in subsidiary Krka - Polska (2019: €558 thousand); and €33 thousand in subsidiary TAD Pharma (2019: €472 thousand).

Most of the right-of-use assets relate to the right-of-use buildings in the amount of €9,219 thousand.

Movements in property, plant and equipment (PP&E)

€ thousand	Land	Buildings	Equipment	PP&E being acquired	Advances for PP&E	Right-of-use assets	Total
Cost							
At 1 Jan 2019	39,996	814,079	1,124,903	52,359	3,524	15,522	2,050,383
Additions	0	0	0	106,941	-494	0	106,447
Capitalisation – transfer from PP&E under construction	103	34,073	79,476	-113,652	0	0	0
Capitalisation – IFRS 16 Leases	0	0	0	0	0	962	962
Disposals, impairment, deficit, surplus	-31	-59	-21,595	-3,503	0	-1,260	-26,448
Translation reserve	-272	3,921	8,801	968	64	317	13,799
Transfers, reclassification	0	-19	296	0	-12	0	265
At 31 Dec 2019	39,796	851,995	1,191,881	43,113	3,082	15,541	2,145,408
At 1 Jan 2020	39,796	851,995	1,191,881	43,113	3,082	15,541	2,145,408
Additions	0	0	0	69,718	874	0	70,592
Capitalisation – transfer from PP&E under construction	756	13,881	57,461	-72,098	0	0	0
Capitalisation – IFRS 16 Leases	0	0	0	0	0	3,041	3,041
Disposals, impairment, deficit, surplus	0	-162	-19,116	0	0	-1,452	-20,730
Impairment	0	0	0	0	0	0	0
Translation reserve	-207	-17,975	-19,715	-2,684	-271	-612	-41,464
Transfers, reclassification	0	289	-330	-7	0	-10	-58
At 31 Dec 2020	40,345	848,028	1,210,181	38,042	3,685	16,508	2,156,789
Accumulated depreciation							
At 1 Jan 2019	0	-423,441	-771,972	0	0	0	-1,195,413
Depreciation	0	-27,613	-73,805	0	0	-2,742	-104,160
Disposals, deficit, surplus	0	38	21,262	0	0	58	21,358
Transfers, reclassification	0	18	-269	0	0	0	-251
Translation reserve	0	1,278	-5,354	0	0	-18	-4,094
At 31 Dec 2019	0	-449,720	-830,138	0	0	-2,702	-1,282,560
At 1 Jan 2020	0	-449,720	-830,138	0	0	-2,702	-1,282,560
Depreciation	0	-27,851	-73,818	0	0	-2,930	-104,599
Disposals, deficit, surplus	0	91	18,479	0	0	515	19,085
Transfers, reclassification	0	3	36	0	0	1	40
Translation reserve	0	5,579	13,319	0	0	171	19,069
At 31 Dec 2020	0	-471,898	-872,122	0	0	-4,945	-1,348,965
Carrying amount							
At 1 Jan 2019	39,996	390,638	352,931	52,359	3,524	15,522	854,970
At 31 Dec 2019	39,796	402,275	361,743	43,113	3,082	12,839	862,848
At 1 Jan 2020	39,796	402,275	361,743	43,113	3,082	12,839	862,848
At 31 Dec 2020	40,345	376,130	338,059	38,042	3,685	11,563	807,824

No borrowing costs relate to the items of property, plant and equipment in 2020.

The carrying amount of the items of property, plant and equipment, which are temporarily not used, amounted to €1,467 thousand at 31 December 2020 (2019 year-end: €1,933 thousand).

Of total property, plant and equipment in use as at 31 December 2020, 35% was fully depreciated (2019 year-end: 31%). The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

The movements and lease liabilities recognised in profit or loss are presented in Notes 28 and 30.

Impairment test of non-current assets of the Terme Krka cash-generating unit

An impairment test of the non-current assets of the Terme Krka cash-generating unit was made as there were signs that the asset may be impaired. In 2020, the COVID-19 pandemic and the resulting situation led to significant changes in the market and economic environment, including some restrictive measures imposed by the State to curb the spread of the virus. This was also reflected in the operations of the cash-generating unit, as it recorded a decline in revenues and the consequent negative operating result. Despite the closure of hotels for tourists, the wellness and spa facilities continued to operate and offer overnight accommodation to the spa guests. Some of the loss of revenue during the closure of activities was recovered by the cash-generating unit in the summer months, also on account of State measures imposed to overcome the issues facing the economy (tourist vouchers), improved occupancy and higher prices due to a greater number of direct bookings and a drop in bookings made through agencies.

The asset's recoverable amount is the greater of the fair value net of selling expenses or value in use. For the purposes of the impairment test, the recoverable amount of the cash-generating unit was determined based on its value in use, i.e. using cash flow projections based on five-year financial plans of the cash-generating unit, under assumption of a gradual normalisation of the circumstances. The discount rate of 8.1%, and the long-term growth rate of net cash flows (g) after the forecast period (after 2025) of 2% were applied in the projection. In the opinion of the management, a reasonable change in the discount rate or growth rate would not result in the asset impairment of the cash-generating unit.

Considering the above assumptions, the assessed recoverable amount of the Terme Krka cash-generating unit exceeds its carrying amount and therefore no impairment is required.

13. Intangible assets

€ thousand	31 Dec 2020	31 Dec 2019
Goodwill	42,644	42,644
Trademark	35,788	36,659
Concessions, trademarks and licences	24,452	25,683
Intangible assets being acquired	4,487	4,096
Total intangible assets	107,371	109,082

Goodwill arose on the acquisition of subsidiaries TAD Pharma in Germany (€42,277 thousand) and Krka Pharma in Austria (€367 thousand). The trademark refers mostly to the trademark of TAD Pharma.

Movement of intangible assets (IA)

€ thousand	Goodwill	Trademark	Concessions, trademarks and licences	IA being acquired	Total
Cost					
At 1 Jan 2019	42,644	42,629	126,333	3,810	215,416
Additions	0	0	0	6,121	6,121
Transfer from IA being acquired	0	0	5,792	-5,792	0
Disposals, deficit, surplus	0	0	-723	0	-723
Transfers, reclassification	0	0	-233	-45	-278
Translation reserve	0	0	471	2	473
At 31 Dec 2019	42,644	42,629	131,640	4,096	221,009
At 1 Jan 2020	42,644	42,629	131,640	4,096	221,009
Additions	0	0	0	6,021	6,021
Transfer from IA being acquired	0	0	5,272	-5,272	0
Disposals, deficit, surplus	0	0	-639	-355	-994
Transfers, reclassification	0	0	-11	0	-11
Translation reserve	0	0	-1,107	-3	-1,110
At 31 Dec 2020	42,644	42,629	135,155	4,487	224,915
Accumulated amortisation					
At 1 Jan 2019	0	-5,099	-99,988	0	-105,087
Amortisation	0	-871	-6,211	0	-7,082
Disposals, deficit, surplus	0	0	357	0	357
Transfers, reclassification	0	0	275	0	275
Translation reserve	0	0	-390	0	-390
At 31 Dec 2019	0	-5,970	-105,957	0	-111,927
At 1 Jan 2020	0	-5,970	-105,957	0	-111,927
Amortisation	0	-871	-6,218	0	-7,089
Disposals, deficit, surplus	0	0	521	0	521
Transfers, reclassification	0	0	8	0	8
Translation reserve	0	0	943	0	943
At 31 Dec 2020	0	-6,841	-110,703	0	-117,544
Carrying amount					
At 1 Jan 2019	42,644	37,530	26,345	3,810	110,329
At 31 Dec 2019	42,644	36,659	25,683	4,096	109,082
At 1 Jan 2020	42,644	36,659	25,683	4,096	109,082
At 31 Dec 2020	42,644	35,788	24,452	4,487	107,371

Of total intangible assets in use as at 31 December 2020, 65% was fully amortised, the same as at the end of 2019. The share of fully amortised intangible assets is calculated in consideration of their cost.

Impairment test of goodwill and TAD Pharma trademark

Impairment test was applied to the TAD Pharma trademark and the associated goodwill which arose on the takeover of the German company TAD Pharma by the controlling company Krka at the end of 2007. In addition, the Company made an impairment test of its capital investment in the subsidiary TAD Pharma.

The recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell, or its value in use. The recoverable amount of goodwill that arose on the acquisition of the stake in TAD Pharma was determined based on its value in use using the cash flow projection method based on five-year financial plans of the two cash generating units to which goodwill was allocated. Both, the Company and TAD Pharma were considered cash-generating units. A discount rate of 7.6% was applied in the projection for the TAD Pharma cash generating unit (7.8% in 2019) and 8.5% for Krka (8.7% in 2019). For both cash-generating units, cash flows over 5 years are extrapolated by 2.0% average annual growth, the same as in 2019. Other significant assumptions used, and which are set in the business strategy, include sales growth and profitability rates, as well as the planned launches of new products on the German market.

In the opinion of the management, a reasonable change in the discount rate or growth rate would not result in impairment of goodwill.

Considering the above assumptions, the total assessed value of the Company and TAD Pharma (taking into account the value of the trademark and goodwill), exceeds the carrying amount and therefore no impairment of goodwill is required.

The controlling company found no indications of impairment of goodwill. The carrying amount of goodwill referring to TAD Pharma of €42,277 thousand has not changed compared to the previous year. The Company also made an impairment test of the TAD Pharma trademark and found that the carrying amount of the trademark stands at €35,619 thousand as at 31 December 2020 (2019 year-end: €36,467 thousand).

14. Loans

€ thousand	31 Dec 2020	31 Dec 2019
Non-current loans	15,376	10,908
– Loans to others	15,376	10,908
Current loans	54,774	31,832
– Portion of non-current loans maturing next year	1,641	1,669
– Loans to others	53,128	30,163
– Current interest receivable	5	0
Total loans	70,150	42,740

Non-current loans are mostly housing loans extended by the controlling company and some subsidiaries to their employees in accordance with the internal rules. Loans of the controlling company bear the annual interest rate that equals the contractually agreed rate set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. The actual interest rate fluctuated between 0.294% and 0.707% in 2020 (2019: between 0.396% and 0.702%). The maximum repayment period is 15 years.

Current loans to others include bank deposits in total of €52,988 thousand maturing in more than 90 days (2019: €29,998 thousand).

15. Investments

€ thousand	31 Dec 2020	31 Dec 2019
Non-current investments	10,420	9,681
– Financial assets at fair value through OCI (equity instruments)	10,420	9,681
Current investments including derivatives	9,499	2,174
– Financial assets at fair value through profit or loss	8,975	2,174
– Derivatives	524	0
Total investments	19,919	11,855

Financial assets at fair value through other comprehensive income (OCI) comprised €801 thousand of investments in shares and interests in companies in Slovenia (2019 year-end: €850 thousand), and €9,619 thousand of investments in shares of companies located abroad (2019 year-end: €8,831 thousand).

Movement in financial assets at fair value through OCI

€ thousand	Financial assets at fair value through OCI
At 1 Jan 2019	9,389
Adjustment to market value	292
At 31 Dec 2019	9,681
At 1 Jan 2020	9,681
Adjustment to market value	739
At 31 Dec 2020	10,420

Adjustments of non-current investments (financial assets at fair value through OCI) to the market value or fair value are recognised in other comprehensive income in the amount of €739 thousand in 2020 (2019: €292 thousand).

16. Deferred tax assets and liabilities

€ thousand	Assets		Liabilities	
	2020	2019	2020	2019
Investments, property, plant and equipment and intangible assets	360	401	12,566	12,839
Financial assets at fair value through OCI (equity instruments)	1,727	1,727	1,432	1,291
Inventories	30,481	30,259	-66	139
Receivables/Liabilities	4,693	5,626	0	0
Dividends	14	95	0	0
Provisions for post-employment benefits and other non-current employee benefits	13,642	12,382	0	0
Transfer of tax loss	805	1,012	0	0
Total	51,722	51,502	13,932	14,269
Offsetting	-2,753	-2,677	-2,753	-2,677
Net	48,969	48,825	11,179	11,592

€ thousand	At 1 Jan 2019	Recognised in profit or loss	Translation reserve	Recognised in OCI	At 31 Dec 2019	Recognised in profit or loss	Translation reserve	Recognised in OCI	At 31 Dec 2020
Investments, property, plant and equipment and intangible assets	-12,290	-128	-20	0	-12,438	149	83	0	-12,206
Financial assets at fair value through OCI (equity instruments)	491	0	0	-55	436	0	0	-141	295
Inventories	23,685	6,382	53	0	30,120	598	-171	0	30,547
Receivables/Liabilities	4,111	1,268	247	0	5,626	-337	-596	0	4,693
Dividends	0	95	0	0	95	-81	0	0	14
Provisions for post-employment benefits and other non-current employee benefits	10,687	-6	2	1,699	12,382	258	-12	1,014	13,642
Transfer of tax loss	1,421	-409	0	0	1,012	-207	0	0	805
Total	28,105	7,202	282	1,644	37,233	380	-696	873	37,790

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to €1,139 thousand at the end of 2020 (2019 year-end: €1,594 thousand).

17. Inventories

€ thousand	31 Dec 2020	31 Dec 2019
Materials	191,649	188,018
Work in progress	100,741	97,371
Finished products	150,263	122,206
Merchandise	9,614	9,640
Advances for inventories	1,423	4,343
Total inventories	453,690	421,578

The write-downs and write-offs of inventories to their net realisable value amounted to €23,019 thousand in 2020.

18. Trade and other receivables

€ thousand	31 Dec 2020	31 Dec 2019
Current trade receivables	383,560	434,695
– Trade receivables	385,237	434,991
– Deferred revenue from contracts with customers	-1,677	-296
Other current receivables	27,768	31,924
Total trade and other receivables	411,328	466,619

Net impairments and write-offs of receivables recorded within operating expenses amounted to -€3,206 thousand in 2020 (2019: -€333 thousand).

Current trade receivables

€ thousand	Gross value	Receivable allowances	Net value at 31 Dec 2020	Net value at 31 Dec 2019
Due from domestic customers	9,209	37	9,172	12,996
Due from foreign customers	413,314	37,249	376,065	421,995
Deferred revenue from contracts with foreign customers	-1,677	0	-1,677	-296
Total current trade receivables	420,846	37,286	383,560	434,695

Of the total amount, more than 98% of trade receivables was insured with the Coface PKZ, d. d. insurance company in 2020 (2019 year-end: 71%).

Other receivables

Other receivables were mostly due by the State. Income tax credits amounted to €1,220 thousand in 2020 (2019: €1,118 thousand), while the remaining €17,457 thousand related to other receivables due by the State (2019: €25,635 thousand).

Advances for services reached €2,620 thousand at the year-end (€3,969 thousand as at 31 December 2019).

19. Cash and cash equivalents

€ thousand	31 Dec 2020	31 Dec 2019
Cash in hand	17	56
Bank balances	313,551	218,611
Total cash and cash equivalents	313,568	218,667

The Krka Group concluded contracts with two banks to secure bank overdrafts in total of €5,075 thousand (in 2019, contracts in total of €5,451 thousand were concluded with two banks). No negative balances were recorded on these bank accounts as at 31 December 2020 as no overdraft facilities were used.

Krka, the controlling company, had access to a €20,000-thousand line of credit in 2020 (2019: €70,000 thousand), but did not use it.

20. Equity

Share capital

Krka reduced its share capital by withdrawal of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. There is solely one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital is fully paid.

Treasury shares

At the 26th Annual General Meeting on 9 July 2020, the Management Board was granted authorisation for the purchase of treasury shares. However, total amount of treasury shares should not exceed the 10% of the 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 decision adoption.

Based on this authorisation, Krka is allowed to acquire treasury shares on the regulated market at respective market prices. The Company may acquire treasury shares also outside the regulated market. When purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not exceed 25-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

Pursuant to paragraphs 3 and 4, Article 381 of the *Companies Act* (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 in 2020

	Number of shares	Weighted average share price (€)	Value of treasury shares (€ thousand)
At 31 Dec 2019	1,234,252		73,774
Repurchases in 2020	307,522	82.93	25,505
At 31 Dec 2020	1,541,774		99,279

The repurchase of treasury shares in 2020 refers to repurchases that were recorded in books of accounts during the year under review. Subscription fee is included in the weighted average price of shares.

The 2020 repurchase of treasury shares in terms of days is illustrated within Enclosure 1 to the Financial Statements of the Krka Group and 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 to €99,279 thousand as at the reporting date and increased by €25,505 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 2020 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 2020, 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 2020 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.

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 €8,134 thousand and amounted to -€35,059 thousand as at 31 December 2020. The cumulative change is due to a €739 thousand increase in the fair value of financial assets through OCI (equity instruments); €873 thousand increase of the deferred tax impact, and €9,746 thousand decrease due to the restatement of post-employment benefits.

Compared to the previous period, *translation reserves* decreased by €43,647 thousand to -€111,512 thousand as at 31 December 2020, as a result of exchange rate losses occurring during the translation of 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 €290,995 thousand. On the other hand, they decreased as a result of allocation of accumulated profit to dividend payment (€133,274 thousand) in accordance with the resolution adopted by the 26th Annual General Meeting on 9 July 2020; an additional formation of reserves for treasury shares in total of €25,505 thousand on account of the share repurchase by the controlling company in 2020; and a change in provisions for termination benefits amounting to €1,525 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 €9 thousand of dividends paid in respect of previous periods (2019: €9 thousand).

Dividends per share

In 2020, the declared gross dividend per share was €4.25 (2019: €3.20).

Non-controlling interests

€ thousand	Non-controlling interests		Equity attributable to the non-controlling interest		Net profit for the year attributable to the non-controlling interest	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Interest held by minority shareholders in Farma GRS, d. o. o.*	0.0%	0.3%	0	109	0	9
Interest held by minority shareholder in Ningbo Krka Menovo Pharmaceutical Co. Ltd.**	40.0%	40.0%	8,479	3,089	-2,046	-1,282
Total			8,479	3,198	-2,046	-1,273

* Krka held 99.7-percent holding in Farma GRS, d. o. o., with Metronik d. o. o., Iskra Pio d. o. o. and Gospodarska zbornica Dolenjske in Bele Krajine each having a 0.1-percent holding. According to the merger agreement, the acquirer Krka, d. d., Novo mesto, merged the acquiree Farma GRS, farmacevtsko gospodarsko razvojno središče, d. o. o. The merger was entered in the court register on 2 October 2020.

** Krka has 60-percent holding in Ningbo Krka Menovo Pharmaceutical Co. Ltd., with Ningbo Menovo Pharmaceutical Co., Ltd. having a 40-percent holding.

21. Earnings per share

Basic earnings per share amounted to €9.27 in 2020 and increased by 20% over the previous year, when it amounted to €7.73. The calculation of earnings per share took into account the profit for the period attributable to the controlling interests in the amount of €290,995 thousand (2019: €245,545 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 31,400,501 shares for 2020, and 31,756,443 shares for 2019. Treasury shares were eliminated from the calculation.

All shares issued by the controlling company are ordinary shares, hence the diluted earnings per share ratio equals the basic earnings per share.

22. Provisions

€ thousand	At 31 Dec 2019	Merger by acquisition	Formation	Utilisation	Reversal	Translation reserve	At 31 Dec 2020
Provisions for lawsuits	2,114	0	50	0	0	0	2,164
Provisions for post-employment benefits and other non-current employee benefits	115,889	573	20,909	-4,905	-2,290	-640	129,536
Other provisions	2,400	0	1,051	-465	0	0	2,986
Total provisions	120,403	573	22,010	-5,370	-2,290	-640	134,686

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 total, 10 lawsuits referring to intellectual property were filed against Krka and its subsidiaries, of which 5 were resolved in 2020, as well as 3 lawsuits referring to other areas (labour legislation, civil lawsuits, administrative disputes, etc.) totalling €4,600 thousand and €250 thousand respectively. The Krka Group recognised provisions for intellectual property disputes in total of €2,100 thousand.

Provisions for obligations to employees arising from post-employment and other non-current benefits are based on actuarial calculation using the following assumptions:

- The discount rate that depends on the average duration of a liability per company. The controlling company opted for the discounted interest rate of 0.72% annually, equal to the return on 15-year corporate bonds with high credit rating in the Eurozone at the end of 2020 (2019: 1.34-percent). Discount rates applied to subsidiaries ranged from 0.33% to 3.60% (2019: from 0.69% to 3.60%);
- Currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal rules;
- Staff turnover depending primarily upon the employees' age;
- Mortality rates calculated on the basis of most recent mortality tables available;
- The 2.00% increase in salaries, the same as in 2019.

Post-employment benefits

€ thousand	2020	2019
At 1 Jan	96,994	78,860
Employee benefit costs (CSC)	4,949	3,727
Interest expense (IC)	1,251	1,838
Post-employment benefits paid	-3,177	-3,971
Reversal	-2,060	–
Merger by acquisition	470	–
Actuarial surplus/deficit, of that:	11,271	17,034
– Change in financial assumptions	8,253	10,909
– Experience	3,018	6,125
At 31 Dec	109,698	97,488

The opening balance of the financial year 2020 and the closing balance of the year 2019 differ due to the impact of the merger by acquisition of Farma GRS.

Sensitivity analysis

	Discount rate		Salary increase	
Change in	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities (€ thousand)	-7,284	8,119	7,981	-7,230

23. Deferred revenue

€ thousand	At 31 Dec 2019	New deferred revenue received	Deferred revenue reversal	Disposals due to dissolution of a company	At 31 Dec 2020
Grants received from the European Regional Development Fund and budget of the Republic of Slovenia intended for the production of pharmaceuticals in the new Noto1 2 Plant	1,584	0	-267	0	1,317
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	3,517	0	-109	0	3,408
Grants received from the European Regional Development Fund – development of new technologies (FBD project)	57	0	-57	0	0
Grants received from the European Regional Development Fund for setting up information and technology solutions system GEN-I	1	0	-1	0	0
Grants received from the European Regional Development Fund (Farma GRS)	0	0	-286	3,246	2,960
Grants received from the European Regional Development Fund for the Slovenian economy development centres	3,532	0	-286	-3,246	0
Subsidy for acquisition of electric drive vehicles	5	0	-1	0	4
Property, plant and equipment received free of charge	13	10	-7	0	16
Emission coupons	0	19	-19	0	0
Subsidy for the purchase of joinery	0	96	-1	0	95
Subsidy for acquisition of other equipment	0	5	-1	0	4
Other deferred revenue	0	251	-251	0	0
Total deferred revenue	8,709	381	-1,286	0	7,804

Production of pharmaceuticals in the new Noto1 2 Plant and FBD projects are partly funded by the European Union from the European Regional Development Fund. The projects are 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 amounts of deferred revenue are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

24. Trade payables

€ thousand	31 Dec 2020	31 Dec 2019
Non-current trade payables	10,006	10,000
Current trade payables	107,116	128,560
Payables to domestic suppliers	38,317	45,619
Payables to foreign suppliers	68,799	82,941
Total trade payables	117,122	138,560

In 2014, the Commission of the European Union ruled that Krka infringed the provision of Article 101 of the *Treaty on the Functioning of the European Union*, which resulted in a distortion of competition on the perindopril market of the European Union. Thus, it imposed on Krka a fine of €10,000 thousand. Krka paid the penalty imposed within the deadline set by the Commission and filed a lawsuit against the Commission's decision before the General Court of the European Union because it considered that its conduct did not violate the competition law rules. In December 2018, the Court ruled in favour of Krka.

The decision of the General Court is not final, as the Commission lodged an appeal against the decision of the General Court, which will be decided by the European Court of Justice. Although the Commission did indeed pay back a fine of €10,000 thousand in early 2019, based on the assessment of legal experts Krka deferred the revenue and recognised non-current trade payables in that same amount until the final decision of the Court is issued.

25. Current contract liabilities

€ thousand	31 Dec 2020	31 Dec 2019
Refund liabilities	102,070	117,456
– Bonuses and volume rebates	99,097	114,411
– Rights of return	2,973	3,045
Contract liabilities	4,229	5,856
– Contract liabilities – advances from other customers	4,229	5,856
Total current contract liabilities	106,299	123,312

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.

26. Other current liabilities

€ thousand	31 Dec 2020	31 Dec 2019
Payables to employees – gross salaries, other receipts and charges	61,643	59,150
Derivatives	0	2,582
Other	17,416	20,967
Total other current liabilities	79,059	82,699

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €7,324 thousand (2019: €3,143 thousand) and other current liabilities to the State of total €7,114 thousand (2019: €8,855 thousand).

27. Contingent liabilities and commitments

€ thousand	31 Dec 2020	31 Dec 2019
Guarantees issued	16,111	15,934
Other	0	620
Total contingent liabilities	16,111	16,554

Major items of guarantees issued included (i) a contract bond in total of €6,000 thousand for supply of products by Krka Faramaceutici that was selected as the bidder in tenders in Italy, and (ii) a counter guarantee for due payment of potential liabilities from customs guarantee issued in the amount of €4,500 thousand in Belarus.

Based on the contracts signed in connection with the on-going investments, at the end of 2020 Krka accounted for €29,338 thousand of commitments for acquisition of property, plant and equipment (2019 year-end: €19,304 thousand).

28. 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:

- Offices, 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 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
At 1 Jan 2019	15,522
Increase/Decrease	-142
Accretion of interest	386
Lease payments	-2,766
At 31 Dec 2019	13,000
– Current lease liabilities	2,799
– Non-current lease liabilities	10,201
At 1 Jan 2020	13,000
Increase/Decrease	2,104
Accretion of interest	289
Lease payments	-3,560
At 31 Dec 2020	11,833
– Current lease liabilities	2,712
– Non-current lease liabilities	9,121

The maturity analysis of lease liabilities is disclosed in Note 30 'Financial instruments and financial risks'.

Amounts recognised in profit or loss

€ thousand	2020	2019
Depreciation of right-of-use assets	2,930	2,742
Interest expenses on lease liabilities	289	386
Expenses relating to current leases	1,204	1,686
Expenses relating to leases of low-value assets	3	14
Total amount recognised in profit or loss	4,426	4,829

29. Financial liabilities

Movement in financial liabilities in 2020

€ thousand	At 31 Dec 2019	Monetary changes	Non-monetary changes	At 31 Dec 2020
Dividends	1,344	-133,283	133,274	1,335
Treasury shares	0	-25,505	25,505	0
Total	1,344	-158,788	158,779	1,335

Movement in financial liabilities in 2019

€ thousand	At 31 Dec 2018	Monetary changes	Non-monetary changes	At 31 Dec 2019
Dividends	1,353	-101,668	101,659	1,344
Treasury shares	0	-21,698	21,698	0
Total	1,353	-123,366	123,357	1,344

30. Financial instruments and financial risks

Detailed information about financial risk management is described in the 'Business Section of the Annual Report: Risk Management'.

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 500 at the end of 2020, they accounted for more than 95% of total trade receivables. Receivables due from small customers accounted for less than 5% of total Krka Group 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; each with a different weight in the final assessment.

Each customer is assigned a customised credit limit according to their 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 Krka Group customers. Due to specifics of individual sales markets, additional local 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 of the credit control process is a low proportion of receivable write-offs and impairments in total Krka Group sales.

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

Despite the risks arising from the COVID-19 pandemic, receivables were well managed in 2020. Even though sales grew in 2020, trade receivables dropped by 12% over the course of 2020. This is primarily due to favourable outcome of receivables collection.

The amount of the newly formed receivable allowance was lower than the amount of the reversed receivable allowance; therefore, net impairments and write-offs had a positive impact on the Krka Group final result in 2020.

Since 2009, the Krka Group insures a portion of trade receivables with a credit insurer. In the second quarter of 2020, the scope of receivable insurance was widened and upgraded and at the end of the year, over 98% of trade receivables due from the Krka Group's customers was secured with the credit insurer. To a lesser extent, the Krka Group also uses bank guarantees and letters of credit as means of trade receivable insurance.

Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below.

€ thousand	Notes	31 Dec 2020	31 Dec 2019
Loans	14	70,150	42,740
Investments	15	19,919	11,855
Current trade receivables	18	383,560	434,695
Cash and cash equivalents	19	313,568	218,667
Total		787,197	707,957

As for the financial assets exposed to credit risk, the loans and trade receivables are presented separately.

Loans by geographical region

€ thousand	31 Dec 2020	31 Dec 2019
Slovenia	65,933	42,243
South-East Europe	69	60
East Europe	153	160
Central Europe	256	261
West Europe	0	16
Overseas Markets	3,739	0
Total	70,150	42,740

Trade receivables by geographical region

€ thousand	31 Dec 2020	31 Dec 2019
Slovenia	9,173	12,996
South-East Europe	76,417	71,725
East Europe	167,955	186,030
Central Europe	62,337	74,076
West Europe	64,229	86,365
Overseas Markets	3,449	3,503
Total	383,560	434,695

Of the total amount, more than 98% of trade receivables was insured with the Coface PKZ, d. d. insurance company (2019 year-end: 71%).

Maturity analysis of loans as at the reporting date

€ thousand	Gross at 31 Dec 2020	Allowance at 31 Dec 2020	Gross at 31 Dec 2019	Allowance at 31 Dec 2019
Not past due	70,141	0	42,735	0
Past due up to 20 days	0	0	0	0
Past due from 21 to 50 days	1	0	1	0
Past due from 51 to 180 days	3	0	1	0
Past due more than 180 days	5	0	14	11
Total	70,150	0	42,751	11

Maturity structure of trade receivables as at the reporting date

€ thousand	Gross at 31 Dec 2020	Allowance at 31 Dec 2020	Gross at 31 Dec 2019	Allowance at 31 Dec 2019
Not past due	375,563	569	420,532	888
Past due up to 20 days	4,352	34	11,504	96
Past due from 21 to 50 days	2,310	76	867	45
Past due from 51 to 180 days	823	53	1,377	162
Past due more than 180 days	37,798	36,554	25,921	24,315
Total	420,846	37,286	460,201	25,506

The Krka Group agrees extended terms with certain customers. If Krka did not extend payment terms to some of its customers, receivable maturity structure would be as follows at the reporting date: not past due €345,442 thousand (2019: €415,735 thousand); past due up to 20 days €25,915 thousand (2019: €13,859 thousand); past due between 21 and 50 days €8,030 thousand (2019: €2,091 thousand); past due between 51 and 180 days €2,762 thousand (2019: €1,259 thousand); and past due more than 180 days €1,243 thousand (2019: €1,606 thousand).

Movement of allowance for loans

€ thousand	2020	2019
At 1 Jan	11	11
Impairment reversal	-11	0
At 31 Dec	0	11

Movement of receivable allowance

€ thousand	2020	2019
At 1 Jan	25,506	25,438
Formation of allowance	16,065	927
Write-off of receivables	-269	-200
Impairment reversal	-3,513	-508
Collected written-off receivables	-3	-537
Effect of exchange rate differences	-500	386
At 31 Dec	37,286	25,506

An allowance recognised in 2020 on account of a receivable for which Krka received insurance proceeds from the insurance undertaking had no impact on the profit or loss.

Liquidity risk

Business partners value Krka for its excellent financial discipline, low indebtedness, and stable cash flows. In 2020, we settled all financial liabilities regularly. The Krka Group exposure to liquidity risk was low last year.

We did not use any current credit lines in 2020. In accordance with internal rules on diversification of investments and taking account of banks' credit risks, we deposited a part of the cash surplus with banks during the year. Due to excess liquidity in the EMU money markets, opportunities to invest liquid assets in low-risk money deposits were limited in 2020.

At the end of 2020, the Krka Group recorded excess liquid assets, primarily as cash at bank. This was a result of growth of positive cash flow from operating activities, also due to a decrease in the value of trade receivables, and lower investments in fixed assets due to the COVID-19 situation.

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

The COVID-19 pandemic did not increase liquidity risk in 2020.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 Dec 2020

€ thousand	Carrying amount	Contractual cash flows					
		Total	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years
Financial liabilities							
Lease liabilities	11,833	11,833	1,379	1,333	4,375	3,367	1,379
Trade payables excluding advances	107,116	107,116	107,116	0	0	0	0
Contract liabilities excluding advances	99,097	99,097	99,097	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	15,174	15,174	15,174	0	0	0	0
Total financial liabilities	233,220	233,220	222,766	1,333	4,375	3,367	1,379
Total derivative financial liabilities	0	0	0	0	0	0	0
Total	233,220	233,220	222,766	1,333	4,375	3,367	1,379

Maturity of financial liabilities as at 31 Dec 2019

		Contractual cash flows					
€ thousand	Carrying amount	Total	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years
Financial liabilities							
Current borrowings from banks	3	3	3	0	0	0	0
Lease liabilities	13,000	13,000	1,437	1,362	2,303	5,369	2,529
Trade payables excluding advances	128,560	128,560	128,560	0	0	0	0
Contract liabilities excluding advances	114,411	114,411	114,411	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	14,421	14,421	14,421	0	0	0	0
Total financial liabilities	270,395	270,395	258,832	1,362	2,303	5,369	2,529
Derivatives	2,582	2,582	2,582	0	0	0	0
Total derivative financial liabilities	2,582	2,582	2,582	0	0	0	0
Total	272,977	272,977	261,414	1,362	2,303	5,369	2,529

Foreign exchange risk

The Krka Group operates in diverse international environments and is exposed to foreign exchange risk in a few 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, and subsidiary funding by the controlling company.

At the end of 2020, the Russian rouble accounted for the largest, 43%, share of the Krka Group currency position. The position in the rouble arises from trade receivables in the Russian market, and partly from the controlling company's funding of manufacturing capacities in the Russian Federation.

The importance of the Russian sales market, level of currency exposure, and volatility of the Russian rouble are the reasons why we pay special attention to Russian rouble risk management.

Exposure to the U.S. dollar accounts for 15% of the Krka Group total currency position and is related primarily to the acquisition of products and production materials. Purchases in U.S. dollars have been increasing, so we have been actively managing the exposure related to the U.S. dollar also by use of derivatives. Unlike with other currencies, a surplus of liabilities over assets has accrued from exposure to the U.S. dollar, or in other words, the currency position is short.

The exposure to the Romanian leu accounts for 12% of the currency position and arises from trade receivables accrued due to extended payment terms in Romania. Exposure to the Polish zloty is the result of trade receivables and manufacturing facilities held by the Group in Poland and represents 10% of the currency position. Other currencies, among them the Croatian kuna, Swedish krona, North Macedonian denar, Kazakh tenge, Serbian dinar, British pound, Czech koruna, Ukrainian hryvnia, and Hungarian forint, account for 20% of the Krka Group currency position.

Wild fluctuations of individual exchange rates to which the Krka Group is exposed continued in 2020. The COVID-19 pandemic significantly affected the value of currencies and deteriorated the macroeconomic situation in many countries, bringing uncertainty to global capital and currency markets.

The 2020 fluctuation in the Russian rouble was unfavourable for us. The value of the rouble expressed in the euro dropped by 23.5%. The average 2020 value of the Russian rouble was 12.4% lower compared to 2019.

The Brent oil price expressed in U.S. dollars declined by 22% in 2020. Due to the importance of the oil industry in the Russian economy, the value of the Russian rouble relies heavily on oil price movements. In currency markets, the rouble came under additional pressure as a developing country currency. The value of the rouble was also adversely affected by the Central Bank of the Russian Federation gradually lowering its interest rate. Interest rate reduction in the Russian Federation led to a gradual decrease in the cost of hedging Krka's position in roubles in 2020.

The Polish zloty was more unstable in 2020 compared to previous years, as its value dropped by 6.6% from the beginning to the end of the year, while the average exchange rate was 3.3% lower than in 2019. In 2020, the macroeconomic situation in Poland was better than the Economic and Monetary Union (EMU) average. The value of the Polish zloty expressed in the euro decreased, primarily owing to a lower interest rate difference between the two currencies.

Over the course of 2020, the value of the Romanian leu expressed in the euro dropped by 1.8%.

The Croatian kuna remained stable in 2020. In 2020, Croatia introduced the Exchange Rate Mechanism (ERM II), which provides for additional currency stability. High volatility of the British pound prevailed throughout 2020, owing to uncertainties associated with Brexit. Over the course of the year, the value of the British pound expressed in the euro declined by 5.4%. The Krka Group holds long positions in the Croatian kuna and the British pound. However, the volatility of the two exchange rates does not significantly affect the net financial result of the Group.

The value of the U.S. dollar expressed in the euro fell by 8.5% over the course of the year, and the average value of the dollar expressed in the euro was down by 2% on 2019. In the first half of the year, it was affected by uncertainty resulting from the COVID-19 pandemic impact on global economic growth. However, as the economy was expected to recover fast, the exchange rate remained stable. After the U.S. Federal Reserve announced that interest rates would remain low for longer than anticipated, the value of the dollar expressed in the euro began to slide in the second half of 2020.

Strong growth of the Ukrainian hryvnia in 2019 was followed by a 22% drop in 2020. Macroeconomic trends in Ukraine continue to deteriorate, and the country's political stability faces great uncertainty.

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 not possible, we use derivatives or do not hedge the risk. Generally, forward contracts are used for hedging.

In 2020, Krka continued its policy of partial hedging against rouble-related risk. Less than 50% of the risk exposure to the Russian rouble was hedged through forward contracts. Due to the drop in the rouble value, we generated exchange rate losses, which were partly offset through net revenue from the rouble hedging instruments. The fall in the rouble value is the main reason for the Group's total negative net financial result.

High balance sheet exposure and an interest rate difference between the euro and the U.S. dollar that is favourable for Krka are two key reasons that contributed to partial hedging of the exposure in the U.S. dollar with forward contracts in 2020. Due to the short currency position, the dollar slump had a positive financial impact on the Krka Group result, which was partially offset by financial expenses from the U.S. dollar hedging instruments.

We generated net foreign exchange losses from other currencies in 2020. Exposure to other currencies was not hedged. These currencies are generally subject to less marked fluctuations against the euro.

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.

The currency risk balance in 2020 was negative, totalling -€52,687 thousand. Net financial result of the Krka Group, which also included currency risk result, interest income and expenses, and other financial income and expenses, totalled -€51,752 thousand.

Exposure to the risk of foreign exchange rate fluctuations

€ thousand	31 Dec 2020				
	EUR*	RUB	PLN	HRK	RON
Loans	65,999	3,003	1,051	0	38
Trade receivables	91,709	142,197	46,729	18,815	42,154
Cash and cash equivalents	284,753	9,191	3,383	488	1,376
Trade payables	-85,994	-8,208	-1,725	-475	-262
Financial position exposure (net)	356,467	146,183	49,437	18,827	43,307

* EUR is the functional currency and does not represent exposure to foreign currency risk.

€ thousand	31 Dec 2019				
	EUR*	RUB	PLN	HRK	RON
Loans	42,336	67	232	0	20
Trade receivables	129,763	142,299	55,180	13,287	44,815
Cash and cash equivalents	184,502	12,107	4,909	1,106	1,094
Trade payables	-97,549	-10,889	-2,065	-457	-370
Financial position exposure (net)	259,052	143,584	58,256	13,936	45,558

* EUR is the functional currency and does not represent exposure to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2020	2019	2020	2019
RUB	82.72	72.46	91.47	69.96
PLN	4.44	4.30	4.56	4.26
HRK	7.54	7.42	7.55	7.44
RON	4.84	4.75	4.87	4.78

* 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.

Sensitivity analysis

A 1% percent increase/decrease of the euro exchange rate in respect of currencies stated as at 31 December 2020 or 31 December 2019 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, 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 borrowings denominated in the local currencies.

	Effect on the profit or loss before tax			
	2020		2019	
Currency fluctuation	+1%	-1%	+1%	-1%
RUB	1,462	-1,462	1,436	-1,436
PLN	494	-494	583	-583
HRK	188	-188	139	-139
RON	433	-433	456	-456

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 2020. Non-current investments are not related to reference market interest rates, which is why the Krka Group was not exposed to the reference interest rate risk.

Exposure to interest rate risk

€ thousand	31 Dec 2020	31 Dec 2019
Financial instruments at fixed rate of interest	70,145	42,740
Financial assets	70,145	42,740
Financial liabilities	0	0
Financial instruments at variable rate of interest	0	0
Financial assets	0	0
Financial liabilities	0	0

Analysis of the cash flow sensitivity by applying the variable interest rate

The Group reported no financial assets or financial liabilities at variable interest rate at 31 December 2020, and thus the increase or decrease in variable interest rates would have no impact on its operating result.

Capital management

Krka reduced its share capital by withdrawal of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. Krka has one class of shares only, and the first and only issue of shares was carried out in 1995. The share capital was fully paid.

The Group's capital management is aimed at ensuring high credit rating and relevant financing indicators in order to ensure the proper development of its operations and to generate a maximum value for its shareholders.

The Krka Group follows the changes in the economic environment by managing and adjusting its equity structure. Dividends are paid out on annual basis in line with the strategic policy of dividend increase. The Krka Group has no specific goals as regards the ownership share held by employees or share option plans.

There were no changes in Krka's approach to capital management in 2020 or 2019.

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 and trade payables less cash and cash equivalents.

€ thousand	31 Dec 2020	31 Dec 2019
Borrowings	0	3
Trade payables and other current liabilities	302,480	344,571
Cash and cash equivalents	313,568	218,667
Net indebtedness	-11,088	125,907
Equity	1,751,812	1,667,516
Equity and net indebtedness	1,740,724	1,793,423
Gearing (debt/equity) ratio	-0.6%	7.0%

Fair value

€ thousand	31 Dec 2020		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	15,376	15,376	10,908	10,908
Financial assets at fair value through OCI (equity instruments)	10,420	10,420	9,681	9,681
Current loans	54,774	54,774	31,832	31,832
Current investments	9,499	9,499	2,174	2,174
– Financial assets at fair value through profit or loss	8,975	8,975	2,174	2,174
– Derivatives	524	524	0	0
Trade receivables	383,560	383,560	434,695	434,695
Cash and cash equivalents	313,568	313,568	218,667	218,667
Current borrowings	0	0	-3	-3
Non-current trade payables	-10,006	-10,006	-10,000	-10,000
Lease liabilities	-11,833	-11,833	-13,000	-13,000
Current trade payables excluding advances	-107,116	-107,116	-128,560	-128,560
Current contract liabilities excluding advances	-99,097	-99,097	-114,411	-114,411
Other current liabilities excluding amounts owed to the State, to employees and advances	-15,174	-15,174	-14,421	-14,421
Other payables	0	0	-2,582	-2,582
– Derivatives	0	0	-2,582	-2,582
Total	543,971	543,971	424,980	424,980

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.

Assets at fair value

€ thousand	31 Dec 2020				31 Dec 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Financial assets at fair value through OCI (equity instruments)	9,033	0	1,387	10,420	8,294	0	1,387	9,681
Financial assets at fair value through profit or loss	8,975	0	0	8,975	2,174	0	0	2,174
Derivatives	0	0	524	524	0	0	0	0
Total assets at fair value	18,008	0	1,911	19,919	10,468	0	1,387	11,855
Assets for which fair value is disclosed								
Non-current loans	0	0	15,376	15,376	0	0	10,908	10,908
Current loans	0	0	54,774	54,774	0	0	31,832	31,832
Trade receivables	0	0	383,560	383,560	0	0	434,695	434,695
Cash and cash equivalents	0	0	313,568	313,568	0	0	218,667	218,667
Total assets for which fair value is disclosed	0	0	767,278	767,278	0	0	696,102	696,102
Total	18,008	0	769,189	787,197	10,468	0	697,489	707,957

Liabilities at fair value

€ thousand	31 Dec 2020				31 Dec 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivatives	0	0	0	0	0	0	2,582	2,582
Total liabilities at fair value	0	0	0	0	0	0	2,582	2,582
Liabilities for which fair value is disclosed								
Current borrowings	0	0	0	0	0	0	3	3
Non-current trade payables	0	0	10,006	10,006	0	0	10,000	10,000
Lease liabilities	0	0	11,833	11,833	0	0	13,000	13,000
Current trade payables excluding advances	0	0	107,116	107,116	0	0	128,560	128,560
Current contract liabilities excluding advances	0	0	99,097	99,097	0	0	114,411	114,411
Other current liabilities excluding amounts owed to the State, to employees and advances	0	0	15,174	15,174	0	0	14,421	14,421
Total liabilities for which fair value is disclosed	0	0	243,226	243,226	0	0	280,395	280,395
Total	0	0	243,226	243,226	0	0	282,977	282,977

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at reporting date, and is not decreased by any costs that may arise upon the sale or purchase of securities.

31. Related party transactions

Data on groups of persons

By the end of the year, members of the Management Board of the controlling company held 37,040 Krka shares i.e. 0.1129% of total equity or 0.1185% of voting rights. Members of the Supervisory Board of the controlling company held 3,347 shares, i.e. 0.0102% of total equity or 0.0107% of voting rights. Directors of subsidiaries held 3,077 shares, i.e. 0.0094% of the total equity or 0.0098% 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 2020			31 Dec 2019		
	Number of shares	Equity share (%)	Share of voting rights (%)	Number of shares	Equity share (%)	Share of voting rights (%)
Members of the Management Board						
Jože Colarič	22,500	0.0686	0.0720	22,500	0.0686	0.0713
Aleš Rotar	13,915	0.0424	0.0445	13,915	0.0424	0.0441
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
David Bratož	0	0.0000	0.0000	0	0.0000	0.0000
Milena Kastelic	505	0.0015	0.0016	505	0.0015	0.0016
Total Members of the Management Board	37,040	0.1129	0.1185	37,040	0.1129	0.1174
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Matej Lahovnik*	600	0.0018	0.0019	–	–	–
Borut Jamnik	0	0.0000	0.0000	0	0.0000	0.0000
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	0.0000	0.0000	0	0.0000	0.0000
Andrej Slapar**	–	–	–	0	0.0000	0.0000
Members of the Supervisory Board (employee representatives)						
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0016
Franc Šašek	1,400	0.0043	0.0045	1,400	0.0043	0.0044
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total Members of the Supervisory Board	3,347	0.0102	0.0107	2,747	0.0084	0.0087
Total	40,387	0.1232	0.1292	39,787	0.1213	0.1261

* Member of the Supervisory Board since 21 August 2020

** Member of the Supervisory Board until 20 August 2020

Treasury shares were eliminated from the calculation of voting rights (1,541,774 treasury shares as at 31 December 2020 and 1,234,252 as at 31 December 2019).

Remuneration paid to groups of persons (gross)

€ thousand	31 Dec 2020	31 Dec 2019
Members of the Management Board in the controlling company	3,768	3,561
Managers of subsidiaries	2,609	2,507
Members of the Supervisory Board in the controlling company	210	202
Members of the Supervisory and Management Boards in subsidiaries	1	1
Total gross remuneration paid to groups of persons	6,588	6,271

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.

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 2020 amounted to €12,670 thousand (2019: €12,732 thousand).

Remuneration paid to Management Board members in the controlling company in 2020

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	432	177	8	800	313	1,232	498
Aleš Rotar	347	141	13	517	202	864	356
Vinko Zupančič	290	119	13	430	168	720	300
David Bratož	281	119	10	422	166	703	295
Milena Kastelic	169	78	6	80	32	249	116
Total Members of the Management Board	1,519	634	50	2,249	881	3,768	1,565

€ thousand	Net fringe benefits and other earnings						
	Executive health insurance	Supplementary pension insurance	Anniversary bonuses	Other bonuses	Refund of work-related costs	Pay for annual leave	Total
Jože Colarič	0.00	2.82	0.00	3.41	0.03	1.81	8.06
Aleš Rotar	0.00	2.82	1.86	5.32	1.12	1.81	12.93
Vinko Zupančič	0.00	2.82	0.00	7.87	0.99	1.81	13.48
David Bratož	0.00	2.82	0.00	4.13	1.06	1.81	9.82
Milena Kastelic	0.00	2.82	0.00	0.05	1.04	1.81	5.71
Total Members of the Management Board	0.00	14.10	1.86	20.78	4.23	9.04	50.00

Remuneration paid to Management Board members in the controlling company in 2019

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	424	173	8	718	280	1,142	461
Aleš Rotar	337	138	11	481	188	818	337
Vinko Zupančič	288	117	14	400	156	688	287
David Bratož	276	117	9	393	154	669	280
Milena Kastelic	166	77	5	78	31	244	113
Total Members of the Management Board	1,491	622	47	2,070	809	3,561	1,478

€ thousand	Net fringe benefits and other earnings						
	Executive health insurance	Supplementary pension insurance	Anniversary bonuses	Other bonuses	Refund of work-related costs	Pay for annual leave	Total
Jože Colarič	0.83	2.82	0.00	2.92	0.06	1.17	7.80
Aleš Rotar	0.00	2.82	0.00	5.57	0.95	1.19	10.53
Vinko Zupančič	1.87	2.82	0.00	7.45	0.86	1.20	14.20
David Bratož	0.00	2.82	0.00	4.45	0.96	1.20	9.43
Milena Kastelic	0.00	2.82	0.00	0.12	1.05	1.25	5.24
Total Members of the Management Board	2.70	14.10	0.00	20.51	3.88	6.01	47.20

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 on the Management and Supervisory boards in subsidiaries.

Remuneration paid to Supervisory Board members in the controlling company in 2020

€ thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	22.85	16.62	2.10	1.53	0.00	0.00	24.95	18.15
Matej Lahovnik*	7.31	5.31	0.77	0.56	0.22	0.16	8.30	6.03
Borut Jamnik	21.31	15.50	3.25	2.36	0.00	0.00	24.56	17.86
Julijana Kristl	19.17	13.95	2.37	1.72	0.44	0.32	21.98	15.99
Mojca Osolnik Videmšek	19.37	14.09	3.25	2.36	0.54	0.39	23.16	16.84
Boris Žnidarič	19.78	14.38	3.03	2.20	0.42	0.31	23.23	16.89
Andrej Slapar**	14.57	10.59	1.68	1.22	0.00	0.00	16.25	11.81
Members of the Supervisory Board (employee representatives)								
Franco Šašek	20.92	15.22	3.25	2.36	0.00	0.00	24.17	17.58
Tomaž Sever	19.37	14.09	2.15	1.56	0.52	0.38	22.04	16.03
Mateja Vrečer	19.37	14.09	2.37	1.72	0.00	0.00	21.74	15.81
Total remuneration paid to Members of the Supervisory Board	184.02	133.84	24.22	17.59	2.14	1.56	210.38	152.99

* Member of the Supervisory Board since 21 August 2020

** Member of the Supervisory Board until 20 August 2020

In accordance with a resolution adopted at the 16th Annual General Meeting on 7 July 2011, Members of the controlling company's Supervisory Board are entitled to an attendance fee, which for each individual member of the controlling company's Supervisory Board amounts to €275.00 gross. Members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual Commission member amounts to 80% of the attendance fee for Supervisory Board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the number of attendances, each member of the Supervisory Board is in every financial year entitled to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the Supervisory Board or sessions of the Supervisory Board Commissions – reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

In addition to attendance fees, members of the Company's Supervisory Board receive on an annual basis also a basic pay for exercising the function in the amount of €15,500 gross each. The President of the Supervisory Board is further entitled to an extra fee in the amount of 50% of the basic pay for exercising the function of Member of the Supervisory Board, whereas Deputy President of the Supervisory Board is entitled to an extra fee of 10% of the basic pay for exercising the function of a Member of the Supervisory Board. Members of the Supervisory Board Commission receive an extra fee for exercising the function in the amount of 25% of the basic pay for exercising the function of a Member of the Supervisory Board. President of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of a member of the Supervisory Board Commission.

Members of the Company's Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in proportionate monthly payments which they are entitled to during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the Supervisory Board Commission is in every financial year entitled – regardless of the above-mentioned or the number of commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

Loans to groups of persons

€ thousand	Balance		Repayments	
	31 Dec 2020	31 Dec 2019	2020	2019
Members of the Management Board in the controlling company	0	0	0	0.45
Managers of subsidiaries	0	0	0	0
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	0	0	0	0.45

Loans to staff employed under individual employment contracts amounted to €155 thousand at 31 December 2020 (€177 thousand as at 31 December 2019). In 2020, repayments of loans by staff employed under individual employment contracts reached €22 thousand (2019: €20 thousand).

32. Profile of the Krka Group

Transactions between the Krka Group companies were implemented on the basis of sale and purchase contracts, whereby intercompany transactions were based on market prices of products and services.

	Ownership share	Share capital value at 31 Dec 2020	Currency	Headcount at 31 Dec 2020	Headcount at 31 Dec 2019
Controlling company					
Krka, d. d., Novo mesto	100%	54,732,265	EUR	6,191	5,907
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto	100%	14,753,239	EUR	580	578
Farma GRS, d. o. o., Novo mesto*	–	–	–	–	33
KRKA-FARMA d.o.o., Zagreb, Croatia	100%	143,027,200	HRK	191	204
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	147	158
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	64,648	RSD	82	78
KRKA-FARMA DOOEL, Skopje, North Macedonia	100%	49,020,600	MKD	42	40
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	19,550	BGN	72	78
KRKA HELLAS E.P.E., Athens, Greece	100%	10,000	EUR	18	0
KRKA FARMA, d.o.o., Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	1
KRKA-RUS LLC, Istra, Russian Federation	100%	5,361,374,765	RUB	525	505
KRKA FARMA LLC, Istra, Russian Federation	100%	753,874,800	RUB	1,547	1,719
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100,000	UAH	384	383
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	100%	13,500	USD	91	108
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	100%	17,490,000	PLN	683	754
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	187	192
KRKA Magyarország Kft., Budapest, Hungary	100%	44,880,000	HUF	170	190
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	122	130
UAB KRKA Lietuva, Vilnius, Lithuania	100%	9,846	EUR	62	64
SIA KRKA Latvija, Riga, Latvia	100%	9,954	EUR	40	46
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	235	239
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	6	6
KRKA Pharma GmbH, Vienna, Austria	100%	36,500	EUR	22	22
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	46	41
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10,000	EUR	59	54
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	100%	10,000	EUR	72	73
Krka France Eurl, Paris, France	100%	10,000	EUR	28	26
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	8	9
KRKA Belgium, SA, Brussels, Belgium	95%	300,000	EUR	22	19
KRKA USA, LLC, Wilmington, USA	100%	10,000	USD	0	0
KRKA Finland Oy, Espoo, Finland	100%	2,500	EUR	15	15
KRKA UK Ltd, London, United Kingdom	100%	1,000	GBP	12	12
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	245,938,748	CNY	17	12
Total				11,677	11,696

* In 2020, former subsidiary Farma GRS merged with Krka.

The subsidiary Terme Krka had a 100-percent interest in Golf Grad Otočec, d. o. o., at 31 December 2020; the subsidiary KRKA France Eurl had a 100-percent interest in HCS bvba in Belgium and a 5-percent interest in the subsidiary KRKA Belgium, SA.

33. Educational structure of the Krka Group employees

	2020		2019	
	Average headcount	Share (%)	Average headcount	Share (%)
PhD	203	1.7	192	1.7
MSc	391	3.4	384	3.3
University education	5,428	46.7	5,523	48.1
Higher professional education	1,700	14.6	1,658	14.4
Vocational college education	297	2.6	284	2.5
Secondary school education	2,547	21.9	2,337	20.4
Skilled workers	877	7.5	893	7.8
Unskilled workers	188	1.6	213	1.8
Total (average for the year)	11,631	100.0	11,484	100.0

34. Transactions with audit firms

The annual fee for auditing of the Krka Group's financial statements in 2020 amounted to €466 thousand (2019: €480 thousand). In addition, the auditing firms provided various consultation services to the Krka Group in 2020 charging a fee of €60 thousand (2019: 37 thousand).

35. Subsequent events

At its meeting of 27 January 2021, the Supervisory Board appointed the current President of the Management Board and Chief Executive Officer Jože Colarič for another six-year term commencing on 1 January 2022 and authorised him to draw up a proposal for appointing other members of the Management Board by November 2021 at the latest. The six-year term of office of the members of the Management Board expires on 31 December 2021.

From 1 January 2021 to 15 April 2021, we acquired 30,443 treasury shares. At the end of this period, Krka held 1,572,217 treasury shares, accounting for 4.794% of total shares.

Independent Auditor's Report



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Krka, d. d., Novo mesto

Opinion

We have audited the consolidated financial statements of the company Krka, d. d., Novo mesto (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and 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 ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules 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 of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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.

Key audit matters

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

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



Impairment test of TAD Pharma trademark and associated goodwill

TAD Pharma trademark and associated goodwill amount to EUR 77,9 million as at 31 December 2020 and represent 3,5% of total consolidated assets. The management prepared impairment tests based on the value in use calculation. For the purpose of those tests, goodwill was allocated to two cash generating units, controlling company Krka and TAD Pharma. Management used assumptions in respect of future market and economic conditions such as sales growth rates, earnings before interest, tax and depreciation (EBITDA) as well as discount rates.

Impairment of TAD Pharma trademark and associated goodwill is a key audit matter due to its complexity, required estimates of management and the dependency on future market circumstances.

Our audit procedures included an assessment of the historical accuracy of management's estimates, evaluation and testing of the assumptions, methodology, discount rates and data used by the Group. We included in our team a valuation expert to assist us with our assessment of the discount rates and the appropriateness of the model used. We assessed sensitivities on the impairment test of respective cash generating units and whether a reasonably possible change in assumptions such as sales growth rates and discount rates could cause the carrying amount to exceed its recoverable amount.

We assessed the adequacy of the disclosures on the impairment of goodwill and trademark included in Note 13 Intangible assets of the consolidated financial statements and their compliance with International Financial Reporting Standards as adopted by the European Union.

Recoverability of receivables

Trade receivable balances are significant to the Group as they represent 17,2% of total consolidated assets as at 31 December 2020. The Group is exposed to credit and performance risk arising from the Group's global marketing operations. The process of collection of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis. The Group has set control procedures in place, which among others include the credit rating of customers as well as active monitoring of payments by customers. Assessment of the recoverable amount of trade receivables requires management's judgement and assumptions to estimate allowances for receivables.

Given the magnitude of trade receivable balances and the collectability assessment of these receivables, the recoverability of trade receivables was determined as a key audit matter.

We assessed the management's estimates and assumptions used to calculate the trade receivables impairment amount, notably through analyses of ageing of receivables and review of sample of disputable trade receivables. We performed audit procedures to test whether credit ratings were correctly applied to individual customers and tested whether ageing of receivables was correctly calculated. We reviewed the extent to which receivables to third parties had been secured through insurance companies and reviewed the process of prolongation of the payment terms after the sales.

In addition, we evaluated the adequacy of the Group's disclosures regarding trade receivables and the related risks such as credit risk and the ageing of trade receivables in Note 30 Financial instruments and financial risks – credit risk of the consolidated financial statements and their compliance with International Financial Reporting Standards as adopted by the European Union.



Revenue recognition - Rebates and discounts

Revenue is measured taking account of discounts, incentives and rebates earned by customers on the Group's sales. Due to the multitude and variety of contractual terms across the Group's markets, the estimation of discounts, incentives and rebates recognized based on sales made during the year, revenue recognition is considered to be complex. Revenue is recognised at the point in time when control of the asset is transferred to the customer.

We determined revenue recognition as a key audit matter, because revenue is one of the key performance indicators followed by the Group which could create an incentive for revenue to be recognised before the point in time when control of the asset is transferred to the customer.

Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies including those relating to discounts and rebates and assessing compliance with the policies in terms of International Financial Reporting Standards as adopted by the European Union. We tested the effectiveness of the Group's controls over calculation of discounts and rebates and correct timing of revenue recognition. We tested a sample of sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the balance sheet date to assess whether that revenue was recognised in the correct period and whether accruals for bonuses and discounts as at 31 December 2020 are fully recognized.

We also considered the adequacy of the Group's disclosures in Note 5 Revenue from contracts with customers in respect of revenue and Note 25 Current contract liabilities in respect of accrued bonuses and discounts and their compliance with International Financial Reporting Standards as adopted by the European Union.

Other information

Other information comprises the information included in the consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and 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 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. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

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

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.



Responsibilities of management, audit committee and the supervisory board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of 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.

The audit committee and the supervisory board are responsible for overseeing the Group's financial reporting process. The supervisory board is responsible to approve the audited consolidated Annual Report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

From the matters communicated with the audit committee and the supervisory board, 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.

Report on other legal and regulatory requirements

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Group at the general meeting of shareholders on 4 July 2019, the president of the supervisory board has signed the audit agreement on 28 August 2019. The agreement was signed for the period of three years.

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 9 years.

Janez Uranič and Mihael Rot are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o.

Consistence with Additional Report to Audit Committee

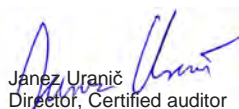
Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 17 March 2021.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

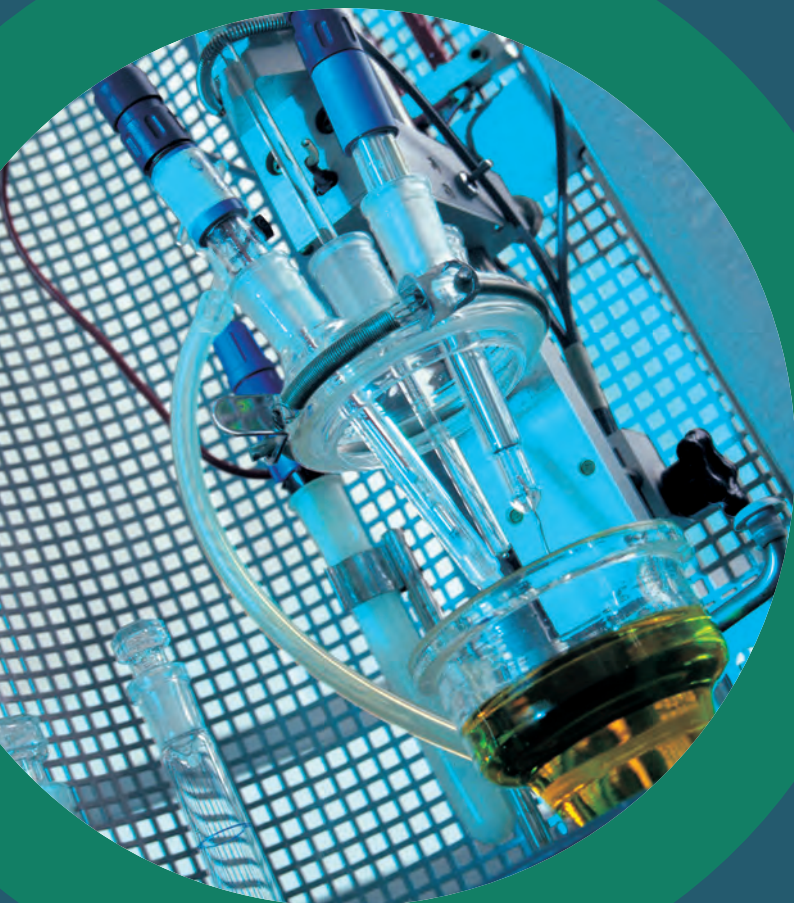
In addition to statutory audit services and services disclosed in the consolidated Annual Report and in the consolidated financial statements, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 24 March 2021


Janez Uranič
Director, Certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1


Mihael Rot
Certified auditor



Financial Statements of Krka, d. d., Novo mesto

Statement of Financial Position

€ thousand	Notes	31 Dec 2020	31 Dec 2019	Index 2020/19
Assets				
Property, plant and equipment	12	605,164	613,210	99
Intangible assets	13	27,893	28,410	98
Investments in subsidiaries	14	339,612	329,335	103
Trade receivables from subsidiaries		0	39,491	0
Loans	15	35,024	36,223	97
Investments	16	10,419	9,680	108
Deferred tax assets	17	14,222	13,187	108
Other non-current assets		615	80	769
Total non-current assets		1,032,949	1,069,616	97
Assets held for sale		41	41	100
Inventories	18	389,178	367,007	106
Contract assets		500	565	88
Trade receivables	19	415,286	443,840	94
Other receivables	19	15,667	18,011	87
Loans	15	57,836	35,644	162
Investments	16	524	0	
Cash and cash equivalents	20	296,398	195,236	152
Total current assets		1,175,430	1,060,344	111
Total assets		2,208,379	2,129,960	104
Equity				
Share capital	21	54,732	54,732	100
Treasury shares	21	-99,279	-73,774	135
Reserves	21	218,787	201,057	109
Retained earnings	21	1,617,610	1,482,163	109
Total equity		1,791,850	1,664,178	108
Liabilities				
Provisions	24	119,830	105,677	113
Deferred revenue	25	4,387	1,659	264
Trade payables	26	10,000	10,000	100
Lease liabilities		2,163	2,453	88
Total non-current liabilities		136,380	119,789	114
Trade payables	26	143,294	182,409	79
Borrowings	23	46,345	73,033	63
Lease liabilities		659	640	103
Income tax payable		13,354	16,668	80
Contract liabilities	27	16,581	14,609	113
Other current liabilities	28	59,916	58,634	102
Total current liabilities		280,149	345,993	81
Total liabilities		416,529	465,782	89
Total equity and liabilities		2,208,379	2,129,960	104

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Income Statement

€ thousand	Notes	2020	2019	Index 2020/19
Revenue		1,447,112	1,390,248	104
– Revenue from contracts with customers	5	1,440,930	1,383,855	104
– Other revenue		6,182	6,393	97
Cost of goods sold		-624,105	-597,369	104
Gross profit		823,007	792,879	104
Other operating income	6	5,137	3,780	136
Selling and distribution expenses		-263,174	-308,050	85
– Of that net impairments and write-offs of receivables		1,177	300	392
R&D expenses		-150,727	-155,495	97
General and administrative expenses		-75,361	-69,262	109
Operating profit		338,882	263,852	128
Financial income	10	31,786	34,410	92
Financial expenses	10	-72,837	-14,751	494
Net financial result		-41,051	19,659	
Profit before tax		297,831	283,511	105
Income tax	11	-39,357	-34,100	115
Net profit		258,474	249,411	104
Basic earnings per share (€)	22	8.23	7.85	105
Diluted earnings per share (€)	22	8.23	7.85	105

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	2020	2019	Index 2020/19
Net profit		258,474	249,411	104
Net profit – effect of the merger		1,778	0	
Other comprehensive income for the year				
Other comprehensive income that will not be reclassified to profit or loss at a future date				
Change in fair value of financial assets		739	292	253
Restatement of post-employment benefits	24	-10,966	-15,926	69
Deferred tax effect		901	1,458	62
Effect of the merger		35,525	0	
Net other comprehensive income that will not be reclassified to profit or loss at a future date		26,199	-14,176	
Total other comprehensive income (net of tax)		26,199	-14,176	
Total comprehensive income (net of tax)		286,451	235,235	122

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
At 1 Jan 2020	54,732	-73,774
Net profit	0	0
Net profit - effect of the merger	0	0
Total other comprehensive income (net of tax)	0	0
Total comprehensive income (net of tax)	0	0
Transactions with owners, recognised in equity		
Formation of other profit reserves under the resolution of the AGM	0	0
Transfer of previous period's profits to retained earnings	0	0
Repurchase of treasury shares	0	-25,505
Formation of reserves for treasury shares	0	0
Dividends paid	0	0
Total transactions with owners, recognised in equity	0	-25,505
At 31 Dec 2020	54,732	-99,279

€ thousand	Share capital	Treasury shares
At 1 Jan 2019	54,732	-52,076
Net profit	0	0
Total other comprehensive income (net of tax)	0	0
Total comprehensive income (net of tax)	0	0
Transactions with owners, recognised in equity		
Formation of other profit reserves under the resolution of the AGM	0	0
Transfer of previous period's profits to retained earnings	0	0
Repurchase of treasury shares	0	-21,698
Formation of reserves for treasury shares	0	0
Dividends paid	0	0
Total transactions with owners, recognised in equity	0	-21,698
At 31 Dec 2019	54,732	-73,774

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Share capital	Reserves				Retained earnings			Total equity
	Treasury shares	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	
73,774	105,897	14,990	30,000	-23,604	1,211,292	43,158	227,713	1,664,178
0	0	0	0	0	0	0	258,474	258,474
0	0	0	0	0	0	0	1,778	1,778
0	0	0	0	-7,775	0	33,974	0	26,199
0	0	0	0	-7,775	0	33,974	260,252	286,451
0	0	0	0	0	68,798	-68,798	0	0
0	0	0	0	0	0	227,713	-227,713	0
0	0	0	0	0	0	0	0	-25,505
25,505	0	0	0	0	0	0	-25,505	0
0	0	0	0	0	0	-133,274	0	-133,274
25,505	0	0	0	0	68,798	25,641	-253,218	-158,779
99,279	105,897	14,990	30,000	-31,379	1,280,090	102,773	234,747	1,791,850

Share capital	Reserves				Retained earnings			Total equity
	Treasury shares	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	
52,076	105,897	14,990	30,000	-10,175	1,167,388	37,627	151,841	1,552,300
0	0	0	0	0	0	0	249,411	249,411
0	0	0	0	-13,429	0	-747	0	-14,176
0	0	0	0	-13,429	0	-747	249,411	235,235
0	0	0	0	0	43,904	-43,904	0	0
0	0	0	0	0	0	151,841	-151,841	0
0	0	0	0	0	0	0	0	-21,698
21,698	0	0	0	0	0	0	-21,698	0
0	0	0	0	0	0	-101,659	0	-101,659
21,698	0	0	0	0	43,904	6,278	-173,539	-123,357
73,774	105,897	14,990	30,000	-23,604	1,211,292	43,158	227,713	1,664,178

Statement of Cash Flows

€ thousand	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		258,474	249,411
Adjustments for:		111,062	122,935
– Amortisation/Depreciation	12, 13	85,146	82,077
– Foreign exchange differences		1,611	-758
– Investment income		-28,408	-11,359
– Investment expenses		15,131	16,047
– Financial income		-3,779	0
– Interest expenses and other financial expenses		2,004	2,828
– Income tax	11	39,357	34,100
Operating profit before changes in net current assets		369,536	372,346
Change in trade receivables		57,672	-54,708
Change in inventories		-22,171	-49,508
Change in trade payables		-13,832	31,353
Change in provisions		1,176	-135
Change in deferred revenue		-518	-371
Change in other current liabilities		3,288	-3,029
Income tax paid		-42,641	-18,952
Net cash from operating activities		352,510	276,996
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		575	1,215
Dividends received		575	358
Proportionate profit of subsidiaries		7,092	8,692
Proceeds from sale of property, plant and equipment		760	733
Purchase of property, plant and equipment	12	-60,917	-82,141
Purchase of intangible assets	13	-5,582	-5,435
Acquisition of subsidiaries and a share of minority interests net of financial assets acquired		-11,281	-3,834
Non-current loans		-2,476	-4,177
Proceeds from repayment of non-current loans		4,683	10,182
Payments for acquisition of non-current investments		-566	-43
Proceeds from sale of non-current investments		26	21
Payments for current investments and loans		-23,210	-6,571
Payments for derivatives		-14,443	-7,540
Proceeds from derivatives		17,212	0
Net cash from investing activities		-87,552	-88,540
CASH FLOWS FROM FINANCING ACTIVITY			
Interest paid		-512	-742
Payments for/Proceeds from current borrowings		-2,269	32,564
Lease liabilities paid		-732	-718
Dividends and other profit shares paid		-133,283	-101,668
Repurchase of treasury shares		-25,505	-21,698
Net cash from financing activities		-162,301	-92,262
Net increase in cash and cash equivalents		102,657	96,194
Cash and cash equivalents at beginning of year		195,236	98,474
Effect of foreign exchange rate fluctuations on cash held		-1,751	568
Cash proceeds from merger of Farma GRS		256	0
Closing balance of cash and cash equivalents		296,398	195,236

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 number: 5043611000.

The financial statements of the Company refer to the year ended 31 December 2020.

The Company is engaged in development, production, marketing and sale of human health products (prescription pharmaceuticals and non-prescription products), and animal health products.

1. Basis of preparation

Declaration of conformity

The financial statements of the Company have been prepared in accordance with *International Financial Reporting Standards* ('IFRS'), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ('IFRIC'), as adopted by the European Union, and in compliance with the Companies Act (*ZGD-1*).

The financial statements were approved by the Krka's Management Board on 22 March 2021.

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 3.

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.

The 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; allowances made for inventories and receivables; investment impairment; financial instruments; assumptions material to the actuarial calculation of defined employee benefits; and assumptions used in the calculation of potential provisions for disputes. Regardless of the fact that the 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 5 '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 Krka 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, Krka 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, Krka 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, Krka 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, Krka 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 contract, 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, Krka assesses whether there is a constraint on variable consideration. Based on past experience, business forecasts and current economic conditions, Krka has determined that there are no constraints on variable consideration.

Krka is a seller of products that are subject to payment terms in excess one year in some markets. Krka recognises financial income and expenses on these sales using the appropriate discount rate.

- Note 14 '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. Krka found no need for impairment of investments in subsidiaries as at 31 December 2020.

- Note 19 'Impairment testing of receivables'

On the financial statement preparation (quarterly and annually), Krka 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. Thus, allowances of receivables due from individual customer are calculated by means of an algorithm that includes all the above criteria.

- Note 24 '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 24 'Provisions for lawsuits and contingent liabilities'

Several lawsuits and claims have been brought against Krka for alleged breaches of intellectual property (patent rights or competition law) and those referring to other areas. A provision is recognised when Krka 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 Krka. The 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.

- Note 27 'Current liabilities from contracts with customers'

Krka accrues contractually agreed discounts in its financial statements when, based on the annual sales, individual customers gain the right to discount recognition in the next financial year, i.e. when contractually agreed terms and conditions of discounts are fulfilled. The assessed rate of discount depends on the facts known at the time of the financial statement preparation, past experience in trading with individual customers, and other relevant facts.

- Notes 30 'Leases'

Krka recognises leases based on measurement of lease liabilities and thus its determination of the lease term, its incremental borrowing rate if the implicit interest rate is not readily determinable, and its assessment at contract inception whether a contract is, or contains, a lease.

At contract inception, Krka 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, Krka 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.

Krka considers all relevant facts, circumstances, and past practices that provide an economic incentive for Krka not to exercise the option of contract extension or termination.

Krka reassesses the lease term upon occurrence of any significant event or a material change in the circumstances it controls that affect its decision to exercise the option of contract extension or termination.

Krka uses its incremental borrowing rate when the implicit interest rate in the lease cannot be determined. The assessed borrowing rate is based on the average bond yield of issuers in the relevant region and the contract maturity.

2. Significant accounting policies

Krka applied the same accounting policies in all periods presented in the accompanying financial statements.

The accounting policies and calculation methods used are consistent with those applied in the previous year, except for application of newly adopted standards and interpretations, which are noted below and were applied if relevant events occurred in Krka in the reporting period.

New standards and interpretations effective from 1 January 2020

Conceptual Framework in IFRS Standards

The IASB issued the revised *Conceptual Framework for Financial Reporting* on 29 March 2018. The *Conceptual Framework* sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The IASB also issued a separate accompanying document, *Amendments to References to the Conceptual Framework in IFRS Standards*, which sets out the amendments to affected standards in order to update references to the revised *Conceptual Framework*. Its objective is to support transition to the revised *Conceptual Framework* for companies that develop accounting policies using the *Conceptual Framework* when no *IFRS Standard* applies to a particular transaction. For preparers who develop accounting policies based on the *Conceptual Framework*, it is effective for annual periods beginning on or after 1 January 2020.

Amendments to IFRS 3 – Business Combinations

The IASB issued amendments in *Definition of a Business (Amendments to IFRS 3)* aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early adoption is permitted.

The management has assessed the impact of the amendments and believes they had no impact on the financial statements of the Company.

Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’

The amendments are effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted. The amendments clarify the definition of material and how it should be applied. The new definition states that information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions the primary users of general-purpose financial statements make on the basis of those financial statements which provide financial information about a specific reporting entity. Furthermore, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of ‘material’ is consistent across all *IFRS Standards*. The management has assessed the impact of the amendments and believes they had no significant impact on the financial statements of the Company.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to *IFRS 9*, *IAS 39*, and *IFRS 7*, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in *IFRS 9 Financial Instruments* and *IAS 39 Financial Instruments* and *IAS 39 Financial Instruments: Recognition and Measurement*, which require forward-looking analysis. The amendments provide temporary relief, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enables hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. Amendments also refer to *IFRS 7 – Financial Instruments: Disclosures* regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (exposure draft) will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate. The management has assessed the impact of the amendments and believes they had no significant impact on the financial statements of the Company.

IFRS 16 Leases – COVID-19-Related Rent Concessions (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Amendments provide a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under *IFRS 16*, if the change were not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021;
- There is no substantive change to other terms and conditions of the lease.

Early adoption is permitted. The Company applied the amendments as at 1 June 2020. The management has assessed the impact of the amendments and believes they had no significant impact on the financial statements of the Company.

Merger of a subsidiary

Pursuant to the agreement on the purchase of business stakes, in February 2020 Krka, d. d., Novo mesto acquired a 100% stake in Farma GRS, d. o. o. In October 2020, Farma GRS, d. o. o. merged with the controlling company, with 30 June 2020 as the effective date of the merger. The merger of Farma GRS, d. o. o. did not have any impact on the financial statements of the Krka Group since the controlling company, Krka, d. d., Novo mesto, was its sole owner. The difference between the net value of the merged assets of €38,183,327 and the investment of €1,004,410 was recognised in the controlling company's separate financial statements within the same capital category as in the Group's consolidated financial statements prior to the merger. Consequently, on 2 October 2020, Farma GRS, d. o. o. was removed from the court register. The key reason for

the merger of the acquiree with the acquirer is in addition to the rationalisation of processes, the simplification of operations and business processes.

Following the merger of Farma GRS, d. o. o., the Company recognised:

- €1,777,842 of net profit of the financial period;
- €35,501,994 of retained earnings; and
- €22,421 of value reserve.

Detailed presentation of the merger effects is disclosed in individual Notes to the separate financial statements of the Company.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated to the euro (the functional currency of Krka) 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.

Financial instruments

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 Krka'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.

Krka'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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

Subsequent measurement

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)

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 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)

The Company classifies its investments in equity securities as financial assets at fair value through OCI.

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)

The Company classifies its investments in equity securities as financial assets at fair value through OCI. The Company elected to classify irrevocably its listed and non-listed investments in this category.

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.

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.

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.

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 *IFRSs*, 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.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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.

As from 1 January 2009, costs of borrowings that may be directly attributable to the acquisition, construction or production of an asset under construction, are also part of the cost of an item of property, plant and equipment. If borrowings raised are not earmarked and they cannot be attributed directly to the acquisition of an asset under construction, the pro-rata amount of costs is capitalised only when borrowing costs exceed 10% of the value of all investments of the accounting period. The pro-rata amount of costs is calculated using the capitalisation rate as the weighted average costs of borrowings that have not been settled in the accounting period. The pro-rata amount of costs increases the cost of significant assets under construction, i.e. assets that account for more than 10% of total investments in the period and the construction of which extends over a period of more than 6 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 are as follows:

- For buildings 15 to 60 years,
- For plant and equipment 2 to 20 years,

- For furniture 5 years,
- For computer hardware 4 to 6 years, and
- For means of transportation 5 to 15 years.

Intangible assets

Research and development

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.

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.

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, work in progress and semi-finished products are carried at standard cost, which in addition to direct cost of material includes also cost of production, such as: direct labour cost, direct cost of depreciation, direct cost of services, energy, maintenance, and quality management. 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.

Impairments

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).

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.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is assessed.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to assets in the unit (group of units) on a pro rata basis of the asset's carrying amount.

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 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 asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of 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 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.

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.

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

The Company applied a single measurement and recognition approach for all leases, except for current leases and leases of low-value assets. In respect of those, the Company applies a practical expedient of the standard and recognises lease liabilities as expenses on a straight-line basis over the lease term. The practical expedient applies to leases with a lease term of less than 1 year and leases of assets valued at less than €5,000.

The Company recognises right-of-use assets and lease liabilities at the commencement date of the lease (i.e. the date the underlying 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 on a straight-line basis over the shorter of the estimated lease term or the estimated useful lives of the assets.

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 average bond returns of issuers in relevant regions, 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. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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 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.

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 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 Company considers the effects of variable consideration 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 the 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. For the goods expected to be returned instead of revenue, the Company recognises a refund liability. A right-of-return asset (and corresponding adjustment to cost of sales) 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 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.

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.

For sales to the subsidiary Krka-Rus in the Russian Federation, the Company has agreed payment terms in excess of one year. In order to take into account a significant financing component, the transaction price under these contracts is discounted using a discount rate that reflects the Company's separate financial transactions.

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.

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 Company transfers goods or services 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 and is measured at the amount the Company ultimately expects to 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. Refer to above accounting policy on variable consideration.

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 expenses incurred is recognised in profit or loss on a systematic basis in the same periods in which the costs are recognised. Revenues that compensate an entity for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

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

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.

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 weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all the Company shares belong to the same class of ordinary no-par value shares.

Segment reporting

An operating segment is a distinguishable component of Krka 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 Company's segment reporting is based on internal reporting system applied by the management in the decision-making process.

The segments include: the EU (all countries of the European Union), South-Eastern Europe (Serbia, Bosnia and Herzegovina, North Macedonia, Montenegro, Kosovo and Albania) and 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).

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 Company will apply the new and revised standards and interpretations when they become effective. The Company did not apply any revised 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 address an acknowledged inconsistency between the requirements in *IFRS 10* and those in *IAS 28*, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this standard indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have so far not been endorsed by the EU. The management has assessed the impact of the amendments on the financial statements of the Company and will apply them when they come into force.

Amendments to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

The amendments are effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted. In response to the COVID-19 pandemic, the IASB has deferred the effective date by one year, i.e. by 1 January 2023, to provide companies with more time to implement any changes to the classification of liabilities resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by an entity issuing own equity instruments. The amendments have so far not been endorsed by the EU. The management has assessed the impact of the amendments and believes they will have no significant impact on the financial statements of the Company.

Amendments to IFRS 3 – Business Combinations, IAS 16 – Property, Plant and Equipment, IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, as well as Annual Improvements 2018–2020

The amendments are effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted. The IASB has issued narrow-scope amendments to the *IFRS standards* as follows:

- *IFRS 3 Business Combinations (Amendments)* updated reference to *IFRS 3, Reference to the Conceptual Framework for Financial Reporting* without changing the accounting requirements for business combinations.
- *IAS 16 Property, Plant and Equipment (Amendments)* prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- *IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)* specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- *Annual Improvements 2018–2020* make minor amendments to *IFRS 1 First-time Adoption of International Financial Reporting Standards*, *IFRS 9 Financial Instruments*, *IAS 41 Agriculture* and the *Illustrative Examples accompanying IFRS 16 Leases*.

The amendments have so far not been endorsed by the EU. The management has assessed the impact of the amendments on the financial statements of the Company and will apply them when they come into force.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB published the results of its second phase of the Interest rate benchmark reform, namely the amendments to *IFRS 9*, *IAS 39*, *IFRS 7*, *IFRS 4* and *IFRS 16*, which concludes its work in response to the interest rate benchmark reform. The amendments introduce a practical expedient for reporting the effects of replacing the interbank offered rates (IBOR) with an alternative risk-free interest rate (RFR) on financial reporting. They provide practical expedient to companies when accounting for modification in the basis for determining the contractual cash flows of financial assets and liabilities. An entity is required to adjust the effective interest rate to reflect the fluctuation of the market interest rates. In addition, the amendments provide entities with certain relief from discontinuing hedge accounting, including a temporary exemption from the requirement that the reference interest rate as a hedged item, should meet separately identifiable requirements. *Amendments to IFRS 7 – Financial Instruments: Disclosures* require entities to make appropriate disclosures to enable the financial statement users to understand the effect of the interest rate benchmark reform on its financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021. Early adoption is permitted. While application is retrospective, an entity is not required to restate previous periods. The management has assessed the impact of the amendments and believes they will have no significant impact on the financial statements of the Company.

3. Determination of 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 values 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 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.

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.

4. Segment reporting

The Company reports in terms of certain geographical segments. Revenues generated by individual segments are presented in terms of customers' geographical location. The United Kingdom, which was in the past part of the European Union segment, was at the beginning of 2020 moved to the Other segment. Consequently, the 2019 data have been adjusted.

Segment reporting

€ thousand	European Union	
	2020	2019
Revenue	815,626	782,430
– Revenue from contracts with customers	809,659	776,331
– Other revenue	5,967	6,099
Other operating income	5,137	3,660
Operating costs	-667,278	-658,158
Operating profit	153,485	127,932
Interest income	438	1,117
Interest expense	-454	-604
Net financial result	737	7,090
Income tax	-17,826	-16,534
Net profit	136,396	118,488
Investments	61,311	90,481
Depreciation of property, plant and equipment	58,769	54,377
Depreciation of the right-of-use assets	549	457
Amortisation	3,218	3,098
	31 Dec 2020	31 Dec 2019
Total assets	1,644,023	1,520,973
Total liabilities	288,890	308,857

South-Eastern Europe		Eastern Europe		Other		Total	
2020	2019	2020	2019	2020	2019	2020	2019
80,346	73,796	489,452	466,406	61,688	67,616	1,447,112	1,390,248
80,346	73,796	489,401	466,373	61,524	67,355	1,440,930	1,383,855
0	0	51	33	164	261	6,182	6,393
0	0	0	120	0	0	5,137	3,780
-54,534	-52,989	-343,942	-367,517	-47,613	-51,512	-1,113,367	-1,130,176
25,812	20,807	145,510	99,009	14,075	16,104	338,882	263,852
0	0	8	66	2	3	448	1,186
-2	-3	-11	-13	-10	-15	-477	-635
-83	448	-40,634	11,481	-1,071	640	-41,051	19,659
-2,998	-2,689	-16,899	-12,796	-1,634	-2,081	-39,357	-34,100
22,731	18,566	87,977	97,694	11,370	14,663	258,474	249,411
0	0	0	0	0	0	61,311	90,481
1,672	1,632	16,647	18,703	1,610	1,219	78,698	75,931
15	13	160	162	15	10	739	642
317	292	1,931	1,847	243	267	5,709	5,504
31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
47,873	46,681	470,677	527,175	45,806	35,131	2,208,379	2,129,960
15,112	13,564	95,513	117,280	17,014	26,081	416,529	465,782

5. Revenue from contracts with customers

Breakdown of revenue from contracts with customers

€ thousand	2020	2019
Revenue from contracts with customers (products)	1,222,011	1,195,677
Revenue from contracts with customers (materials)	218,919	188,178
Total revenue from contracts with customers	1,440,930	1,383,855

Revenue from contracts with customers by region

€ thousand	2020	2019
Slovenia	55,385	52,902
South-East Europe	197,185	187,068
East Europe	289,471	298,053
Central Europe	325,793	323,501
West Europe	313,365	290,401
Overseas markets	40,812	43,752
Total	1,222,011	1,195,677

Revenue from contracts with customers by product groups

€ thousand	2020	2019
Prescription pharmaceuticals	1,039,105	1,008,125
Non-prescription products	110,562	122,309
Animal health products	72,344	65,243
Total	1,222,011	1,195,677

Contract balances

Trade receivables are explained in Note 19, and trade liabilities in Note 27. The Company did not recognise any contract assets. Contract assets are reported in the consolidated statement of financial position.

Right-of-return assets and liabilities

The Company recognised right-of-return liabilities as accrued bonuses, volume rebates and discounts on products sold to other customers.

Performance obligations

The Company is engaged in development, production, marketing and sales of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and materials. 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.

Transfers of risks and rewards depend on terms and conditions of an individual contract. Generally, the transfer occurs when the customer accepts the goods in accordance with INCOTERMS 2020 or when the relevant services are performed. Payment terms vary from region to region (distribution channels), while the normal credit term is 30 to 120 days.

At the year-end, the Company incurred no costs on acquisition or fulfilment of contracts with customers.

6. Other operating income

€ thousand	2020	2019
Reversal of non-current provisions	2,058	614
Deferred revenue reversal	640	398
Gains on sale of property, plant and equipment and intangible assets	396	563
Revaluation operating revenue - leases	7	3
Other operating income	2,036	2,202
Total other operating income	5,137	3,780

Other operating income includes €1,172 thousand of State grants aimed at curbing the COVID-19 pandemic. State grants are unconditional and as such are recognised in the 2020 financial statements in the full amount.

7. Costs by nature

€ thousand	2020	2019
Cost of goods and materials	414,326	395,559
Cost of services	305,619	357,975
Employee benefits	301,908	280,429
Amortisation and depreciation	85,146	82,077
Inventory write-offs and allowances	–	14,825
Inventory write-offs and allowances (net)	12,895	–
Receivable impairments and write-offs (net)	-1,177	-300
Other operating expenses	24,220	30,532
Total costs	1,142,937	1,161,097
Change in the value of inventories of finished products and work in progress	-29,570	-30,921
Total	1,113,367	1,130,176

8. Employee benefits

€ thousand	2020	2019
Gross wages and salaries and continued pay	231,236	216,722
Social security contributions	16,209	15,539
Pension insurance contributions	30,349	27,770
Post-employment benefits and other non-current employee benefits	7,464	6,678
Other employee benefits	16,650	13,720
Total employee benefits	301,908	280,429

Post-employment benefits and other non-current employee benefits are detailed in Note 24. 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 in 2020 amounted to €56,422 thousand (2019: €52,852 thousand). Compulsory pension and disability insurance amounted to €55,622 thousand, and exempt contributions for compulsory pension and disability insurance to €800 thousand.

Supplementary pension insurance contributions amounted to €8,448 thousand in 2020 (2019: €7,721 thousand).

9. Other operating expenses

€ thousand	2020	2019
Grants and assistance for humanitarian and other purposes	1,286	1,564
Environmental protection expenditures	3,528	2,859
Other taxes and levies	15,819	18,677
Loss on sale and write-offs of property, plant and equipment and intangible assets	1,138	4,613
Other operating expenses	2,449	2,819
Total other operating expenses	24,220	30,532

Other levies include €13,892 thousand of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries for pursuing promotional activities (2019: €16,806 thousand).

10. Financial income and expenses

€ thousand	2020	2019
Net foreign exchange differences	0	23,615
Interest income	448	1,186
Derivatives income	20,319	0
– Realised revenue	17,212	0
– Fair value change	3,107	0
Income from dividends and other profit shares	7,247	9,609
– Dividends	650	358
– Profits of subsidiaries	6,597	9,251
Other financial income	3,772	0
Total financial income	31,786	34,410
Net foreign exchange differences	-56,392	0
Interest expenses	-477	-635
– Interest paid	-428	-575
– Interest expenses on lease liabilities	-49	-60
Derivatives expenses	-14,443	-11,921
– Incurred expenses	-14,443	-7,540
– Fair value change	0	-4,381
Other financial expenses	-1,525	-2,195
Total financial expenses	-72,837	-14,751
Net financial result	-41,051	19,659

11. Income tax

Adjustment to effective tax rate

€ thousand	2020	2019
Income tax	39,436	34,050
Deferred tax	-79	50
Total income tax	39,357	34,100
Profit before tax	297,831	283,511
Income tax calculated at the rate of 19% (the same as in 2019)	56,588	53,867
Income tax from increased expenses	-846	-1,513
Income tax from non-exempt expenses	2,370	2,513
Income tax from tax incentives	-17,172	-18,784
Income tax from adjustment of revenue decreasing the tax base	-1,583	-1,983
Total income tax	39,357	34,100
Effective tax rate	13.2%	12.0%

Investments in R&D and investment relief represent the major share of tax incentives.

12. Property, plant and equipment

€ thousand	31 Dec 2020	31 Dec 2019
Land	27,758	27,074
Buildings	263,859	265,858
Equipment	280,433	284,938
Property, plant and equipment being acquired	27,242	31,473
Advances for property, plant and equipment	3,021	769
Right-of-use assets	2,851	3,098
Total property, plant and equipment	605,164	613,210

Major investments made by the Company in 2020 included €10,058 thousand invested in setting up the additional packaging facility Pakirnica 2 at the Notol 2 Plant (2019: €18,001 thousand). Another €7,025 thousand (2019: €25 thousand) was invested in the relocation of the small-batch production and increasing the production capacity for bulk products at the Notol 2 Plant; €3,268 thousand was invested in the construction of a warehouse in Krško (2019: €2,579 thousand); the replacement of a coating machine at the Notol Plant amounted to €1,477 thousand (this project was introduced in 2020, hence no 2019 data is available); and €1,247 thousand was spent on the construction of the Sinteza 2 Plant in Krško (2019: €153 thousand). A total of €4,279 thousand was spent on various projects in the area of information technology and telecommunications (2019: €3,932 thousand).

Most of the right-of-use assets relate to the right-of-use buildings in the amount of €2,839 thousand (2019: €3,072 thousand).

Movements in property, plant and equipment (PP&E)

€ thousand	Land	Buildings	Equipment	PP&E being acquired	Advances for PP&E	Right-of-use assets	Total
Cost							
At 1 Jan 2019	26,984	565,872	929,807	42,773	3,140	3,953	1,572,529
Additions	0	0	0	87,417	-2,371	0	85,046
Capitalisation – transfer from PP&E under construction	103	30,110	65,001	-95,214	0	0	0
Capitalisation – IFRS 16 Leases	0	0	0	0	0	134	134
Disposals, impairment, deficit, surplus	-13	-51	-12,932	-3,503	0	-368	-16,867
Transfers, reclassification	0	-19	296	0	0	0	277
At 31 Dec 2019	27,074	595,912	982,172	31,473	769	3,719	1,641,119
At 1 Jan 2020	27,074	595,912	982,172	31,473	769	3,719	1,641,119
Merger by acquisition	0	12,358	22,482	0	0	0	34,840
Additions	0	0	0	53,477	2,252	0	55,729
Capitalisation – transfer from PP&E under construction	684	10,293	46,731	-57,708	0	0	0
Capitalisation – IFRS 16 Leases	0	0	0	0	0	738	738
Disposals, impairment, deficit, surplus	0	-58	-13,055	0	0	-397	-13,510
Transfers, reclassification	0	289	-274	0	0	-10	5
At 31 Dec 2020	27,758	618,794	1,038,056	27,242	3,021	4,050	1,718,921
Accumulated depreciation							
At 1 Jan 2019	0	-310,114	-653,539	0	0	0	-963,653
Depreciation	0	-19,993	-55,938	0	0	-642	-76,573
Disposals, deficit, surplus	0	34	12,539	0	0	21	12,594
Transfers, reclassification	0	19	-296	0	0	0	-277
At 31 Dec 2019	0	-330,054	-697,234	0	0	-621	-1,027,909
At 1 Jan 2020	0	-330,054	-697,234	0	0	-621	-1,027,909
Merger by acquisition	0	-3,849	-15,238	0	0	0	-19,087
Depreciation	0	-21,035	-57,663	0	0	-739	-79,437
Capitalisation – transfer from PP&E under construction	0	0	0	0	0	0	0
Disposals, deficit, surplus	0	0	12,520	0	0	160	12,680
Transfers, reclassification	0	3	-8	0	0	1	-4
At 31 Dec 2020	0	-354,935	-757,623	0	0	-1,199	-1,113,757
Carrying amount							
At 1 Jan 2019	26,984	255,758	276,268	42,773	3,140	3,953	608,876
At 31 Dec 2019	27,074	265,858	284,938	31,473	769	3,098	613,210
At 1 Jan 2020	27,074	265,858	284,938	31,473	769	3,098	613,210
At 31 Dec 2020	27,758	263,859	280,433	27,242	3,021	2,851	605,164

No borrowing costs relate to the items of property, plant and equipment in 2020.

The carrying amount of the items of property, plant and equipment, which are temporarily not used amounted to €1,300 thousand at 31 December 2020 (2019 year-end: €1,205 thousand).

Of total property, plant and equipment in use as at 31 December 2020, 36% was fully depreciated (2019 year-end: 34%). The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

The movements and lease liabilities recognised in profit or loss are presented in Notes 30 and 32.

13. Intangible assets

€ thousand	31 Dec 2020	31 Dec 2019
Concessions, trademarks and licences	23,443	24,348
Intangible assets being acquired	4,450	4,062
Total intangible assets	27,893	28,410

Intangible assets refer to software and registration documentation for new pharmaceuticals.

Movement of intangible assets (IA)

€ thousand	Concessions, trademarks and licences	IA being acquired	Total
Cost			
At 1 Jan 2019	103,205	3,580	106,785
Additions	0	5,435	5,435
Transfer from IA being acquired	4,953	-4,953	0
Disposals, deficit, surplus	-406	0	-406
Transfers, reclassification	-277	0	-277
At 31 Dec 2019	107,475	4,062	111,537
At 1 Jan 2020	107,475	4,062	111,537
Merger by acquisition	438	0	438
Additions	0	5,582	5,582
Transfer from IA being acquired	4,839	-4,839	0
Disposals, deficit, surplus	-627	-355	-982
Transfers, reclassification	-5	0	-5
At 31 Dec 2020	112,120	4,450	116,570
Accumulated amortisation			
At 1 Jan 2019	-77,943	0	-77,943
Amortisation	-5,504	0	-5,504
Disposals, deficit, surplus	42	0	42
Transfers, reclassification	278	0	278
At 31 Dec 2019	-83,127	0	-83,127
At 1 Jan 2020	-83,127	0	-83,127
Merger by acquisition	-354	0	-354
Amortisation	-5,709	0	-5,709
Disposals, deficit, surplus	509	0	509
Transfers, reclassification	4	0	4
At 31 Dec 2020	-88,677	0	-88,677
Carrying amount			
At 1 Jan 2019	25,262	3,580	28,842
At 31 Dec 2019	24,348	4,062	28,410
At 1 Jan 2020	24,348	4,062	28,410
At 31 Dec 2020	23,443	4,450	27,893

Of total intangible assets in use as at 31 December 2020, 55% was fully amortised (54% as at 31 December 2019). The share of fully amortised intangible assets is calculated in consideration of their cost.

14. Investments in subsidiaries

Movement of investments in subsidiaries

€ thousand	Investments in subsidiaries
Cost	
At 1 Jan 2019	334,493
Establishment of new companies	10
Subsequent payments	3,823
At 31 Dec 2019	338,326
At 1 Jan 2020	338,326
Subsequent payments	11,281
Merger by acquisition	-1,004
At 31 Dec 2020	348,603
Impairment	
At 1 Jan 2019	-8,991
At 31 Dec 2019	-8,991
At 1 Jan 2020	-8,991
At 31 Dec 2020	-8,991
Carrying amount	
At 1 Jan 2019	325,502
At 31 Dec 2019	329,335
At 1 Jan 2020	329,335
At 31 Dec 2020	339,612

In February 2020, Krka, d. d., Novo mesto acquired the remaining 0.3% minority stake in the subsidiary Farma GRS, d. o. o., and became the holder of a 100% ownership stake in the subsidiary. In accordance with the merger agreement, the subsidiary Farma GRS, d. o. o. merged with the controlling company. The effective date of the merger is 30 June 2020. The companies GRS TEHFARMA, d. o. o., GRS VIZFARMA, d. o. o., GRS PREK FARMA, d. o. o., GRS EKO FARMA, d. o. o., GRS TREN FARMA, d. o. o., and GRS VRED FARMA, d. o. o., in which Farma GRS, d. o. o., held a 100% stake were dissolved in June 2020 based on a simplified procedure.

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 December 2020.

Investments in subsidiaries

€ thousand	Ownership share	Share capital	Value of share in subsidiaries	
	31 Dec 2020	31 Dec 2020	31 Dec 2020	31 Dec 2019
KRKA-RUS LLC, Istra, Russian Federation	100%	58,615	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
KRKA-FARMA d.o.o., Zagreb, Croatia	100%	18,939	19,738	19,738
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	100%	3,836	18,697	18,697
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	30,656	18,615	7,338
KRKA-FARMA LLC, Istra, Russian Federation	100%	8,242	15,170	15,170
Krka France Eurl, Paris, France	100%	10	4,662	4,662
KRKA Pharma GmbH, Vienna, Austria	100%	37	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	1,003	1,003
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	1,002	1,002
KRKA-FARMA DOOEL, Skopje, North Macedonia	100%	796	802	802
KRKA Belgium, SA, Brussels, Belgium	95%	300	285	285
KRKA Magyarország Kft., Budapest, Hungary	100%	123	184	184
KRKA Sverige AB, Stockholm, Sweden	100%	15	16	16
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	100%	11	11	11
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	10	10
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	8	10	10
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	10	10	10
KRKA FARMA, d.o.o., Sarajevo, Bosnia and Herzegovina	100%	10	10	10
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
SIA KRKA Latvija, Riga, Latvia	100%	10	10	10
KRKA HELLAS E.P.E., Athens, Greece	100%	10	10	10
KRKA UKRAINE LLC, Kiev, Ukraine	100%	3	9	9
KRKA USA LLC, Wilmington, USA	100%	8	8	8
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	3	3
KRKA UK Ltd, London, United Kingdom	100%	1	2	2
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
Farma GRS, d. o. o., Novo mesto	–	–	–	1,000
Total			339,612	329,335

The subsidiary Terme Krka had a 100% interest in Golf Grad Otočec, d. o. o., at 31 December 2020; the subsidiary KRKA France Eurl had a 100% interest in HCS bvba in Belgium and a 5% interest in the subsidiary KRKA Belgium, SA.

Impairment test of equity investment in Terme Krka

An impairment test of Krka's equity investment in Terme Krka was made as there were signs that the asset may be impaired. In 2020, the COVID-19 pandemic and the resulting situation led to significant changes in the market and economic environment, including some restrictive measures imposed by the State to curb the spread of the virus. This was also reflected in the operations of the subsidiary, as it recorded a decline in revenues and negative operating result. Despite the closure of hotels for tourists, the wellness and spa facilities continued to operate and offer overnight accommodation to the spa guests. A portion of the loss of revenue during the closure of activities was recovered by the subsidiary in the summer months, also on account of State measures imposed to overcome the issues facing the economy (tourist vouchers), improved occupancy and higher prices due to a greater number of direct bookings and a drop in bookings made through agencies.

The asset's recoverable amount is the greater of the fair value net of selling expenses or value in use. For the purposes of the impairment test, the equity investment's recoverable amount was determined based on its value in use, i.e. using cash flow projections based on five-year financial plans of the cash-generating unit, under the assumption of a gradual normalisation of the circumstances. The discount rate of 8.1%, and the long-term growth rate of net cash flows (g) after the forecast period (after 2025) of 2% were applied in the projection. In the opinion of the management, a reasonable change in the discount rate or growth rate would not result in impairment of the equity investment.

Considering the above assumptions, the assessed recoverable amount of the investment in Terme Krka exceeds the carrying amount and therefore no impairment is required.

15. Loans

€ thousand	31 Dec 2020	31 Dec 2019
Non-current loans	35,024	36,223
– Loans to subsidiaries	23,650	25,600
– Loans to others	11,374	10,623
Current loans	57,836	35,644
– Portion of non-current loans maturing next year	4,022	5,031
– Loans to subsidiaries	707	462
– Loans to others	53,094	30,137
– Current interest receivable	13	14
Total loans	92,860	71,867

The annual rate of interest agreed on conclusion of loan contracts within the Krka Group is the rate of interest set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. In 2020, the interest rate ranged from 0.855% to 1.652%.

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 dwellings. The actual interest rate fluctuated between 0.294% and 0.707% in 2020 (2019: between 0.396% and 0.702%). The maximum repayment period is 15 years.

Current loans to others include bank deposits in total of €52,988 thousand maturing in more than 90 days (2019: €29,998 thousand).

Loans to subsidiaries including related current interest receivable

€ thousand	31 Dec 2020	31 Dec 2019
Non-current loans to subsidiaries	23,650	25,600
TERME KRKA, d. o. o., Novo mesto, Slovenia	21,500	22,000
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	2,000	2,000
KRKA Bulgaria EOOD, Sofia, Bulgaria	150	300
KRKA Belgium, SA, Brussels, Belgium	0	700
KRKA UKRAINE LLC, Kiev, Ukraine	0	600
Current loans to subsidiaries, inclusive of the current amounts of non-current loans	3,215	3,954
TERME KRKA, d. o. o., Novo mesto, Slovenia	2,705	2,871
SIA KRKA Latvija, Riga, Latvia	175	0
KRKA HELLAS E.P.E., Athens, Greece	145	45
KRKA Belgium, SA, Brussels, Belgium	106	0
Krka France Eurl, Paris, France	34	0
HCS bvba*, Edegem, Belgium	33	33
KRKA Finland Oy, Espoo, Finland	12	13
TAD Pharma GmbH, Cuxhaven, Germany	3	2
KRKA UKRAINE LLC, Kiev, Ukraine	1	636
KRKA FARMACÉUTICA, S.L., Madrid, Spain	1	2
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	0	350
KRKA UK Ltd, London, United Kingdom	0	2
Total loans to subsidiaries	26,865	29,554

* Subsidiary Krka France Eurl holds a 100% stake in HCS bvba

The maximum repayment period on non-current loans to subsidiaries as at 31 December 2020 is four years.

16. Investments

€ thousand	31 Dec 2020	31 Dec 2019
Non-current investments	10,419	9,680
– Financial assets at fair value through OCI (equity instruments)	10,419	9,680
Current investments including derivatives	524	0
– Derivatives	524	0
Total investments	10,943	9,680

Financial assets at fair value through other comprehensive income (OCI) comprised €800 thousand of investments in shares and interests in companies in Slovenia (2019 year-end: €849 thousand), and €9,619 thousand of investments in shares of companies located abroad (2019 year-end: €8,831 thousand).

Movement in financial assets at fair value through OCI

€ thousand	Financial assets at fair value through OCI
At 1 Jan 2019	9,388
Adjustment to market value	292
At 31 Dec 2019	9,680
At 1 Jan 2020	9,680
Adjustment to market value	739
At 31 Dec 2020	10,419

Adjustments of non-current investments (financial assets at fair value through OCI) were recognised in other comprehensive income in the amount of €739 thousand in 2020 (2019: €292 thousand).

17. Deferred tax assets and liabilities

€ thousand	Assets		Liabilities	
	2020	2019	2020	2019
Financial assets at fair value through OCI (equity instruments)	1,727	1,727	1,432	1,291
Assets	1,447	1,535	0	0
Dividends	14	95	0	0
Provisions for post-employment benefits and other non-current employee benefits	12,411	11,121	0	0
Provisions for post-employment benefits and other non-current employee benefits - effect of the merger by acquisition	55	0	0	0
Total	15,654	14,478	1,432	1,291
Offsetting	-1,432	-1,291	-1,432	-1,291
Net	14,222	13,187	0	0

€ thousand	At 1 Jan 2019	Recognised in profit or loss	Recognised in OCI	At 31 Dec 2019	Recognised in profit or loss	Recognised in OCI	Merger by acquisition - P&L	Merger by acquisition - OCI	At 31 Dec 2020
Financial assets at fair value through OCI (equity instruments)	491	0	-55	436	0	-141	0	0	295
Assets	1,690	-155	0	1,535	-88	0	0	0	1,447
Dividends	0	95	0	95	-81	0	0	0	14
Provisions for post-employment benefits and other non-current employee benefits	9,599	9	1,513	11,121	248	1,042	58	-3	12,466
Total	11,780	-51	1,458	13,187	79	901	58	-3	14,222

The relevant amount of deferred tax assets and liabilities was calculated using the 19% income tax rate.

18. Inventories

€ thousand	31 Dec 2020	31 Dec 2019
Materials	182,523	179,168
Work in progress	90,196	89,492
Finished products	105,170	83,800
Merchandise	10,062	10,296
Advances for inventories	1,227	4,251
Total inventories	389,178	367,007

The write-downs and write-offs of inventories to their net realisable value amounted to €12,895 thousand in 2020.

19. Trade and other receivables

€ thousand	31 Dec 2020	31 Dec 2019
Current trade receivables	415,286	443,840
– Receivables due from subsidiaries	242,370	257,674
– Receivables due from customers other than Group companies	174,505	186,420
– Deferred revenue from contracts with customers	-1,589	-254
Current receivables for dividends	76	500
– Receivables for dividends from subsidiaries	0	500
– Receivables for other dividends	76	0
Other current receivables	15,591	17,511
Total trade and other receivables	430,953	461,851

Current trade receivables

Current trade receivables due from subsidiaries

€ thousand	31 Dec 2020	31 Dec 2019
KRKA-RUS LLC, Istra, Russian Federation	118,451	102,882
KRKA-FARMA LLC, Istra, Russian Federation	43,434	68,660
KRKA Sverige AB, Stockholm, Sweden	19,419	25,875
KRKA-FARMA DOOEL, Skopje, North Macedonia	8,582	8,958
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	8,407	8,056
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	7,192	7,231
Krka France Eurl, Paris, France	6,799	3,689
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	6,637	6,228
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	5,541	6,214
KRKA Finland Oy, Espoo, Finland	3,580	4,482
KRKA Belgium, SA, Brussels, Belgium	2,726	1,742
KRKA FARMACÉUTICA, S.L., Madrid, Spain	2,692	3,227
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	2,329	2,432
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	2,033	3,643
KRKA UK Ltd, London, United Kingdom	1,845	943
KRKA-FARMA d.o.o., Zagreb, Croatia	1,392	959
KRKA Pharma GmbH, Vienna, Austria	846	594
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	247	106
Receivables due from other Group companies	218	1,753
Total current trade receivables due from subsidiaries	242,370	257,674

Current trade receivables due from customers other than Group companies

€ thousand	Gross value	Receivable allowances	Net value at 31 Dec 2020	Net value at 31 Dec 2019
Current trade receivables due from domestic customers other than Group companies	7,658	17	7,641	10,631
Current trade receivables due from foreign customers other than Group companies	201,103	34,239	166,864	175,789
Deferred revenue from contracts with foreign customers	-1,589	0	-1,589	-254
Total current trade receivables due from customers other than Group companies	207,172	34,256	172,916	186,166

Net impairments and write-offs of receivables recorded within operating expenses amounted to -€1,177 thousand in 2020 (2019: -€300 thousand).

Of the total amount, 99% of trade receivables due from customers other than related parties was insured with the Coface PKZ, d. d. insurance company (2019 year-end: 79%).

Other receivables

The major proportion of other current receivables in total of €15,591 thousand (2019: €17,511 thousand) was due from the State on account of VAT amounting to €8,987 thousand (€11,305 thousand as at 31 December 2019).

Advances for services reached €764 thousand (€1,039 thousand as at 31 December 2019).

20. Cash and cash equivalents

€ thousand	31 Dec 2020	31 Dec 2019
Cash in hand	1	0
Bank balances	296,397	195,236
Total cash and cash equivalents	296,398	195,236

The Company concluded contracts with two banks to secure bank overdrafts in total of €5,075 thousand (in 2019, contracts in total of €5,451 thousand were concluded with two banks). No negative balances were recorded on these bank accounts as at 31 December 2020 as no overdraft facilities were used.

The Company had access to a €20,000-thousand line of credit in 2020 (2019: €70,000 thousand), but did not use it.

21. Equity

Share capital

Krka reduced its share capital by withdrawal of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. Krka has one share class only, and the first and only issue of shares was carried out in 1995. The share capital is fully paid.

Treasury shares

At the 26th Annual General Meeting on 9 July 2020, the Management Board was granted authorisation for the purchase of treasury shares. However, total amount of treasury shares should not exceed the 10% of the 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 decision adoption.

Based on this authorisation, Krka is allowed to acquire treasury shares on the regulated market at respective market prices. The Company may acquire treasury shares also outside the regulated market. When purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not exceed 25-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

Pursuant to paragraphs 3 and 4, Article 381 of the *Companies Act (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 in 2020

	Number of shares	Weighted average share price (€)	Value of treasury shares (€ thousand)
At 31 Dec 2019	1,234,252		73,774
Repurchases in 2020	307,522	82.93	25,505
At 31 Dec 2020	1,541,774		99,279

The repurchase of treasury shares in 2020 refers to repurchases that were recorded in books of accounts in 2020. Subscription fee is included in the weighted average price of shares.

The 2020 repurchase of treasury shares in terms of days is illustrated within Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

The Company's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves and fair value reserve.

Reserves for treasury shares amounted to €99,279 thousand at the reporting date and increased by €25,505 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 2020 and consisted of the general equity revaluation adjustment (€90,659 thousand) that was included in share premium during the transfer to IFRSs; the share premium (€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 2020, the value of share premium remained unchanged.

Legal reserves are to be formed up to 30% of the share capital. They amounted to €14,990 thousand as at 31 December 2020 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 Krka 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.

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 €7,775 thousand and amounted to -€31,379 thousand as at 31 December 2020. The cumulative change is due to a €739 thousand increase in the fair value of financial assets through OCI (equity instruments); €9,412 thousand decrease due to the restatement of post-employment benefits; and €898 thousand increase due to the impact of deferred taxes.

Retained earnings

Retained earnings grew based on the majority shareholder's profit of €258,474 thousand, net profit transfer of €35,502 thousand, and €1,778 thousand following merger by acquisition. On the other hand, they decreased as a result of allocation of €133,274 thousand of accumulated profit to dividend payment in accordance with the resolution adopted at the 26th Annual General Meeting held on 9 July 2020, and an additional formation of reserves for treasury shares in total of €25,505 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 €9 thousand of dividends paid in respect of previous periods (2019: €9 thousand).

Dividends per share

In 2020, the declared gross dividend per share was €4.25 (2019: €3.20).

Identification of distributable profit

Data in the following table is expressed in €, unlike all other tables in the financial report, where data is expressed in € thousand.

€	2020	2019
Compulsory appropriation of profit		
Net profit	258,473,731.06	249,410,661.45
– 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	-25,504,335.93	-21,698,411.77
– Allocation to statutory reserves	0.00	0.00
Profit after compulsory appropriation	232,969,395.13	227,712,249.68
– Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0.00	0.00
– Net profit – the merger effect	1,777,841.82	0.00
Surplus of profit	234,747,236.95	227,712,249.68
Identification of distributable profit		
– Surplus of profit	234,747,236.95	227,712,249.68
– Retained earnings	67,270,600.18	43,157,760.41
– Transferred profit – the merger effect	35,501,993.87	0.00
Distributable profit	337,519,831.00	270,870,010.09

22. Earnings per share

Basic earnings per share amounted to €8.23 in 2020, an increase of 5% over the previous year, when it amounted to €7.85. The calculation took into account the net profit of €258,474 thousand (2019: €249,411 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 31,400,501 shares for 2020 and 31,756,443 shares for 2019. Treasury shares were eliminated from the calculation.

All shares issued by the Company are ordinary shares, hence the diluted earnings per share ratio equals the basic earnings per share.

23. Borrowings

€ thousand	31 Dec 2020	31 Dec 2019
Current borrowings	46,345	73,033
– Borrowings from subsidiaries	46,317	72,961
– Current interest payable	28	72
Total borrowings	46,345	73,033

Borrowings from subsidiaries, including current interest payable

€ thousand	31 Dec 2020	31 Dec 2019
Current borrowings from subsidiaries	46,345	73,033
TAD Pharma GmbH, Cuxhaven, Germany	39,114	42,425
KRKA Sverige AB, Stockholm, Sweden	3,984	4,784
KRKA FARMACÉUTICA, S.L., Madrid, Spain	2,156	1,713
KRKA UK Ltd, London, United Kingdom	604	1
KRKA Pharma GmbH, Vienna, Austria	484	885
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1	1,054
Krka France Eurl, Paris, France	1	408
KRKA Finland Oy, Espoo, Finland	1	1
Farma GRS, d. o. o., Novo mesto, Slovenia	0	21,485
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	0	173
KRKA Belgium, SA, Brussels, Belgium	0	104
Total borrowings from subsidiaries	46,345	73,033

Current borrowings are denominated in euro and were extended for the period of one year. These borrowings are not collateralised.

24. Provisions

€ thousand	At 31 Dec 2019	Merger by acquisition	Formation	Utilisation	Reversal	At 31 Dec 2020
Provisions for lawsuits	2,100	0	0	0	0	2,100
Provisions for post-employment benefits and other non-current employee benefits	103,577	573	19,868	-4,230	-2,058	117,730
Total provisions	105,677	573	19,868	-4,230	-2,058	119,830

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 total, 5 lawsuits referring to intellectual property were filed against the Company, of which 2 were resolved in 2020, as well as 3 lawsuits referring to other areas (labour legislation, civil lawsuits, administrative disputes, etc.), totalling €2,600 thousand and €250 thousand respectively. The Company recognised provisions for lawsuits in total of €2,100 thousand.

Provisions for obligations to employees arising from post-employment and other non-current benefits are based on actuarial calculation using the following assumptions:

- The selected discounted interest rate of 0.72% annually equals the return on 15-year corporate bonds with high credit rating in the Eurozone at the end of December 2020 (2019: 1.34-percent). Source: Bloomberg;
- Currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal rules;
- Staff turnover depending primarily upon the employees' age;
- Mortality rates calculated on the basis of most recent mortality tables available;
- The 2.00% increase in salaries, the same as in 2019.

Post-employment benefits

€ thousand	2020	2019
At 1 Jan	85,986	68,443
Employee benefit costs (CSC)	4,446	3,291
Interest expense (IC)	1,188	1,634
Post-employment benefits paid	-2,628	-3,308
Employee departures (reversal)	-1,913	–
Acquisitions due to the merger	470	–
Actuarial surplus/deficit, of that:	10,966	15,926
– Change in financial assumptions	8,050	9,833
– Experience	2,916	6,093
At 31 Dec	98,516	85,986

Sensitivity analysis

	Discount rate		Salary increase	
	Percentage point		Percentage point	
Change in				
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities (€ thousand)	-7,023	7,843	7,700	-6,972

25. Deferred revenue

€ thousand	At 31 Dec 2019	Merger by acquisition	New deferred revenue received	Deferred revenue reversal	At 31 Dec 2020
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	1,584	0	0	-267	1,317
Grants received from the European Regional Development Fund – development of new technologies (FBD project)	57	0	0	-57	0
Grants received from the European Regional Development Fund for setting up information and technology solutions system GEN-I	1	0	0	-1	0
Subsidy for acquisition of electric drive vehicles	5	0	0	-1	4
Property, plant and equipment received free of charge	12	0	0	-5	7
Emission coupons	0	0	19	-19	0
Subsidy for the purchase of joinery	0	0	96	-1	95
Subsidy for acquisition of other equipment	0	0	5	-1	4
Grants received from the European Regional Development Fund (Farma GRS)	0	3,246	0	-286	2,960
Grants from the TERCA – EKO FUND reserves	0	0	2	-2	0
Total deferred revenue	1,659	3,246	122	-640	4,387

Production of pharmaceuticals in the new Notol 2 Plant and FBD projects are partly funded by the European Union from the European Regional Development Fund. The projects are 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 amounts of deferred revenue are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

26. Trade payables

€ thousand	31 Dec 2020	31 Dec 2019
Non-current trade payables	10,000	10,000
Current trade payables	143,294	182,409
Payables to subsidiaries	66,205	91,030
Payables to domestic suppliers	36,329	40,646
Payables to foreign suppliers	40,760	50,733
Total trade payables	153,294	192,409

In 2014, the Commission of the European Union ruled that Krka infringed the provision of Article 101 of the *Treaty on the Functioning of the European Union*, which resulted in a distortion of competition on the perindopril market of the European Union. Thus, it imposed on Krka a fine of €10,000 thousand. Krka paid the penalty imposed within the deadline set by the Commission and filed a lawsuit against the Commission's decision before the General Court of the European Union because it considered that its conduct did not violate the competition law rules. In December 2018, the Court ruled in favour of Krka.

The decision of the General Court is not final, as the Commission lodged an appeal against the decision of the General Court, which will be decided by the European Court of Justice. Although the Commission did indeed pay back a fine of €10,000 thousand in early 2019, based on the assessment of legal experts Krka deferred the revenue and recognised non-current trade payables in that same amount until the final decision of the Court is issued.

Payables to subsidiaries

€ thousand	31 Dec 2020	31 Dec 2019
KRKA FARMA LLC, Istra, Russian Federation	20,572	46,342
KRKA-FARMA d.o.o., Zagreb, Croatia	16,355	10,862
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	6,156	3,698
KRKA ROMANIA S.R.L., Bucharest, Romania	3,941	4,750
KRKA Magyarország Kft., Budapest, Hungary	2,944	3,224
KRKA ČR, s. r. o., Prague, Czech Republic	2,287	2,365
KRKA UKRAINE LLC, Kiev, Ukraine	2,022	1,986
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,987	1,863
KRKA-RUS LLC, Istra, Russian Federation	1,600	2,111
TAD Pharma GmbH, Cuxhaven, Germany	1,323	1,966
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	1,010	1,049
UAB KRKA Lietuva, Vilnius, Lithuania	1,004	915
KRKA Bulgaria EOOD, Sofia, Bulgaria	673	654
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	662	639
SIA KRKA Latvija, Riga, Latvia	636	500
KRKA-FARMA DOOEL, Skopje, North Macedonia	514	399
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	489	298
Krka France Eurl, Paris, France	479	520
KRKA FARMACÉUTICA, S.L., Madrid, Spain	263	943
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	239	515
KRKA Pharma GmbH, Vienna, Austria	210	335
KRKA Finland Oy, Espoo, Finland	193	196
KRKA HELLAS E.P.E., Athens, Greece	153	0
KRKA Sverige AB, Stockholm, Sweden	152	118
KRKA Belgium, SA, Brussels, Belgium	137	261
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	55	1,763
HCS bvba, Edegem, Belgium*	55	43
KRKA UK Ltd, London, United Kingdom	40	35
KRKA FARMA, d.o.o., Sarajevo, Bosnia and Herzegovina	25	28
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	18	16
TERME KRKA, d. o. o., Novo mesto, Slovenia	10	53
KRKA USA LLC, Wilmington, USA	1	1
Farma GRS, d. o. o., Novo mesto	–	2,582
Total payables to subsidiaries	66,205	91,030

* Subsidiary Krka France Eurl holds a 100% stake in HCS bvba

27. Current contract liabilities

€ thousand	31 Dec 2020	31 Dec 2019
Refund liabilities	11,940	10,823
– Bonuses and volume rebates	11,940	10,823
Contract liabilities	4,641	3,786
– Contract liabilities – advances from group companies	2,021	0
– Contract liabilities – advances from other customers	2,620	3,786
Total current contract liabilities	16,581	14,609

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.

28. Other current liabilities

€ thousand	31 Dec 2020	31 Dec 2019
Payables to employees – gross salaries, other receipts and charges	52,202	47,546
Derivatives	0	2,582
Other	7,714	8,506
Total other current liabilities	59,916	58,634

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €5,215 thousand (2019: €6,448 thousand).

29. Contingent liabilities and commitments

€ thousand	31 Dec 2020	31 Dec 2019
Guarantees issued	14,204	14,295
Other	0	620
Total contingent liabilities	14,204	14,915

Major items of guarantees issued included (i) a contract bond in total of €6,000 thousand issued after Krka was selected as the best bidder in a tender in Italy; (ii) a counter guarantee for due payment of potential liabilities from customs guarantee issued in the amount of €4,500 thousand in Belarus; and (iii) a contract bond issued on behalf of the subsidiary TAD Pharma in the amount of €3,000 thousand.

Based on the contracts that had been signed in connection with the on-going investments, at the end of 2020 Krka recorded €27,215 thousand of commitments for acquisition of property, plant and equipment (2019 year-end: €14,441 thousand).

30. 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, Krka 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
At 1 Jan 2019	3,953
Increase/Decrease	-203
Accretion of interest	60
Lease payments	-717
At 31 Dec 2019	3,093
– Current lease liabilities	640
– Non-current lease liabilities	2,453
At 1 Jan 2020	3,093
Increase/Decrease	412
Accretion of interest	49
Lease payments	-732
At 31 Dec 2020	2,822
– Current lease liabilities	659
– Non-current lease liabilities	2,163

The maturity analysis of lease liabilities is disclosed in Note 32 'Financial instruments and risks'.

Amounts recognised in profit or loss

€ thousand	2020	2019
Depreciation of right-of-use assets	739	621
Interest expenses on lease liabilities	49	60
Expenses relating to current leases	23	170
Expenses relating to leases of low-value assets	6	13
Total amount recognised in profit or loss	817	864

31. Financial liabilities

Movement in financial liabilities in 2020

€ thousand	At 31 Dec 2019	Monetary changes	Non-monetary changes		At 31 Dec 2020
			Addition/ Disposal	Other	
Borrowings	72,961	-2,337	0	-24,307	46,317
Accretion of interest	72	-512	468	0	28
Dividends	1,344	-133,283	133,274	0	1,335
Treasury shares	0	-25,505	25,505	0	0
Total	74,377	-161,637	159,247	-24,307	47,680

Movement in financial liabilities in 2019

€ thousand	At 31 Dec 2018	Monetary changes	Non-monetary changes		At 31 Dec 2019
			Addition/ Disposal		
Borrowings	40,383	32,578	0		72,961
Accretion of interest	53	-746	765		72
Dividends	1,353	-101,668	101,659		1,344
Treasury shares	0	-21,698	21,698		0
Total	41,789	-91,534	124,122		74,377

32. Financial instruments and financial risks

Detailed information about financial risk management is described in the Business Section of the Annual Report, section 'Risk Management'.

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. Numbering over 500 at the end of 2020, they accounted for more than 95% of total trade receivables.

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; each with a different weight in the final assessment.

Each customer is assigned a customised credit limit according to their 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 Krka Group customers. Due to specifics of individual sales markets, additional local 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 of the credit control process is a low proportion of receivable write-offs and impairments in total Company sales.

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

Despite the risks arising from the COVID-19 pandemic, receivables were well managed in 2020. Even though sales grew in 2020, trade receivables dropped by 7% over the course of 2020. This is primarily due to favourable outcome of receivables collection.

The amount of the newly formed receivable allowance was lower than the amount of the reversed receivable allowance; therefore, net impairments and write-offs had a positive impact on the Company final result in 2020.

Since 2009, the Company has insured a part of its trade receivables with a credit insurance company. In the second quarter of 2020, trade receivable insurance was extended and supplemented. At the end of 2020, 99% of Company trade receivables were insured with the credit insurance company. Bank guarantees and letters of credit are used only exceptionally to secure payments.

Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below.

€ thousand	Notes	31 Dec 2020	31 Dec 2019
Non-current trade receivables from subsidiaries		0	39,491
Loans	15	92,860	71,867
Investments	16	10,943	9,680
Current trade receivables including those due from subsidiaries	19	415,362	444,340
Cash and cash equivalents	20	296,398	195,236
Total		815,563	760,614

As for the financial assets exposed to credit risk, the loans, trade receivables and receivables due from subsidiaries are presented separately.

Loans by geographical region

€ thousand	31 Dec 2020	31 Dec 2019
Slovenia	90,137	67,114
South-East Europe	151	304
East Europe	63	1,652
Central Europe	175	0
West Europe	2,334	2,797
Overseas Markets	0	0
Total	92,860	71,867

Trade receivables including those due from subsidiaries by geographical region

€ thousand	31 Dec 2020	31 Dec 2019
Slovenia	7,697	10,837
South-East Europe	78,411	75,082
East Europe	212,453	263,724
Central Europe	58,217	66,881
West Europe	54,901	63,698
Overseas Markets	3,683	3,609
Total	415,362	483,831

Of the total amount, 99% of trade receivables due from customers other than related parties was insured with the Coface PKZ, d. d. insurance company (2019 year-end: 79%).

Maturity analysis of loans as at reporting date

€ thousand	Gross at 31 Dec 2020	Allowance at 31 Dec 2020	Gross at 31 Dec 2019	Allowance at 31 Dec 2019
Not past due	92,851	0	71,860	0
Past due up to 20 days	0	0	1	0
Past due from 21 to 50 days	1	0	2	0
Past due from 51 to 180 days	4	0	1	0
Past due more than 180 days	4	0	14	11
Total	92,860	0	71,878	11

Maturity structure of trade receivables including those due from subsidiaries as at reporting date

€ thousand	Gross at 31 Dec 2020	Allowance at 31 Dec 2020	Gross at 31 Dec 2019	Allowance at 31 Dec 2019
Not past due	398,071	1,071	471,822	1,672
Past due up to 20 days	5,229	10	6,879	13
Past due from 21 to 50 days	6,810	71	3,263	0
Past due from 51 to 180 days	5,524	40	2,588	11
Past due more than 180 days	34,781	33,861	20,062	19,087
Total	450,415	35,053	504,614	20,783

The Company agrees extended terms with some 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 €387,380 thousand (2019: €466,203 thousand); past due up to 20 days €10,846 thousand (2019: €9,388 thousand); past due between 21 and 50 days €8,728 thousand (2019: €4,627 thousand); past due between 51 and 180 days €7,476 thousand (2019: €2,621 thousand); and past due more than 180 days €932 thousand (2019: €992 thousand).

Movement of allowance for loans

€ thousand	2020	2019
At 1 Jan	11	11
Impairment reversal	-11	0
At 31 Dec	0	11

Movement of trade receivable allowance including those due from subsidiaries

€ thousand	2020	2019
At 1 Jan	20,783	20,786
Formation of allowance	16,299	1,680
Write-off of receivables	-174	-5
Impairment reversal	-1,852	-1,141
Collected written-off receivables	-3	-537
At 31 Dec	35,053	20,783

An allowance recognised in 2020 on account of a receivable for which the Company received insurance proceeds from the insurance undertaking, had no impact on the profit or loss.

Liquidity risk

Business partners value Krka for its excellent financial discipline, low indebtedness, and stable cash flows. In 2020, we settled all financial liabilities regularly. The Company exposure to liquidity risk was low last year.

We did not use any current credit lines in 2020. In accordance with internal rules on diversification of investments and taking account of banks' credit risks, we deposited a part of the cash surplus with banks during the year. Due to excess liquidity in the EMU money markets, opportunities to invest liquid assets in low-risk money deposits were limited in 2020.

At the end of 2020, the Company recorded excess liquid assets, primarily as cash at bank. This was a result of growth of positive cash flow from operating activities, also due to a decrease in the value of trade receivables, and lower investments in fixed assets due to the COVID-19 situation.

The COVID-19 pandemic did not increase liquidity risk in 2020.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 Dec 2020

€ thousand	Carrying amount	Total	Contractual cash flows				
			Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	2 to 5 years
Financial liabilities							
Other current borrowings	46,345	46,345	46,345	0	0	0	0
Lease liabilities	2,822	2,822	332	327	554	1,206	403
Trade payables excluding advances	143,294	143,294	143,294	0	0	0	0
Contract liabilities excluding advances	11,940	11,940	11,940	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	2,499	2,499	2,499	0	0	0	0
Total financial liabilities	206,900	206,900	204,410	327	554	1,206	403
Total derivative financial liabilities	0	0	0	0	0	0	0
Total	206,900	206,900	204,410	327	554	1,206	403

Maturity of financial liabilities as at 31 Dec 2019

		Contractual cash flows					
€ thousand	Carrying amount	Total	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	2 to 5 years
Financial liabilities							
Other current borrowings	73,033	73,033	73,033	0	0	0	0
Lease liabilities	3,093	3,093	337	303	523	1,219	711
Trade payables excluding advances	182,409	182,409	182,409	0	0	0	0
Contract liabilities excluding advances	10,823	10,823	10,823	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	2,058	2,058	2,058	0	0	0	0
Total financial liabilities	271,416	271,416	268,660	303	523	1,219	711
Derivatives	2,582	2,582	2,582	0	0	0	0
Total derivative financial liabilities	2,582	2,582	2,582	0	0	0	0
Total	273,998	273,998	271,242	303	523	1,219	711

Foreign exchange risk

The Company operates in diverse international environments and is exposed to foreign exchange risk in a few 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 Company 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, and subsidiary funding by the controlling company.

Wild fluctuations of individual exchange rates to which the Company is exposed continued in 2020. The COVID-19 pandemic significantly affected the value of currencies and deteriorated the macroeconomic situation in many countries, bringing uncertainty to global capital and currency markets.

The 2020 fluctuation in the Russian rouble was unfavourable for us. The value of the rouble expressed in the euro dropped by 23.5%. The average 2020 value of the Russian rouble was 12.4% lower compared to 2019.

The Brent oil price expressed in U.S. dollars declined by 22% in 2020. Due to the importance of the oil industry in the Russian economy, the value of the Russian rouble relies heavily on oil price movements. In currency markets, the rouble came under additional pressure as a developing country currency. The value of the rouble was also adversely affected by the Central Bank of the Russian Federation gradually lowering its interest rate. Interest rate reduction in the Russian Federation led to a gradual decrease in the cost of hedging Krka's position in roubles in 2020.

The Polish złoty was more unstable in 2020 compared to previous years, as its value dropped by 6.6% from the beginning to the end of the year, while the average exchange rate was 3.3% lower than in 2019. In 2020, the macroeconomic situation in Poland was better than the Economic and Monetary Union (EMU) average. The value of the Polish złoty expressed in the euro decreased, primarily owing to a lower interest rate difference between the two currencies.

Over the course of 2020, the value of the Romanian leu expressed in the euro dropped by 1.8%.

The Croatian kuna remained stable in 2020. In 2020, Croatia introduced the Exchange Rate Mechanism (ERM II), which provides for additional currency stability. High volatility of the British pound prevailed throughout 2020, owing to uncertainties associated with Brexit. Over the course of the year, the value of the British pound expressed in the euro declined by 5.4%. The Company holds long positions in the Croatian kuna and the British pound. However, the volatility of the two exchange rates does not significantly affect the net financial result of the Company.

The value of the U.S. dollar expressed in the euro fell by 8.5% over the course of the year, and the average value of the dollar expressed in the euro was down by 2% on 2019. In the first half of the year, it was affected by uncertainty resulting from the COVID-19 pandemic impact on global economic growth. However, as the economy was expected to recover fast,

the exchange rate remained stable. After the U.S. Federal Reserve announced that interest rates would remain low for longer than anticipated, the value of the dollar expressed in the euro began to slide in the second half of 2020.

Strong growth of the Ukrainian hryvnia in 2019 was followed by a 22% drop in 2020. Macroeconomic trends in Ukraine continue to deteriorate, and the country's political stability faces great uncertainty.

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 not possible, we use derivatives or do not hedge the risk. Generally, forward contracts are used for hedging.

In 2020, Krka continued its policy of partial hedging against rouble-related risk. Less than 50% of the risk exposure to the Russian rouble was hedged through forward contracts. Due to the drop in the rouble value, we generated exchange rate losses, which were partly offset through net revenue from the rouble hedging instruments. The fall in the rouble value is the main reason for the Group's total negative net financial result.

High balance sheet exposure and an interest rate difference between the euro and the U.S. dollar that is favourable for Krka are two key reasons that contributed to partial hedging of the exposure in the U.S. dollar with forward contracts in 2020. Due to the short currency position, the dollar slump had a positive financial impact on the Company result, which was partially offset by financial expenses from the U.S. dollar hedging instruments.

We generated net foreign exchange losses from other currencies in 2020. Exposure to other currencies was not hedged. These currencies are generally subject to less marked fluctuations against the euro.

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

Exposure to the risk of foreign exchange rate fluctuations

€ thousand	31 Dec 2020				
	EUR*	RUB	PLN	HRK	RON
Loans	92,860	0	0	0	0
Trade receivables	110,640	183,377	42,456	20,073	42,154
Cash and cash equivalents	282,664	184	1,998	405	1,314
Borrowings	-45,741	0	0	0	0
Non-current trade payables	-10,000	0	0	0	0
Current trade payables	-99,050	-22,129	-6,340	-7	-3,934
Financial position exposure (net)	331,373	161,432	38,114	20,471	39,534

* EUR is the functional currency and does not represent exposure to foreign currency risk.

€ thousand	31 Dec 2019				
	EUR*	RUB	PLN	HRK	RON
Non-current operating receivables due from subsidiaries	0	39,491	0	0	0
Loans	71,865	0	0	0	0
Trade receivables	98,623	218,140	47,768	14,138	44,815
Cash and cash equivalents	182,487	407	2,450	999	1,019
Borrowings	-73,031	0	0	0	0
Non-current trade payables	-10,000	0	0	0	0
Current trade payables	-123,876	-32,719	-3,698	-10	-4,750
Financial position exposure (net)	146,069	225,319	46,520	15,127	41,084

* EUR is the functional currency and does not represent exposure to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2020	2019	2020	2019
RUB	82.72	72.46	91.47	69.96
PLN	4.44	4.30	4.56	4.26
HRK	7.54	7.42	7.55	7.44
RON	4.84	4.75	4.87	4.78

* 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 31 December.

Sensitivity analysis

A 1% percent increase/decrease of the euro exchange rate in respect of currencies stated as at 31 December 2020 or 31 December 2019 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, 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 borrowings denominated in the local currencies.

	Effect on the profit or loss before tax			
	2020		2019	
Currency fluctuation	+1%	-1%	+1%	-1%
RUB	1,614	-1,614	2,253	-2,253
PLN	381	-381	465	-465
HRK	205	-205	151	-151
RON	395	-395	411	-411

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 Company's liquidity risk.

In 2020, Krka raised non-current borrowings only from subsidiaries. Non-current investments are not related to reference market interest rates, which is why the Company was not exposed to the reference interest rate risk.

Exposure to interest rate risk

€ thousand	31 Dec 2020	31 Dec 2019
Financial instruments at fixed rate of interest	92,493	11,395
Financial assets	92,493	32,837
Financial liabilities	0	-21,442
Financial instruments at variable rate of interest	-45,963	-12,503
Financial assets	354	39,016
Financial liabilities	-46,317	-51,519

Analysis of the cash flow sensitivity by applying the variable interest rate

Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2020 by €460 thousand. Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2019 by €125 thousand. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, in particular the foreign exchange rate, remain unchanged.

A detailed schedule of current borrowings is presented below.

Current borrowings

€ thousand	31 Dec 2020	31 Dec 2019
Current borrowings inclusive of current portion of non-current borrowings	46,317	72,961
– Other borrowings	46,317	72,961
Current borrowings exclusive of current portion of non-current borrowings	46,317	72,961
Average balance of current borrowings	59,639	56,672
Interest paid in the financial year	423	491
Other cost of raising current borrowings	0	4
Average effective cost of current borrowings	0.71%	0.87%
Currency structure of current borrowings		
– EUR	100%	100%
Structure of current borrowings in terms of interest rates		
– Fixed	0%	29%
– Variable	100%	71%

Capital management

Krka reduced its share capital by withdrawal of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. Krka has one class of shares only, and the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Company's capital management is aimed at ensuring a high credit rating and relevant financing indicators in order to ensure the proper development of its operations and to generate a maximum 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 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 2020 or 2019.

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 and trade payables less cash and cash equivalents.

€ thousand	31 Dec 2020	31 Dec 2019
Borrowings	46,345	73,033
Trade payables and other current liabilities	229,791	265,652
Cash and cash equivalents	296,398	195,236
Net indebtedness	-20,262	143,449
Equity	1,791,850	1,664,178
Equity and net indebtedness	1,771,588	1,807,627
Gearing (debt/equity) ratio	-1.1%	7.9%

Fair value

€ thousand	31 Dec 2020		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables due from subsidiaries	0	0	39,491	39,491
Non-current loans	35,024	35,024	36,223	36,223
Financial assets at fair value through OCI (equity instruments)	10,419	10,419	9,680	9,680
Current loans	57,836	57,836	35,644	35,644
Current investments	524	524	0	0
– Derivatives	524	524	0	0
Trade receivables	415,286	415,286	443,840	443,840
Cash and cash equivalents	296,398	296,398	195,236	195,236
Current borrowings	-46,345	-46,345	-73,033	-73,033
Non-current trade payables	-10,000	-10,000	-10,000	-10,000
Lease liabilities	-2,822	-2,822	-3,093	-3,093
Current trade payables excluding advances	-143,294	-143,294	-182,409	-182,409
Current contract liabilities excluding advances	-11,940	-11,940	-10,823	-10,823
Other current liabilities excluding amounts owed to the State, to employees and advances	-2,499	-2,499	-2,058	-2,058
Other payables	0	0	-2,582	-2,582
– Derivatives	0	0	-2,582	-2,582
Total	598,587	598,587	476,116	476,116

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.

Assets at fair value

€ thousand	31 Dec 2020				31 Dec 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Financial assets at fair value through OCI (equity instruments)	9,033	0	1,386	10,419	8,294	0	1,386	9,680
Derivatives	0	0	524	524	0	0	0	0
Total assets at fair value	9,033	0	1,910	10,943	8,294	0	1,386	9,680
Assets for which fair value is disclosed								
Operating receivables from subsidiaries	0	0	0	0	0	0	39,491	39,491
Non-current loans	0	0	35,024	35,024	0	0	36,223	36,223
Current loans	0	0	57,836	57,836	0	0	35,644	35,644
Trade receivables	0	0	415,286	415,286	0	0	443,840	443,840
Cash and cash equivalents	0	0	296,398	296,398	0	0	195,236	195,236
Total assets for which fair value is disclosed	0	0	804,544	804,544	0	0	750,434	750,434
Total	9,033	0	806,454	815,487	8,294	0	751,820	760,114

Liabilities at fair value

€ thousand	31 Dec 2020				31 Dec 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivatives	0	0	0	0	0	0	2,582	2,582
Total liabilities at fair value	0	0	0	0	0	0	2,582	2,582
Liabilities for which fair value is disclosed								
Current borrowings	0	0	46,345	46,345	0	0	73,033	73,033
Non-current trade payables	0	0	10,000	10,000	0	0	10,000	10,000
Lease liabilities	0	0	2,822	2,822	0	0	3,093	3,093
Current trade payables excluding advances	0	0	143,294	143,294	0	0	182,409	182,409
Current contract liabilities excluding advances	0	0	11,940	11,940	0	0	10,823	10,823
Other current liabilities excluding amounts owed to the State, to employees and advances	0	0	2,499	2,499	0	0	2,058	2,058
Total liabilities for which fair value is disclosed	0	0	216,900	216,900	0	0	281,416	281,416
Total	0	0	216,900	216,900	0	0	283,998	283,998

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at reporting date, and is not decreased by any costs that may arise upon the sale or purchase of securities.

33. Related party transactions

Intragroup transactions

Transactions with subsidiaries in 2020 are presented below.

€ thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto, Slovenia*	274	224	0	0
Farma GRS, d. o. o., Novo mesto, Slovenia**	242	5,022	4,470	0
KRKA-FARMA d.o.o., Zagreb, Croatia	4,026	21,027	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	114	18,154	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	26,626	3,315	0	0
KRKA-FARMA DOOEL, Skopje, North Macedonia	21,116	1,539	0	0
KRKA FARMA, d.o.o., Sarajevo, Bosnia and Herzegovina	4	469	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	63	2,819	0	0
KRKA HELLAS E.P.E., Athens, Greece	0	385	0	100
KRKA-RUS LLC, Istra, Russian Federation	200,869	6,237	0	0
KRKA FARMA LLC, Istra, Russian Federation	86,526	63,747	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	132	13,598	0	0
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	13,863	2,486	0	0
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	25,149	30,986	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	102	9,273	0	0
KRKA Magyarország Kft., Budapest, Hungary	101	11,390	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	193	6,470	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	30	3,744	0	0
SIA KRKA Latvija, Riga, Latvia	22	3,027	0	275
KRKA Finland Oy, Espoo, Finland	10,934	1,322	0	0
TAD Pharma GmbH, Cuxhaven, Germany	77,747	11,642	0	0
KRKA Sverige AB, Stockholm, Sweden	44,385	1,476	0	0
KRKA Pharma GmbH, Vienna, Austria	9,087	1,744	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	14,113	2,042	0	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	23,290	3,158	0	0
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	15,714	6,713	0	0
Krka France Eurl, Paris, France***	9,185	3,972	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	8,016	66	0	0
KRKA UK Ltd, London, Great Britain	3,780	538	0	0
KRKA Belgium, SA, Brussels, Belgium	8,196	1,242	0	0
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	99	8,029	0	0
KRKA USA, LLC, Wilmington, USA	0	7	0	0
Total	603,997	245,860	4,470	375

* Including the subsidiary Golf Grad Otočec, d. o. o.

** Including subsidiaries GRS TEHFARMA, d. o. o., GRS VIZFARMA, d. o. o., GRS PREK FARMA, d. o. o., GRS EKO FARMA, d. o. o., GRS TREN FARMA d. o. o. and GRS VRED FARMA 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.

The annual rate of interest agreed on conclusion of loan contracts within the Krka Group companies, is the rate of interest set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. In 2020, the interest rate ranged from 0.855% to 1.652%.

The balance of loans to subsidiaries is presented in Note 15, the balance of borrowings from subsidiaries is presented in Note 23, the balance of receivables due from subsidiaries is presented in Note 19 and the balance of current trade payables to subsidiaries is presented in Note 26.

Data on groups of persons

By the end of the year, members of the Management Board of Krka held 37,040 of Krka shares, i.e. 0.1129% of total equity or 0.1185% of voting rights.

By the end of the year, Members of the Supervisory Board of Krka held 3,347 of Krka shares, i.e. 0.0102% of total equity or 0.0107% of voting rights.

Equity stakes held by Management and the Supervisory Boards members of the Company and their shares of voting rights

	31 Dec 2020			31 Dec 2019		
	Number of shares	Equity share (%)	Share of voting rights (%)	Number of shares	Equity share (%)	Share of voting rights (%)
Members of the Management Board						
Jože Colarič	22,500	0.0686	0.0720	22,500	0.0686	0.0713
Aleš Rotar	13,915	0.0424	0.0445	13,915	0.0424	0.0441
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
David Bratož	0	0.0000	0.0000	0	0.0000	0.0000
Milena Kastelic	505	0.0015	0.0016	505	0.0015	0.0016
Total Members of the Management Board	37,040	0.1129	0.1185	37,040	0.1129	0.1174
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Matej Lahovnik*	600	0.0018	0.0019	–	–	–
Borut Jamnik	0	0.0000	0.0000	0	0.0000	0.0000
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	0.0000	0.0000	0	0.0000	0.0000
Andrej Slapar**	–	–	–	0	0.0000	0.0000
Members of the Supervisory Board (employee representatives)						
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0016
Franc Šašek	1,400	0.0043	0.0045	1,400	0.0043	0.0044
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total Members of the Supervisory Board	3,347	0.0102	0.0107	2,747	0.0084	0.0087
Total	40,387	0.1232	0.1292	39,787	0.1213	0.1261

* Member of the Supervisory Board since 21 August 2020

** Member of the Supervisory Board until 20 August 2020

Treasury shares were eliminated from the calculation of voting rights (1,541,774 treasury shares as at 31 December 2020 and 1,234,252 as at 31 December 2019).

Remuneration paid to groups of persons (gross)

€ thousand	31 Dec 2020	31 Dec 2019
Members of the Management Board	3,768	3,561
Members of the Supervisory Board	210	202
Total gross remuneration paid to groups of persons	3,978	3,763

Gross earnings paid to persons employed under individual employment contracts in 2020 amounted to €11,454 thousand (2019: €11,473 thousand).

Remuneration paid to Management Board members in 2020

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	432	177	8	800	313	1,232	498
Aleš Rotar	347	141	13	517	202	864	356
Vinko Zupančič	290	119	13	430	168	720	300
David Bratož	281	119	10	422	166	703	295
Milena Kastelic	169	78	6	80	32	249	116
Total Members of the Management Board	1,519	634	50	2,249	881	3,768	1,565

€ thousand	Net fringe benefits and other earnings						
	Executive health insurance	Supplementary pension insurance	Anniversary bonuses	Other bonuses	Refund of work-related costs	Pay for annual leave	Total
Jože Colarič	0.00	2.82	0.00	3.41	0.03	1.81	8.06
Aleš Rotar	0.00	2.82	1.86	5.32	1.12	1.81	12.93
Vinko Zupančič	0.00	2.82	0.00	7.87	0.99	1.81	13.48
David Bratož	0.00	2.82	0.00	4.13	1.06	1.81	9.82
Milena Kastelic	0.00	2.82	0.00	0.05	1.04	1.81	5.71
Total Members of the Management Board	0.00	14.10	1.86	20.78	4.23	9.04	50.00

Remuneration paid to Management Board members in 2019

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	424	173	8	718	280	1,142	461
Aleš Rotar	337	138	11	481	188	818	337
Vinko Zupančič	288	117	14	400	156	688	287
David Bratož	276	117	9	393	154	669	280
Milena Kastelic	166	77	5	78	31	244	113
Total Members of the Management Board	1,491	622	47	2,070	809	3,561	1,478

€ thousand	Net fringe benefits and other earnings						
	Executive health insurance	Supplementary pension insurance	Anniversary bonuses	Other bonuses	Refund of work-related costs	Pay for annual leave	Total
Jože Colarič	0.83	2.82	0.00	2.92	0.06	1.17	7.80
Aleš Rotar	0.00	2.82	0.00	5.57	0.95	1.19	10.53
Vinko Zupančič	1.87	2.82	0.00	7.45	0.86	1.20	14.20
David Bratož	0.00	2.82	0.00	4.45	0.96	1.20	9.43
Milena Kastelic	0.00	2.82	0.00	0.12	1.05	1.25	5.24
Total Members of the Management Board	2.70	14.10	0.00	20.51	3.88	6.01	47.20

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 2020

€ thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	22.85	16.62	2.10	1.53	0.00	0.00	24.95	18.15
Matej Lahovnik*	7.31	5.31	0.77	0.56	0.22	0.16	8.30	6.03
Borut Jamnik	21.31	15.50	3.25	2.36	0.00	0.00	24.56	17.86
Julijana Kristl	19.17	13.95	2.37	1.72	0.44	0.32	21.98	15.99
Mojca Osolnik Videmšek	19.37	14.09	3.25	2.36	0.54	0.39	23.16	16.84
Boris Žnidarič	19.78	14.38	3.03	2.20	0.42	0.31	23.23	16.89
Andrej Slapar**	14.57	10.59	1.68	1.22	0.00	0.00	16.25	11.81
Members of the Supervisory Board (employee representatives)								
Franč Šašek	20.92	15.22	3.25	2.36	0.00	0.00	24.17	17.58
Tomaž Sever	19.37	14.09	2.15	1.56	0.52	0.38	22.04	16.03
Mateja Vrečer	19.37	14.09	2.37	1.72	0.00	0.00	21.74	15.81
Total remuneration paid to Members of the Supervisory Board	184.02	133.84	24.22	17.59	2.14	1.56	210.38	152.99

* Member of the Supervisory Board since 21 August 2020

** Member of the Supervisory Board until 20 August 2020

In accordance with a resolution adopted at the 16th Annual General Meeting on 7 July 2011, Members of the controlling company's Supervisory Board are entitled to an attendance fee, which for each individual member of the controlling company's Supervisory Board amounts to €275.00 gross. Members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual Commission member amounts to 80% of the attendance fee for Supervisory Board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the number of attendances, each member of the Supervisory Board is in every financial year entitled to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the Supervisory Board or sessions of the Supervisory Board Commissions – reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

In addition to attendance fees, members of the Company's Supervisory Board receive on an annual basis also a basic pay for exercising the function in the amount of €15,500 gross each. The President of the Supervisory Board is further entitled to an extra fee in the amount of 50% of the basic pay for exercising the function of Member of the Supervisory Board, whereas Deputy President of the Supervisory Board is entitled to an extra fee of 10% of the basic pay for exercising the function of a Member of the Supervisory Board. Members of the Supervisory Board Commission receive an extra fee for exercising the function in the amount of 25% of the basic pay for exercising the function of a Member of the Supervisory Board. President of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of a member of the Supervisory Board Commission.

Members of the Company's Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in proportionate monthly payments which they are entitled to during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the Supervisory Board Commission is in every financial year entitled – regardless of the above-mentioned or the number of commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

Loans to groups of persons

€ thousand	Balance		Repayments	
	31 Dec 2020	31 Dec 2019	2020	2019
Members of the Management Board	0	0	0	0.45
Members of the Supervisory Board (employee representatives)	0	0	0	0
Total loans to groups of persons	0	0	0	0.45

Loans to staff employed under individual employment contracts amounted to €155 thousand at 31 December 2020 (€177 thousand as at 31 December 2019). Repayments of loans by staff employed under individual employment contracts in 2020 reached €22 thousand (2019: €20 thousand). The loans to the above-mentioned persons are meant for housing purposes.

34. Educational structure of employees

	2020		2019	
	Average headcount	Share (%)	Average headcount	Share (%)
PhD	161	2.7	149	2.7
MSc	266	4.5	262	4.7
University education	1,875	31.2	1,770	31.5
Higher professional education	798	13.3	735	13.1
Vocational college education	248	4.1	229	4.1
Secondary school education	1,809	30.1	1,601	28.5
Skilled workers	728	12.1	732	13.0
Unskilled workers	120	2.0	138	2.4
Total (average for the year)	6,005	100.0	5,616	100.0

35. Transactions with the audit firm

The agreed fee for the audit services performed in 2020 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to €107 thousand, the same as in 2019. In total, audit costs amounted to €112 thousand (2019: €115 thousand). In addition to the financial statement audit, the audit firm provided a translation of the financial section of the Annual Report at a cost of €3 thousand and the audit of the merger by acquisition of Farma GRS at a cost of €8 thousand.

36. Subsequent events

At its meeting of 27 January 2021, the Supervisory Board appointed the current President of the Management Board and Chief Executive Officer Jože Colarič for another six-year term commencing on 1 January 2022 and authorised him to draw up a proposal for appointing other members of the Management Board by November 2021 at the latest. The six-year term of office of the members of the Management Board expires on 31 December 2021.

From 1 January 2021 to 15 April 2021, we acquired 30,443 treasury shares. At the end of this period, Krka held 1,572,217 treasury shares, accounting for 4.794% of total shares.

Independent Auditor's Report



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Krka, d. d., Novo mesto

Opinion

We have audited the separate financial statements of the company Krka, d. d., Novo mesto (the Company), which comprise the separate statement of financial position as at 31 December 2020, the separate income statement, the separate statement of other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of Krka, d. d., Novo mesto as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and 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 ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules 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 of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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



Recoverability of receivables

Trade receivable balances are significant to the Company as they represent 18,8% of total assets as at 31 December 2020. The Company is exposed to credit and performance risk arising from the Company's global marketing operations. The collectability of trade receivables is a key element of the Company's working capital management, which is managed on an ongoing basis. The Company has set control procedures in place, which among others include the credit rating of customers as well as active monitoring of payments by customers. Assessment of the recoverable amount of trade receivables requires management's judgement and assumptions to estimate allowances for receivables.

Given the magnitude of trade receivable balances and the collectability assessment of these receivables, the recoverability of trade receivables was determined as a key audit matter.

We assessed the management's estimates and assumptions used to calculate the trade receivables impairment amount, notably through analyses of ageing of receivables and review sample of disputable trade receivables. We performed audit procedures to test whether credit ratings were correctly applied to individual customers and tested whether ageing of receivables was correctly calculated. We reviewed the extent to which receivables to third parties had been secured through insurance companies and the process of prolongation of the payment terms after the sales.

In addition, we evaluated the adequacy of the Company's disclosures regarding trade receivables and the related risks such as credit risk and the aging of trade receivables in Note 32 Financial instruments and financial risks – credit risk of the separate financial statements and their compliance with International Financial Reporting Standards as adopted by the European Union.

Revenue recognition - Rebates and discounts

Revenue is measured taking account of discounts, incentives and rebates earned by customers on the Company's sales. Due to the multitude and variety of contractual terms across the Company's markets, the estimation of discounts, incentives and rebates recognised based on sales made during the year, revenue recognition is considered to be complex. Revenue is recognised at the point in time when control of the asset is transferred to the customer.

We determined revenue recognition as a key audit matter because revenue is one of the key performance indicators followed by the Company which could create an incentive for revenue to be recognised before the point in time when control of the asset is transferred to the customer.

Our audit procedures included considering the appropriateness of the Company's revenue recognition accounting policies including those relating to discounts and rebates and assessing compliance with the policies in terms of International Financial Reporting Standards as adopted by the European Union. We tested the effectiveness of the Company's controls over calculation of discounts and rebates and correct timing of revenue recognition. We tested a sample of sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the balance sheet date to assess whether that revenue was recognised in the correct period and whether accruals for bonuses and discounts as at 31 December 2020 are fully recognized.

We also considered the adequacy of the Company's disclosures in Note 5 Revenue from contracts with customers in respect of revenue and Note 27 Current contract liabilities in respect of accrued bonuses and discounts and their compliance with International Financial Reporting Standards as adopted by the European Union.



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Impairment of investments in subsidiaries

Equity investments in subsidiaries amount to EUR 339,6 million, which represents 15,4% of total assets as at 31 December 2020 in the separate financial statements. Management's impairment tests are prepared based on the discounted future cash flows and are significant to our audit because the assessment of future cash flows and discount rate requires significant management judgment and estimates.

Given the inherent subjectivity in the valuation, we determined this to be a key audit matter.

Our audit procedures included an assessment of the historical accuracy of management's estimates, evaluation and testing of the assumptions, methodologies, discount rates and other inputs used by the Company. We included in our team a valuation expert to assist us with our assessment of the discount rates and the appropriateness of the models used. We also considered sensitivities, such as the impact on the impairment tests if net operating income would be decreased, or the discount rates would be increased.

We assessed the adequacy of the Company's disclosures on the impairment test performed, included in Note 14 Investments in subsidiaries of the separate financial statements and their compliance with International Financial Reporting Standards as adopted by the European Union.

Other information

Other information comprises the information included in the Annual Report other than the separate financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate financial statements does not cover the other information and 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 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. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

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

- The other information describing the facts that are also presented in the separate financial statements is, in all material respects, consistent with the separate financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.



Responsibilities of management, audit committee and the supervisory board for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the 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.

The audit committee and the supervisory board are responsible for overseeing the Company's financial reporting process. The supervisory board is responsible to approve the audited Annual Report.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 audit rules, we exercise professional judgment and maintain professional skepticism 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 controls;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the 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 the audit committee and the supervisory board 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.



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

From the matters communicated with the audit committee and the supervisory board, 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.

Report on other legal and regulatory requirements

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Company at the general meeting of shareholders on 4 July 2019, the president of the supervisory board has signed the audit agreement on 28 August 2019. The agreement was signed for the period of three years.

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 9 years.

Janez Uranič and Mihael Rot are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o.

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 17 March 2021.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the Annual Report and in the separate financial statements, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 24 March 2021

Janez Uranič
Director, certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

Mihael Rot
Certified auditor

Enclosure 1

Repurchased treasury shares in 2020 by days

Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)
6 Jan 2020	444	73.10	32	23 June 2020	1,182	84.07	99
7 Jan 2020	3,389	74.12	251	24 June 2020	7,409	84.14	623
8 Jan 2020	3,473	74.60	259	30 July 2020	1,278	82.33	105
9 Jan 2020	3,550	74.51	265	31 July 2020	416	82.90	34
12 Jan 2020	2,049	76.33	156	3 Aug 2020	581	83.15	48
13 Jan 2020	4,051	78.35	317	4 Aug 2020	245	84.33	21
14 Jan 2020	4,312	77.97	336	5 Aug 2020	1,309	85.18	111
15 Jan 2020	4,326	77.13	334	6 Aug 2020	1,278	85.78	110
31 Jan 2020	5,734	76.92	441	17 Aug 2020	1,294	90.14	117
3 Feb 2020	6,058	75.86	460	18 Aug 2020	1,347	89.15	120
4 Feb 2020	822	75.24	62	19 Aug 2020	1,149	89.34	103
5 Feb 2020	162	76.13	12	20 Aug 2020	541	89.14	48
6 Feb 2020	4,396	76.77	337	21 Aug 2020	1,536	88.81	136
7 Feb 2020	4,609	77.13	355	24 Aug 2020	962	87.66	84
10 Feb 2020	1,711	77.10	132	25 Aug 2020	1,560	86.92	136
11 Feb 2020	2,388	77.13	184	26 Aug 2020	1,595	86.14	137
12 Feb 2020	4,818	77.33	373	27 Aug 2020	1,576	86.20	136
13 Feb 2020	2,931	77.61	227	28 Aug 2020	1,569	85.73	135
14 Feb 2020	1,879	77.53	146	31 Aug 2020	1,603	85.14	136
17 Feb 2020	3,118	78.10	244	1 Sept 2020	1,791	87.25	156
16 April 2020	4,019	73.22	294	2 Sept 2020	1,803	87.72	158
17 April 2020	5,856	74.23	435	3 Sept 2020	1,630	88.32	144
20 April 2020	5,579	75.56	422	4 Sept 2020	1,798	87.93	158
22 April 2020	5,223	78.90	412	7 Sept 2020	1,361	87.78	119
25 May 2020	5,527	79.13	437	8 Sept 2020	1,094	87.83	96
26 May 2020	5,227	79.04	413	9 Sept 2020	1,421	87.91	125
27 May 2020	5,112	79.24	405	10 Sept 2020	1,670	88.26	147
28 May 2020	5,811	79.65	463	11 Sept 2020	500	87.94	44
29 May 2020	3,427	79.72	273	14 Sept 2020	1,637	87.71	144
1 June 2020	5,627	79.73	449	15 Sept 2020	1,510	87.34	132
2 June 2020	6,186	79.71	493	16 Sept 2020	1,349	87.54	118
3 June 2020	2,183	80.70	176	17 Sept 2020	1,437	87.04	125
4 June 2020	5,420	83.22	451	18 Sept 2020	1,436	86.80	125
9 June 2020	7,958	84.68	674	21 Sept 2020	1,440	86.14	124
10 June 2020	7,301	84.77	619	22 Sept 2020	1,243	84.64	105
11 June 2020	5,806	85.02	494	23 Sept 2020	600	84.97	51
12 June 2020	8,065	84.88	685	24 Sept 2020	58	85.14	5
15 June 2020	6,521	84.69	552	25 Sept 2020	944	85.13	80
16 June 2020	3,903	84.65	330	28 Sept 2020	1,249	86.04	107
17 June 2020	8,168	85.33	697	29 Sept 2020	1,001	84.94	85
18 June 2020	8,471	84.94	720	30 Sept 2020	1,050	83.28	87
19 June 2020	3,940	84.00	331	2 Oct 2020	305	83.34	25
22 June 2020	2,579	83.93	216	5 Oct 2020	481	83.01	40

Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)
6 Oct 2020	903	83.12	75	4 Dec 2020	2,412	89.52	216
7 Oct 2020	888	82.33	73	7 Dec 2020	2,517	90.15	227
8 Oct 2020	880	82.04	72	8 Dec 2020	2,534	89.67	227
9 Oct 2020	278	81.53	23	9 Dec 2020	2,640	90.07	238
12 Oct 2020	889	81.52	72	10 Dec 2020	1,494	89.95	134
13 Oct 2020	708	80.99	57	11 Dec 2020	2,834	91.73	260
14 Oct 2020	903	81.45	74	14 Dec 2020	2,894	91.33	264
15 Oct 2020	9	81.35	1	15 Dec 2020	2,891	90.33	261
19 Oct 2020	696	82.53	57	16 Dec 2020	1,468	91.32	134
20 Nov 2020	1,168	85.89	100	17 Dec 2020	2,934	91.55	269
23 Nov 2020	1,265	88.14	111	18 Dec 2020	1,687	91.63	155
24 Nov 2020	1,413	88.14	125	21 Dec 2020	2,781	90.38	251
25 Nov 2020	1,441	88.14	127	22 Dec 2020	720	90.64	65
26 Nov 2020	1,474	88.34	130	23 Dec 2020	2,728	92.08	251
27 Nov 2020	1,000	88.18	88	28 Dec 2020	2,720	92.24	251
30 Nov 2020	1,208	88.40	107	29 Dec 2020	2,693	92.70	250
1 Dec 2020	1,744	88.34	154	Total purchases in 2020	307,522	82.93	25,505
2 Dec 2020	1,850	88.50	164				
3 Dec 2020	1,491	88.94	133				

Broker's fee is included in the weighted average price of shares.

Signing of the 2020 Annual Report and Its Constituent Parts

President and members of the Krka, d. d., Novo mesto Management Board are aware of the content of the integral parts of the Annual Report 2020 of Krka and the Krka Group, and hence of the entire Annual Report of Krka and the Krka Group for the year 2020. 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

Who Is Who

Jože Colarič

President of the Management Board and CEO

Aleš Rotar

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

Vinko Zupančič

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

David Bratož

Member of the Management Board

Milena Kastelic

Member of the Management Board, Worker Director; Head of Semi-Solid, Liquid and Other Products

Borut Lekše

Deputy Chief Executive of Legal Affairs and Head of Legal Affairs

Gregor Redek

Assistant Chief Executive

Marko Lampret

Technical Director

Elizabeta Suhadolc

Director of Marketing and Director of Pharmaceuticals

Alenka Jerman

Deputy Director of Marketing and Deputy Director of Pharmaceuticals

Breda Barbič Žagar

Medical Director and Director of Strategic Marketing

Mojca Vidmar Berus

Director of Corporate Performance Management

Samo Komel

Director of Non-Prescription Products

Jože Primc

Director of Animal Health

Damjan Možina

Director of Sales and Director of Region East Europe

Tomaž Sever

Deputy Director of Sales and Director of Region Central Europe

Miran Bevec

Deputy Director of Sales for Russian Federation and Director of Key Market Russian Federation

Mojca Prah Klemenčič

Director of Region Slovenia and Director of Key Market Slovenia

Andrej Klobučar

Director of Region South-East Europe

Boštjan Korošec

Director of Region West Europe and Director of Key Market West Europe

Matjaž Zavolovšek

Director of Region Overseas Markets

Gordana Hren

Director of Key Market Croatia

Tomaž Indihar

Director of Key Market Poland

Jan Gala

Director of Key Market Czech Republic

Balázs Kollár

Director of Key Market Hungary

Vadim Kolesnikov

Director of Key Market Ukraine

Marjan Vrtnjak

Director of Key Market Slovakia

Suzana Kolenc

Director of New Products

Zvone Simončič

Director of Pharmaceutical R&D

Valentina Zaletel Mišmaš

Director of Pharmaceutical Production

Marko Herga

Director of API R&D and Production

Andrej Bavdek

Director of API Production

Brane Kastelec

Director of Finance

Mateja Vrečer

Director of Quality Management

Dori Silvija Gorenc

Director of Human Resources

Andrej Petrišič

Director of Information Technology

Elvira Medved

Head of Public Relations

Barbara Kunič Tešović

Head of Industrial Property

Jože Žaren

Head of Health and Safety at Work

Boris Fakin

Head of Public Services

Mira Rataj Siročić

Head of Internal Audit

GRI Content Index According to GRI GS (Global Standards)

GRI Content Index According to GRI GS (Global Standards) – Core Option				
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GRI 102: General Disclosures 2016				
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102-5	Nature of ownership and legal form	29 82–85	At a Glance Investor and Share Information	
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102-14	A statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy for addressing sustainability	13–16	Statement by the President of the Management Board	
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102-16	Values, principles, standards, and norms of behaviour and the Code of Ethics	52 154–155	Krka Group Development Strategy Employees	
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102-18	Report the governance structure of the organization, including committees of the highest governance body	46–47	Corporate Governance Statement	
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102-42	Basis for identification and selection of stakeholders with whom to engage	152–153	Sustainable Development	
102-43	Approach to stakeholder engagement, including frequency by type and by stakeholder group	152–153	Sustainable Development	
102-44	Key topics and concerns that have been raised through stakeholder engagement, including how the organization has responded to those key topics and concerns, including through its reporting	152–153	Sustainable Development	

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GENERAL STANDARD DISCLOSURES				
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Report Profile				
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SOCIAL				
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401-3	Return to work and retention rates after parental leave, by gender	159	Health and Safety at Work	We report on the share of employees who took parental leave.
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GRI Content Index According to GRI GS (Global Standards) – Core Option				
SPECIFIC STANDARD DISCLOSURES				
The management approach and disclosures	Material topic	Page	Chapter	Omission and/or deviating presentation
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