

# 2021

## Excellence

is the foundation for  
long-term success.





”

**Krka Prizes have been promoting excellence in research and cooperation with educational and scientific institutions for 51 years.**

**Branka Klemenčič, a long-standing mentor of young chemists, said: ‘I am delighted with our pupils’ eagerness to learn and their research papers distinguished by daring and relevant topics.’**



**Branka Klemenčič received an acknowledgement for long-standing diligent encouragement and successful mentoring of research work of grammar school pupils. She spreads enthusiasm for chemical research at Gimnazija Novo mesto (Slovenia), where Krka has helped equip the chemistry laboratory. They have won many Krka Prizes together.**

# The year 2021 was of paramount importance for the Krka Group, an international pharmaceutical company.

Our long-term stable business and sustainability growth continued.

We are a reliable supplier, producing more than 16 billion units of high-quality products, making us a strong partner for patients and healthcare systems in treating the most common diseases.

## Record sales and favourable performance indicators strengthened the foundations for our progress.

### Record sales volume and value

- €1,565.8 million revenue, up 2%
- 2% sales volume growth

### Continued high profitability rate

- €308.2 million or 7% growth, record net profit
- Above-average profitability in the generic pharmaceutical industry

### High level of investor trust

- 29% rise in the Krka share price in 2021
- €5 dividend per share
- Stable long-term dividend policy
- Treasury share repurchase programme

### Broad portfolio of high-quality pharmaceutical products

- 16 new products
- > 200 completed registration procedures
- > 1,000 approved MAs

### Wide range of products in the pipeline

- > 170 products at various research-and-development stages
- > 10 value-added antidiabetics

### Long-term management of essential ESG aspects

- Females account for 49% of senior management
- 45,000-tonne reduction in CO<sub>2</sub> indirect emissions\*
- 1,143-tonne reduction in waste total\*
- 90,988 hours of quality-related training

\* This statistics applies to Krka only.

## Krka provides for attractive investment opportunities.

1

### Effective development strategy

The vertically integrated business model is risk resilient and flexible also in times of uncertainty.

2

### Long-term growth and profitability

The growing volume of products sold goes hand in hand with steady revenue growth and profitable business operations.

3

### Value-added medicines

Our product portfolio rests on key therapeutic areas and dosage forms, affording great adaptability to patient needs.

4

### Krka's research and development

We use our expertise to obtain and extend patent protection and record pioneering achievements in developing technological solutions and innovative generic medicines, such as fixed-dose combinations.

5

### Effective asset utilisation

Long-term dividend policy and treasury share repurchase programme rely on investments in core business development and asset acquisitions.

**We are committed to continuously developing innovative and high-quality generic medicines marketed under our brands, which the vertically integrated business model facilitates.**

**We create long-term value for our stakeholders through scientific findings, a culture of excellence, innovations, and responsive and efficient business processes.**



### Krka share on Ljubljana Stock Exchange

- Prime Market Share of the Year Award
- Best Investor Relations Award

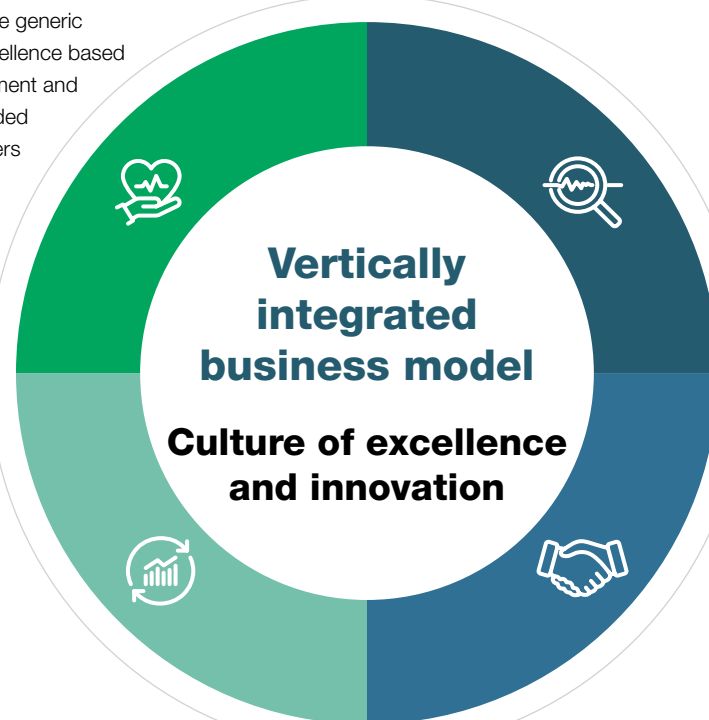


## Healthcare Value

- Pharmaceutical products for treating the most common diseases of our time
- Therapies for more than 50 million patients each day
- 800 pharmaceutical products, 600 formulations based on 250 APIs
- Main therapeutic categories: cardiovascular diseases, central nervous system, gastrointestinal system, pain, infections, digestion, oncology, urinary tract, blood and blood-forming organs
- Developing a wide range of value-added antidiabetic agents, medicines for blood and blood-forming organs, and oncology agents
- High-quality innovative generic pharmaceuticals: excellence based on in-house development and production, value-added dosage forms, pioneers in fixed-dose combinations
- Patient-friendly medicines

## R&D Value

- Substantial investments in R&D: 10% of revenue, 170 products in the pipeline in different R&D phases
- Intellectual property and patent-protected innovations: patent applications for more than 350 innovations
- Promoting scientific research among the young: more than 50 years and almost 3,000 awards for research papers by secondary school pupils, students, and scientists



## Economic Value

- Affordable therapies: stable functioning of healthcare systems in 70 countries
- Competitive dividend policy: €156 million for dividend payments in 2021

## Social Value

- Advancing knowledge about quality therapies with medicines and health resort services: 90,988 hours dedicated to education on quality

# Krka Group

## Financial Highlights<sup>1</sup>

€ thousand	2021	2020	2019	2018	2017
Revenue	1,565,802	1,534,941	1,493,409	1,331,858	1,266,392
– Of that revenue from contracts with customers (products and services) <sup>1</sup>	1,560,288	1,529,959	1,489,080	1,326,747	1,260,898
Earnings before interest, tax, depreciation and amortisation (EBITDA) <sup>2</sup>	463,625	502,432	385,437	343,280	306,638
Operating profit (EBIT) <sup>3</sup>	354,788	390,744	274,195	232,686	198,741
Profit before tax (EBT)	362,417	338,992	284,368	202,573	176,174
Net profit	308,150	288,949	244,272	174,008	152,576
Non-current assets (year-end)	1,075,747	990,998	1,041,833	1,010,811	1,033,008
Current assets (year-end)	1,461,936	1,244,544	1,142,785	974,258	886,123
Equity (year-end)	1,919,085	1,751,812	1,667,516	1,540,270	1,487,699
Non-current liabilities (year-end)	162,674	172,796	160,905	123,058	121,182
Current liabilities (year-end)	455,924	310,934	356,197	321,741	310,250
R&D expenses	154,559	153,447	152,421	130,700	125,864
Investments	66,386	76,613	112,568	96,293	105,088

RATIOS	2021	2020	2019	2018	2017
EBITDA margin	29.6%	32.7%	25.8%	25.8%	24.2%
EBIT margin	22.7%	25.5%	18.4%	17.5%	15.7%
EBT margin	23.1%	22.1%	19.0%	15.2%	13.9%
Net profit margin (ROS)	19.7%	18.8%	16.4%	13.1%	12.0%
Return on equity (ROE) <sup>4</sup>	16.8%	16.9%	15.2%	11.5%	10.4%
Return on assets (ROA) <sup>5</sup>	12.9%	13.1%	11.7%	8.9%	8.0%
Liabilities/Equity	0.322	0.276	0.310	0.289	0.290
R&D expenses/Revenue	9.9%	10.0%	10.2%	9.8%	9.9%

NUMBER OF EMPLOYEES	2021	2020	2019	2018	2017
Year-end	11,511	11,677	11,696	11,390	10,832
Average	11,581	11,631	11,484	11,129	10,823

SHARE INFORMATION	2021	2020	2019	2018	2017
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 € <sup>6</sup>	9.92	9.27	7.73	5.46	4.74
Gross dividend per share in €	5.00	4.25	3.20	2.90	2.75
Closing price on LJSE at the end of the period in €	118.00	91.40	73.20	57.80	57.50
Price/Earnings ratio (P/E)	11.90	9.86	9.47	10.59	12.14
Book value in € <sup>7</sup>	58.52	53.42	50.85	46.97	45.37
Price/Book value (P/B)	2.02	1.71	1.44	1.23	1.27
Market capitalisation in € thousand (31 Dec)	3,869,627	2,997,321	2,400,480	1,895,461	1,885,623

<sup>1</sup> Revenue generated in 2021, 2020, 2019, and 2018 complies with *IFRS 15*. Revenue generated in 2017 from contracts with customers for the sale of products and services has also been presented accordingly.

<sup>2</sup> The difference between operating income and expenses increased by accumulated depreciation and amortisation

<sup>3</sup> The difference between operating income and expenses

<sup>4</sup> Net profit/Average shareholders' equity in the year

<sup>5</sup> Net profit/Average total asset balance in the year

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

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

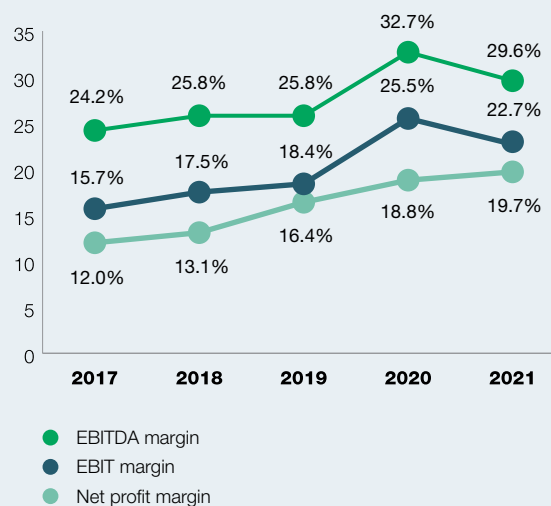
<sup>1</sup> GRI GS 102-7, 102-10, 201-1



## Krka Group Operating Results

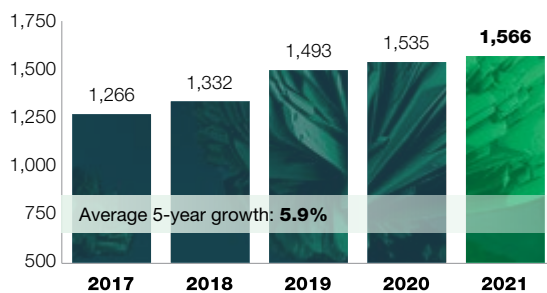
€ thousand	2021	2020	2021/2020
<b>EBITDA</b>	<b>463,625</b>	<b>502,432</b>	<b>-8%</b>
EBITDA margin	29.6%	32.7%	
<b>EBIT</b>	<b>354,788</b>	<b>390,744</b>	<b>-9%</b>
EBIT margin	22.7%	25.5%	
<b>Net profit</b>	<b>308,150</b>	<b>288,949</b>	<b>+7%</b>
Net profit margin	19.7%	18.8%	

### Profit margins

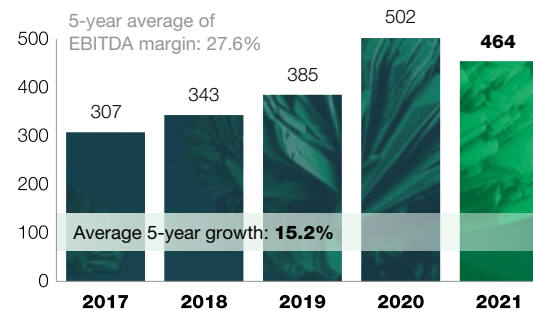


## Performance Ratios

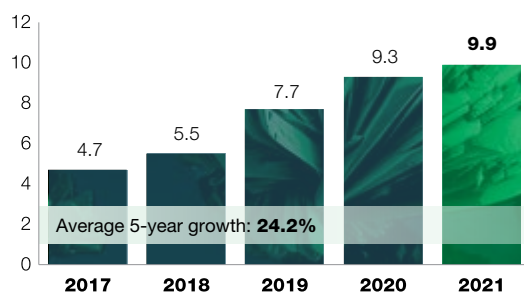
### Revenue (€ million)



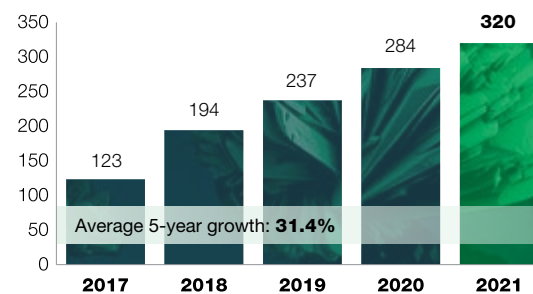
### EBITDA (€ million)



### Earnings per share in €



### Free cash flow (€ million)



# Krka in Global Markets<sup>2</sup>

**Krka's medicinal products are trusted in**

**70**

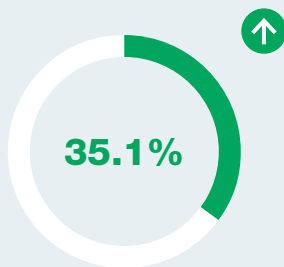
**countries.**

- 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

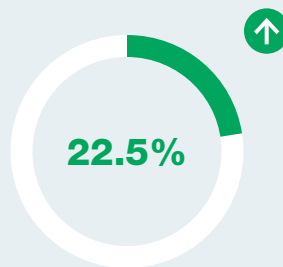
Region East Europe

**€547.8 million +6%**



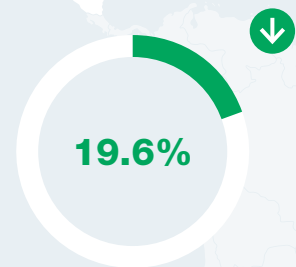
Region Central Europe

**€351.5 million +3%**



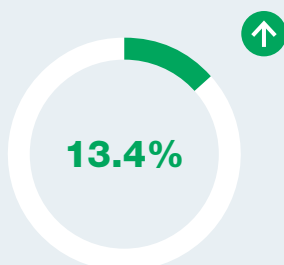
Region West Europe

**€305.2 million -11%**



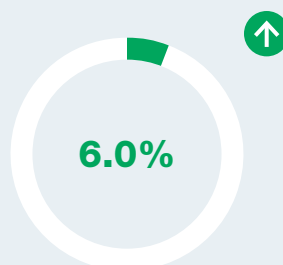
Region South-East Europe

**€209.2 million +5%**



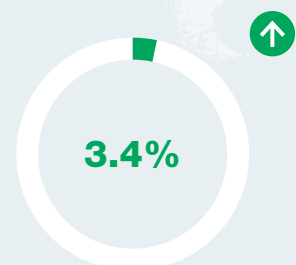
Region Slovenia

**€92.9 million +9%**



Region Overseas Markets

**€53.7 million +18%**



<sup>2</sup> GRI GS 102-4



## Total Value of Product and Service Sales in 2021

**€1,560 million**  
**+2%**



# 94%

**sales on international markets**

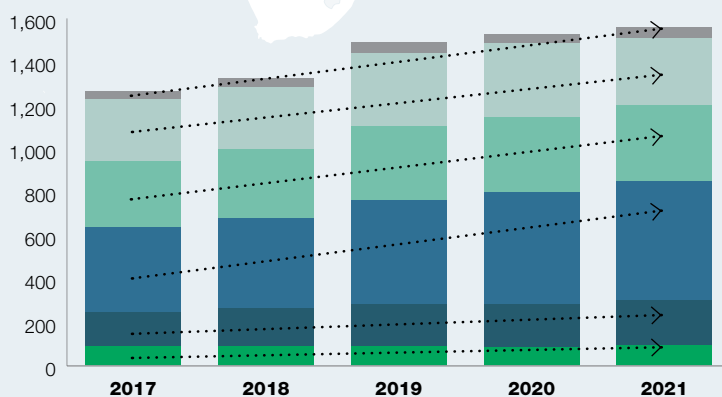
### Production sites

- Slovenia
- Croatia
- Germany
- Poland
- Russian Federation
- China

Controlling company  
 Subsidiary  
 Representative office  
 Own production sites  
 Leased production capacities

### Krka Group Sales by Region

€ million



**31 subsidiaries and 17 representative offices** outside Slovenia: **46%** of all Krka Group employees

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

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/>.

”

**We have awarded close to 3,000 Krka Prizes to secondary school pupils, students and researchers so far.**

**Špela Žunec said:  
‘The two Krka Prizes encouraged me to pursue my desire to use information technologies in research to help people.’**

**Špela Žunec, who attends Gimnazija Jožeta Plečnika grammar school in Ljubljana (Slovenia), received Krka Prizes in 2020 and 2021 for her papers *Analysis of results of molecular docking of the library of compounds to SARS-CoV-2 virus protein targets* and *Orange software as a tool for predicting molecular properties*.**



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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.

# Statement by the President of the Management Board<sup>3</sup>



Dear  
shareholders,  
business  
partners and  
employees,

## **The Supervisory Board of Krka appointed me President of the Management Board and Chief Executive Officer for another term commencing on 1 January 2022.**

I accepted the responsibility with great confidence as Krka recently strengthened its position as one of the leading generic pharmaceutical companies in the world. My fellow board members and I focus on the future built on new

products, development and strategies adopted to achieve our financial and sustainability goals.

Over the past few years, Krka has been growing and competing successfully with its competitors in the industry. Our business model and corporate culture, which stem from a strong pharmaceutical tradition, ensured our continued successful performance in 2021. Despite the pandemic and its impact on our business operations in almost all markets, this was our most successful year to date. We proved once again that we are flexible, well prepared and able to react to opportunities and challenges in our markets instantly thanks to our vertically integrated business model. I am proud of our colleagues' exceptional flexibility and ability to respond quickly. They helped materialise our commitment to supply medicines

<sup>3</sup> GRI GS 102-14



to patients in our markets and ensure the Krka Group's continuous growth and stability.

## Record Sales to Date

Even though our marketing-and-sales activities were still somewhat limited compared to pre-pandemic times, we achieved record sales in 2021. The Krka Group recorded the strongest sales since its incorporation, totalling €1,565.8 million. Revenue in markets outside Slovenia reached €1,467.4 million, accounting for 94% of total Krka Group sales. Despite the pandemic, we recorded 2% growth in terms of value and volume compared to the previous year.

By selling more and relying on effective business processes, we improved our margins and recorded net profit of €308.2 million, the highest to date, up 7% on 2020. ROE reached 16.8%. Our results prove that we managed to adapt quickly and efficiently, preserving high profitability. The consistent growth of our sales, a sound increase in profit and a positive cash flow demonstrate the resilience and sustainability of our operations.

Region East Europe generated the strongest sales of all our regions, earning €547.8 million or 35.1% of total sales, a 6% increase from 2020. Our successful business performance in the Russian Federation contributed the most to the results, as country sales amounted to €332.9 million, up 2% (denominated in the rouble, growth was 9%). In Ukraine, where market conditions in 2021 were harsh, we recorded sales in the amount of €96.4 million, up 12% compared to 2020. In Uzbekistan, our sales increased by 18%, totalling €31.2 million. We recorded growth in all other regional markets, except in Armenia and Tajikistan.

Our sales increased by 3% to €351.5 million in Region Central Europe, constituting 22.5% share of total Krka Group sales. We recorded growth in all markets of the region. In Poland, the largest regional market, product sales reached €166.7 million, up 2% compared to 2020 (denominated in the zloty, growth was 5%). In Hungary, sales amounted to €50.3 million. Compared to 2020, sales in the Czech Republic increased by 5%, totalling €48 million, while in Slovakia, sales of products amounted to €40.3 million. The highest relative growth in Region Central Europe was recorded in Latvia, where our sales increased by 6% year on year, totalling €15 million in 2021.

Generating €305.2 million or 19.6% of the Krka Group total sales, Region West Europe was the third largest region in terms of sales. Sales dropped 11% due to price pressures and slightly fewer new product launches in 2021. Germany remained our most important regional market with product sales of €80.3 million.

Even so, we recorded substantial sales growth compared to 2020 in several Western European markets: 4% in Benelux, 6% in Austria, 9% in the United Kingdom, and 13% in Ireland.

Product sales in Region South-East Europe amounted to €209.2 million, 5% higher than in 2020, constituting 13.4% of total Krka Group sales. In Romania, we generated €58.6 million in sales of products and services. In Croatia, our sales amounted to €36.1 million. We recorded sales growth in all other regional markets, the highest in Serbia, North Macedonia and Bulgaria.

In Slovenia, our domestic market, we sold €92.9 million of products and services, contributing 6% to total Krka Group sales. Product sales generated the majority of sales, €56.4 million, recording 2% growth. Health resorts and tourist services yielded €36.5 million, a 23% rise on 2020, making an important contribution to the Krka Group's 9% sales growth in Slovenia.

Region Overseas Markets accounted for a 3.4% share of total Krka Group sales and yielded €53.7 million in sales, an 18% year-on-year increase. We recorded growth in all markets. Product sales in the markets of the Far East and Africa reached €28 million, up 3% compared to 2020. Product sales in the markets of the Middle East generated €24.2 million, a 42% increase on the previous year. The strongest sales growth in terms of value and in relative terms was recorded in China with a product containing pregabalin.

## No Compromises on Quality and Innovation

Our key priority is to continuously develop new technologies and products that improve patient treatment. Today, cardiovascular medicines account for more than 50% of our prescription pharmaceutical sales, followed by medicines for the treatment of the central nervous system and gastrointestinal tract. Apart from key therapeutic classes, we have recently been focusing mainly on antidiabetics and analgesics. Our development activities remain aimed at oncology medicines and autoimmune diseases to make our own contribution to the treatment of the most widespread illnesses of modern times. We continue adding new products to our non-prescription and animal health portfolios.

Long-term growth depends primarily on the continuous increase of supply, making it imperative to supplement our portfolio with new generic molecules, in-house innovative R&D and technological solutions each year. In 2021, we obtained marketing authorisations for 16 new products, completed more than 200 registration procedures, and obtained more than 1,000 new marketing authorisations in different countries.

We offer products in various therapeutic classes and are considered one of the leading providers of medicinal products. We make no compromises on quality and innovation, the two main foundations of our achievements. Our main goal and commitment is to ensure that as many patients as possible in our existing and new markets have access to our state-of-the-art and innovative portfolio of quality, safe and effective products in advanced therapeutic forms at affordable prices.

We firmly believe that innovations of all types are a prerequisite to improving our competitiveness. This is why we encourage creativity in all work processes, which is reflected in our effective business operations. We pay special attention to new products, new therapeutic classes, and improved processes and technologies. In 2021, we filed 12 patent applications for new technological solutions considered novel on the global stage. More than 200 patents protect our technological solutions.

Innovation and quality are integral parts of our operations that give a series of tangible results. We use them to ensure efficient processes. They guarantee quality, safe, and effective finished products, rational business operations, reasonably priced products for our customers, and good relations with our shareholders.

## Stable Production in Uncertain Times

Governments and healthcare institutions in many countries worldwide are cutting back on their healthcare expenses and encouraging the use of generic products. The demand for generic products is increasing, in particular in emerging markets. In 2021, we manufactured and packed 16.2 billion tablets, film-coated tablets and capsules, comparable to the record quantity manufactured in 2020 and a billion units more than manufactured in 2019.

We consider this an important achievement. In 2021, we faced serious incoming material shortages, lower manufacturing output of our partners, and transport issues due to the COVID-19 pandemic. Krka's supply chain processes remained uninterrupted owing to our vertically integrated model. We produce a large part of raw materials used in our finished products. At the same time, the Company's good liquidity and capital structure allow for the financing of sufficient inventories of base materials. Because of this, we were able to ensure adequate quantities of other raw materials at unchanged prices despite the unstable situation.

Consistent preventive measures, including vaccinations for employees, prevented the COVID-19 pandemic from affecting our operations in 2021. Moreover, we are pleased to report that none of our business processes were hindered and the supply of our finished products remained uninterrupted.

## Investments to Increase Production Capacities

In 2021, more than 30 investment projects worth over €66 million were made in the Krka Group. Most of our investments were geared towards increasing and modernising the capacities for producing finished products and APIs. Let me mention just a few of the larger ones. The Notol 2 plant, our most advanced plant for the production of tablets, film-coated tablets and capsules, manufactured more than one-third of all Krka Group products. Due to increasing demands on production capacities, we have continued to purchase additional technological equipment for Notol 2. Its full manufacturing capacity will reach 5 billion tablets and 8 billion packagings per year.

The construction of new API development and production capacities is planned at Krško, a town 30 km from Krka's central site. The investment worth €163 million complies with our vertical integration strategy, which Krka uses to control all product stages, from product development to production.

The expansion and modernisation of the Krka-Rus plant located in the industrial zone of a town north-west of Moscow is one of the key investments in Krka subsidiaries abroad. The plant manufactures more than 75% of products intended for the Russian market, giving us the status of a domestic producer in the Russian Federation. We started increasing its laboratory and production capacities in 2020. Moreover, we plan to continue to purchase manufacturing and quality control equipment for our joint venture Ningbo Krka Menovo in China.

## Krka Share Price Exceeded €100

Krka's share was the most actively traded security on the Ljubljana Stock Exchange also in 2021. Its price increased by 29.1% to €118.00 at the end of the year, while market capitalisation of Krka amounted to €3.9 billion.

The growth of Krka's share price is the result of good business performance and the trust shareholders place in our operations and strategy.

We plan to preserve our long-term dividend policy, in which at least 50% of the net profit of the controlling company's equity holders is allocated for dividends. The Krka Group's financial requirements for investments and potential acquisitions are also taken into account. The shareholders received €5.00 gross per share, up 17.6% on the previous year. The dividend yield was 4.2%.

## Strong Supply Chain and Development Activities at the Start of 2022

We know that our market shares can grow only if our development is strong, we produce as many innovative products of high quality as possible, have a solid supply chain, flexible and rapid manufacture, and effective marketing and sales. The 2022 business results will depend on the slowing down of the pandemic and the related containment measures adopted by countries. The situation in Ukraine and the Russian Federation and the ensuing global economy developments will certainly impact the Krka Group's business activities.

The main short-term risk is the current situation in Ukraine, economic sanctions, volatility and depreciation of the Russian rouble, and credit risk. In our opinion, other markets and sales regions will not sustain direct harm on the account of the present situation. The indirect impact on all other markets of Region East Europe will depend on how long the situation in Ukraine and the Russian Federation lasts.

Krka has been present in Region East Europe for over 50 years. In that time, we encountered several challenges that affected our business operations through devaluation of national currencies and short-term decreases in demand, but in the long term, Krka managed to strengthen its market position after each such situation. The vertical integration system ensures our resilience against external shocks and responsiveness to fast-changing market situations. We have a strong capital structure, generate a robust cash flow from operating activities, and have no financial debt, so our successful

business performance in the long run is not jeopardised. We closely monitor events and implement all necessary activities to ensure business continuity in the two countries. We also take measures to manage operational risks and reduce any potential negative impact on business results.

In 2022, the Krka Group plans product and service sales at €1.610 million and net profit at approximately €300 million. We plan to allocate €130 million to investments, primarily for expanding and upgrading our production and development capacities as well as the infrastructure. We plan to increase the total number of employees in Slovenia and abroad by 2%. The 2022 business plan was derived from expectations, assessments, projections and other available data at disposal to the Management and Supervisory Boards at the time of its preparation.

## Vertically Integrated Model at the Heart of Our Strategy

Members of the Management and Supervisory Boards have adopted the updated strategy for the period up to 2026, to adapt to the changes and challenges in the external environment, transforming them into new opportunities for the Krka Group. The strategy is based on two key starting points: to improve our achievements, and plan Krka's strategic development.

In the upcoming five years, we plan to achieve at least 5% average annual sales growth and EBITDA margin of at least 25%. We intend to further strengthen and optimise our vertical integration business model, which has proven to be an effective strategic guideline and competitive advantage. It will allow us to ensure high product quality, safety, and efficacy standards. We plan to enter new therapeutic areas, develop complex products, maintain profitability on which future development depends, secure organic growth, and pursue growth through long-term partnerships, and ensure a stable dividend policy. In all our endeavours, we intend to prioritise digitalisation, automation and optimisation of processes, as well as further strengthen the Krka Group's commitment to environmental sustainability.




## Part of a Broader Environment

We remain committed to the values of sustainable development. We endeavour to devote even closer attention to conserving natural and societal heritage and further improving it throughout the Krka Group. At Krka, we have always believed that a company needs to have good operating results and focus on environmental, social, and corporate governance (ESG) issues to achieve business success.

We intend to set clear sustainability goals and indicators to check our progress in these areas. We will continue our efforts to preserve natural resources and climate change management, and reduce our impact on the natural environment. With regard to social issues, we are mainly concerned with the availability of our products to all those who need them, a safe, healthy and encouraging work environment, employee satisfaction and support for community development. Krka's success stems from our renown and the trust enjoyed by the Krka brand. This could not be possible without ethical and responsible corporate governance. Our goal is to further improve the sustainability culture in the Krka Group. We believe that investors and our current and future employees will favour companies with clear environmental sustainability goals that can create value for their stakeholders in the long term.

## Focused on Results

The members of the Management Board have been appointed for another six-year term of office. We intend to justify the trust placed in us by continuing to pursue revised company goals from the updated strategy. My colleagues and I believe that our key responsibility is to successfully meet any challenges arising from the increasingly rapid global changes and to ensure that our products reach more than 50 million patients in 70 markets quickly and efficiently. I am convinced that under the leadership of this experienced team, all of us at Krka can help create an environment that will be beneficial to all – patients, customers, shareholders, Krka employees and the local community – and which will allow us to continue achieving good results.



**Jože Colarič**

*President of the Management Board and CEO*

# 2021 Supervisory Board Report



Dear  
Shareholders  
and  
Stakeholders,

**I am pleased to announce that in 2021 the Krka Group achieved its highest sales revenue to date and highest net profit in its 67-year history, despite the pandemic.**

Krka (hereinafter also referred to as 'the Company' and 'controlling company') delivered strong business performance due to its vertically integrated business model, quality and innovative products, and employees' good work in all areas and levels of management and

supervision. During the pandemic, Krka retained a solid financial structure based on equity, while cash flow from operating activities allowed for strong liquidity of the Krka Group. In 2021, the Management and the Supervisory Boards updated the development strategy. Especially in 2022 and 2023, Krka is adding new products into the current business model, investing in vertical integration, expanding business operations, and additional activities in sustainability management. In December 2021, Krka received the Prime Market Share of the Year Award by the Ljubljana Stock Exchange for the fourth year in a row. It also won the Best Investor Relations Award for the third consecutive time.

Below, I outline our work in 2021 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 2021, 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 2021, 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 range in age from 50 to 73 years. Their knowledge is wide-ranging and covers various fields, including pharmacy, chemistry, law, economics, mathematics, social sciences, mechanical engineering, organisational sciences, and management. They have managed and supervised many companies, organisations, and processes throughout their careers. More information about the composition of the Supervisory Board is available in the 'Corporate Governance Statement' section, table 'Composition of the Supervisory Board of Krka as at 31 December 2021'.

The work and decision-making of the Supervisory Board concern monitoring objectives of Krka and the Krka Group in line with its development strategy and plans, legislation, good national and international practices, and bye-laws. Meetings allow the Supervisory Board members to voice their opinions and concerns while working to reconcile differences to pass unanimous resolutions. In 2021, there were no differences in opinion about any items on the agenda.

We received all requisite data, reports, and information in 2021. Krka departments provided technical and organisational support to us. The Supervisory Board used a secure digital platform IxtlanBoard to disseminate materials and facilitate its work throughout the year. Slovenian company Ixtlan developed the platform. The Management Board provided us with the materials seven days prior to each Supervisory Board meeting.

The members regularly attended the meetings and actively participated in them. Further information on this is available in the 'Corporate Governance Statement' section, table 'Composition of the Supervisory Board of Krka as at 31 December 2021'. Members of the Supervisory Board, members of the Management Board, and the Supervisory Board Secretary were present at the meetings. External auditors (audit partner and an audit coordinator) attended the meetings as rapporteurs when adopting the annual report. The Head of Krka's Internal Audit attended meetings as a rapporteur when mandatory topics concerning internal audit were on the agenda.

In 2021, the Supervisory Board members met at six regular meetings and discussed 56 agenda items. Members of the Supervisory Board committees met ten 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 during the pandemic, human resource issues, investments and products, and monitored strategy implementation. Together with the Management Board, we discussed and agreed on the updated 2022–2026 strategy and the 2022 business and financial plan. We monitored Krka's strengths, weaknesses, risks, and business opportunities recorded in the reports of the professional community and analysts. We compared Krka's operations with those of competitors and received regular updates on 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 Annual General Meeting (hereinafter: AGM) together with the Management Board. In the second half of 2021, we also discussed virtual AGMs, which have been permitted under Krka's Articles of Association since 2021. In 2021, we continued to improve our work, conducted a self-assessment, and adopted an action plan for further improvements.

## Key Areas Discussed at Supervisory Board Meetings in 2021

### Annual Report

In 2021, the Supervisory Board examined the *2020 Annual Report* of Krka and the Krka Group within the statutory time frame and discussed the independent auditor's report issued by the 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 were briefed on the Company's and external auditor's activities concerning preparation of the financial statements in the European Single Electronic Format (hereinafter: ESEF). The statutory auditor Ernst & Young Revizija, poslovno svetovanje, d. o. o. reviewed the Company's reporting in the format complying with the Commission Delegated Regulation (EU) 2019/815 and confirmed it is appropriate.



We had no comments on the auditor's work or report.

In April 2021, we also compiled and adopted a report on our work in 2020. Together with the Management Board, we drew up the *Corporate Governance Code Compliance Statement* regarding Krka's compliance with the Slovenian Corporate Governance Code for Listed Companies adopted by the Ljubljana Stock Exchange and the Slovenian Directors' Association.

## Interim Results

The Supervisory Board discussed the first-quarter, half-year, and nine-month performance reports of Krka and the Krka Group for 2021. The Audit Committee reviewed particularly the accounting and financial aspects of interim results and financial risks, and briefed the Supervisory Board on all interim reports. During each analysis of the interim results, the Audit Committee and the Supervisory Board received information about business processes and risk management during the pandemic. We also discussed the management of other risks, especially foreign exchange and credit risks.

The 2021 interim results were good, even best to-date in most areas.

## Supervision of Krka Group Subsidiary Performance

The controlling company carries out all business functions, while subsidiaries are engaged in the production, distribution, and promotion of medicines abroad, whereby an individual company may perform several functions at the same time. The subsidiary Terme Krka, Slovenia, provides health-resort and tourist services.

The Management Board reported to the Supervisory Board on the business model of subsidiaries, their performance, and all significant accounting information, especially the book value of Krka investments in them, the number of employees, the value of inventories, assets, equity, the amount of operating income and expenses, operating profit or loss, and net operating results.

There were no particularities concerning operations at Krka's subsidiaries in 2021.

## 2022–2026 Krka Group Development Strategy

The Management and Supervisory Boards review and update Krka's long-term strategy every two years. At the meeting of November 2021, we discussed the updated *2022–2026 Krka Group Development Strategy* and approved its content (item 6.18 of *Articles of Association*).

In the next five-year period, Krka's strategic sales goals are to attain at least 5% average annual sales growth in terms of volume and/or value, which is the same as in the former strategy, while achieving above-average sales growth in relation to market dynamics. Krka wishes to remain or rank among the leading generic pharmaceutical companies with own brand names in individual markets and selected therapeutic classes.

In the next five years, Krka intends to strengthen further and optimise its vertically integrated business model, which has proven to be the Company's major competitive advantage. This allows to ensure high standards of product quality, safety, efficacy, and good business performance. Krka remains oriented towards long-term profitability of products sold. The targeted EBITDA margin for the next five-year period averaged at least 25%.

Krka is very successful with medicines to treat chronic diseases, primarily cardiovascular diseases, the central nervous system, gastrointestinal tract, and pain relief. More than 50 million patients from all over the world use Krka medicines every day. The newly updated strategy redoubles the focus on antidiabetics and oncology medicines. The Company concentrates primarily on small molecule pharmaceuticals and adding fixed-dose combinations. It also intends to develop complex peptide molecules for the treatment of diabetes.

In the next five years, Krka plans to allocate 10% of revenue to research and development, and an average of €110 million annually to investments. The emphasis of the updated strategy is placed even further on the digitalisation and improvement of the Krka Group sustainability management.

The new strategy follows the former dividend policy – the Company intends to allocate at least 50% of net profit of majority shareholders to dividends. Every year, Krka also considers the Group's financial requirements for investments and acquisitions.

While the former strategy was effective, the new, updated strategy shows improvements at every level.

## 2022 Krka Group Business Plan

At the November 2021 meeting, the Supervisory and Management Boards members discussed the 2022 business plan of Krka and the Krka Group. It was prepared by the Management Board and approved by the Supervisory Board (item 6.18 of *Articles of Association*).

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 2022 business plan is based on the 2022–2026 development strategy.

Krka estimates the 2022 sales of products and services at 1,610 million, an approximately 3% rise on 2021. The forecast is for exports to account for 94% of total sales. Prescription pharmaceuticals remain the most important product group with 84% share of overall sales. Net profit is planned at approximately €300 million. The total number of employees in Slovenia and abroad is projected to grow by 2%.

In 2022, Krka plans to allocate €130 million to investments, primarily to expand and technologically modernise production and development facilities and infrastructure.

## Convening and Holding Annual General Meeting

The Supervisory and the Management Board drafted the agenda and materials for the AGM of 8 July 2021 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 the previous year.

The Management and Supervisory Boards proposed amendments to *Articles of Association*. The most important addition is the option of holding a virtual AGM.

The Supervisory Board also proposed to the AGM to harmonise the remuneration of the Supervisory Board members with the updated *Corporate Governance Code* drawn up by Slovenian Sovereign Holding.

The AGM approved the proposals prepared by the Management and Supervisory Boards.

## Investments

The Management Board reports to the Supervisory Board on operations and 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 of investments. They also review photographs, diagrams, and other presentations of construction sites and buildings.

In 2021, the Supervisory Board members discussed a capacity increase in Krka's main production plant, Noto 2. The investment refers to Packaging Room 2 (Slovene: Pakirnica 2) and includes refurbishing and refitting rooms for additional packaging lines. We were also briefed about the works to expand bulk product manufacturing capacities at Noto 2, the increase in production capacities at the Krka-Rus subsidiary, the new raw material warehouse in Krško, and capacity increase at the Solid Dosage Form Production Plant

(Slovene abbreviation: OTO). Investments during 2021 lagged behind the plan due to the impact of the COVID-19 pandemic on the execution of works. Krka intends to get the investment plan back on track as soon as possible, together with the contractors.

One of Krka's major planned investments is to build new facilities for developing and producing active pharmaceutical ingredients (APIs), Sinteza 2, and a centre for chemical analyses (Slovene: Kemijsko-analitski center) in Krško, Slovenia. The investments are valued at €163 million. In 2021, the Company obtained the construction permit and environmental approval.

## Risks

The Management Board regularly reported any risks to the Supervisory Board. As in previous years, the Management Board presented the members with procedures regarding patent and similar disputes, broken down by individual product and market. In 2021, there were no major risks in terms of value.

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. Pandemic restrictions made working conditions more demanding in most countries. Employees, particularly in marketing, were faced with difficulties. Production processes, development, supply chain, and quality control ran relatively smoothly owing to measures introduced by governments to curb the pandemic. When unable to be carried out as usual, Krka organised some of the activities digitally, e.g. business partner meetings, promotional activities, self-inspections and internal audits, internal meetings, and events for external participants.

Despite everything, the pandemic negatively impacted the general availability of healthcare systems in Krka's markets. There are several countries where patients have difficulties reaching their doctors. Such circumstances still represent a risk to the Company.

In the middle of 2021, Krka started increasing raw and production materials inventories. In this way, the Company mitigates risks in the supply chain. Due to high liquidity, Krka will continue with this process until the uncertainty in supply markets persists.

Internal Audit of Krka reported on risks identified in internal audit reviews. There were no particularities in this area.

During the pandemic, Krka focused even further on credit control. Receivables due from almost all customers were insured through a credit insurance company.

Since the Krka Group performed well and had no debts, liquidity risks remained very low in 2021. 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 Supervisory Board on currency risks. The sales-side exposure to the Russian rouble was the Group's main exposure in 2021, followed by the US dollar exposure on the purchase side, which was significant. Krka's key policy remains mitigating foreign exchange risks by natural methods. It also uses forward contracts. In 2021, the Company continued its policy of partial hedging against the Russian rouble and US dollar through the use of forward contracts.

## Business Trends in Pharmaceutical Industry and Analytical Reports on Krka

In 2021, 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, the Company's strengths and weaknesses, and market opportunities and dangers. It also discussed current information about the pharmaceutical industry.

External reports often mention vertical integration as Krka's competitive advantage, as it allows for a sufficient quantity of raw materials and products and, consequently, a quick response to market needs. Managing all major business processes in line with this business model also provides the possibility for better product quality.

Dangers in the industry include price pressures and limited access to health services due to restrictions in place to curb the pandemic.

## Benchmarking Krka Performance against Comparable Companies

The Supervisory Board regularly compares Krka's operations with those of its competitors. In 2021, 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. We 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 2021, Krka consistently ranked highly vis-à-vis competitors in terms of all ratios, especially the EBITDA margin and ROE ratio.

## 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 Supervisory Board meeting in July. Its purpose was to inform the Supervisory Board on worker participation in management, draw attention to any shortcomings, and propose measures.

In the report's conclusion, 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 relationships and teamwork. They took part in a workplace health campaign. Together with Health and Safety at Work, the Works Council periodically analysed occupational injuries and were actively involved in finding solutions to improve traffic safety.

During the pandemic, the Works Council members made a special effort to raise awareness on the importance of following measures to prevent the spread of COVID-19 and stressed the significance of vaccination to help achieve the highest possible employee protection. This topic was discussed at all Krka's worker assemblies in 2021.

Elections were held for the new Worker Director. Milena Kastelic, who carried out this function in the last term, was re-elected for another term of office from 1 January 2022 to 31 December 2027.

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.

## Sustainability Management

The Management and Supervisory Boards updated all areas related to sustainability management in the updated *2022–2026 Krka Group Development Strategy*.

The Company's Management Board appointed a team responsible for introducing environmental, social, and



governance (ESG) aspects in Krka's operations. The team consists of a member of the Management Board, David Bratož, experts for environmental protection, PR, finance, HR, marketing, controlling and business information, and Chief Compliance Officer. In addition, IT, quality, development, and production experts are also regularly involved in the workshops. In 2021, Krka briefed employees about the ESG topic through our internal publication and media.

In 2021, Management Board member David Bratož reported to the Supervisory Board on the further development of sustainability management at Krka. We were briefed on the topic during a presentation of his work plans when he was nominated for a new term of office on the Management Board. At the operational level, the progress is reported to the Management Board. In the future, the Supervisory Board will also be involved in implementing sustainability management as part of the updated strategy.

The 2021 disclosures on sustainability topics were not audited. In 2023, Krka plans to obtain an ESG assessment from an independent organisation.

## 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. We are also briefed about the annual performance report of Internal Audit.

In 2021, the Supervisory Board determined the performance bonus for the Head of Internal Audit for 2020 and for the first half of 2021. Due to her strong performance, she received both bonuses as per her employment contract.

We were briefed about the annual performance report of Internal Audit. We had no comments. The Supervisory Board also discussed and approved the 2022 annual work plan of Internal Audit. More details on the reviewed areas are available further on, when describing the work of the Audit Committee, which reported and advised to the Supervisory Board on all the above topics.

## Management Board Performance and Remuneration

The Supervisory Board measures the Management Board performance according to quantitative and qualitative criteria. Quantitative criteria make up 11 of 17 points and qualitative criteria make up the remaining 6 points. The score has a linear effect on the variable portion of the remuneration.

The criteria applied to determine the variable remuneration of the President and other Management Board members were the same and in line with the long-term operational guidelines, as they are based on the Krka Group development strategy.

Quantitative criteria included growth in sales value and volume, increased cash flows from operating activities and 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 the areas of information technology, investments, and human resources. The report to the Supervisory Board also contained detailed information on charity and volunteering, support to healthcare institutions, sports, cultural, research and educational activities, and protection of the natural environment.

When determining variable remuneration, long-term performance results are considered. The above criteria are used to evaluate the current year or half-year and the past ten calendar years. The evaluation applied to all Management Board members consists of 60% of the current period's evaluation and 40% of the evaluation for the past ten years. Management Board members' remuneration does not increase on reappointment for another term.

The Human Resource Committee and the Supervisory Board evaluate the Management Board's performance twice a year, based on the written and oral reports of the Management Board. In 2021, the Human Resource Committee and the Supervisory Board consisted of independent members in line with the *Corporate Governance Code for Listed Companies*. The Management Board does not carry out self-assessment.

The variable remuneration of the Management Board is paid in two parts: the first payment is made based on half-year performance results, and the second depending on annual performance.

## Shares and Shareholders' Structure

Krka strives to provide the investors with quality information about the Company's operations and plans. In 2021, Krka received the Prime Market Share of the Year Award by the Ljubljana Stock Exchange and won the Best Investor Relations Award. The highest trading volume on the Prime Market and good earnings per share also contributed to this. Trading on the Ljubljana Stock Exchange is important for Krka, as the holdings of domestic retail investors account for approximately 40% most of the years.

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 2021, no major changes occurred in the shareholders' structure. The Company regularly purchased treasury shares in line with the provisions of the relevant legislation and bye-laws.

No shareholder has a majority or controlling holding in Krka's shareholders' structure.

The Supervisory Board was also informed 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.

## Appointing Management Board Members for Next Term of Office

The Management Board ended its six-year term of office at the end of 2021. The Supervisory Board members diligently carried out all the procedures related to appointing the Management Board for the six-year term from 2022 to 2027, taking into consideration legal and statutory requirements and good practice recommendations. We were advised on this topic by the Human Resource Committee.

We prepared criteria for the selection of Management Board members. In addition to legal and statutory requirements, these took into account specific knowledge required in the pharmaceutical industry, education, experience, personal competencies, any conflicts of interest, and Krka's diversity policy, which considers gender, professional, and generational diversity.

The management of conflicts of interest relating to members of the Management Board is defined by *Companies Act* (ZGD-1), and operationally by the *Rules of Procedure of the Management Board*. This aspect is also evaluated at the Supervisory Board meeting based on candidates' CVs and presentations when appointing the Management Board. No conflicts of interest were identified among the appointed members.

We authorised the President of the Management Board in the next term of office Jože Colarič to prepare a proposal for the composition of the Management Board, except for the Worker Director, whom the Works Council proposes. We agreed with his proposal for the Management Board composition in the next term of office and with the proposal of the Works Council.

We reviewed the new contracts of the Management Board members and considered the current good practice when we updated them.

Prior to their appointment, the proposed Management Board members presented their vision of Krka's development and plans for further work. We were also briefed on the division of their work responsibilities. Upon his appointment, the member of the Management Board responsible for sustainable operations in the Company further presented his vision in this field.

The members of the Supervisory Board unanimously approved the unchanged Management Board for the six-year term of office from 2022 to 2027 in the composition: the President of the Management Board Jože Colarič; Management Board members Dr Aleš Rotar, Dr Vinko Zupančič, David Bratož, and Worker Director Milena Kastelic.

## Supervisory Board Participation in Examining Options for Virtual Annual General Meetings

Based on the statutory changes from the 27th Annual General Meeting (AGM) of 8 July 2021 and with the consent of the Supervisory Board, the Management Board may allow AGMs to be held virtually. At the July meeting, as there is no established practice in this area yet, the Supervisory Board members decided to participate as supervisors in establishing optimal starting points for potential virtual AGMs at Krka.

In 2021, we studied the legal basis, domestic practice, risks regarding the organisation and identification of shareholders and also got acquainted with the technical arrangements required for holding a virtual AGM. The legislation and Krka's *Articles of Association* allow for one form of virtual AGM, i.e. a hybrid AGM. This means the meeting is held in person, but shareholders may also attend it remotely. As best practices are still developing, we will continue to follow this area in 2022.

## Following New Developments in Production of COVID-19 Vaccines

At its meeting in April of 2021, the Supervisory Board discussed the Management Board report on COVID-19 vaccines. Prerequisites for vaccine production are a reliable source of the strain and long-term licensing agreement. As the virus variants change rapidly, the variability of strains requires constant vaccine adaptations.

Krka specialises in the development, production, and marketing of solid dosage forms, especially tablets, coated tablets, capsules, and also sterile products. From the aspect of pharmaceutical, labour protection, and environmental regulations, vaccines are a specific group

of sterile products, so their production requires dedicated, separate plants and special procedures for work with raw materials and destruction of waste materials and media. For these reasons, Krka does not develop or produce COVID-19 vaccines. However, the Company still follows the developments in the field and maintain contacts with stakeholders and other manufacturers.

## Strengthening Good Practice in Supervisory Board Performance

In 2021, 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 same as last year. The scores demonstrate that the Supervisory Board performance meets the highest standards.

In 2021, the members committed that we would improve our work. Based on the *Corporate Governance Code for Listed Companies* adopted at the end of 2021, we intend to improve our work further.

## Review of Related Party Transactions

In accordance with the *Companies Act* (ZGD-1K) requirements, the Company introduced an internal procedure to regularly review transactions with related parties, including the members of the Management and Supervisory Boards and their related persons. Transactions are reviewed by Krka's department of Documentary and Financial Control. They primarily review if the transactions comply with market conditions and Krka's regular business operations.

The members of the Supervisory Board were briefed on the internal rules defining the above procedure of reviewing related party transactions. In accordance with ZGD-1K, some of these transactions require the consent of the Company's Supervisory Board, and others have to be publicly disclosed. All members have completed the statements with regard to related parties. The Audit Committee also examined the area.

## Harmonising Remuneration of Supervisory Board Members with Updated Good Practice Recommendations

On 18 March 2021, the revised Corporate Governance Code drawn up by Slovenian Sovereign Holding was

published. In accordance with this Code and at the proposal of the Supervisory Board, the remuneration system for Supervisory Board members was updated at the 27th AGM of 8 July 2021. The basic remuneration for work on the Supervisory Board decreased by €500 to €15,000 per year. The AGM resolution also provides for additional payments in the case of extensive, highly demanding tasks or objective circumstances at the Company. Additional payments for specific duties in a year may amount to up to 50% of the basic remuneration for the performance of the function of a Supervisory Board member. An additional payment may also be made for past tasks, but only for the last financial year.

Members of the Supervisory Board received an additional payment in the amount determined by the resolution of the 27th AGM. The basis for additional payment was work related to virtual AGMs and increased complexity of supervision during the pandemic (business continuity, health and safety at work).

## Corporate Events

In 2021, the members attended the AGM and some events organised by the Company. Another corporate event was the 50th Krka Prizes ceremony, which was also attended by the President of the Republic of Slovenia, who conferred the state Order of Merit to Krka for its Krka Prizes, which have been encouraging scientific achievements, particularly among the young, for half a century.

## Work of Supervisory Board Committees

The Audit Committee and the Human Resource Committee 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. In 2021, the Supervisory Board agreed with the opinions tendered by both Committees regarding the items they reported and advised on.

The ensuing sections detail the Committees' work.

## Audit Committee

In 2021, the Audit Committee met six times and discussed 29 agenda items. The President of the Audit Committee is Borut Jamnik, and its members are Dr 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.

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 discretion. The Supervisory Board Secretary attends all meetings. In 2021, two representatives of the audit firm, Ernst & Young d. o. o., Ljubljana, also attended two meetings: the audit partner and audit coordinator of the annual report.

The Audit Committee dedicated most of its time to the following in 2021:

## Annual Report

In 2021, the Committee discussed the *2020 Annual Report of Krka and the Krka Group*, the auditor's report, and the 2020 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.

The Committee discussed the preparation of financial statements in the European Single Electronic Format (ESEF). The certified auditor confirmed the adequacy of the Company's reporting in the format specified by the Commission Delegated Regulation (EU) 2019/815.

At the meeting of 17 March 2021, the Committee was also briefed on the auditor's statement of independence, where the independence of the audit firm Ernst & Young and audit group Ernst & Young from the Krka Group was confirmed.

The Audit Committee had no comments on the auditor's work.

## Interim Results

When discussing interim reports, the Audit Committee reviewed their accounting and financial aspects, and reported to the Supervisory Board. In 2021, no accounting or financial particularities or significant changes to past practice were identified.

## 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 August 2021, the Audit Committee started preparing for the audit of the *2021 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 31 August 2021 to review the draft audit plan and the audit team's composition and to agree with the auditors as to which individual work areas would be reviewed in greater detail. Representatives of Krka departments and the Head of Internal Audit also attended the meeting. The Management Board members were not present.

Due to the pandemic, the Company introduced organisational measures to protect auditors during their work. These included sanitary measures, dedicated rooms for auditors, and ensuring physical distance.

Cooperation with the auditors in 2021 was good. Their high-quality and comprehensive work contributed to improved oversight of business operations.

## Annex to the External Auditor Contract

At the meeting in July 2021, the Audit Committee proposed to the Supervisory Board to endorse the proposal to add an annex to the contract with the statutory auditor Ernst & Young for the audit of 2021 financial statements of Krka and the Krka Group. The purpose of the annex was to fix the audit deadlines for the financial statements of Krka and the Krka Group.

## Approval of Additional Non-Audit Services by External Auditor

At its November 2021 meeting, the Audit Committee agreed that, in accordance with Krka's protocol on the prior approval of non-audit services, Ernst & Young would review the electronic format of the consolidated financial statements of the Krka Group and separate financial statements of Krka for 2021 in the ESEF. The Audit Committee was briefed on the auditor's statement that the proposal complies with the regulations governing the auditor's independence, and also with the non-audit services provided so far.

## Request for Proposals for New External Auditor from 2022 onwards

With the 2021 audit, Ernst & Young, the auditor of Krka's separate and consolidated financial statements, reached the threshold allowed by Regulation (EU) 537/2014. This states that neither the initial engagement of the auditor

nor this engagement in combination with all renewed engagements after this may not last more than ten years.

Therefore, Krka's relevant department prepared a request for proposal (RfP) for a new external auditor for the audit of financial statements of the Krka and the consolidated financial statements of the Krka Group for the period from 2022 to 2024.

The Audit Committee and the Supervisory Board were briefed on the course of the RfP. In accordance with the *Corporate Governance Code for Listed Companies*, they also approved the criteria for preparing the proposal and the minimum conditions for participation in the RfP.

## Cooperation with Internal Auditors

The Audit Committee discussed several topics related to internal audit in 2021. In March 2021, they reviewed the Internal Audit 2020 performance report. In her annual report, the Head of Internal Audit reported on audits conducted in the areas of industrial property, medical research and pharmacovigilance, information systems in the pharmaceutical production, credit risks and trade receivable management in the Krka Group, liquidity risk management, biotechnology, sales in Region Slovenia, pharmaceutical production, technical services, and IT support for marketing and distribution units abroad. The internal audit reviews were conducted in Slovakia, Ireland, Portugal, Montenegro, Belgium, Lithuania, Estonia, and in Terme Krka – with an emphasis on hotel services. 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.

The Committee discussed the Internal Audit performance report for the period from January to June 2021. During this time, the department reviewed processes in quality management, regulatory affairs, engineering, regional marketing, and management of health and safety at work. Internal audits were also conducted in subsidiaries in Bulgaria, Latvia, and Finland. Their consulting services increased by 20%.

Internal auditors identified no significant deviations. The Audit Committee had no comments on the Internal Audit performance report for 2020 and their performance report for the first half of 2021.

The Committee also discussed the Internal Audit 2022 work plan. 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. In light of the positive experience with the Internal Audit and the quality

of their work, the Committee members did not change any bases for the work of internal auditors in 2022.

Also in 2021, the Audit Committee proposed to the Supervisory Board to award performance bonuses to the Head of Internal Audit for 2020 and for the first half of 2021.

## Risk Management and Internal Controls

The Audit Committee regularly discussed financial risks in particular. In terms of currency risks, they focused on risks related to the Russian rouble exchange rate fluctuation, which accounted for the majority of Krka's foreign exchange exposure. The US dollar exposure on the purchase side is also becoming increasingly important. They monitored credit and liquidity risks as well. The risks were adequately managed. Further information on this topic is available in the description of the Supervisory Board work.

## Current Topics and Other Reports

In 2021, according to the new requirement of the *Companies Act* (ZGD-1K), the Company introduced an internal procedure to regularly review transactions with related parties, including members of the Management and Supervisory Boards and their related persons. The Committee reviewed the internal procedure and had no comments.

## Human Resource Committee

In 2021, the Human Resource Committee met four times and discussed 14 agenda items. The Committee comprises the President Dr Boris Žnidarič and members Prof. Dr Julijana Kristl, Dr 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 discretion.

## Appointing Management Board for Next Term of Office, Proposals for the Supervisory Board

The Committee prepared all work proposals regarding the appointment of the Management Board for the term of office from 2022 to 2027 and reported to and advised the Supervisory Board.

They proposed the current President of the Management Board and CEO Jože Colarič for the next term of office.

Together with Jože Colarič, who is responsible for nominating candidates for the new Management Board team, the Committee prepared a proposal of criteria for their selection, which must be in accordance with the provisions of *Articles of Association*. They interviewed all nominated members, who presented a vision of their further work. The Committee also carefully examined their work to date, areas under their responsibility in the next term, and new employment contracts. They reviewed their CVs, references, and declarations on compliance with legal requirements. The Committee also carried out all the above procedures concerning the appointment of Worker Director, member of the Management Board elected by the Works Council.

The Supervisory Board agreed with the staffing proposals of the Committee and approved their proposal to appoint the Management Board in its current composition for the next term of office.

## Management Board Remuneration, Proposals for Supervisory Board

The Committee evaluated the work of the Management Board twice, for the entire year of 2020 and for the first half of 2021. They applied quantitative and qualitative performance criteria described in the subsection on the work of the Supervisory Board under the title 'Management Board Performance and Remuneration'.

The Committee prepared a proposal based on a written report of the Management Board, which is presented at the Committee meeting by the President of the Management Board and the member of the Management Board responsible for economics and finance. Following the evaluation, the Committee proposed to the Supervisory Board variable remuneration for the President of the Management Board and the Management Board members for their excellent work in 2020 and the first half of 2021.

## 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 for Listed Companies*.

The Management Board regularly attended all the meetings of the Supervisory Board in 2021. 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 2021, 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 further described in the subsection on the work of the Supervisory Board. 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 took note of 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 one another, and examined various topics together. In 2021, 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 despite the pandemic and, in its 67-year corporate history, set an all-time high in sales and profit.

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 *Articles of Association*), we also signed off on the Company's 2022 plan and its strategy for the next five years.

All members remained independent in their work in 2021. In line with the recommendations of the *Corporate Governance Code for Listed Companies*, we completed statements on independence, which Krka published on its website with the CVs of the Supervisory Board members. 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 the Supervisory Board may also take other steps.

Krka allocated €320,290 for the work of the Supervisory Board and its committees (remuneration, attendance fees, travel expenses) in 2021, whereas €356,450 were spent. In 2021, 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 Appropriation of 2021 Distributable Profit

The Supervisory Board discussed the contents of the *2021 Annual Report* at two Supervisory Board meetings and two Audit Committee meetings. In addition, the Supervisory Board and Audit Committee discussed the 2021 preliminary business results estimate at their meeting of 26 January 2022.

The draft 2021 annual report and the 2021 unaudited financial statements of Krka and the Krka Group were discussed by the Supervisory Board and the Audit Committee at their respective meetings of 16 March 2022. The statutory audit firm, Ernst & Young, d. o. o., Ljubljana, reported to the Audit Committee on the 2021 audit procedures and findings 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 *2021 Annual Report* and the audited 2021 financial statements of Krka and the Krka Group on 29 March 2022. They discussed them at their respective meetings of 6 April 2022. Certified auditors reported to the Committee and the Supervisory Board.

The 'Corporate Governance Statement' forms a part of the *2021 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 review of the draft annual report and reports from the audit firm and Audit Committee, the Supervisory Board assessed that the Management Board's annual report gave a true and fair account of the events and presented a comprehensive view of Krka and the Krka Group 2021 performance, 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 audit firm report, and the Audit Committee report, it unanimously approved the *2021 Annual Report* at their meeting of 6 April 2022. 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 2021, the Company generated profit of €245,216,436.23, of which €15,261,862.79 was allocated to reserves for treasury shares and €0.00 to other profit reserves. The remaining profit of €229,954,573.44 and retained earnings of €88,670,552.72 comprised distributable profit, which amounted to €318,625,126.16 as at 31 December 2021.

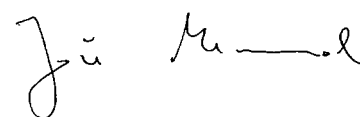
The Management Board and the Supervisory Board proposed to the AGM that distributable profit be appropriated as follows:

- Dividends €175,024,601.13 or €5.63 gross per share;
- Other profit reserves €71,800,262.52; and
- Retained earnings €71,800,262.51.

The proposal was drawn up taking account of the number of treasury shares as at 6 April 2022. As the number of treasury shares changes, the number of shares paying dividends is revealed on the day of the AGM. The total amount to be allocated to dividends, other profit reserves, and retained earnings is to be adjusted accordingly.

## Conclusion

We believe one of Krka's significant competitive advantages is its vertical integration model. Based on market needs, which the Company is familiar with due to its extensive marketing and sales network, Krka strives to develop as much of its own products and raw materials as possible and produce them focusing on their quality. Krka markets and sells them through its 47 companies and representative offices. Good cash flow and no debt provide additional benefits in risk management. In 2021, Krka performed very successfully and, in our opinion, justified investors' trust. This was also reflected in the growing share price.



**Jože Mermal**  
President of the Supervisory Board



# At a Glance<sup>4</sup>

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 31 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 resorts 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.

In 2021, we established a wholly owned subsidiary in Germany, 123 Acurae Pharma GmbH.

## ID Card

### Krka, d. d., Novo mesto

Registered office

Telephone

Fax

E-mail

Website

Core business

Business classification code

Year established

Registration entry

Tax number

VAT number

Company ID number

Share capital

Total number of shares issued

**Šmarješka cesta 6, 8501 Novo mesto, Slovenia**

**+386 (7) 331 21 11**

**+386 (7) 332 15 37**

**info@krka.biz**

**www.krka.biz**

**Manufacture of pharmaceutical preparations**

**21,200**

**1954**

**1/00097/00, District Court of Novo mesto**

**82646716**

**SI82646716**

**5043611000**

**€54,732,264.71**

**32,793,448 ordinary registered no-par value shares**

<sup>4</sup> GRI GS 102-1, 102-3, 102-5

# Krka Group Business Model

## Key Risks and Opportunities

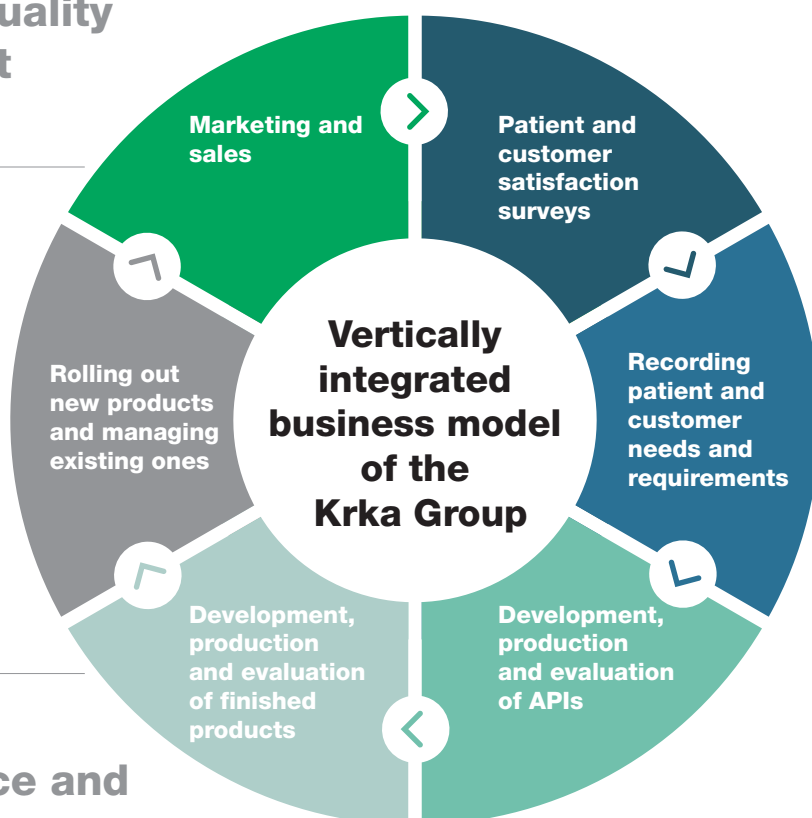
- Ensuring quality and uninterrupted supply of APIs and products
- Patient safety
- Technological and scientific progress and development of innovative generic medicines
- Expansion of product portfolio and broader use of combinations
- Talent management
- Employee inclusion and diversity
- Resilient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

## Integrated quality management and control

## Resources

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

## Flexibility, independence and competitiveness



## Value creation for stakeholders

- Quality, safe, and efficient medicines based on innovative solutions
- Affordable treatment
- Investment in research and development
- Stable dividend policy
- Safe and healthy work environment
- Employment opportunities and development of knowledge, skills, and talents
- Efficient natural resource management
- Enhancing quality 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

## Region 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 Latvija

## Region West Europe

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

## Region Slovenia

KRKA, d. d.,  
Novo mesto

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

## Region East Europe

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

## Region South-East Europe

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

## Region Overseas Markets

- **US**  
Krka USA LLC
- **China**  
Ningbo Krka Menovo  
Pharmaceutical Co. Ltd.

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

The chart includes companies in operation as at 31 December 2021.  
Short company names are used in the remainder of this document.

# 2021 Highlights

## Business Operations

- In 2021, the Supervisory Board appointed the current Management Board for another six-year term of office ending on 31 December 2027. The Management Board is comprised of the President of the Management Board Jože Colarič, members of the Management Board Dr Aleš Rotar, Dr Vinko Zupančič and David Bratož, and member of the Management Board and Worker Director Milena Kastelic.
- At the beginning of the year, we presented Krka's Big Five: products or product families that in 2020 surpassed the milestone of 1 billion tablets sold. These are Nolpaza, Atoris, and Krka's valsartans, perindopriils and losartans. They are known for quality, efficacy, safety, trust, completed clinical trials, and wide recognition among doctors and patients.
- The 27th Annual General Meeting was held on 9 July 2021. The proposed dividend per share of €5.00 gross, up 17.6% on the previous year, was approved.
- We organised online conferences to maintain regular contact with investors in capital markets. Krka's share price saw strong growth in 2021, exceeding the price of €100 per share for the first time since 2008.
- In mid-October, Krka passed the 26th audit of its integrated management system, conducted by the Slovenian Institute of Quality and Metrology (SIQ). During an online and onsite audit, the auditors inspected five management systems adapted to the following standards: ISO 9001, ISO 14001, HACCP, ISO 45001 and ISO/IEC 27001. No non-compliances were identified during the audit. The validity of all certificates we hold was confirmed.
- The development strategy of the Krka Group is drawn up for a five-year period and updated every two years. At their November meeting, the Management Board adopted the 2022–2026 Krka Group Development Strategy, which the Supervisory Board approved at their meeting of 17 November.

## Visibility

- For the tenth time, Krka was included in the Golden Thread (Zlata nit) research project conducted by the Slovenian media company Dnevnik on the quality of the relationship between an organisation and its employees. Assessments show that employees value their relationship with Krka. This aspect is especially important in the current uncertain times, in which Krka continues to provide safe and stable employment.
- Krka ranked among top employers of 2020 in the reputation measuring survey (Ugled delodajalca 2020) conducted by the recruitment portal MojeDelo.com and published in March 2021. The project included more than 12,000 individuals from the Slovenian labour market.



- Once again, Krka researchers proved they belong among the very best. At last year's innovation ceremony of the Chamber of Commerce of Dolenjska and Bela krajina (GZDBK), Krka's innovations received four gold and four silver awards.
- At the end of November, the Slovenian Chamber of Commerce and Industry (GZS) presented Krka with two silver awards for innovations in high blood pressure therapy: one award for a bi-layer tablet containing a combination of candesartan and amlodipine, and one award for a solid pharmaceutical form containing a combination of olmesartan, amlodipine, and hydrochlorothiazide.
- At the end of the year, the Ljubljana Stock Exchange presented Krka with the Prime Market Share of the Year Award for the fourth consecutive year and the Best Investor Relations Award for the third time.

## Sustainability

- We have formed a project group for sustainability to put additional focus on sustainability and introduce the ESG system to the Krka Group in line with legislation, in particular the EU's Corporate Sustainability Reporting Directive.
- The 2020 Talent-of-the-Year Award was announced at the 15th traditional meeting with Krka's sponsorship recipients. Three outstanding young people received the award for their accomplishments in sports and culture.
- On 22 September, as part of the European Mobility Week, we organised the 6th consecutive Krka Car-Free Day for Krka employees in Slovenia and abroad. Our commitment to green mobility grows ever stronger: sustainable means of transport is becoming a habit and not just a one-time act for an increasing number of employees.
- We regularly meet with local communities because we care for the natural and social environment in which we operate. This year, circumstances did not yet allow for in-person meetings. Because we believe in the importance of uninterrupted dialogue, we prepared an informative issue of Krka's *Utrip* magazine covering the relevant environmental protection topics and distributed it to the residents of the Ločna-Mačkovec community.
- In 2020, we marked the 50th anniversary of Krka Prizes. Due to the circumstances at that time, the ceremony was postponed until the beginning of September 2021. On this occasion, the President of the Republic of Slovenia Borut Pahor presented the national Order of Merit to Krka for its Krka Prizes, which have been encouraging scientific achievements, particularly among the young, for half a century.
- In 2021, we continued with our unique and long-standing tradition of Krka Prizes. The recipients of the secondary school, undergraduate and graduate-level prizes were declared at online symposiums.

# Employees

- The 18th International Regulatory and Pharmacovigilance Conference was organised remotely. More than 300 colleagues from 40 countries attended the online event. The best regulatory affairs employees received awards, recognitions, and commendations.
- The slogan Rethink and React marked the 23rd Marketing and Sales Conference. The online event was attended by 190 colleagues in 42 markets and established new foundations for achieving even better results in the future.
- On Krka Awards Day, we conferred plaques to employees who celebrated their many years of service, best employees, best managers, and those who excelled in the field of innovation.
- In July, 18 worker assemblies were held at Krka in Slovenia. The President and members of the Management Board briefed employees on performance results, plans for the current year, the strategy, and other current issues.
- For the 21st consecutive year, Marketing Awards were conferred on the best employees in marketing.
- Through our innovation and efficiency, we developed several concrete solutions that support quality processes, quality finished products, and rational business operations that help us ensure reasonably priced products for our customers and good relations with our shareholders. Individuals and organisational units that contributed the highest number of proposals were recognised for their efforts.

# Subsequent Events

The events after the end of the period had no impact on the 2021 financial statements.

## Situation in Ukraine and the Russian Federation: Impact on the Krka Operations

We conduct business in Ukraine and the Russian Federation, Region East Europe, through three subsidiaries and the controlling company, Krka, d. d., Novo mesto. The registered office of our subsidiary Krka Ukraine LLC engaged only in marketing, but not manufacturing, is in Kiev. The registered office of Krka-Rus LLC engaged in pharmaceutical production is in Istra, a town in the vicinity of Moscow. Main offices of Krka Farma LLC, a company engaged in marketing and sales, are in Moscow.

On account of rapid changes and their unpredictability, it is not possible to reliably forecast the impact of the situation in Ukraine and Russian Federation on our business operations in 2022 and any long-term consequences. Krka has a strong capital structure, generates a strong cash flow from operations and has no financial debt, so its successful business performance in the long run is not jeopardised. Our Management Board closely monitor events and implement all necessary activities to ensure business continuity in the two countries. They also take measures to manage operational risks and reduce the eventual negative impact on business results. The Management Board will prepare and publish the eventual revision of guidance for 2022, when and if tangible assessment of short and long term implication of current situation is possible.

Please find further explanation in Note 35 'Subsequent events' to the consolidated financial statements of the Krka Group and Note 36 'Subsequent events' to the financial statements of Krka, d. d., Novo mesto.

## Acquisition of Treasury Shares in 2022

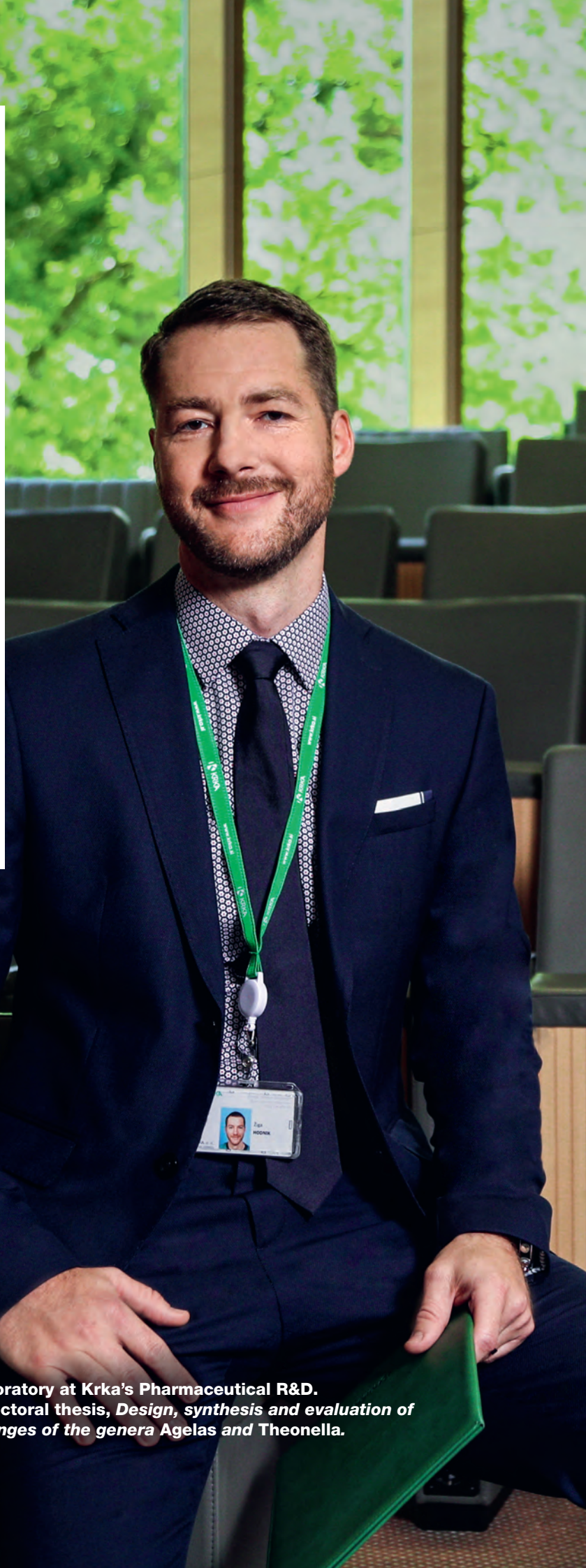
From 1 January 2022 to 14 April 2022, we acquired 21,689 treasury shares. At the end of this period, Krka held 1,705,597 treasury shares, accounting for 5.201% of total shares.



”

**Many winners of Krka Prizes are now our employees and leading experts, who share and promote knowledge aiming to make therapies accessible and efficient.**

**Dr Žiga Hodnik said: ‘High-performance technologies have made research possible. However, diverse minds and joy of research create the greatest advantages.’**



**Dr Žiga Hodnik heads the mass spectrometry laboratory at Krka's Pharmaceutical R&D. He received a Krka Grand Prize in 2014 for his doctoral thesis, *Design, synthesis and evaluation of analogs of bioactive compounds from marine sponges of the genera Agelas and Theonella*.**



# Corporate Governance Statement<sup>5</sup>

**Corporate governance at Krka is 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:

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

## Annual General Meeting

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

The Management Board calls the regular AGM once a year, at least 30 days 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 information disclosure restrictions.

In the 2021 AGM notice, per Item 6.2 of the *Corporate Governance Code for Listed Companies* in force at the time, the Company requested all major shareholders to publicly disclose their investment policies in respect of their shareholdings in the Company, in particular their voting policy, the type and frequency of their engagement in the Company's governance, and the flow of their communication with the Company's managerial and supervisory bodies.

At the 27th AGM of 8 July 2021, the shareholders:

- Received information about the *2020 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 *2020 Annual Report*;
- Adopted the resolution on the appropriation of accumulated profit for 2020;
- Discharged the Management and Supervisory Boards of liability for 2020;
- Incorporated in the *Articles of Association* (i) the option to hold shareholder meetings online and resolved that, for a justified reason, an AGM can be held in any other place in the Republic of Slovenia besides the Hotel Šport in Otočec; (ii) added C.32.500 'Manufacture of medical and dental instruments and supplies' to Krka's business activities; (iii) adopted certain other amendments to the *Articles of Association* in compliance with legislative changes; (iv) determined the procedure for convening an AGM in closer detail;
- Updated the remuneration system for Supervisory Board members, which was adopted on 7 July 2011, and brought it in line with the current good practice.

According to the 2022 financial calendar, the regular AGM is due on 7 July. The Company must give a clear 30 days' notice before the AGM is held and publish it on the AJ PES website, in the Company's printed or online publication if it is due for publication at the time of the call and on the Company's website. The notice must also comply with the *Financial Instruments Market Act*.

<sup>5</sup> GRI GS 102-18

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

## Supervisory Board

The Supervisory Board supervises the Company's operations and business management, and selects and appoints members to the Management Board. The body meets at least four times a year. Under the provisions of the *Articles of Association*, the Supervisory Board pre-approves the annual business and financial plan and the strategy for adoption by the Management Board. It also carries out other tasks in accordance with the *Companies Act*. It primarily approves (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 briefed 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. With the terms of office expired for Jože Mermal, Andrej Slapar, Julijana Kristl, and Boris Žnidarič, the AGM elected Jože Mermal, Matej Lahovnik, Julijana Kristl, and Boris Žnidarič to a new five-year term of office. Another two shareholder representatives sit on our Supervisory Board. 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 work complies with legislation, recommendations of professional associations, above all the Slovenian Directors' Association, and other good practice recommendations, particularly the Slovenian *Corporate Governance Code for Listed Companies*.

The remuneration, reimbursement, and other benefits of Supervisory Board members do not directly depend on the Company's 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 and additional payments, i.e. for membership on committees, presiding the Supervisory Board or acting as a deputy to its president, presiding committees, and for special undertakings. All remuneration amounts were fixed by resolutions passed at the 27th regular AGM in 2021.

Supervisory Board 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 the 'Related Party Transactions' section of the financial report.

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

The work of the Supervisory Board and related committees in 2021 is detailed in the Supervisory Board report.

## Shareholder Representatives

### Jože Mermal

#### *President of the Supervisory Board*

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

He initiated and managed the project to restructure and transform public warehouses into a successful, dynamic, and rapidly expanding company that has also become one of the largest business, shopping, entertainment, recreation, culture, and innovation centres in Europe: BTC City. As the founder and strategist of BTC, he has been supporting investments in development to reach the company's long-term goal: to make BTC an open



**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**

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 vast society, globalisation, innovation and sustainable development.

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

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

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

He is the recipient of 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 South-Eastern Europe. In 2013, the Municipality of Ljubljana conferred the Marjan Rožanc Award on Mermal for sporting achievements. The Chamber of Commerce and Industry of Slovenia awarded him for exceptional business and entrepreneurial achievements in the category of large companies 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. It was followed by the highest managerial lifetime achievement award, the Best Manager of South-East Europe 2016 award, which is bestowed by the Independent Agency for the Selection and Promotion of Managers. Mermal was awarded the title of a 2017 honorary citizen of Ljubljana, the highest honour bestowed by the Municipality of Ljubljana, for his contribution to the renown, significance, and development of the municipality and its inter-city and international relations. At the awards for best managers and companies from Central and South-Eastern Europe, he received the Best Manager and

Best Company in Europe lifetime-achievement award in 2019. In 2020, the Management Board of the Managers' Association of Slovenia awarded Mermal the Lifetime Achievement Award in Management.

### **Prof. Dr Matej Lahovnik**

*Deputy President of the Supervisory Board*

Matej Lahovnik (born 1971) holds a PhD in economics. He is a full professor at the Faculty of Economics in Ljubljana and has worked there since 1995. As a researcher, teacher and mentor, he deals with strategic management, mergers and acquisitions, organisation and business skills. Lahovnik has served twice as Minister of Economic Development and Technology to the Government of the Republic of Slovenia. During Slovenia's OECD membership talks, he led the corporate governance and investment negotiation teams.

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

### **Dr Boris Žnidarič**

*President of the Human Resource Committee*

Boris Žnidarič (born 1948) holds a PhD in social sciences and a Master's degree in law. Up to his retirement, he served on the management board of Kapitalska družba, d. d., Ljubljana, a company that manages additional funds for pension and disability insurance. Prior to that, he held various roles at the Triglav Group insurance company. He was assistant to the president of the management board of Zavarovalnica Triglav, where, in addition to leading and directing heads of organisational units, he was also responsible for strategic human resource management at subsidiaries. He was on the management board of Triglav Osiguranje in Zagreb, Croatia. He also managed the Celje regional unit of Zavarovalnica Triglav, and led the central department for the prevention and detection of insurance fraud. Before taking up that role, he was an adviser to a management board member for strategic human resource management in the Triglav Group, and an assistant director for legal, human resources, and general affairs at the Ljubljana unit. He holds a certificate of professional competence for supervisory board membership. In addition to his diverse career in insurance, he is also a university lecturer.



**Borut Jamnik***President of the Audit Committee*

Borut Jamnik (born 1970) is from Ljubljana and graduated in mathematics from the Faculty of Natural Sciences and Engineering at the University of Ljubljana. He commenced his career at the Agency of the Republic of Slovenia for Restructuring and Privatisation. After completing his traineeship, he managed many ownership transformation projects. After a brief spell at the Securities Market Agency of Slovenia, Jamnik took up a post at the IT and analyses department of Kapitalska družba, a company that evaluates investments and prepares the grounds for management decisions. He managed the project that led to establishing the First Pension Fund in Slovenia. In 2000, he began his term on the management board of Kapitalska družba in charge of finance, analyses, information technology, and pension fund management activities. Jamnik chaired the management board of Kapitalska družba from 2003 to 2005 and from 2008 to 2011. In the intervening years, he was a board member with responsibility for finance and group management at Hit, then at Probanka Asset Management, first as a management consultant and later as a management board member. During that tenure, he oversaw the merger of two hotels, HIT Alpinea and Kompas Hoteli KG, and was involved in negotiations with the strategic partner, the then Harrah's Entertainment. He chaired the board of a special business consulting company Posebna družba za podjetniško svetovanje (PDP) until its dissolution following the merger with Slovenski državni holding (SDH, Slovenian Sovereign Holding), a process that involved a series of financial and business restructurings, culminating in the companies being sold. In 2011, he began chairing the management board at Modra zavarovalnica, where he is responsible for asset management, compliance, planning and controlling, legal and HR matters.

Since 1999, he has chaired many management bodies of major Slovenian companies, including Telekom Slovenije, Pivovarna Laško, Zavarovalnica Triglav, NLB, Luka Koper, Comet, Swaty, Lesnina, Žito, and Krka. Until 2018, he was a management board member of the European Association of Public Sector Pension Institutions (EAPSPI). He is currently a member of the supervisory board and audit committee at Nova KBM.

Jamnik held the presidency of the Slovenian Directors' Association (SDA) from 2008 until 2020, where he helped to develop corporate governance expertise and practices and the functioning of supervisory and management boards. Since 2020, he has chaired the SDA's Policy Committee. He also chaired Slovensko zavarovalno združenje (SZZ, Slovenian Insurance Association), where he currently continues his tenure as a committee board member.

As an executive and member of supervisory boards, he has been involved in various complex corporate campaigns and helped resolve complex business issues using his extensive experience and negotiation skills.

**Mojca Osolnik Videmšek**

Mojca Osolnik Videmšek (born 1966) 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. Before that (2014–2019), she served one term of office on the management board of Gorenjska banka, where she was 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 challenging areas of work at NLB, d. d., primarily concerning corporate governance at the NLB Group. As director of Capital Investments Management and Control, she sat on several supervisory boards and audit committees of subsidiaries in Slovenia and abroad. She was also director of the office of the management board and secretary general at NLB.

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

**Prof. Dr Julijana Kristl**

Julijana Kristl (born 1953) holds a PhD in pharmaceutical sciences and worked at the Faculty of Pharmacy at the University of Ljubljana (1977–2021). She upskilled at the University of Geneva and the University of Lyon, and also in the pharmaceutical industry.

During her career, she served as Vice-Dean, Head of the Chair of Pharmaceutical Technology, Dean of the Faculty of Pharmacy and as Vice-Rector at the University of Ljubljana (two terms). She is an active member of many prominent commissions and committees at state and university level.

Her scientific career started in the area of pharmaceutical technology. Her greatest achievements include developing and deploying pharmaceutical nanotechnology in Slovenia. Her work initially focused on the development and evaluation of API nanodelivery systems that support innovative modes and new mechanisms of treatment. Her notable achievements include research and development

on lipid and polymer nanostructures (various nanoparticles and nanofibres), the discovery of mechanisms for increasing solubility and bioavailability of active ingredients, understanding the correlation between the structural composition and the real-time cell response after coming into contact with them. Her achievements have won her global renown as a pharmaceutical nanotechnologist.

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

## Employee Representatives

### **Franč Šašek**

*Deputy President of the Supervisory Board*

Franč Šašek (born 1967) has a degree in organisational sciences. He joined Krka in 1984 and heads up Technical Services. He has worked in engineering and technical services from the outset in roles ranging from technologist, Head of the Technical and Technological Preparations Department, and later as a senior specialist in maintenance and project management. In 2004, he was the SAP PM-maintenance project team leader for the roll out of the business process management system (SAP) and was later appointed process owner for maintenance in the Krka Group. Since 1999, he has also served as an authorised person and trainer for quality assurance. As a certified internal quality auditor, he also conducted internal audits from 2000 to 2013. He is jointly responsible for the development and maintenance of the Company's integrated quality system.

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

### **Dr Mateja Vrečer**

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

Quality Assurance. In September 2011, she accepted the position of Director of Quality Management.

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

### **Tomaž Sever**

Tomaž Sever (born 1967) has a degree in mechanical engineering and a Master's degree in management and organisational sciences. He has been employed at Krka since 1995. He is Deputy Director of Sales and Director of Region Central Europe, entrusted with market research; putting forward and expanding Krka's presence in individual markets; specifying the product range; recommending pricing strategies for individual markets; involvement in planning sales promotion; formation, development and management of distribution channels; and building the sales network abroad. Before joining Krka, he worked for IBM Slovenia from 1992 to 1995, first as an information systems sales representative, then as an information system project manager.

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

## Independent Expert, Member of the Audit Committee

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

### **Borut Šterbenc**

*Independent Accounting and Auditing Expert,  
Member of the Audit Committee*

Certified auditor Borut Šterbenc (born 1978 in Ljubljana) holds a university degree in economics. He graduated from the Faculty of Economics, University of Ljubljana. On 1 January 2020, he assumed chairmanship of the management board of Kolpa, d. d., Metlika, and chairmanship 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. 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 registered as such with the Agencija za nadzor nad revidiranjem (Agency for Public Oversight of Auditing). He also holds a certificate of professional competence for supervisory board membership issued by Slovenian Directors' Association. He is fluent in English, Croatian, and Russian.

## Management Board

The primary Management Board duties are to:

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

The Management Board 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.

President and other members of the Management Board of Krka were not members of any management or supervisory bodies outside the Krka Group in 2021.

The term of office of Management Board members is six years. Members can be reappointed. The candidacy procedure and delegation of authority to Management Board members and criteria for appointment are disclosed in section '2021 Supervisory Board Report', subsection 'Appointing Management Board Members for Next Term of Office'.

The Management Board's operational functions and assignment of duties are set down in 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:

- Directors' 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 in Krka. They prepare business policies and strategic guidelines by individual areas and have some decision-making responsibilities relating to implementing annual plans. Certain committees also have a risk management remit.

Remuneration, reimbursements, and other benefits for Management Board members are fixed in work contracts drawn up between the Supervisory Board and individual Management Board members. Since 24 August 2021, shareholders decide on reimbursement policies at AGM assemblies. This is an amendment to the *Companies Act*.

In 2021, payments to Management Board members were made in cash. The data are disclosed in 'Related Party Transactions' section of the financial report.

The section also includes data on equity stakes in Krka held by Management Board members. Management Board members and their related parties report to the Company and the competent institutions on any acquisition or disposal of the Company's or related parties' shares. Krka makes this information public.

Management Board members' obligations regarding any potential conflict of interest are governed by the *Companies Act*, and operationally also by the *Rules of Procedure of the Management Board* based on good practices, in particular on the *Corporate Governance Code for Listed Companies*. Under the *Rules of Procedure of the Management Board*, the members must be absolutely loyal to the Company. They must disclose any conflict of interest to the Supervisory and Management Boards immediately, but no later than three days after it arises. They must comply with anticompetitive practices throughout their term of office. In conformance with the *Rules of Procedure*, they can accept membership on supervisory bodies of companies outside the Krka Group only after notifying the Supervisory Board of Krka accordingly and obtaining their approval. In 2021, no member of the Management Board of Krka was a member of a supervisory body of any company outside the Krka Group. The existence of any conflict of interest is assessed prior to their nomination.

As regards the Management Boards' powers, the shareholders adopted a resolution at the 26th AGM of 9 July 2020, authorising the Management Board to acquire treasury shares over a 36-month period provided that total treasury shares, including new purchases and

shares already held, do not exceed 10% of total share capital. The Company informed the public about the treasury share repurchase programme on the web portal of the Ljubljana Stock Exchange SEOnet (<http://seonet.ljse.si>).

## Management Board Members

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

### Jože Colarič

*President of the Management Board and CEO*

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

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

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

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

At their meeting of 12 July 2004, the Supervisory Board appointed Colarič President of the Management Board and Chief Executive Officer. His five-year term of office began on 1 January 2005. At their meeting of 21 January 2009, the Supervisory Board appointed him for another six-year term of office commencing on 1 January 2010. Under his management, Krka has developed into one of the leading generic pharmaceutical companies in the world and built solid foundations for growth. Colarič's actions rely on Krka's in-house knowledge, new product development, annual investments, recruitment, and regular dividend payments. In 2015, the Supervisory Board therefore unanimously appointed him President of the Management Board

and CEO for a new six-year term of office commencing on 1 January 2016. When that term of office ended, the Supervisory Board appointed him President of the Management Board and CEO for another six-year term of office commencing on 1 January 2022. He put forward the unchanged Management Board, and the Supervisory Board unanimously reappointed the body and member of the management board-worker director, proposed by Works Council, for the 2022–2027 term of office as proposed.

### Dr Aleš Rotar

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

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

He started working at Krka in the Stability Department in 1984. In 1991, he was appointed Head of Pharmaceutical Technology and two years later Head of Pharmaceutical Development within Research and Development. In 1998, he was appointed Deputy Director and in 1999, 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. Rotar has been Director of Research and Development since 2002. At their meeting of 29 July 2009, the Supervisory Board reappointed him to the Management Board for a further six-year term of office, starting on 1 January 2010. Rotar has notably contributed to know-how and establishment of business functions for in-house research and development at Krka. Because of his successful performance, in November 2015 the Supervisory Board unanimously appointed Aleš Rotar to the Management Board for a new term of office from 2016 to 2021 following a proposal by Colarič. Within that term, he successfully united development and production processes into Pharmaceutical R&D and Production, one of Krka's largest organisational units. Synergies between the experts from development and production helped improve technology transfer and product life cycle management, also leading to higher production output. During his terms of office, Krka almost doubled product launches.

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




**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

**Dr Vinko Zupančič**

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

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

He joined Krka in 1997 as a Warehousing and Transport of Product Supply trainee. In 1998, he became a warehouse technologist and then a senior warehouse technologist. In 2000, he assumed the job of assistant to the head of Warehouse and Transport Services and in 2002 became Deputy Head of Supply Chain. Commencing on 1 February 2004, Zupančič took up his appointment of

Director at Krka's representative office in Bangalore, India. He returned to Krka in Slovenia on 1 July 2005 to act as 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 member of the Management Board for a six-year term commencing on 1 January 2010. Krka's significant competitive advantage is that we manufacture most of the APIs and raw materials we require, enhancing product economics and cutting response time. Zupančič has been integral to the success of this strategy. Following the 2015 proposal by Colarič, the Supervisory Board unanimously appointed him to the Management Board for a term of office from 2016 to 2021. He successfully managed raw

material development, production, and the supply chain during that term. As concerns finished products, he played a key role in supply chain management, from improving raw material economics to process optimisation. He is also to be credited for constant improvement in utilisation of warehousing capacities and optimisation of road and other means of transport.

He chairs the Krka Otočec Tennis Club (Slovenia).

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

### **David Bratož**

*Member of the Management Board*

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

Bratož began his career at Krka in 2001 in the department of Finance, where he managed 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. Product sales and production volume doubled during his tenure in Poland, winning him and Krka - Polska many awards.

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

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

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

### **Milena Kastelic**

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

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

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

As Krka's internal auditor of 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.

She sits on the management board of the Stopiče Tourist Association (Slovenia).

In 2015, the Works Council proposed her as the Worker Director, and the Supervisory Board unanimously appointed her to the Management Board for her first term of office from 2016 to 2021. Kastelic is well-trusted by the employees, and on that account, the Works Council reappointed her Worker Director.

The Supervisory Board, therefore, unanimously appointed her a member of the Management Board, Worker Director for another six-year term of office commencing on 1 January 2022.

## Roles and Responsibilities of Management Board Members

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

In compliance with good practice, we herewith state the Management Board member David Bratož acts under the board resolution as the expert team leader for upgrading sustainable management (ESG).

## 2021 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 the 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 2021, women accounted for 33% of the Supervisory Board structure and constituted 29% of the Management and Supervisory Boards together.

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 the transfer of experiences and knowledge. The policy addresses the diversity of the Management and Supervisory Boards, but the Company intends to apply it rationally also to all other 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 are applied to all companies in the Krka Group, unless otherwise required by national legislation. The controlling company sets the strategies and objectives of all individual subsidiaries in the Krka Group and monitors the implementation of their plans. To ensure cohesive management and supervision across the Group, the controlling company's Management Board also acts as the Annual General Meeting of all subsidiaries.

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

## Corporate Compliance and Integrity

### Values, Norms, Integrity<sup>6</sup>

Corporate integrity, compliance, and transparency of operations are important for Krka and apply to all levels of business operations, employees, and third parties. We endeavour to increase the culture of ethics and protect Krka's renown and property. When working and carrying out tasks, the basic guideline for all employees is to comply with fundamental ethical principles of honesty, loyalty, professionalism, applicable regulations, and Krka's internal rules. We constantly increase employee awareness of any potential fraud, non-compliance and other violations, and ways of managing them, accountability in their detection and reporting.

*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. The Management Board passed the document in 2018 at the Group level. It was updated in 2020 and is to be reviewed and, if necessary, updated biennially. It is available in 29 languages on our corporate website or websites of our subsidiaries. National legislation and transparent business practices must be considered by subsidiaries.

The code applies to every employee. It emphasises that all employees must endeavour to comply with ethical, uncorrupted, and legal conduct principles.

<sup>6</sup> GRI GS 102-16

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

## Education and Training on Corporate Compliance and Integrity<sup>7</sup>

At the Krka Group level, we provide regular education and employee awareness on the importance of corporate compliance and corporate integrity. Employees take refresher courses every two years via eCampus, while Marketing employees also attend internal professional meetings. Refresher training was last completed in autumn 2021.

Krka's various departments examine customers, suppliers, and business partners. For now, we also manage risks related to corporate compliance and corporate integrity in this manner. New employees are informed accordingly at induction seminars and receive a printed copy of the code each. When a training course is completed, this is evident from lists of attendance or eCampus.

## Addressing Purported Irregularities<sup>8</sup>

Any violation of *Krka's Code of Conduct*, potential fraudulent, corruptive, or any other non-compliant action causing harm to Krka is handled in accordance with Directive (EU) 2019/1937 or the ensuing national legislation, and internally also with *Rules on Fraud Prevention, Detection and Investigation*.

Employees can send reports of any purported irregularities to our publicly available address at [compliance.officer@krka.biz](mailto:compliance.officer@krka.biz). Our subsidiaries with more than 250 employees have followed our example and set up their own channels. The compliance officer considers the reports, who in turn appoints a working team for each case separately by including experts on relevant issues. We look into each report carefully. We guarantee anonymity to reporters and safeguard them against any potential retaliatory measures. When a case is closed, we adopt corrective measures if necessary.

*Krka's Code of Conduct* entered into force on 1 May 2018. Since then, the compliance officer has received 64 reports for consideration to the public address

([compliance.officer@krka.biz](mailto:compliance.officer@krka.biz)), of that 15 in 2021; 25 in 2020; 10 in 2019; and 14 in 2018. We adopted relevant corrective actions with this regard to further improve our internal controls.

## Chief Compliance Officer

A Chief Compliance Officer, whose autonomous and independent function is to monitor corporate integrity, is appointed at the Krka Group level. He liaises with Legal Affairs, employees from individual organisational units who provide advice on how to manage compliance in their respective areas, and a secretary. The Chief Compliance Officer informs the Supervisory Board on his activities through the *Integrity Plan* discussed by the body biennially. He reports to the Management Board on all undertakings once a year.

Our subsidiaries with 250 or more employees employ their own compliance officers. In 2021, subsidiaries in the Russian Federation, Poland, Ukraine, Germany, and Terme Krka (Slovenia) had their own officers in charge of compliance. They report to Krka's Chief Compliance Officer every quarter.

## Integrity Plan

In 2020, based on good practice (*Corporate Governance Code drawn up by Slovenian Sovereign Holding*), 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 given every year. The plan commits us to constant improvements in compliance of operations in areas below.

2021–2022 Integrity Plan includes as follows:

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

<sup>7</sup> GRI GS 205-2 • <sup>8</sup> GRI GS 103-1, 103-2, 103-3, 205-3



- Use of information technologies;
- Product quality;
- Systemic risk related to integrity and compliance.

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

Our subsidiaries in the Russian Federation, Poland, and Ukraine drew up their integrity plans in 2021, while our German subsidiary and Terme Krka (Slovenia) started preparing them in the same year.

In 2021, no high risk was detected in connection with any area stated above.<sup>9</sup>

## Description of Code of Ethics Governing Interactions with Healthcare Professionals

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

The said rules were last reviewed in 2020 and 2021, and have been translated to all official languages used in countries with Krka's marketing network. The employees engaged in marketing activities receive information through eCampus, at internal cyclic meetings, and training courses for marketing employees. They learn about the rules stated above and sign a relevant statement.

## Management Approach to Non-Discrimination<sup>10</sup>

The non-discrimination principles are set in two umbrella documents, *Krka's Code of Conduct* and the *Integrity Plan*, an implementation document.

We have so far not received any reports on purported discrimination based on race, colour of the skin, gender, religious or political conviction, nationality, or social origin.

## Contributions and Other Spending<sup>11</sup>

In 2021 and over the past five years, Krka did not fund any political campaigns, political organisations, lobbyists, or lobbying organisations.

The Krka Group companies are members of those advocacy groups, where their membership is obligatory or considered a common practice in the industry.<sup>12</sup>

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

According to Item 6.18 of the *Articles of Association*, the Supervisory Board approves *The Krka Group Development Strategy* which serves as the umbrella document regulating sponsorships and donations. Activities are carried out in accordance with *The Krka Group Sponsorship Manual* governing sponsorships and donations. In accordance with our primary mission, 'Living a healthy life.', we allocate most of our sponsorships and donations to projects related to health and quality of life. We allocate most funds to sports, culture, healthcare, science, education and humanitarian actions. Please refer to section 'Sustainable Development' for further information in this regard.

## Human Rights in Business Operations<sup>13</sup>

On 31 May 2019, Krka signed *Commitment to Respect Human Rights in Business Operations* instigated by the Ministry for Foreign Affairs of the Republic of Slovenia. The document was signed by 18 major Slovenian companies. At the state level, the issue is governed by *National Action Plan of the Republic of Slovenia on Business and Human Rights*.

Contracts concluded by Krka with business entities currently do not include stipulations on human rights, but we are committed to honouring them by *Krka's Code of Conduct*. We pursue all legal regulations and standards related to human rights in all countries where we operate.

Human resources are referred to by the *Integrity Plan*, which is updated every year; the latest update was made in June 2021.

## Internal Audit

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

<sup>9</sup> GRI GS 205-1 • <sup>10</sup> GRI GS 103-1, 103-2, 103-3, 406-1 • <sup>11</sup> GRI GS 103-1, 103-2, 103-3, 415-1

<sup>12</sup> GRI GS 102-12, 102-13 • <sup>13</sup> GRI GS 102-12, 103-1, 103-2, 103-3, 412-3

In line with the 2021 work plan, seventeen regular internal audits were conducted using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology.

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

The following areas were subject to internal audits: sales, regional marketing, engineering, quality of sterile, semi-solid, solid and liquid dosage forms, human resource management, supply chain planning, regulatory affairs, health and safety at work, and information technology management in certain subsidiaries and specified processes. Regular internal audits were also conducted in several subsidiaries and representative offices in Slovenia and abroad. Moreover, internal auditors provided consulting services in line with the above-mentioned standards.

Internal auditors provided assurances that the applied systems of internal controls in the audited areas and processes had been established, had been in place and effective for achieving set objectives. However, there was room for improvement, so they made recommendations categorised by individual risk level and regularly verified their implementation.

Internal auditors work with the Krka Supervisory Board and its Audit Committee and external auditors. In line with the Standards, Internal Audit was subject to three independent external quality audits. We received positive opinions.

## Internal Controls and Risk Management Relating to Financial and Tax Reporting<sup>14</sup>

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 and tax reporting. Internal controls ensure the reliability of financial reporting and compliance with the applicable legislation and other internal and external regulations. The implementation of standard information systems in subsidiaries and the development of business information systems improve the efficiency in exchanging accounting data between the subsidiaries and the controlling company, and therefore also control of information.

Accounting controls, including internal tax controls, are based on the principles of veracity and segregation of

duties, transaction controls, updated accounting records, reconciliation of accounting balances and the actual balance, separation of record-keeping from payment transactions, professionalism of the accounting staff, and independence.

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

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

Accounting and tax controls are closely linked to information technology controls, which, among other things, 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 Krka Group subsidiaries.

## 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 audit findings to the Management Board, Supervisory Board, and the Audit Committee of the Supervisory Board.

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

<sup>14</sup> GRI GS 207-1, 207-2, 207-3





**Each new finding  
sets new limits that  
must be overcome.**

**‘I believe we can  
successfully transform  
liquid formulations that  
increase the solvency  
of an incorporated  
API into solid dosage  
forms if we optimise  
present technologies’,  
said Dr Jelena Mandić.**

**Dr Jelena Mandić obtained her PhD from the Faculty of Pharmacy at the University of Ljubljana in cooperation with Krka, where she works in quality management. She received the 2021 Krka Grand Prize for her doctoral thesis, *Study of industrially applicable technological approaches for development of solid self-microemulsifying systems with carvedilol*.**

## Composition of Supervisory Board of Krka as at 31 December 2021<sup>15</sup>

Name and surname	Jože Mermal	Borut Jamnik	Matej Lahovnik	Julijana Kristl
Function	President	Member	Deputy President	Member
First appointed	2015	2017	2020	2010
Term of office until	2025	2022	2025	2025
Representative of	Shareholders	Shareholders	Shareholders	Shareholders
Attendance at meetings	6/6	6/6	6/6	6/6
Gender	Male	Male	Male	Female
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1954	1970	1971	1953
Education and qualifications	University degree in economics	University degree in mathematics	PhD in economics	PhD in pharmaceutical sciences
Independent according to <i>Corporate Governance Code for Listed Companies</i>	Yes	Yes	Yes	Yes
Committee membership	No	President of the Audit Committee	Member of the Audit Committee	Member of the Human Resource Committee
Attendance at regular committee meetings	No	6/6	6/6	4/4
ESG competencies	Received several awards for his visionary entrepreneurship as well as activities in culture, sports, education, and the humanitarian field	Long-time president of the Slovenian Directors' Association; made a key contribution to the development of the area and practice of corporate governance	Authored and co-authored many scientific papers on strategic management and has extensive international experience in economic policy-making and governance	Long-time professor and dean at the Faculty of Pharmacy; extraordinary achievements include developing and establishing pharmaceutical nanotechnology in Slovenia as well as researching and lecturing on affordable treatment

### Conflict of Interest in the Financial Year

In 2021, no permanent or relevant conflicts of interest were identified in respect of any Supervisory Board member. Statements of independence are published on the Company's website.

### 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. They comply with the provisions of the *Companies Act*.

## External Members of Committees as at 31 December 2021

### Audit Committee

Name and surname	Borut Šterbenc
Function	Independent external expert of the Audit Committee in accordance with Article 280 of the <i>Companies Act</i>
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, leading, and conducting complex audits; is a certified auditor and registered as such with the Agency for Public Oversight of Auditing
Independent according to the <i>Corporate Governance Code for Listed Companies</i>	Yes
Membership of supervisory bodies of other companies	Member of the supervisory board of Pokojninska družba A, d. d
ESG competencies	Transparency in terms of reporting and business operations; is a certified auditor

<sup>15</sup> GRI GS 405-1 • <sup>16</sup> GRI GS 405-1



<b>Boris Žnidarič</b>	<b>Mojca Osolnik Videmšek</b>	<b>Franc Šašek</b>	<b>Mateja Vrečer</b>	<b>Tomaž Sever</b>
Member	Member	Deputy President	Member	Member
2016	2019	2009	2005	2005
2025	2024	2024	2024	2024
Shareholders	Shareholders	Employees	Employees	Employees
6/6	6/6	6/6	6/6	6/6
Male	Female	Male	Female	Male
Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
1948	1966	1967	1966	1967
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
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
4/4	6/6	6/6	4/4	4/4
University lecturer in social sciences with many years of leadership experience in an international insurance company, primarily in human resource management and talent attraction and retention	Leadership experience in banking, risk management, compliance, and corporate governance support	Active in the field of employee inclusion and participation in management for many years (President of Krka's Works Council)	Experience in the field of quality (head of quality management at Krka); elected to the Supervisory Board as an employee representative	Leadership and organisational experience in the field of responsible sales (Deputy Director of Sales at Krka); elected to the Supervisory Board as an employee representative

## Composition of the Management Board as at 31 December 2021<sup>16</sup>

<b>Name and surname</b>	<b>Jože Colarič</b>	<b>Aleš Rotar</b>	<b>Vinko Zupančič</b>	<b>David Bratož</b>	<b>Milena Kastelic</b>
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 the works council, certain administrative services	Acts as a workers' representative and represents their interests in human resource and social issues
First appointment to the Management Board	1997	2001	2010	2016	2016
Duration of current term of office	Until the end of 2021, followed by a new six-year term of office for all current members				
Gender	Male	Male	Male	Male	Female
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1955	1960	1971	1976	1968
Education and qualifications	University degree in economics	PhD in pharmaceutical sciences	PhD in pharmaceutical sciences	University degree in economics	University degree in food technology
Membership of supervisory bodies of non-related parties	No	No	No	No	No
ESG competencies	Many years of leadership experience; numerous awards for running a large company; an outstanding reputation as a good businessman; under his leadership, Krka developed into one of the leading international generic pharmaceutical companies	Knowledge of and extensive experience in development and production of quality products for accessible healthcare (managing development, research, pharmaceutical production, new products)	Supply chain management, contributed to uninterrupted supply of medicines in markets and a resilient and flexible vertically integrated business model	Head of the ESG expert team at Krka; contributed to the development of the local community (Krka's societies); contributed to tax and reporting transparency (responsible for the relevant organisational unit)	Effective representation of workers' interests with regard to human resource and social issues as well as health and safety at work
Independence	Yes. Members' independence is assessed upon their appointment. Under the <i>Rules of Procedure of the Management Board</i> , the members must immediately disclose any conflicts of interest. The <i>Rules of Procedure of the Management Board</i> propose measures to manage such conflicts.				

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 2021, Krka's code of reference was the *Slovenian Corporate Governance Code for Listed Companies* (hereinafter: the Code), adopted on 27 October 2016 by the Ljubljana Stock Exchange and the Slovenian Directors' Association. The Code was valid from 1 January 2017 to 31 December 2021 and is available on the Ljubljana Stock Exchange website. On 1 January 2022, a new version of the Code entered into force.

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declare that in 2021 individual members of the Management and Supervisory Boards and the Management and Supervisory Boards as bodies of a listed company acted in compliance with the principles and recommendations of the Code. Some of the recommendations were not implemented in full. However, we have always endeavoured to implement these recommendations and find appropriate ways of doing so. Individual derogations from the Code valid until the end of 2021 are explained below.

In the context of self-assessment, the Supervisory Board can establish an annual training plan for its members and determine indicative training costs. In 2021, no proposal for additional training was made, so the plan was not adopted (Item 13.1 of the Code).

Supervisory Board members themselves evaluate the board's performance by thoroughly following the methods and *Supervisory Board Assessment Manual* prepared by the Slovenian Directors' Association. The evaluation process was carried out professionally and objectively. As there was no need for external professional support in 2021, 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 the most important activities of the bodies. The *Rules of Procedure of the Supervisory Board* state that the shareholder representative is first to assume the duties of the President, and only in the absence of the former does the employee representative assume this role. This ensures we do not deviate significantly from the Code, which

stipulates that only a shareholder representative may act as Deputy President of the Supervisory Board (Item 15.4 of the Code).

In 2021, 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 force at the time) in the 'Corporate Governance Statement' section of the *2021 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 composition and remuneration amounts are almost entirely disclosed in accordance with the recommendations of the Code (Items 5.6 and 29.7). Only for the purposes of year-on-year comparability, the Company discloses them in the same manner as before the Code entered into force, i.e. in the 'Related Party Transactions' section of the financial report. The variable amount of the salaries is always paid in two parts. The first part is paid according to the interim results. 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 suited to the actual needs of the Supervisory Board for monitoring the work of the Management Board, which is related mainly to the biennial renewal 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 Company's Supervisory Board accordingly and obtain the Supervisory Board's consent. This is a partial derogation 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.

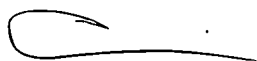
The Company also published the *Rules of Procedure of the Supervisory Board*. In the 2021 'Corporate Governance Statement', Krka disclosed the composition, competences, and other aspects concerning the operation of its bodies, and thereby all essential information on corporate governance. No other operational documents were published in 2021 (Item 29.9 of the *Code*).

According to the *Code* (Item 25.3), a company should replace the external auditor at least once 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. Therefore, the same external auditor will audit Krka's business operations for more than seven years, i.e. ten years, which is the maximum duration of an audit engagement permitted by law. However, the audit firm did replace the audit partner and the coordinator responsible for audit performance in compliance with *International Auditing Standards*.

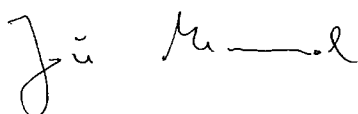
Two members of the Supervisory Board, i.e. employee representatives, could be regarded as members of the expanded management according to certain criteria (Item 11 of the *Code*). This is despite the fact that they cannot independently make decisions regarding allocations of financial resources and employment and cannot fully plan the strategy for their respective work areas.

Krka also complied with more than half of provisions of *Best Practice for GPW Listed Companies 2021*, i.e. the code relating to companies listed on the Warsaw Stock Exchange. The discrepancies are explained in a separate document published in the dissemination system of the Warsaw Stock Exchange.

Novo mesto, 28 March 2022



Jože Colarič  
*President of the Management Board and CEO*



Jože Mermal  
*President of the Supervisory Board*

## 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 'Krka Group Business Model' section and also monitors its own placement in various environments. Further information is available in the 'Risk Management' section.

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 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 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 document *Diversity policy*, which is available to the public, in line with the recommendations of the Slovenian Directors' Association. See also 'Corporate Governance Statement', subsection '2021 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 and Integrity'. In 2021, no cases of corruption were detected or confirmed.

We safeguard the environment and respect environmental regulations, while working in tandem with the local community and beyond. 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 'Natural Environment' section.

As a public limited company with more than 500 employees, Krka is subject to the EU Taxonomy Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment and is committed to complying with all the applicable rules and regulations. We examined the economic activities that qualify as contributing to the environmental objectives set out in the Regulation. Based on our current understanding, available data and assessment of requirements, we believe that none of our key activities belongs to one of the categories defined in the Annexes on EU taxonomy technical screening criteria and substantially contribute to climate change mitigation or adaptation. The Regulation and the issued delegated acts contain references and definitions that are currently still under interpretation and for which adequate explanations have not yet been published. We cannot exclude the possibility that substantial contributions of specific activities to EU taxonomy might be identified in the near future. As this Regulation is subject to further amendments, we will continue to take account of its impact and the reporting obligations it imposes.

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

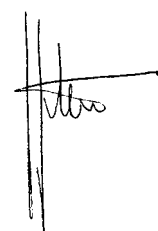
The Krka Group's sustainability culture is an integral part of our current 2022–2026 group development strategy. We want to further integrate sustainability aspects in corporate governance and business decisions, and maintain accountability in terms of economics, society, and nature in all environments where we operate.

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



Jože Colarič

*President of the Management Board and CEO*



Dr Aleš Rotar

*Member of the Management Board*



Dr Vinko Zupančič

*Member of the Management Board*



David Bratož

*Member of the Management Board*



Milena Kastelic

*Member of the Management Board, Worker Director*

# Krka Group Development Strategy<sup>17</sup>

**The current Krka Group development strategy covering the five-year period from 2022 to 2026 was prepared by the Management Board and approved by the Supervisory Board of Krka in November 2021.**

The strategy focuses on maximising added value for the Krka Group and investors and covers all areas of operation within the Krka Group, especially its core pharmaceutical and chemical activities. The strategy views the Krka Group as an international company since it operates through subsidiaries and representative offices abroad and cooperates with partners wherever it is present. It regards all business processes within the Krka Group, from development and production to marketing and sales, including all support processes. The Krka Group updates its development strategy every two years. The next update is planned for autumn 2023.

The development strategy builds on the mission, vision, and values of the Krka Group.<sup>18</sup>

**Living a healthy life.**

Mission

**We are continually consolidating our position as one of the leading generic pharmaceutical companies in the world.**

Vision

- **Speed and flexibility**
- **Partnership and trust**
- **Creativity and efficiency**

Values

<sup>17</sup> GRI GS 103-1, 103-2, 103-3 • <sup>18</sup> GRI GS 102-16

The development strategy is based on an in-depth analysis of Krka's position in the global generic pharmaceutical industry. The strategy outlines the originator and generic pharmaceutical industry characteristics, growth projections for the generic market, and Krka's position in the international generic pharmaceutical industry. These aspects were considered in identifying possibilities and opportunities for further development and independent existence in the future.

In addition to these starting points, the strategy comprises three different sections: 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. It also includes a draft development, financial, and investment business plan.

The strategy also considers risk management, which is incorporated in 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 to promptly identify and manage factors that could derail the objectives defined in the development strategy. Every time the strategy is updated, the *Risk Register* is updated as well. Further information on risks is available in the 'Risk Management' section.

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

Strategic objective success is measured against performance criteria established 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 efficient management of all partnerships in the value-added chain.

## Four categories of 2022–2026 strategic objectives



### Product groups



### Marketing and sales



### Financial operations



### ESG

We use performance criteria to assess the attainment of strategic objectives at three levels, i.e. the Krka Group, product and service group, and business function.

## 2022–2026 Krka Group Development Strategy



### Business growth and expansion

- Above-average organic growth
- New products and therapeutic areas
- New markets and regions
- Growth through acquisitions and long-term partnerships



### Research and development

- 10% of revenue for R&D
- Adding new products to the portfolio
- Increasing the share of vertically integrated products

#### Expanded medicine portfolio

- **Key therapeutic areas:** cardiovascular diseases, central nervous system, gastrointestinal tract, pain relief
- **Innovative complex generic medicines:** combination medicines, new strengths, new dosage forms, new delivery systems
- **New therapeutic categories and specialities:** agents for treating diabetes and autoimmune diseases, complex peptides and biosimilars
- Adding new products to non-prescription and animal health portfolios



### Market focus and sales potential leveraging

- Strengthening our position in markets of Regions Slovenia, East, Central, and South-East Europe
- Increasing visibility in Region West Europe
- Increasing presence in Region Overseas Markets, i.e. in south-eastern Asia and China
- Pursuing efficient registration procedures
- Launching products in selected markets quickly
- Driving Krka brand sales



### Quality

#### Continuous improvement of the integrated management and quality system

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



## Minimum 5% average annual sales growth in volume or value

### Stable dividend policy

- At least 50% of net profit attributable to majority equity holders
- Investments and acquisitions in consideration of options

### Streamlined development-and-production chain

- Strengthening and optimising the vertically integrated business model
  - Pursuing long-term product profitability
- Providing sufficient product quantities to meet market demands
  - Achieving EBITDA margin > 25%



### Sustainability

- Enhancing sustainability management and fostering sustainability culture
- Integrating sustainability in corporate governance and business decisions
- Increasing positive sustainability impact and offsetting negative environmental impact
- Reporting transparently



### Digitalisation

- Effective roll out of information technologies
- Ready availability and high-level information security of implemented IT solutions
- Automation and optimisation of processes and procedures
- Supporting the supply chain and business decision-making



## Key Strategic Objectives of the Krka Group up to 2026

- To attain at least 5% average annual sales growth in terms of volume/value, achieve above-average sales growth against market dynamics, and remain or rank among the leading generic pharmaceutical companies with our brands in individual markets and selected therapeutic categories.
- To strengthen and optimise the vertically integrated business model, proven to be an effective strategic guideline and a comparative advantage. To ensure high standards of product quality, safety, and efficacy.
- To keep the focus on maximising the long-term profitability of the products sold from development and production to sales of finished products, including all other functions within the Krka Group, and to achieve an average EBITDA margin of at least 25%.
- 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 enter new therapeutic categories and specialities as an innovative generic pharmaceutical company and develop complex products, including biosimilars.
- To ensure growth through long-term partnerships and targeted acquisitions in addition to organic growth. The primary goal is to increase sales by entering new markets and adding new products.
- To allocate 10% of revenue to research and development and an approximate amount of calculated amortisation, i.e. €110 million annually on average, to investments.
- 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.
- To upgrade the Krka Group's sustainability culture, integrate sustainability aspects into corporate governance and business decisions, and maintain our economic, social and environmental responsibility to the environments in which we operate. To disclose sustainability topics in accordance with the GRI standards in 2022 and obtain an ESG rating in 2023.
- To exploit digitalisation potentials in all business phases.
- To maintain independence.



## Key Strategic Guidelines of the Krka Group up to 2026

### Markets

- To consolidate and strengthen our presence in our traditional markets of Regions East Europe, South-East Europe, Central Europe, and Slovenia and bolster our presence in the Region West Europe and in Asian markets.
- To maximise sales potential in all six sales regions and to focus primarily on key markets (the Russian Federation, Poland, Ukraine, Germany, Slovenia, Romania, Hungary, the Czech Republic, Slovakia, and Croatia), key customers, and key products.
- To strengthen our position as one of the five leading generic pharmaceutical companies in all our traditional markets, which involves strengthening our sales and market shares, especially in therapeutic categories and molecules with a traditionally strong Krka's presence (cardiovascular system, central nervous system, gastrointestinal tract, and pain relief), and in categories with a high growth potential (diabetes and oncology).
- To enhance the visibility of Krka (Krka and TAD brands) and our market position in markets of the Region West Europe through our subsidiaries and unrelated partners and to strengthen our position as one of the ten leading generic pharmaceutical companies in all western European markets.
- To market our products under our brand names in the Region Overseas Markets through partnerships with unrelated parties and through our companies. To continue product registration and sales activities and win tenders in China through direct presence in the market.

### Products

- To enter the segment for complex generic products. To introduce innovative products in key therapeutic areas, namely combinations, new strengths, dosage forms, and delivery systems. To expand the range of sterile dosage forms.
- To assess specific projects on biosimilars with strategic partners in European markets and to assume a central role in regulatory affairs, sales and marketing of these projects. To prioritise therapeutic areas of diabetes and diseases of the immune system.
- To extend the range of non-prescription products not affected by seasonal demand. To supplement the portfolio with products that complement key therapeutic areas as regards prescription pharmaceuticals. To focus on markets of Regions East Europe, Slovenia, and South-East Europe.
- To focus on companion animal products – the most promising segment in animal health – accounting for more than 60% of animal health sales. To extend the range of antiparasitics and pain relief medicines with dermatologicals and cardiovascular agents. To maintain the range of products for farm animals. To focus on our key markets and all markets in Region West Europe and to assess entry to the US market.



### Development and manufacture of products and quality

- To strengthen cost-effective vertical integration, from product development, through production and to sales.
- To develop generic medicines and prepare relevant registration documents before data protection expires and obtain marketing authorisations before the product patent or marketing protection expires to be one of the first generic entrants.
- To ensure cost competitiveness and manage further sales growth of established products under lifecycle management principles while taking into account new regulatory requirements on safety and quality of medicines and obtaining additional marketing authorisations for new markets.
- To manage the development and production of vertically integrated active ingredients manufactured at Krka and our contractual partners using our own technological processes and provide sufficient quantities of high-quality and cost-competitive active ingredients to be incorporated in our finished products.

### Investments and financial stability

- To invest in production, development, and infrastructure facilities in a stable and optimal manner.
- To actively seek opportunities for further sales growth by entering new markets and increasing market shares in selected existing markets through acquisitions of pharmaceutical companies, products and technologies, and long-term partnerships.
- To reduce the impact of financial risks on the Krka Group operations, especially credit and currency risks.
- To ensure transparent reporting and provide up-to-date information to investors and financial community and improve the visibility of Krka's business model, strategic guidelines and financial results to enhance the appeal of Krka share to shareholders and investors.

### Digitalisation of operations

- To further pursue digitalisation of business operations, manage information technology efficiently and in compliance with regulatory standards, and ensure high availability and information security of the implemented IT solutions.

### International group accountable to its business environment

- To strengthen professional and cost synergies within the Krka Group and maximise the utilisation of competitive advantages in the business environments of Krka subsidiaries abroad.
- To ensure personnel are appropriately qualified by providing continuous training to employees throughout their careers at Krka.
- To strengthen internationalisation within the Krka Group by managing employee potential in an international environment and ensure the activation of all human resource potentials to attain strategic and operational goals of the Group.
- To effectively identify and manage sustainability risks and opportunities to strengthen Krka's competitive advantages and maintain its long-term ability to achieve strategic goals and create value for stakeholders.
- To enhance the visibility and positive image of the Krka Group with all stakeholders.
- To ensure high levels of business ethics, integrity, transparency, and corporate and business compliance.





## Objectives by Markets

- To strengthen the reputable and well-known Krka brand in Krka's traditional markets (Regions Slovenia, South-East Europe, Central Europe, and East Europe) among general practitioners, selected specialists and pharmacists, and to continue to market the majority of products under our own brand names. To build reputation and recognition among target groups of specialists, to whom medicines from new therapeutic areas will be presented.
- To strengthen the recognition of Krka (Krka and TAD brands) as well as its market position in the Region West 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 the Region Overseas Markets.



## Product and Service Portfolio

### Prescription pharmaceuticals

- To retain cardiovascular diseases, the central nervous system, the gastrointestinal tract, and pain relief as the key therapeutic areas. To add diabetes to our key therapeutic areas.
- To introduce innovative products, in addition to generic products, in the market of leading medicines (innovative combinations, new strengths, dosage forms, and delivery systems) in the key therapeutic areas.
- To supplement the range of (double or triple) combinations for the treatment of high blood pressure, heart failure, and pain relief.
- To supplement the portfolio of medicines for antiaggregant and anticoagulant therapy and oncology medicines with new products.
- To continue entering into the therapeutic area of autoimmune diseases. To launch the first medicines for the treatment of multiple sclerosis and assess possible entry into the therapeutic areas of rheumatic diseases and diseases of the alimentary tract.
- To provide a wide range of medicines from other therapeutic areas with our products or products of unrelated partners (third parties).
- To expand our portfolio of medicines by entering the segments of complex peptides and biosimilars.
- To launch products from new therapeutic areas in several Krka markets.

- To provide key sales products through the vertically integrated business model.
- To ensure cost competitiveness and profitability of key sales products by optimising formulations and technological procedures and manufacturing products cost-effectively. To ensure formulation and procedure optimisation and cost competitiveness of new products from the launching phase.
- 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 high sales potential and several medicines with less considerable sales potential every year.
- To launch at least one medicine with high sales potential on each key market every year.

#### **Non-prescription products**

- To retain medicines for pain relief, products for the gastrointestinal tract and metabolism, cough and cold remedies, and vasoprotectives as our key therapeutic areas.
- To supplement the umbrella brands of medicines for pain relief, cough and cold remedies, and vasoprotectives with products with new ingredients and dosage forms.
- To supplement our portfolio with products related to key therapeutic areas of prescription pharmaceuticals, with products that can be switched from prescription to non-prescription status (synergy in promotion), and products from other or new categories with marketing potential.
- To search for new products of unrelated partners (third parties), which are promising and have appropriate economic value.
- To focus on markets in sales regions East Europe, Slovenia, and South-East Europe.

#### **Animal health products**

- To retain products for companion animals (antiparasitics and medicines for pain relief) as our key therapeutic area.
- To supplement the product range for companion animals with dermatologicals and medicines for the treatment of cardiovascular diseases.
- To expand the product range for companion animals with new combinations, dosage forms, and technologies.
- To maintain the existing range of products for farm animals.
- To focus on markets in Region West Europe and selected traditional markets and consider possible entry into new markets.

#### **Health resorts and tourist services**

- To deliver at least 3% average revenue growth per year and increased profitability.
- To ensure that foreign visitors account for one-third of total visitors.
- To retain the leading market share among Slovenian natural health resorts in healthcare services.



## Delivering on Krka Group Objectives in 2021

- In 2021, the Krka Group sales revenue amounted to €1,565.8 million (of which revenue from contracts with customers on sales of products and services reached €1,560.3 million, while revenue from contracts with customers on sales of materials and other sales revenue constituted the difference), up 2% on 2020 and 2% more than planned.
- Regional dispersion of sales among Regions Slovenia, East Europe, West Europe, Central Europe, South-East Europe, and Overseas Markets is good. The largest sales region was Region East Europe. The Russian Federation remained the largest individual market.
- The proportion of sales in markets outside Slovenia amounted to 94% as planned.
- Prescription pharmaceuticals were the most important product group in terms of sales, accounting for 84% of total sales, which is in line with our plans.
- Net profit of €308.2 million was higher than planned.
- The number of the Krka Group employees was 1% lower than at the end of 2020.



## Krka Group Business Objectives for 2022

- Sales of products and services are expected to reach €1.610 billion.
- The proportion of sales in markets outside Slovenia is estimated at 94%.
- Prescription pharmaceuticals are set to remain the most important product group, composing 84% of overall sales.
- Profit is planned at approximately €300 million.
- The total number of employees in Slovenia and abroad is projected to increase by 2%.
- We plan to allocate €130 million to investments, primarily for expanding and modernising production facilities and infrastructure.



## Sustainability Management of the Krka Group

We have introduced sustainability criteria in the management of the Krka Group to contribute to its improved business performance in the 2022–2026 strategic period. We aim to make progress and increase the value of the Krka Group as a whole through a comprehensive sustainability management process.

At the beginning of 2021, the Member of the Management Board David Bratož was designated as the responsible person for sustainability and integration of the ESG system into business, and Finance as the dedicated body to integrate ESG topics into the strategy. Its tasks will be transferred to a new body, which will address ESG aspects at the Group level and operate under the umbrella ESG policy. An interdisciplinary sustainability project team has also started on its work. At strategic meetings, management teams of all organisational units discussed the sustainable management model.

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

### Materiality Assessment<sup>19</sup>

The interdisciplinary sustainability project team conducted a comprehensive process of updating the list of our stakeholders and identifying material ESG topics of the Krka Group. Following a resolution, the Management Board approved the identified topics. Their boundaries were verified in structured discussions with representatives of key stakeholder groups, where we examined their understanding, assessment, and expected disclosures. The outcomes will help us to improve the system.

### Key Stakeholders

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

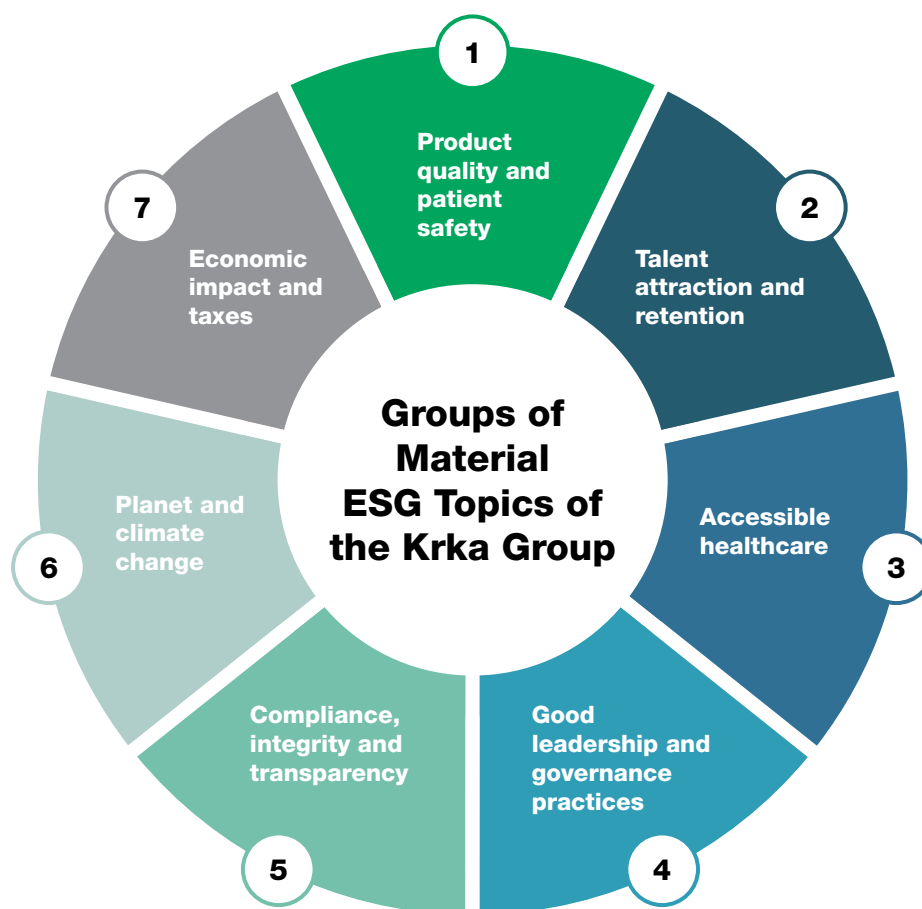
<sup>19</sup> GRI GS 102-46



## Material ESG Topics

We identified material ESG topics and divided them into seven groups, which we will regularly verify and update. We considered the interests and expectations of key stakeholders about the industry and the Krka Group, regulatory requirements, requirements of professional guidelines and standards, media analyses, future risks, and opportunities related to the environment, society and governance.

We used the collected information as the basis for a double materiality matrix, presented in more detail in the 'Sustainable Development' section.



# 2022 Macroeconomic Forecast

## Dispersed international operations and a vertically integrated business model ensure stable performance of the Krka Group despite different macroeconomic situations in individual key markets.

In 2020, following several consecutive years of favourable macroeconomic trends, economic activity slowed due to pandemic-related restrictions. The economy recovered in 2021. In 2020, governments and central banks passed measures to stimulate economic growth and mitigate the negative impact of the pandemic. This continued in 2021 and is expected to continue in 2022. Inflation increased rapidly in 2021. Its acceleration surpassed expectations and reached the highest levels in the last ten years.

Inflation is projected to start easing in 2022. Following increased volatility of exchange rates and uncertainty in the financial markets in 2020, the macroeconomic situation stabilised in 2021. Due to the situation in Ukraine and the Russian Federation, the volatility of exchange rates is expected to increase in 2022. Measures to limit the spread of the pandemic and stimulus measures to aid economies of individual countries adopted throughout 2021 were disproportionate.

Amid the resumption of economic activity and improvement of macroeconomic trends in 2021, expectations for the upcoming years are moderately optimistic. Forecasts of the European Commission and international banks indicate that the macroeconomic situation in our sales markets should improve in 2022. However, the 2022 macroeconomic forecasts for our target markets are more encouraging, because they were prepared before the outbreak of the complex situation between Ukraine and the Russian Federation that started in February 2022 and could affect business situation in certain countries of the Region East Europe and also elsewhere.

## 2022 Macroeconomic Forecasts

Country	Pharmaceuticals market growth (%)	Projected value of pharmaceutical market at wholesale prices (million)	FX rate (currency/€)
Slovenia	7	€850	Eurozone
Croatia	8	€1,500	7.5
Romania	7	€4,500	5.0
Poland	4	€6,900	4.6
Hungary	4	€2,940	365
Czech Republic	6	€3,200	25.5
Slovakia	5	€1,550	Eurozone
Western Europe	3	€263,000	Primarily Eurozone
China	4–7	\$150,000	7.4

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

## Slovenia

With the removal of most restrictions, Slovenia's economy grew substantially by 6.9% in the first half of 2021 compared to the same period in 2020, exceeding pre-pandemic levels of 2019. All supply and demand components also increased compared to 2020. Strong economic growth is expected to continue in the remainder of 2022 and 2023 mainly due to consumption and investment growth. The economy is expected to continue growing strongly in 2022 and 2023, by 3.8% and 3.6%, respectively. High public expenditure is projected to hinder a stronger improvement in public finances. Public consumption growth is forecast to be moderate. However, public investments are expected to grow rapidly thanks to the availability of European Structural Funds and the Recovery and Resilience Facility financing. Inflation in 2021 was 4.9%. It is projected to exceed 2% in 2022 before stabilising under 2% in the following years. The general government deficit in 2021 was 7.2% of GDP. Negative impacts of the pandemic on unemployment were short-lived due to measures to support economic activity. Unemployment increased in 2020 and decreased to 4.6% in 2021. Unemployment is projected to decline in 2022 and 2023, reaching 4.5% in 2022 and settling at 4.4% in 2023. Labour shortages are poised to become a limiting factor to the economic growth over the forecast horizon. In 2021, public debt decreased to 77.7% of GDP. It is projected to further decrease to 76% of GDP by 2023.

In 2022, we estimate the sales value of pharmaceuticals at €850 million, or 7% more compared to 2021.

## Croatia

Recovery of Croatia's economy in 2021 was supported by strong consumption and a better-than-expected performance of the tourism sector. GDP growth reached 10.5% in 2021. Robust household consumption supported by favourable labour market developments, high accumulated household savings, and growth in consumer loans should be the main engine of growth also in 2022. Additional new investments are likely to contribute to growth in the upcoming years. In 2022, GDP is forecast to grow by 4.8%, followed by 3% in 2023. Inflation rose to 2.7% in 2021, mainly due to a surge in energy and food prices. Inflation in 2022 is forecast at 3.5%. It is expected to stabilise in the upcoming years and fall under 2% in 2023. Favourable economic developments spilled over to the labour market, which experienced strong recovery after 2020. In 2021, unemployment declined to 6.7%. It is expected to further drop to 6.2% in 2022 and 5.8% in 2023. The general government deficit, which increased in 2020, narrowed to 4.1% of GDP in 2021. This trend

is expected to continue in the upcoming years. Public debt is set to gradually decrease from 82.3% of GDP in 2021 to 77.9% in 2023. Croatia entering the Schengen Area and adopting the euro could benefit the country's economy. Conversely, low vaccination rates, which could lead to stricter containment measures, may compromise economic growth.

We expect the value of the Croatian pharmaceutical market to grow by 8% in 2022 compared to the previous year, to approximately €1.5 billion.

## Romania

After a strong rebound in the first half of 2021, Romania's GDP is set to reach its pre-pandemic levels before the end of the year with economic growth at 6.3%. Going forward, growth is expected to remain robust in 2022 and 2023 at 4.2% and 4.5%, respectively. It is set to be propelled by strong consumption and growing investments. Export growth is set to be less dynamic than that of imports due to supply-side bottlenecks, especially in the automotive industry. Problems in forming a new government could delay public investments, compromising economic growth. In the upcoming years, unemployment rates are set to gradually drop to under 5% due to economic growth. Inflation increased year-on-year to 4.1% in 2021, largely on account of the increase in energy prices. It is projected to reach 5.3% in 2022. As the price shocks are expected to gradually phase out over the forecast horizon, inflation is set to reach 2.5% in 2023. Romania's general government deficit decreased to 8% of GDP in 2021. It is expected to gradually fall in the upcoming years and reach 6.3% of GDP in 2023. The general government debt rose to 49.3% of GDP in 2021. It is expected to further increase to 53.2% of GDP in 2023. Risks to public finances are broadly balanced, while in the short-term the risk of a delayed budget, and the risk of more waves of infection due to low vaccination rates and further restraining measures loom.

We expect the value of the Romanian pharmaceutical market to grow by 7% in 2022 compared to 2021, reaching €4.5 billion.

## Russian Federation

In 2021, the economic growth was the highest in the past ten years and reached 4.7%. Imposing strict sanctions at the beginning of 2022 will heavily burden economic activity. Credit crunch and falls in consumer and investment spending are expected due to a sharp rise in key interest rates. At the same time, strong energy exports at elevated prices of oil and gas are expected to generate large current account surplus, which will importantly contribute to economic growth, as long as energy exports are not included in imposed sanctions. In this case, economic activities are expected to shrink by 3 to 5% in 2022. As value of the national currency is falling, inflation should get a significant momentum.

Economic sanctions, volatility and depreciation of the Russian rouble represent key short-term risks. In the mid-term, economic sanctions could make business activities in the Russian Federation more difficult, cause additional currency and credit risks, inflation, a decrease in standard of living, and of purchasing power.

## Ukraine

After the recession in 2020, the Ukrainian economy increased by 3%. Because of the events that started at the end of February, a deep recession is expected in 2022. Macroeconomic outlook is highly uncertain. A sharp drop in domestic demand is expected, as well as a pronounced decrease in imports. Export is also expected to drop due to disrupted logistics and manufacturing capacity, and closed air and seaports. Economic activity is expected to fall by at least 10% in 2022, which is comparable to the 2015 decline, assuming the conflict is resolved quickly and substantial donor support. A long-term conflict would significantly deteriorate macroeconomic outlook. In that case, the economic contraction would be much higher, between 25 to 35%.

Key short-term risk comprises security of the country, geopolitical instability, and credit risk.

## Poland

The Polish economy rebounded strongly in the first half of 2021, reaching pre-pandemic levels of GDP in the second quarter of the year. Record low unemployment levels and increased consumption have driven economic activity, which rose by 5.7%. Economic growth is expected to remain strong in 2022 and 2023, mainly due to investment growth, changes in the personal income tax, and increasing household incomes, despite supply chain disruptions and rising costs of raw material. Private sector investments are set to grow on the back of a favourable financial position of companies and low borrowing costs. Economic growth is projected at 5.5% and 4.2% in 2022 and 2023, respectively. Rising energy prices and unit labour costs put upward pressure on inflation. It reached 5.2% in 2021 and is expected to accelerate to 6.8% in 2022. However, inflation is expected to slow in the upcoming years, to 3.8% in 2023. General government deficit declined to 3.3% of GDP in 2021. This is driven by substantial increase in fiscal revenue, in particular taxes and social contributions, mainly due to the economic recovery and favourable labour market developments. Further decrease of public deficit to around 2% of GDP is expected in 2022 and 2023. In 2021, public debt represented 54.7% of GDP. It is expected to decline to less than 50% of GDP by 2023.

Given the anticipated 4% growth, the value of the Polish pharmaceutical market is estimated at approximately €6.9 billion.

## Hungary

Hungary's GDP expanded by 6.5% in 2021, driven by fiscal stimulus offsetting external headwinds. Global supply chain disruptions dampened GDP growth in 2021. Despite projections that this trend will continue in 2022, economic growth is expected at 5%. Growth is expected to slow to 3.2% in 2023 as policy support is gradually withdrawn. High consumer confidence is driven by government support measures, which also stimulate household income gains. Household consumption is forecast to accelerate. Public investment is also expected to grow in the upcoming years. Rising prices of raw materials and wage pressures hike up production costs and inflation. In 2021, inflation peaked at 5.2%. It is set to rise further to 5.4% in 2022, then gradually drop to 3.6% in 2023. Unemployment fell to 4.1% in 2021. It is expected to further decrease, reaching 3.1% in 2022 and 2.9% in 2023. Despite strong economic rebound, general government deficit and debt are projected to decline only gradually. Large fiscal expenditure contributed to public deficit at 7.5% of GDP in 2021. The additional fiscal



space generated by a robust growth in revenues is set to be utilised for new expansionary measures addressed to various social groups. Public deficit of 5.7% of GDP is expected in 2022. In 2021, public debt dropped to 79.2% of GDP. Public debt is set to further decrease in the upcoming years.

We expect the Hungarian pharmaceutical market to grow by 4% in 2022, reaching €2.9 billion.

## Czech Republic

Following the decline of economic activity in 2020 caused by supply-chain disruptions, GDP rose by 3.3% in 2021. Economic activity is forecast to accelerate in early 2022, driven by both domestic and foreign demand as well as investments, including public. The Czech economy is set to reach its pre-pandemic level in the second half of 2022. Starting from 2022, investments will be additionally supported by the Recovery and Resilience Facility. Economic growth is projected at 4.4% and 3.9% in 2022 and 2023, respectively. Inflation rose to 3.3% in 2021 due to a combination of rising energy prices, supply-side bottlenecks and robust demand. It is estimated to rise to 5.8% in 2022 and gradually drop down to 2.2% in 2023. The unemployment rate was 2.7% in 2021. It is set to decrease further in the following years, reaching 2.6% in 2022 and 2.4% in 2023. The government deficit rose to 7% in 2021 due to wide fiscal stimulus to mitigate the negative impact of the pandemic. It is set to decline to 4.3% of GDP in 2022, mainly due to withdrawn support measures, but is projected to stay well above the levels before the start of the pandemic. Public debt rose to 42.4% of GDP in 2021 and is projected to further increase in the upcoming years. Public debt is expected to reach 46.3% of GDP in 2023. It remains low compared to other EU Member States.

The Czech pharmaceutical market is expected to grow by 6% and its value to reach approximately €3.2 billion.

## Slovakia

In 2021, Slovakia's economy recovered from the 2020 recession. GDP growth was recorded at 3%. However, supply-chain disruptions and resurging COVID-19 infections are expected to slow the recovery in the short term. Accelerated growth is forecast from 2022 onwards, also boosted by Recovery and Resilience Facility-financed public investments. Economic activity is forecast to rise to 5% in 2022. Strong GDP growth is expected to continue in 2023, reaching 5.1%. Similarly to 2021, inflation is forecast to rise also in 2022 due to a combination of supply-side bottlenecks and robust demand. In 2021, inflation was recorded at 2.8%. It is projected to climb to 6.4% in 2022. Inflationary pressures are projected to stabilise in 2023 and inflation is set to drop to 2.4%. Unemployment increased somewhat in 2021 to 6.8%. It is set to decrease further in the following years, reaching 6.4% in 2022 and 5.6% in 2023. Fiscal support is set to weaken as from 2022, and the public deficit is projected to decrease, due to accelerated economic growth, from 7.3% of GDP in 2021 to 4.2% of GDP in 2022. Public debt edged up to 61.8% of GDP in 2021. It is projected to start declining in the upcoming years and stabilise at 60% of GDP.

We expect the Slovakian pharmaceutical market to grow by 5%, to approximately €1.6 billion.

## Western Europe

Following a decline in 2020, economic activity increased in 2021 and GDP growth amounted to 5.1%. The momentum gained in the first half of 2021 was slowed in the second half of the year due to supply chain disruptions that constrained production recovery. Gradual improvements in supply chain conditions are expected in 2022. Resurging COVID-19 infections followed by country shutdowns and eroding household purchasing power caused by increased energy prices pose an additional risk to economic growth. The retreat of COVID-19 is expected in spring, while the pressure on healthcare and hospitals is projected to endure longer. GDP growth of 3.5% and 3% is projected in 2022 and 2023, respectively. Varying price pressures, including rising prices of energy, basic goods and commodities, services and food have pushed inflation to 2.6% in 2021. These pressures are expected to persist throughout 2022, and in particular in the first half of the year, hindering economic growth. Inflation is forecast to reach 3.8% in 2022. In 2023, it is expected to fall to 1.6% due to the projected low private consumption. In 2021, the unemployment rate was 7.7%. It is expected to further decrease in the upcoming years. Public deficit was under pressure at 6.9% of GDP due to increased fiscal expenditure in 2021. However, it is projected to improve in 2022 and settle at around 4.8% of GDP. If necessary, the government will continue to support the economy within the scope of fiscal policy in 2022. In 2021, public debt was 100% of GDP. It is expected to decrease in the upcoming years and drop to 97.8% of GDP by 2023.

We expect the value of the Western European pharmaceutical market to grow by 3% in 2022, reaching €263 billion.

## China

China's economy seems to be slowing, burdened mainly by ongoing turmoil in the property sector, which is set to hinder growth in the upcoming years. China's economic growth was estimated at 8.1% in 2021. Stronger measures for stimulating economic growth are expected, but contrary to those adopted in the past, these will no longer include real estate sector incentives. China's policy focus recently shifted towards tighter managing of corporate indebtedness, in particular in the property sector, and delivering on ambitious climate change targets. The government is likely to increase support for infrastructure investments, in particular projects for reducing the carbon footprint. Consumption growth is likely to remain affected by increasing unemployment. GDP growth is expected to moderate to 4.7% and 4.8% in 2022 and 2023, respectively. Stable public deficit at around 3% of GDP is forecast in the coming years. Inflation was 1.8% in 2021. It is expected to climb to 2.8% in 2022 and drop to 2.2% in 2023. Public debt is expected to increase from 91% of GDP in 2021 to 95% of GDP in 2022 and 97% of GDP in 2023. Export growth is set to slow down in 2022, as global consumer trends seem to be shifting from goods to services consumption. Ongoing disruptions in the domestic property sector, possible energy crisis, supply chain risks, and geopolitical tensions all constitute risks to economic growth.

We estimate the value of the Chinese pharmaceutical market at approximately \$150 billion of which the generic market accounts for approximately 65%. Growth in the upcoming years is forecast at 4–7%.

# 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.**

During each business results analysis, the Audit Committee and the Supervisory Board are briefed about the operational and financial risk management. Their risk management work is described in the '2021 Supervisory Board Report' section. The Krka Group monitors its exposure to various forms of risk on a daily basis and adopts measures to manage those risks.

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

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

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 controlling company guidelines. We apply over 2700 standard operating procedures relating to quality systems and other bye-laws and instructions that determine the 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 timely identify and manage 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* drawn up by Slovenian Sovereign Holding. The Management Board adopts the *Integrity Plan*, reviews it annually, and updates it if necessary. To manage risks, we also apply guidelines from the *Business Continuity Strategy*, Information Security Management System (ISMS), principles of Good Manufacturing Practice (GMP), requirements of the ISO 14001 standard, and guidelines relating to the integration of quality management in all business processes. Sustainability risks or ESG (Environment, Social, Governance) risks are managed as part of various risks and are included in their risk management processes.

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

likelihood of it occurring at the same time, whereby the impact of control activities has already been taken into account. Preliminary risk assessments in the 'Operational risks and business continuity' table were made in the previous version of the *Risk Register*.

## Risk Management Process



\* ESG risks are included in the *Risk Register*



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

BUSINESS RISKS				
Risk area	Risk description	Control activities	Preliminary risk assessment	Latest risk assessment
Research and development	Ineffectiveness of development processes; inadequacy of regulatory procedures and supply of new products	Detailed planning of development projects and management of regulatory processes	Moderate	Moderate
Marketing and sales	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	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	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 the 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	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	Moderate
Investment projects	Poor decisions on investing in production and other capacities, and implementation of investments	Constant supervision of all project phases, plan monitoring, systematic selection of contractors	Moderate	Moderate
Human resources	Issues with providing key and qualified personnel (recruiting and retaining) and social dialogue with employees	Systematic work with key personnel, remuneration system, employee development, continuous education and training, measuring of the organisational culture and climate	Moderate	Moderate
Legal matters	Inadequate legal regulation of business relations and non-compliance with or incorrect interpretation of legislation, issues arising from potential court and other legal proceedings, especially disputes	Involving Legal Affairs department in key areas, cooperation with external specialised legal experts	Moderate	Moderate

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

## Operational Risks and Business Continuity

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

Major emergencies 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. As a result of these activities, the Business Continuity Officer prepares *Business Impact Analysis*, *Risk Assessment*, and *Business Continuity Management Strategy* together with the persons involved in critical processes. The documents are discussed and adopted by Krka's Management Board. The documents are renewed at least every five years or with each major technological and/or organisational change, the emergence of new threats or an increase of existing ones.

We apply effective measures to protect employees, property, and other key resources and prevent emergencies. We have designed action plans, and disaster relief measures for emergencies, measures for mitigating direct damage, and emergency operations plans until normal operations can be restored. Based on the *Business Continuity Management Strategy*, we prepare business continuity plans for each critical process or service. In agreement with Business Continuity Officer, we appoint persons responsible for critical processes to prepare and maintain these plans. The plans are approved by critical process or critical service managers and the Business Continuity Officer.

Adequacy of plans is reviewed at least once a year and harmonised with the business continuity policy and strategy. Exercises and training are the key part of testing the implementation of individual business continuity measures. The Quality Committee discusses the adequacy of the implementation of these plans annually. In 2020, Krka's Management Board also included measures in the event of a pandemic into the *Business Continuity Management Strategy*. A pandemic could pose risks in various areas, resulting in, e.g. supply chain disruption, increased employee absences, and outsourcing-related issues. By identifying and implementing appropriate preventive and other measures, we ensure that critical resources are adequately available to ensure the production and sales of key products.

### Risks Related to Supply of APIs and Finished Products

We continuously monitor the supply market, suppliers, and prices of production materials to ensure the required quantities in line with annual and monthly production plans and in accordance with the standard operating procedure (SOP). We carefully plan our inventories and maintain contingency stocks to ensure uninterrupted access to production materials required for manufacturing finished products. We apply adopted criteria to assess and select our suppliers and regularly audit them in accordance with both relevant SOPs. Twice a year, the Quality Committee discusses the findings of past audits, indicators, supplier risk assessment, and the audit plan for the next period. A regular supplier audit is conducted every three years. In the case of emergencies and deviations, a risk assessment and an audit is conducted immediately. In addition to regulatory compliance, guaranteed quality, and environmental protection, we primarily focus on price competitiveness and supply reliability when selecting our contractual partners. Selection and evaluation of a contractual partner for the manufacture of finished products as well as the implementation and management are also regulated by a relevant SOP. SOPs are part of the quality system described in 'Quality Management Risks' section. Further information on performed audits and regular controls are available in the subsection 'Inspections and Audits of the Management and Quality System' of the 'Integrated Management System and Quality' section.

We ensure the punctual supply of finished products by monitoring every product supply phase. Production 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 production 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 that production equipment operates reliably and to a high standard through regular and preventive maintenance. In 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. Our production material and finished product warehousing system allow us to keep goods at several standalone warehouses when handling major emergencies. We organise the transport of production materials and products using our own vehicles and those of our selected partners. All vehicles are equipped so as to ensure appropriate transport conditions and safety.

## 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.

To provide an uninterrupted electricity supply, we have put in place a back-up 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, of which we keep extra stocks.

As part of the *Business Continuity Management Strategy* and the *Business Continuity Plan* for 2021 in terms of risks and opportunities as a result of climate change, we identified a potential risk of insufficient supply of drinking water for production purposes. At the central production site in Novo mesto, Slovenia, where the vast majority of all Krka Group's products are manufactured, the short-term, medium-term, and long-term water supply is adequate and the risk low thanks to public infrastructure upgrades in 2020. In the case of loss of water supply from the main source due to force majeure, it is possible to connect to an alternative water source from the public infrastructure. We did not identify any other risks and opportunities due to climate change.

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 intervene swiftly in the event of a failure. The team uses a central control system to issue

alerts rapidly and detect faults. It also keeps inventories of spare parts. Non-critical equipment is dispersed to ensure that a single breakdown does not significantly impact production capacities. All air-conditioning and power supply systems in server rooms are duplicated, have technical security systems in place, and are regularly tested for potential breakdowns.

We mitigate risks related to the reliability and availability of technical systems 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 the monitoring and measuring 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 (ISMS). The ISMS is a separate business process within Krka's quality system. The Company's Management Board appointed the Information Security Officer to lead the ISMS process, which includes key organisational units and business processes in the controlling company. In 2021, we started to overhaul the ISMS in all Krka Group subsidiaries. We plan to complete the overhaul in 2022. Each quarter, the Information Security Officer reports to David Bratož, a Management Board member, on the ISMS. Further information on the ISMS is available in the 'Integrated Management System and Quality' section. A comprehensive report on the Krka Group information security is discussed annually by the Information Technology Committee.

Krka specifies the criticality of information resources (information systems and services) using annual criticality assessments of business processes and information resources to implement the business process. All information systems, including infrastructure systems, refer to the criticality level of business services. Given the criticality in planning, construction, and use of information

systems, we implement all relevant information and cyber security elements.

We have identified threats and risks regarding resource availability, confidentiality, and integrity for all critical information resources (information systems, equipment, premises, and employees using the information systems). Risk assessments by individual processes are reviewed and approved by directors or heads of organisational units in which the processes are carried out. Based on risk assessments, organisational units take steps to eliminate unacceptable risks. Another method of threat detection involves independent security audits of our information resources. In 2021, the organisation behind the ISO 27001 standard conducted an independent preventive security audit of the ISMS. Their report was discussed by the Company's Management Board and the Information Security Officer briefed the Information Technology Committee on this topic. Information security internal audits are conducted in organisational units as well. We consistently eliminate any inconsistencies identified in external and internal audits and inspections.

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

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

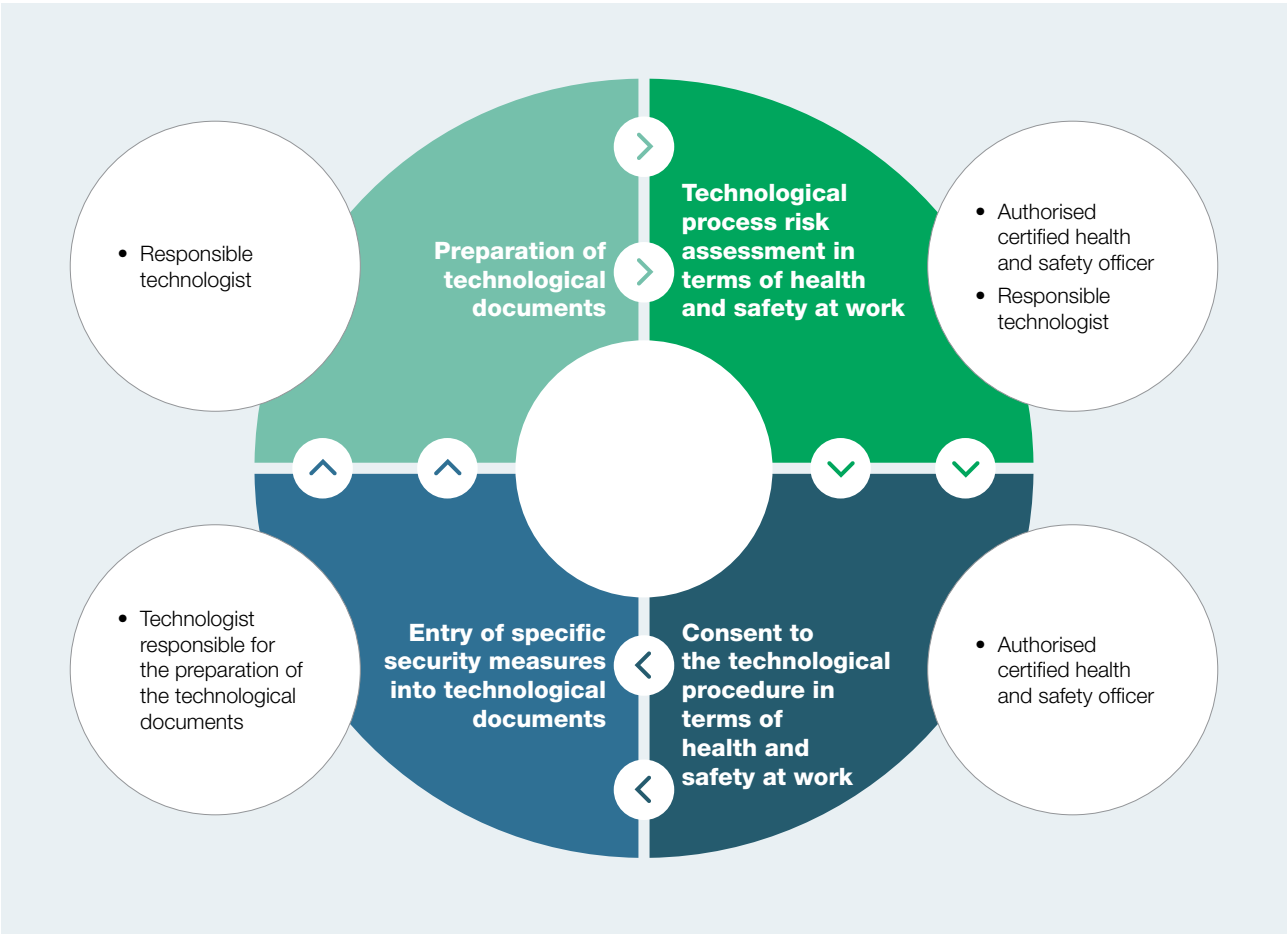
## Employee Risks

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

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

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

Technological Risk Assessments



When there is a risk of infection (epidemic, pandemic), we implement a series of sanitary, health, and organisational measures to prevent the introduction and spread of the possible infection, while ensuring not to disrupt work processes. We promote health among our employees and constantly raise awareness 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 workload.

## Protection of Property

The exposure of our 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 to prevent emergencies or act accordingly 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 include scientific and research risks and technological and technical risks. We mitigate these by introducing contemporary approaches and methods and exploiting in-house and acquired knowledge and experience in research and development and technology. Business and professional risks in product and technology development are managed based on a risk matrix at various levels of monitoring and decision-making. Responsibilities of leaders, organisational units, and work processes involved are clearly defined.

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

We mitigate these product and technological risks at the early stages of development through process updates, the introduction of modern technologies, and adjustments to regulatory requirements and through successful work

of highly educated professionals, constant broadening of knowledge and the use of state-of-the-art equipment. The vertically integrated development and production model is important, as it allows us to control the entire process, from raw materials to the finished products.

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

- Medicines 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 its interpretation, starts at the early stages of developing a new product and continues throughout its life cycle. We monitor regulatory legislation, implement new requirements relating to active ingredients and finished products already in the development phase, and take them into account when preparing registration documentation and registration strategies to mitigate risks. The acceptability of any increased risks is discussed and approved by the Development Committee or a subsidiary supervisory body. Through official consultative mechanisms, Krka verifies its development solutions for each product and the planned content of marketing authorisation documents with regulatory bodies. This reduces the risk of encountering potential issues or even failure when obtaining or extending marketing authorisations. We are also engaged in working groups of various industry associations to participate actively in drafting legislative amendments in this field.

### Sales and Marketing Risk

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.

Our key advantages over the competition are our quick response to altered business circumstances and prompt adjustment of sales and marketing activities in individual markets. In 2021, 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 national 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.

Once a year, the Sales Committee is briefed about the systemic pricing arrangements in markets where they exist. At their meetings, the supervisory bodies of subsidiaries and representative offices regularly discuss the changes in the legal basis related to price recording and government reimbursements. 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. We place particular focus on business compliance, so marketing is also included in the Company's *Integrity Plan*, discussed by the Management Board. We also comply with the personal data protection legislation in marketing and sales.

We monitor the risks 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 systematically discuss entering new markets at annual meetings and determine where to obtain marketing authorisations for individual products. Prior to concluding sales agreements, the customer has to present evidence that their business establishment is duly registered. We pay special attention to risks related to individual market environments and economies, risks associated with each customer, in

particular the risk of their insolvency or bankruptcy, risks related to payment terms, and other risks related to compliance with contractual provisions. Foreign currency risks and their impact on sales revenue denominated in euros in markets where sales are conducted in national currencies (especially in the Russian Federation) have been recognised as high risks.

We continuously monitor market conditions, analyse them, adjust payment terms if necessary, and hedge against payment defaults. We systematically monitor the satisfaction level of direct and indirect customers. Krka's Quality Committee discusses the report for each year. We monitor sales at the primary level (sales to direct customers, primarily wholesalers) and if possible, also at the secondary level (wholesalers' sales to their customers, mainly pharmacies) and 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 market, and adjust our actions accordingly. All of the above is regularly discussed at the Sales Committee meetings.

We regularly evaluate the market potential of individual therapeutic areas and their products. We use a range of external data sources and our own market research and analyses to monitor global, regional, and national trends as well as product supply in the market. Based on these, we define both the product portfolio and our activities according to current market positions of particular active ingredients and the vision of their development. We perform systematic analyses in terms of product position and market share movements in individual therapeutic classes at least twice a year. The number of important new active ingredients available for marketing to generic manufacturers at present or in the future has been declining. Therefore, we seek opportunities in new innovative fixed-dose combinations of existing active ingredients and in new therapeutic areas while continually 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. Indicators at the Krka Group level are discussed once a year by the Sales Committee and by Krka's Management Board in the context of performance indicators as part of the Company's successful strategy implementation. At their regular meetings, supervisory bodies of subsidiaries and representative offices discuss more specific indicators at the level of individual markets.

## Intellectual Property Risk

Respect for the intellectual property rights of third parties, especially patent-related rights, is one of the fundamental principles of the Krka Group operations. 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 based on 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 risk management method applies to distinctive signs, industrial designs, and other relevant intellectual property rights.

## Quality Management Risks

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

Product quality is defined during the development stage of a product and specified in the marketing authorisation documents. We adhere to standard procedures and requirements throughout the production process. From the purchase of various incoming materials, other purchases, and manufacturing processes to the manufacture of finished products, quality control, warehousing, and distribution, all while ensuring 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 a medicine. We employ a special system to process customer feedback and pursue constant internal improvements according to the PDCA (plan, do, check, act) principle to upgrade and improve processes and products.

Product quality management is a primary activity that involves various quality assurance elements: we focus on the suitable quality of incoming materials (i.e. active ingredients, excipients, and packaging materials) and conduct risk assessments to classify material- and supplier-related risks. We plan audits and other activities based on the identified risks 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. Further information on the quality system is available in the 'Integrated Management System and Quality' section, subsection 'Quality System Objectives'.

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.

Concerning quality risk management, we assess the risks related to maintaining manufacturing authorisations, 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 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 manage product and process quality risks effectively. 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 Company's organisational structure, 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 to ensure business continuity in 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. Risks and emergencies related to environmental protection, including climate change risks, are assessed and managed by the Committee for Monitoring Environmental Aspects at least twice a year and as part of regular activities of certain organisational units or business processes. All identified risks are included in the *Report on Implementing Environmental Management System*, which the Quality Committee discusses once a year. We mitigate environment-related risks and provide for efficient actions in the event of an 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 2021, 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 adding warehousing facilities for waste solvents and dividing our waste streams. We also stepped up cooperation with several of our waste-collection and removal partners.

## Investment Project Risks

Investment project risks primarily include risks related to planning investments and their value, the purchase of equipment, execution of 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 execution phases. We review the compliance of project documents from the technical, technological, and regulatory points of view, and the compliance of contractual documents from the legal and accounting aspects. We examine whether potential changes are justified and what impact they could have on costs and schedules. We constantly monitor costs, i.e. regular costs and those incurred by subsequent changes in a project.

## Human Resource Risks

We 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 plan employee training and development in our annual training plan, prepared by individual organisational units together with Human Resources and Training and Development. The Quality Committee discusses the plan and implementation of Krka's quality system training twice a year. Three times a year, the Human Resource Committee discusses the plan and implementation of other training and education programmes, such as part-time studies, Krka International Leadership School, and national vocational qualification programmes. We offer a range of incentives to strengthen employee loyalty to the Krka Group and minimise employee turnover.

We manage risks 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. We systematically educate and train our employees to acquire national vocational qualification certificates.

## Financial Risks

The Krka Group manages financial risk 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 monitor interest rate risk; however, in 2021, we did not take any measures due to low interest rate exposure. The risk of market value changes of raw materials and the risk of market value changes of shares and bonds do not significantly impact the Krka Group's net financial result. This is why we monitor changes in exposure to these risks but do not implement any risk management measures.

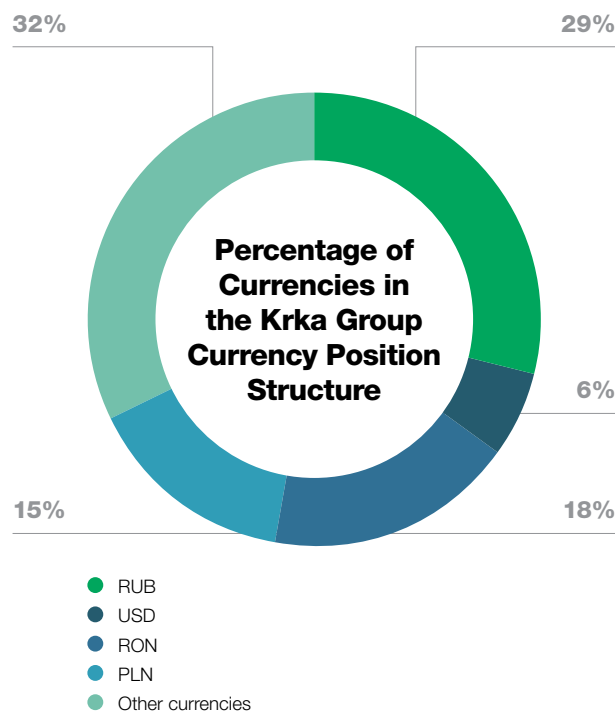
## Foreign Exchange Risk

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

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

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

## Currency Position Structure of the Krka Group



At the end of 2021, the Russian rouble accounted for the largest, 29%, share of the Krka Group currency position, taking into account the size of the position in roubles was partially hedged with derivatives. The position in the rouble arises from trade receivables in the Russian market and partly from the controlling company's funding in the Russian Federation.

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

Unlike with other currencies, a surplus of liabilities over assets has accrued in regular business operations from exposure to the US dollar, or in other words, the currency position is short. Exposure to the US dollar arises primarily from purchasing raw and other materials. Considering liquid financial assets in US dollars, which offset the short currency position from operations, the exposure in US dollars accounts for approximately 6% of the Krka Group total currency exposure.

The exposure to the Romanian leu, accounting for 18% of the currency position at the end of 2021, 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 15% 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 32% of the Krka Group currency position.

## 2021 Currency Markets

Krka's key sales and purchase markets experienced imbalanced dynamics in terms of economic recovery and uncertainty with regard to rising inflation in individual countries while at the same time facing a constant risk of economies shutting down again. Uncertainty in currency markets led to high volatility of individual exchange rates.

The 2021 fluctuation in the Russian rouble was favourable for us. The value of the rouble expressed in the euro went up by 7.2% during the year. The average 2021 value of the Russian rouble was 5.1% below the 2020 level.

The Brent oil price expressed in US dollars jumped by 50% in 2021. The value of the rouble expressed in the euro did not follow the dynamics of oil price increase. After 2020, which was heavily affected by the pandemic, the Russian economy recorded high economic growth and rising inflation in 2021. Consequently, the Central Bank of the Russian Federation increased its key interest rate by 4.25 percentage points. Owing to high interest rate growth accompanied by a significant rise in oil prices, the rouble strengthened against the euro and the US dollar. Interest rate increase in the Russian Federation led to a gradual rise in the cost of hedging Krka's position in roubles in 2021.

The Polish zloty was more stable in 2021. Its value dropped by 0.8% from the beginning to the end of the year, while the average value was 2.7% lower than in 2020. In the last quarter of 2021, the Polish central bank started to increase its key interest rate due to the rising inflation. The central bank is not in favour of strengthening the domestic currency, which impacted the market value of zloty.

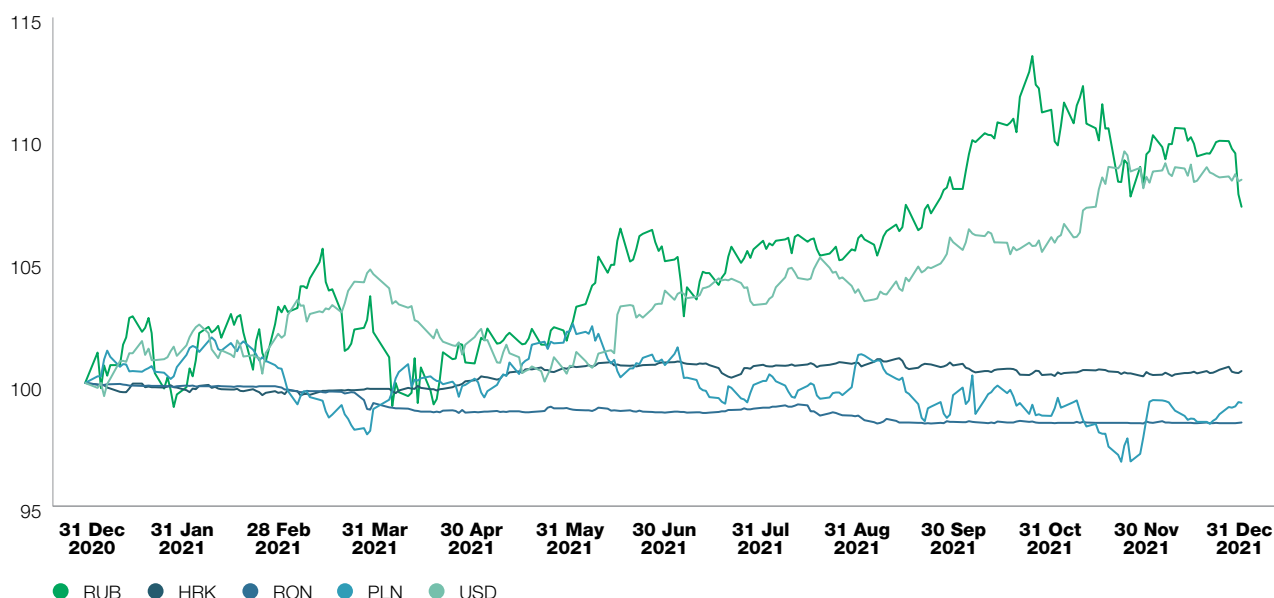
Over the course of 2021, the value of the Romanian leu expressed in the euro declined by 1.7%, which was in line with the gradual depreciation of the currency against the euro in recent years.

The Croatian kuna, participating in the ERM II mechanism since 2020, remained stable against the euro. In 2021, the British pound went up 7% against the euro. Although the movement of both currencies in 2021 positively impacted the Krka Group's net financial result, the contribution was small.

The value of the US dollar expressed in the euro went up by 8.3% over the course of 2021, while the average value of the dollar expressed in the euro was 3.4% below the 2020 level. The US dollar strengthened more significantly in the second half of 2021, when it became clear that the inflation in the US and worldwide would rise over the longer term. In the second half of the year, the US Federal Reserve announced that it would gradually withdraw monetary stimulus measures and increase the key interest rate for the first time in 2022. Meanwhile, the European Central Bank decided to delay and slow down the tightening of its monetary policy, which further contributed to strengthening of the US dollar against the euro in 2021.

In 2021, the Ukrainian hryvnia strengthened again after plummeting in 2020. However, its value against the euro weakened due to the geopolitical risk at the end of the year. The macroeconomic situation in the country remains uncertain, which will continue to be reflected in currency movements.

## 2021 Movement of Currencies Expressed in Euro (Index 31 Dec 2020 = 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, only forward contracts are used for hedging.

In 2021, Krka continued its policy of partial hedging against rouble-related risk. Less than 50% of the risk exposure to the Russian rouble was hedged using forward contracts. Due to the strengthening of the rouble value in euros, we generated net foreign exchange gains partially offset by net expenses from forward contracts used for hedging the rouble.

The increasing operational risk exposure and an interest rate difference between the euro and the US dollar that is favourable for Krka are two key reasons that contributed to partial hedging of the exposure in the US dollar with financial instruments also in 2021. Due to the short currency position, the dollar strengthening had a negative financial impact on the Krka Group result. In 2021 however, this was largely offset by income from the US dollar hedging instruments.

We generated net foreign exchange losses from other currencies in 2021. Exposure to other currencies was not hedged.

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

The currency risk balance in 2021 was positive, totalling €7.7 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 €7.6 million.

### 2022 Objectives

In 2022, we intend to retain partial hedging for the exposure to the Russian rouble and the US dollar by using financial instruments. We will continue to focus on activities to offset currency exposure by natural hedging.

## 2021 Foreign Exchange Rates

	31 Dec 2020	31 Dec 2021	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation*
RUB	91.47	85.30	80.64	92.38	87.17	2.93	3.4%
HRK	7.55	7.52	7.48	7.59	7.53	0.03	0.4%
RON	4.87	4.95	4.87	4.95	4.92	0.03	0.5%
PLN	4.56	4.60	4.45	4.71	4.57	0.05	1.1%
CZK	26.24	24.86	24.86	26.42	25.64	0.32	1.2%
HUF	363.89	369.19	345.82	370.91	358.54	6.26	1.7%
UAH	34.61	30.98	29.89	34.95	32.24	1.33	4.1%
RSD	117.56	117.41	116.74	118.00	117.42	0.12	0.1%
USD	1.23	1.13	1.12	1.23	1.18	0.03	2.4%
GBP	0.90	0.84	0.84	0.91	0.86	0.01	1.5%

\* 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 2021.

## 2022 Objectives

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

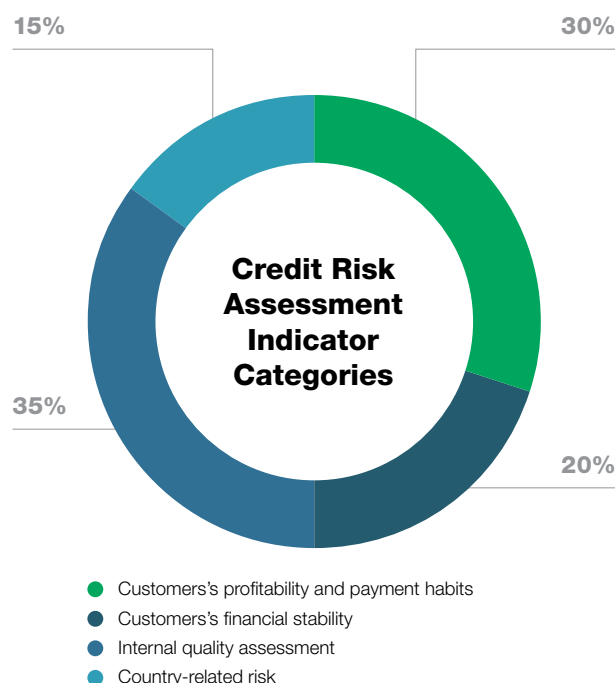
## Credit Risk

The key credit risk 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 570 at the end of 2021, they accounted for more than 95% of total trade receivables. Receivables due from small customers accounted for less than 5% of total trade receivables. Control over small customers is decentralised in the sales network and under the constant supervision of the controlling company.

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



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

The second step in the credit-control process involves regular dynamic monitoring of a customer's payment discipline. The information systems of all Krka Group companies engaged in sales monitor available limits and overdue receivables. Control is exercised for each shipment of Krka products to customers. A shipment is automatically blocked if a customer is in arrears or if receivables together with the new shipment exceed the approved credit limit. Sales personnel are required to initiate a payment collection procedure or arrange hedging for the outstanding settlements.

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

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

## Credit Risk Management Results

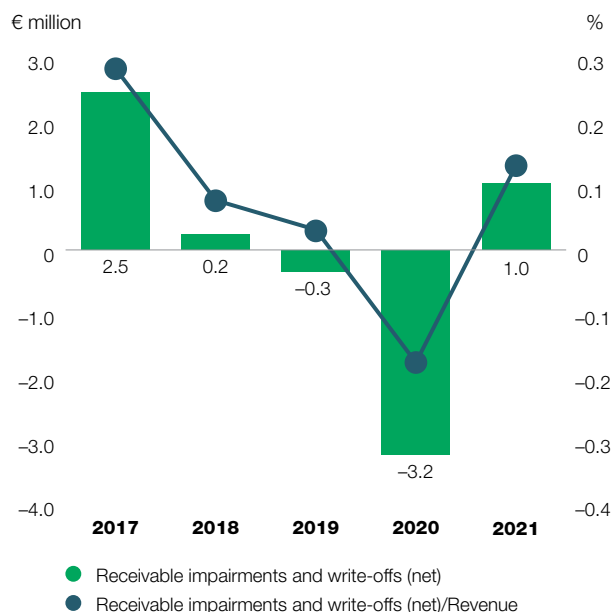
Credit control guarantees permanent control over the quality of the trade receivables portfolio. The result of the credit control process is a low percentage of receivable write-offs and impairments in total Krka Group sales.

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

Despite the risks arising from the COVID-19 pandemic, receivables were well managed in 2021. At the end of 2021, the value of trade receivables increased by 22% compared to the beginning of the year. However, the amount of overdue and outstanding receivables remained within limits acceptable for Krka.

The amount of the newly established valuation allowance for receivables exceeded the amount of the reversed allowance. The impact of net impairments and write-offs on the Krka Group's bottom line in 2021 was less than 0.07% of sales.

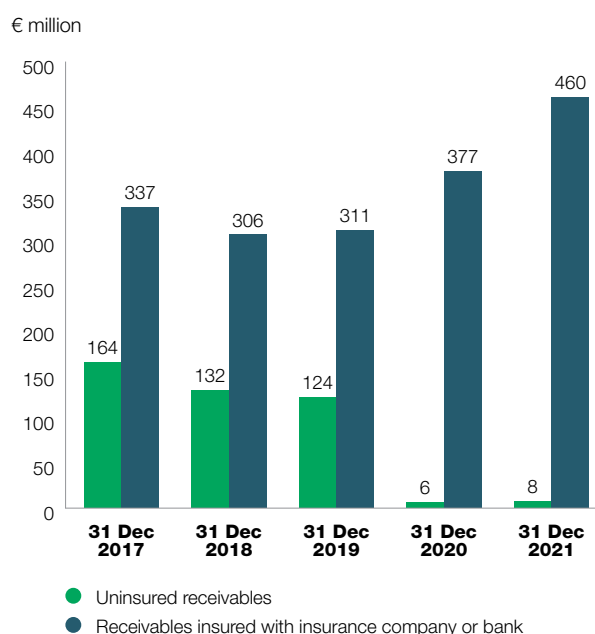
## Receivable Impairments and Write-Offs (Net)



## Trade Receivable Insurance

Since 2009, the Krka Group has insured part of its trade receivables with a credit insurance company. In the second quarter of 2020, trade receivable insurance was extended and supplemented. At the end of 2021, more than 98% of trade receivables were insured. Bank guarantees and letters of credit are used only exceptionally to secure payments.

## Insured and Uninsured Receivables



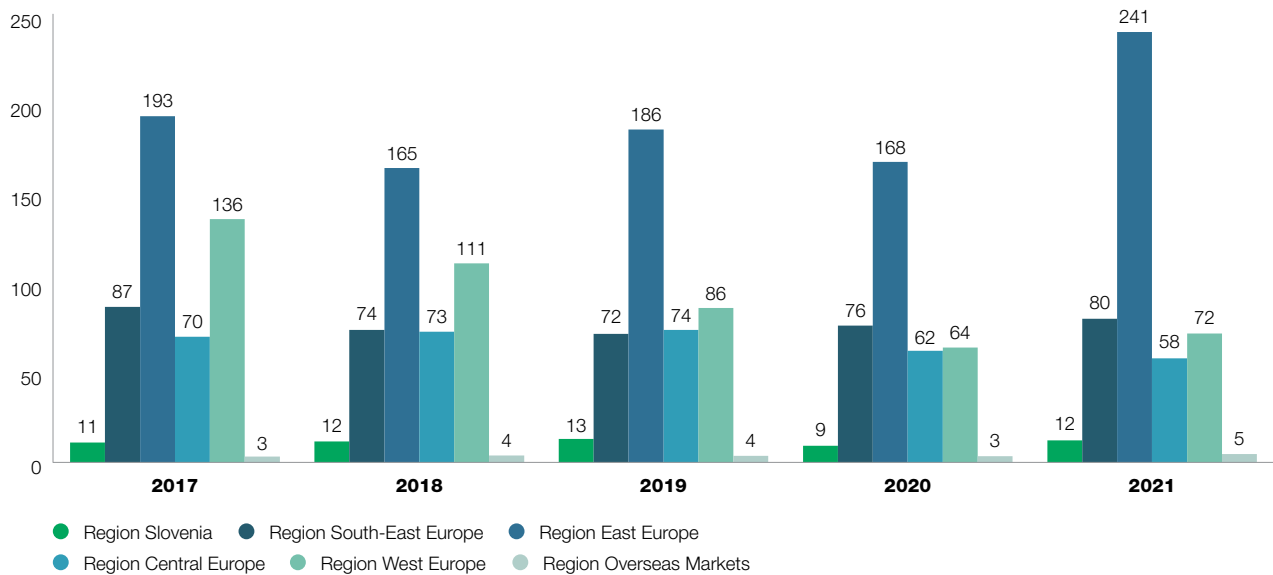


## Trade Receivables by Region

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

### Trade Receivables by Region

€ million

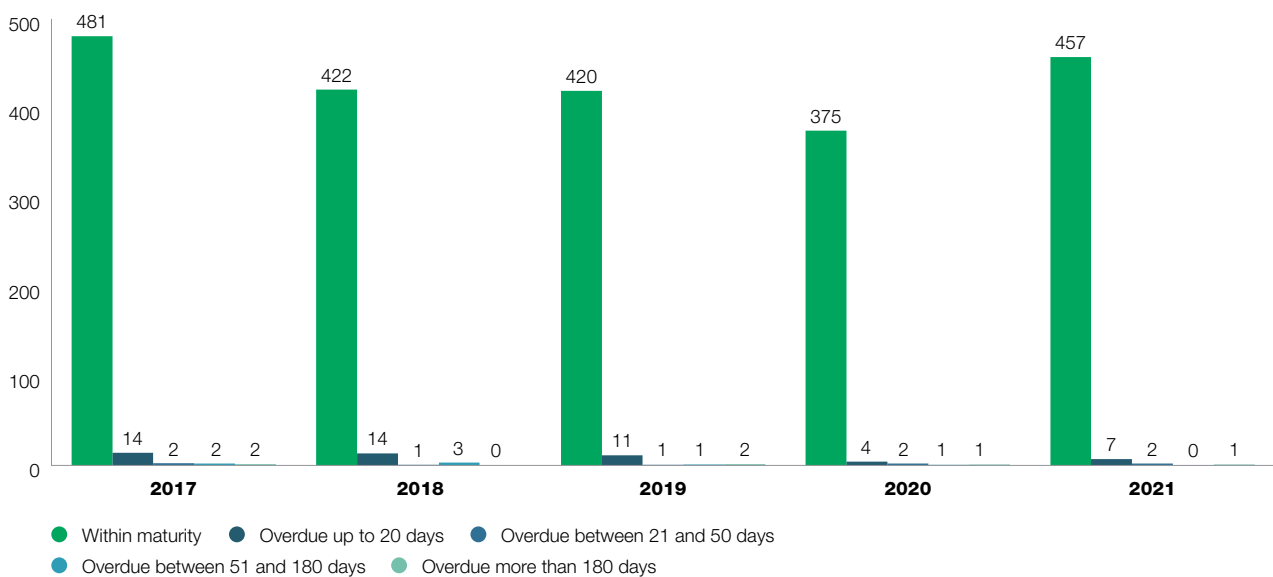


## Maturity Structure of Trade Receivables

The maturity structure of receivables remained stable.  
The percentage of overdue receivables compared to total trade receivables remained low at the end of 2021.

### Receivables by Maturity

€ million



## 2022 Objectives

We will continue standard credit risk management activities in 2022. The insurance contract for our trade receivables expires in the middle of 2022. Once renewed, we plan to optimise the conditions for receivable insurance further. As before, we plan to redouble our monitoring of customers from markets with less favourable macroeconomic environments and markets where we have identified increased risks in the wholesale distribution of medicines. Where individual customer exposure above the acceptable levels is established, we will introduce individual measures to reduce the exposure gradually.

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 and stable cash flows. In 2021, we settled all financial liabilities regularly. The Krka Group exposure to liquidity risk was low last year.

We did not use any new short-term funding from banks or draw funds from existing credit lines in 2021.

At the end of 2021, the Krka Group recorded excess liquidity, primarily as cash at bank or deposits with first-class commercial banks. The 2021 increase in

excess liquidity resulted from surplus cash flow from operating activities over negative cash flows from investing and financing activities.

In the European Economic and Monetary Union (EMU) money markets, negative interest rates still apply to low-risk cash investments. 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. In this way, we reduced the cost of negative interest rates and invested another part in short-term bonds of selected European countries.

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

The Krka Group also reported favourable and stable liquidity ratios at the end of 2021. The continuing COVID-19 pandemic did not increase the Group's liquidity risk in 2021.

## Krka Group Liquidity Ratios

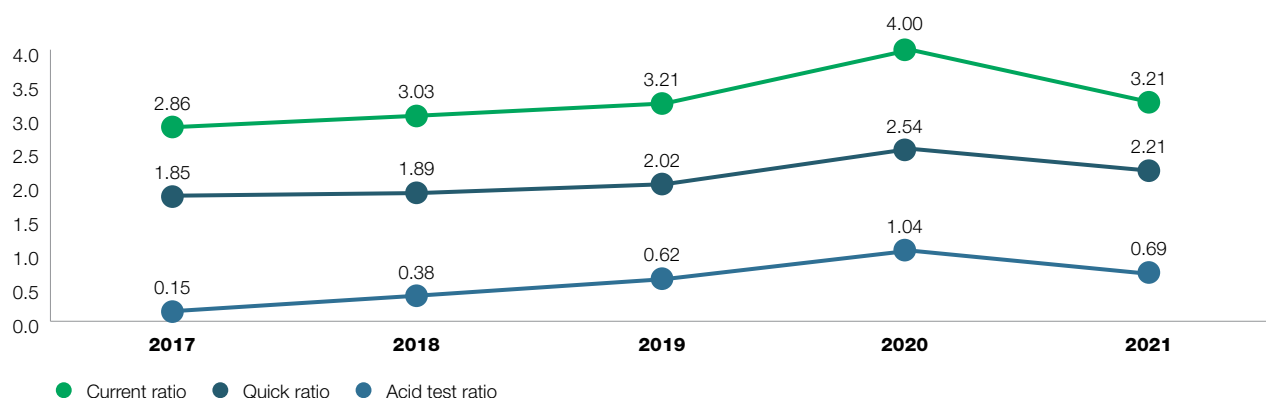
	2021	2020	2019	2018	2017	Five-year average
Current ratio	3.21	4.00	3.21	3.03	2.86	3.26
Quick ratio	2.21	2.54	2.02	1.89	1.85	2.10
Acid test ratio	0.69	1.04	0.62	0.38	0.15	0.58
Receivables turnover ratio	3.45	3.50	3.21	2.68	2.36	3.04

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



## 2022 Objectives

In 2022, we intend to ensure adequate liquidity of all Group companies based on cash flow management within the Krka Group.

## 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 in the event of a business interruption. Insurance is one of the risk management tools. Our internal *Insurance Policy* defines types of insurance and their characteristics. The document was adopted by the Management Board, which also confirms any changes to it.

Decisions on insurance type and scope of coverage are made based on the materiality of risks and the insurance price. The materiality of risks is determined based on estimates concerning the probability of occurrence and the extent of potential damages, and the impact on operations. The Krka Group primarily invests in prevention, as the effect on risk management is more optimal compared to purchasing insurance. One of the reasons for taking out insurance is legislation, which may require specific types of insurance.

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

Among the most important insurance policies taken out by the Krka Group for risk management are property and business interruption insurance, general civil liability insurance, insurance of product liability, clinical trials and product recalls, and freight-in-transit insurance.

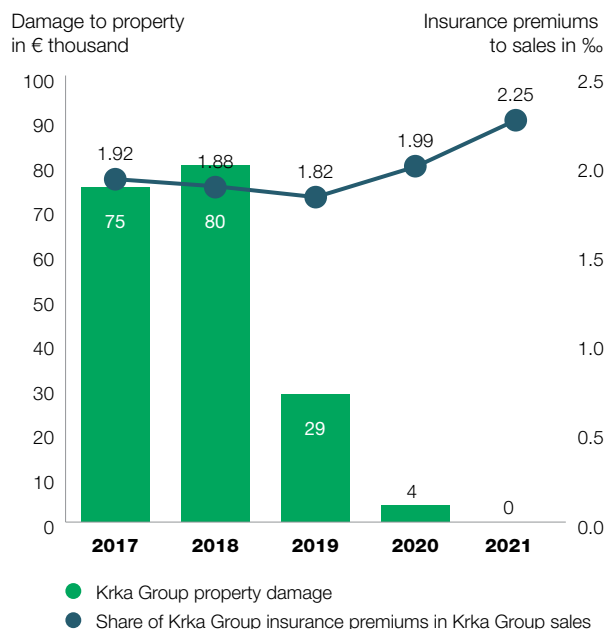
The controlling company manages the insurance policies of all Krka Group companies, except local car insurance policies. However, the Company still provides guidelines and monitors car insurance. The entire Krka Group is insured in compliance with uniform principles. The competitiveness and safety of individual insurance companies is reviewed every year. We consider the quality of coverage, premium rates, references, financial security, and national legal requirements when selecting insurance companies. Insurance premiums exclusive of car insurance amounted to 2.25% of sales in 2021 and accounted for 2.01% of total sales over the past six years.

In order to improve our insurance programme, we surveyed the international insurance market in 2021. Krka makes gradual improvements every year and at the same time assumes part of the risk, either through insurance deductibles 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. In 2021, Krka continued optimising the programme by increasing insurance deductibles and optimising insurance coverage. At the same time, three insurance audits were carried out in the Krka Group. We received no critical recommendations.

Krka has been investing systematically in damage prevention. Our buildings are designed so that their hazard exposure is as low as possible. 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 insurance coverages have reduced property damage over the last five years, which remains low, and all insurance claims were promptly resolved.

## 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

€	2021	2020	2019	2018	2017
Year high	120.00	92.60	74.60	59.80	58.00
Year low	91.20	54.00	56.80	53.60	50.75
31 December	118.00	91.40	73.20	57.80	57.50
Annual change (%)	29.1	24.9	26.6	0.5	8.7

In 2021, the Krka share price rose by 29.1%. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) advanced by 39.8%.

### Krka Share Price Performance Compared to Selected Share Indices Over the Last Five Years



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 2021, we allocated 53.6% of the consolidated net profit attributable to equity holders of the controlling company generated in 2020 for the payout of dividends. Gross dividend per share increased by 17.6%. When determining the net profit share for dividend payout

each year, the Company's long-term dividend policy is considered. 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

	2021	2020	2019	2018	2017
Earnings per share <sup>1</sup> (€)	9.92	9.27	7.73	5.46	4.74
Gross dividend per share <sup>2</sup> (€)	5.00	4.25	3.20	2.90	2.75
Dividend payout ratio <sup>3</sup> (%)	53.6	54.3	58.2	60.8	81.7
Dividend yield <sup>4</sup> (%)	4.2	4.6	4.4	5.0	4.8

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

<sup>2</sup> Dividends paid for the previous period per the AGM resolution

<sup>3</sup> Total dividends paid/Net profit attributable to majority equity holders of the controlling company

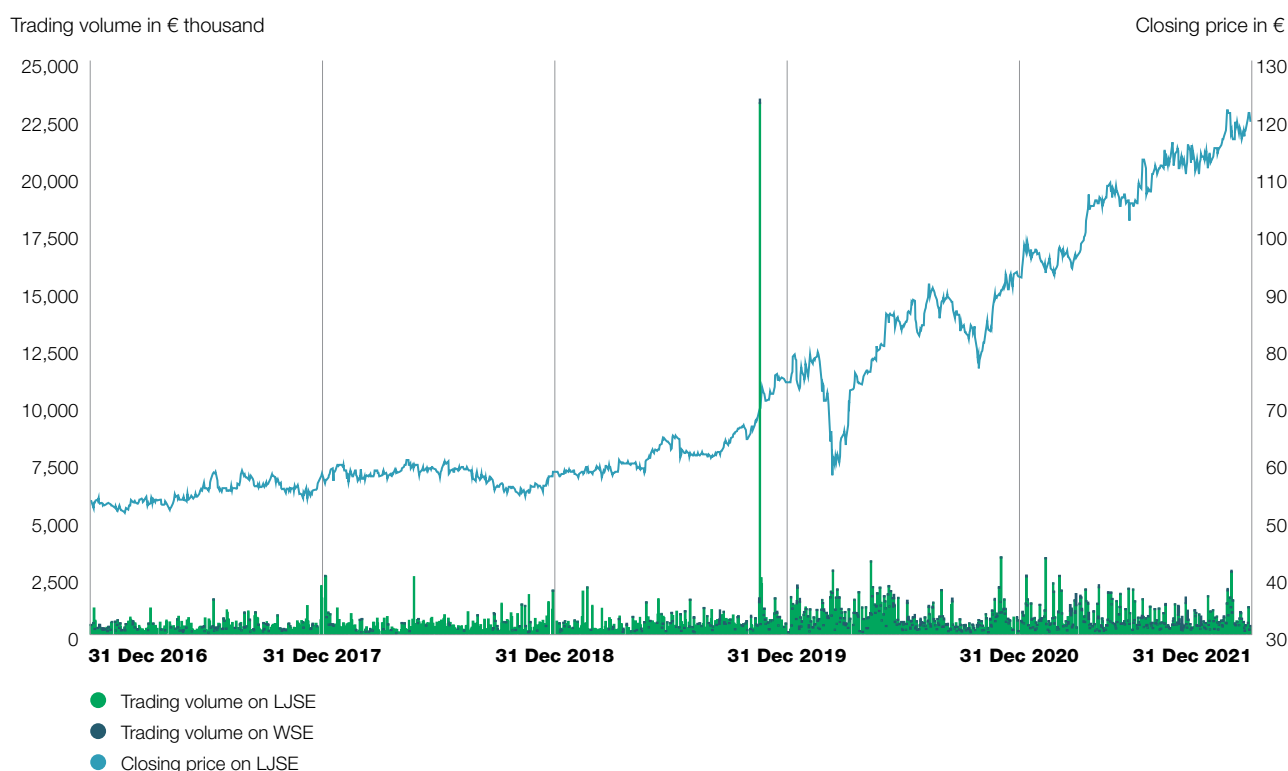
<sup>4</sup> Gross dividend per share/Share price as at 31 December

## Share Trading and Shareholding<sup>20</sup>

Krka shares are listed on the prime market of the Ljubljana Stock Exchange. Since April 2012, they have been dual-listed on the Warsaw Stock Exchange. All Krka shares traded on the Ljubljana and Warsaw stock exchanges are of the same class: ordinary and

freely transferable. Each share, except treasury shares, carries one vote at the AGM. Krka shares are traded freely through brokerage 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 2021, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.65 million or 6,200 shares, including blocks.

<sup>20</sup> GRI GS 102-5, 102-10

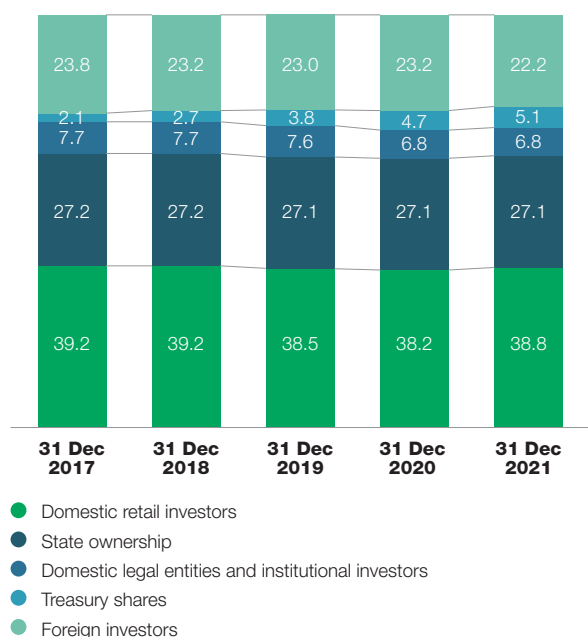
## Ten Largest Shareholders as at 31 December 2021

Shareholder	Number of shares	Percentage of total shares issued (%)
1 Kapitalna družba, d. d.	3,493,030	10.65
2 Slovenski državni holding, d. d.	2,949,876	9.00
3 Republic of Slovenia	2,366,105	7.22
4 OTP banka, d.d. <sup>1</sup>	1,610,316	4.91
5 Erste Group Bank AG - PBZ Croatia Osiguranje <sup>1</sup>	1,199,638	3.66
6 Clearstream Banking SA <sup>1</sup>	1,064,929	3.25
7 State Street Bank and Trust <sup>1</sup>	591,727	1.80
8 Luka Koper, d. d.	433,970	1.32
9 KDPW <sup>1</sup>	327,475	1.00
10 Privredna banka Zagreb d. d. <sup>1</sup>	318,434	0.97
<b>Total</b>	<b>14,355,500</b>	<b>43.78</b>

<sup>1</sup> The shares are on custody accounts with the above banks and are owned by their clients.

At the end of 2021, Krka had 46,820 shareholders, or just over 1% less than at the end of 2020.

## Shareholder Structure (%)



Source: KDD

Foreign investors' holdings have declined by 1 percentage point, while holdings of domestic retail investors and treasury shares have somewhat advanced.

In 2021, the Company acquired 142,134 treasury shares valued at €15,238 thousand on the regulated market and held 1,683,908 treasury shares as at 31 December 2021.

## Communication with Investors<sup>21</sup>

We strive for open, prompt, and consistent communication with investors as much as possible and mutual exchange of information. We provide them with information mainly related to our business results and the Krka Group's future strategy, complying with the information disclosure policy. Investors and financial analysts give us feedback, which we always carefully consider and present to Krka's Management Board. In 2021, we participated in 15 online investment conferences with investors from more than 15 countries. We organised four webcasts to present our quarterly business reports and held several conference calls with more than 100 investors. We hosted a virtual Krka Investor Day, where we presented our nine-month business report to 32 investors that attended the meeting. The event also offered a great opportunity to outline professional competency in development and regulatory affairs at Krka. Director of Pharmaceutical R&D and Director of New Products made the presentations. Of all companies listed on the Ljubljana Stock Exchange, we took home two prizes at the Ljubljana and Zagreb Stock Exchanges' Investor Day, winning the Prime Market Share of the Year Award for the fourth successive time and Best Investor Relations Award for the third consecutive time.

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.

<sup>21</sup> GRI GS 102-43, 102-44





**The inventive work system was introduced two decades ago and has since become a part of Krka culture.**

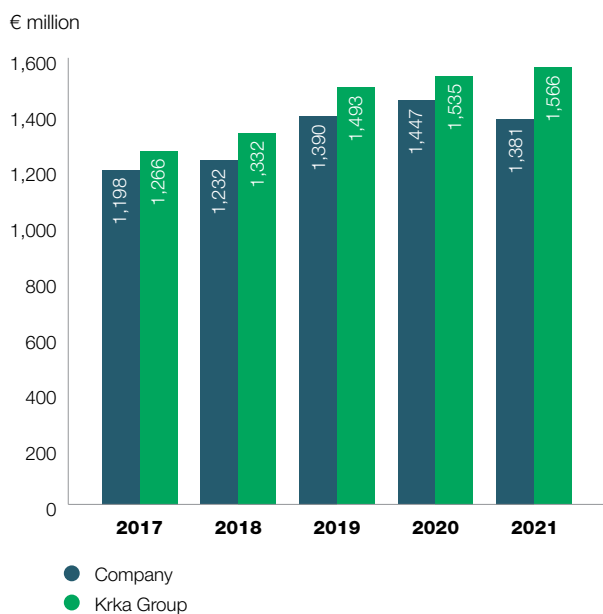
**‘You need knowledge of technology to propose an improvement. However, the decisive factor is a working environment where you are free to develop your potential,’ said Irena Somrak and Erika Lenarčič.**

**Irena Somrak and Erika Lenarčič come from Pharmaceutical R&D and Production and received best improvement award. Thanks to the improvement, we will save 100 work hours and increase efficiency in energy and water use in the process of granulation line cleaning at the Notol 2 Department, our high-tech production plant.**

# Business Performance

## Operating Income

### Revenue



In 2021, the Krka Group sales revenue amounted to €1,565.8 million, of which revenue from contracts with customers on sales of products and services reached €1,560.3 million. Revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Sales grew by €30.9 million, up 2% on 2020. Over the past five years, average annual sales grew by 3.7% in volume and 5.9% in value. Other operating income of the Krka Group amounted to €11.4 million.

In 2021, the Company generated sales of €1,381.4 million, of which revenue from contracts with customers on sales of products and services amounted to €1,211.5 million. Revenue from contracts with customers on sales of materials accounted for €163.3 million and other revenue from sales totalled €6.6 million. Sales dropped by €65.7 million or 5% on 2020. Other operating income amounted to €6.7 million.

## Operating Expenses

The Krka Group operating expenses totalled €1,222.4 million, up €67.7 million or 6% on 2020. The Company incurred operating expenses of €1,114.7 million, which remained at the 2020 level.

The Krka Group operating expenses comprised costs of goods sold amounting to €674.6 million, selling and distribution expenses of €305.9 million, R&D expenses of €154.6 million, and general and administrative expenses totalling €87.4 million. Operating expenses accounted for 78% of sales and, over the past five years, ranged between 75% in 2020 and 85% in 2017.

Costs of goods sold, up 8% on 2020, represented the largest item in the Krka Group operating expense structure. Expressed as a percentage of sales, they accounted for 43.1% in 2021 and 40.6% in 2020. Selling and distribution expenses rose by 5% on 2020 and accounted for 19.5% of total sales, 0.5 percentage points more than in 2020. R&D expenses accounted for 9.9% of total sales, down 0.1 percentage points compared to 2020 and up 1% year on year. General and administrative expenses amounted to 5.6% of total sales, a 1% increase on 2020, while expressed as a proportion of sales they remained at the 2020 level.

The Company's operating expenses included costs of goods sold amounting to €614.8 million, selling and distribution expenses of €271.4 million, R&D expenses of €150.2 million, and general and administrative expenses totalling €78.2 million. Costs of goods sold, which fell by 1% compared to 2020, represented the largest item in the Company's operating expense structure. They accounted for 44.5% of total sales, or 1.4 percentage points more than in 2020. Selling and distribution expenses grew by 3% on 2020 and accounted for 19.6% of total sales, a 1.4 percentage point increase on 2020. R&D expenses accounted for 10.9% of total sales, up 0.5 percentage points on 2020, and remained at the 2020 level. General and administrative expenses accounted for 5.7% of sales, up 4% on 2020, increasing as a proportion of sales by 0.5 percentage points.



## Financial Income and Expenses

€ thousand	Krka Group					Company				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
Financial income	19,711	23,259	24,987	5,935	24,041	24,714	31,786	34,410	17,382	24,908
Financial expenses	-12,082	-75,011	-14,814	-36,048	-46,608	-12,083	-72,837	-14,751	-33,891	-46,599
<b>Net financial result</b>	<b>7,629</b>	<b>-51,752</b>	<b>10,173</b>	<b>-30,113</b>	<b>-22,567</b>	<b>12,631</b>	<b>-41,051</b>	<b>19,659</b>	<b>-16,509</b>	<b>-21,691</b>

In 2021, the Krka Group's net financial result amounted to €7.6 million, and the Company's net financial result totalled €12.6 million.

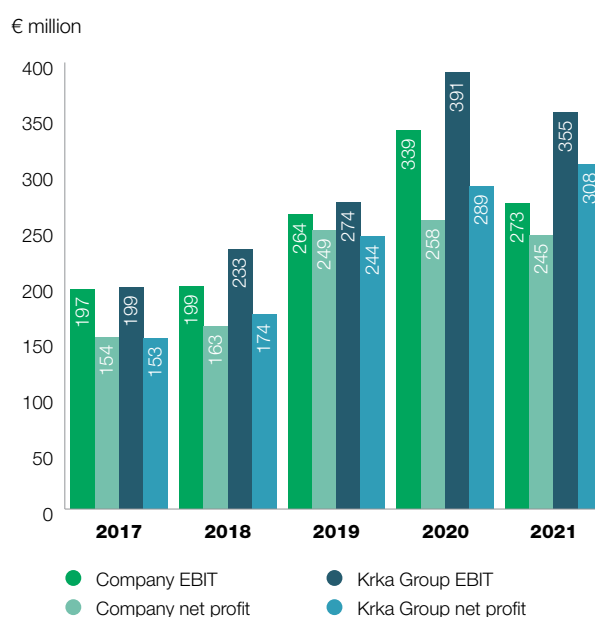
The Krka Group operates in diverse international environments and is exposed to foreign exchange risks in certain sales and purchase markets. The Group's currency risk yielded a profit of €7.7 million in 2021. You can find more on foreign exchange risk on pages 86-89.

The Krka Group financial income comprised net foreign exchange gains of €15.1 million, derivatives income totalling €3.0 million, interest income of €0.8 million, income from dividends and other profit shares worth €0.7 million, and other financial income totalling €0.1 million. Financial expenses consisted of derivatives expenses of €10.5 million, interest expenses of €0.5 million, and other financial expenses of €1.1 million.

The Company's financial income comprised net foreign exchange gains totalling €15.1 million, income from dividends and other profit shares worth €6.1 million, derivatives income of €3.0 million, interest income of €0.5 million, and other financial income totalling €0.1 million. Financial expenses consisted of derivatives expenses of €10.5 million, interest expenses of €0.5 million, and other financial expenses of €1.1 million.

## Operating Results

### Operating Profit and Net Profit for the Year



The Krka Group's EBIT amounted to €354.8 million, down €36.0 million or 9% on 2020. The drop is attributable to relatively higher operating expenses compared to 2020, when the COVID-19 pandemic had a stronger impact. The Krka Group's EBITDA amounted to €463.6 million, down €38.8 million or 8%.

The Company's EBIT totalled €273.3 million, while its EBITDA reached €358.2 million.

In 2021, the Krka Group's profit before tax rose by €23.4 million or 7% to €362.4 million. The Krka Group's effective tax rate was 15.0%. The Company's profit before tax amounted to €286.0 million.<sup>22</sup>

The Krka Group recorded net profit of €308.2 million, a €19.2 million or 7% climb on 2020. The Company's net profit totalled €245.2 million.

<sup>22</sup> GRI GS 207-4

## Assets

€ thousand	Krka Group					Company				
	2021	Share (%)	2020	Share (%)	Index 2021/20	2021	Share (%)	2020	Share (%)	Index 2021/20
<b>Non-current assets</b>	<b>1,075,747</b>	<b>42.4</b>	<b>990,998</b>	<b>44.3</b>	<b>109</b>	<b>1,095,419</b>	<b>45.1</b>	<b>1,032,949</b>	<b>46.8</b>	<b>106</b>
Property, plant and equipment	774,352	30.5	807,824	36.1	96	570,086	23.5	605,164	27.4	94
Intangible assets	104,301	4.1	107,371	4.8	97	25,628	1.1	27,893	1.3	92
Investments and loans	149,183	5.9	25,796	1.2	578	486,336	20.0	385,055	17.4	126
Other	47,911	1.9	50,007	2.2	96	13,369	0.5	14,837	0.7	90
<b>Current assets</b>	<b>1,461,936</b>	<b>57.6</b>	<b>1,244,544</b>	<b>55.7</b>	<b>117</b>	<b>1,332,521</b>	<b>54.9</b>	<b>1,175,430</b>	<b>53.2</b>	<b>113</b>
Inventories	455,707	18.0	453,690	20.3	100	394,323	16.2	389,178	17.6	101
Trade receivables	467,764	18.4	383,560	17.2	122	424,588	17.5	415,286	18.8	102
Other	538,465	21.2	407,294	18.2	132	513,610	21.2	370,966	16.8	138
<b>Total assets</b>	<b>2,537,683</b>	<b>100.0</b>	<b>2,235,542</b>	<b>100.0</b>	<b>114</b>	<b>2,427,940</b>	<b>100.0</b>	<b>2,208,379</b>	<b>100.0</b>	<b>110</b>

At the end of 2021, the Krka Group's assets were valued at €2,537.7 million, up €302.1 million or 14% on year-end 2020. The ratio of non-current to current assets in the overall asset structure differed from that recorded at year-end 2020, as non-current assets dropped 1.9 percentage points, accounting for 42.4%.

At the end of 2021, the Company's assets were valued at €2,427.9 million, up €219.6 million or 10% on year-end 2020. The ratio of non-current to current assets in the overall asset structure differed from that recorded at year-end 2020, as non-current assets dropped 1.7 percentage points, accounting for 45.1%.

The Krka Group's non-current assets were valued at €1,075.7 million, up €84.7 million or 9% on year-end 2020. The most important item in the asset structure of the Krka Group was property, plant and equipment (PP&E). It was valued at €774.4 million and accounted for 31% of total Group assets (of which the Company's PP&E accounted for €570.1 million or 74% of the Krka Group's PP&E). Intangible assets were worth €104.3 million and accounted for 4% of total assets (of which the Company's assets accounted for €25.6 million or 25% of total Krka Group intangible assets). The Krka Group's non-current loans totalled €40.3 million or 1.6% of total Krka Group assets.

The Krka Group's current assets were valued at €1,461.9 million, a €217.4 million or 17% increase on year-end 2020. Trade receivables due from customers outside the Krka Group totalled €467.8 million, accounting for 18% of total Krka Group assets. Inventories amounted to €455.7 million and accounted for 18% of total Krka Group assets. Trade receivables increased by €84.2 million, or 22%, and inventories saw a rise of €2.0 million or 0.4%. The Krka Group's current loans totalled €192.4 million or 8% of total Krka Group assets.

They comprised bank deposits of the controlling company maturing in 90 days or more, totalling €190.3 million. Cash and cash equivalents were valued at €159.8 million, down €153.7 million or 49% on year-end 2020, accounting for 6% of total Krka Group assets.

The Company's non-current assets were valued at €1,095.4 million, accounting for a €62.5 million or 6% rise on year-end 2020. The most important item worth €570.1 million or 23% of total Company assets was PP&E. Investments in subsidiaries totalled €346.4 million or 14% of total Company assets. Intangible assets of €25.6 million accounted for 1% of total assets. The Company's non-current loans totalled €31.0 million or 1% of total Company assets.

The Company's current assets were valued at €1,332.5 million, up €157.1 million or 13% on year-end 2020. Trade receivables totalled €424.6 million or 17% of Company assets (of which trade receivables due from customers outside the Krka Group totalled €191.3 million), and inventories amounted to €394.3 million or 16% of total Company assets. Trade receivables grew by 2% and inventories by 1%. The Company's current loans totalled €195.5 million or 8% of total Company assets. Cash and cash equivalents were valued at €145.0 million, down €151.4 million or 51% on year-end 2020, accounting for 6% of total Company assets.

## Equity and Liabilities

€ thousand	Krka Group					Company				
	2021	Share (%)	2020	Share (%)	Index 2021/20	2021	Share (%)	2020	Share (%)	Index 2021/20
Equity	1,919,085	75.6	1,751,812	78.4	110	1,876,142	77.3	1,791,850	81.1	105
Non-current liabilities	162,674	6.4	172,796	7.7	94	128,783	5.3	136,380	6.2	94
Current liabilities	455,924	18.0	310,934	13.9	147	423,015	17.4	280,149	12.7	151
<b>Total equity and liabilities</b>	<b>2,537,683</b>	<b>100.0</b>	<b>2,235,542</b>	<b>100.0</b>	<b>114</b>	<b>2,427,940</b>	<b>100.0</b>	<b>2,208,379</b>	<b>100.0</b>	<b>110</b>

As at 31 December 2021, the Krka Group equity increased by €167.3 million or 10% on year-end 2020. The rise was attributable to the Krka Group's net profit totalling €308.2 million, other comprehensive income net of tax amounting to €25.1 million, and acquisition of non-controlling interests valued at €5.2 million. Equity declined as a result of dividend payout of €155.9 million and repurchase of treasury shares of €15.3 million.

The Krka Group's provisions totalled €126.2 million (of which post-employment and other non-current employee benefits accounted for €124.3 million, provisions for lawsuits €0.6 million, and other provisions €1.3 million). They fell by €8.5 million or 6% compared to year-end 2020. Provisions for post-employment and other non-current employee benefits declined by €5.9 million, provisions for lawsuits by €1.6 million, and other provisions by €1.0 million.

Among the Krka Group's current liabilities, trade payables grew by €22.9 million (of which payables to suppliers abroad by €14.4 million and payables to domestic suppliers by €8.5 million). Current liabilities from contracts with customers rose by €18.4 million (of which bonuses and volume rebates by €15.7 million and contract liabilities by €3.5 million, while right of return decreased by €0.8 million). Other current liabilities climbed by €111.7 million, of which liabilities from repurchase agreements by €102.2 million, payables to employees by €6.3 million, and other liabilities by €3.1 million.

As at 31 December 2021, the Company's equity increased by €84.3 million or 5% on year-end 2020. The increase was attributable to the Company's net profit amounting to €245.2 million and other comprehensive income net of tax totalling €10.2 million, while the decrease was a result of dividend payouts amounting to €155.9 million and repurchase of treasury shares totalling €15.3 million.

The Company's provisions totalled €113.1 million (of which post-employment and other non-current employee benefits accounted for €112.6 million and provisions for lawsuits €0.5 million). Compared to year-end 2020, provisions declined by €6.7 million or 6% due to a decrease in provisions for post-employment and other non-current employment benefits by €5.1 million and provisions for lawsuits by €1.6 million.

Of the Company's current liability items, trade payables increased by €34.8 million. Current liabilities from contracts with customers rose by €2.9 million and other current liabilities by €104.8 million, of which liabilities from repurchase agreements by €102.2 million. At the end of 2021, the Company's current borrowings from subsidiaries amounted to €55.1 million.

## Cash Flow Statement

€ thousand	Krka Group		Company	
	2021	2020	2021	2020
Net cash from operating activities	386,097	360,759	348,239	352,510
Net cash from investing activities	-372,637	-109,594	-338,401	-87,552
Net cash from financing activities	-169,850	-154,609	-163,901	-162,301
<b>Net change in cash and cash equivalents</b>	<b>-156,390</b>	<b>96,556</b>	<b>-154,063</b>	<b>102,657</b>

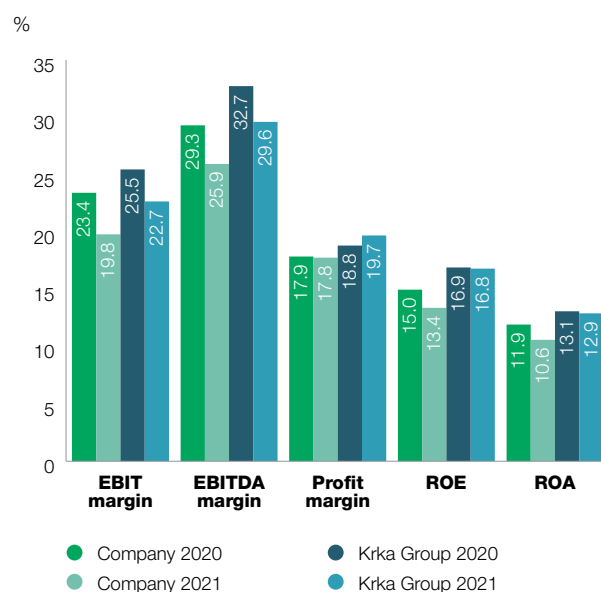
Net change in cash and cash equivalents (exclusive of exchange rate fluctuations) of the Krka Group totalled -€156.4 million in 2021, since the positive cash flow from operating activities was lower than the negative cash flows from investing and financing activities.

The Krka Group generated profit from operating activities before changes in net current assets totalling €485.1 million. Changes in current assets that positively influenced cash flow included changes in trade payables and other current liabilities, while changes in trade receivables, inventories, provisions, and deferred revenue had a negative impact.

Negative cash flows from investing activities of €372.6 million were primarily accrued due to net payments in connection with loans amounting to €162.5 million, net payments in connection with investments totalling €134.6 million, and acquisition of PP&E accounting for €65.9 million. Negative cash flows from financing activities totalling €169.9 million primarily resulted from payouts of dividends and other profit shares of €155.9 million and repurchased treasury shares of €15.3 million.

## Performance Ratios

All 2021 performance ratios of the Krka Group and the Company are among the best in the past five years.





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

€ thousand	Krka Group					Company				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
Revenue	1,565,802	1,534,941	1,493,409	1,331,858	1,266,392	1,381,367	1,447,112	1,390,248	1,231,784	1,197,756
EBIT <sup>1</sup>	354,788	390,744	274,195	232,686	198,741	273,325	338,882	263,852	199,305	196,953
– EBIT margin	22.7%	25.5%	18.4%	17.5%	15.7%	19.8%	23.4%	19.0%	16.2%	16.4%
EBITDA <sup>2</sup>	463,625	502,432	385,437	343,280	306,638	358,188	424,028	345,929	282,493	278,627
– EBITDA margin	29.6%	32.7%	25.8%	25.8%	24.2%	25.9%	29.3%	24.9%	22.9%	23.3%
Net profit	308,150	288,949	244,272	174,008	152,576	245,216	258,474	249,411	163,329	153,730
– Net profit margin	19.7%	18.8%	16.4%	13.1%	12.0%	17.8%	17.9%	17.9%	13.3%	12.8%
Assets	2,537,683	2,235,542	2,184,618	1,985,069	1,919,131	2,427,940	2,208,379	2,129,960	1,916,065	1,837,482
ROA <sup>3</sup>	12.9%	13.1%	11.7%	8.9%	8.0%	10.6%	11.9%	12.3%	8.7%	8.4%
Equity	1,919,085	1,751,812	1,667,516	1,540,270	1,487,699	1,876,142	1,791,850	1,664,178	1,552,300	1,493,325
ROE <sup>4</sup>	16.8%	16.9%	15.2%	11.5%	10.4%	13.4%	15.0%	15.5%	10.7%	10.5%

<sup>1</sup> The difference between operating income and expenses

<sup>2</sup> The difference between operating income and expenses increased by accumulated depreciation

<sup>3</sup> Net profit/Average total asset balance in the year

<sup>4</sup> Net profit/Average shareholders' equity in the year

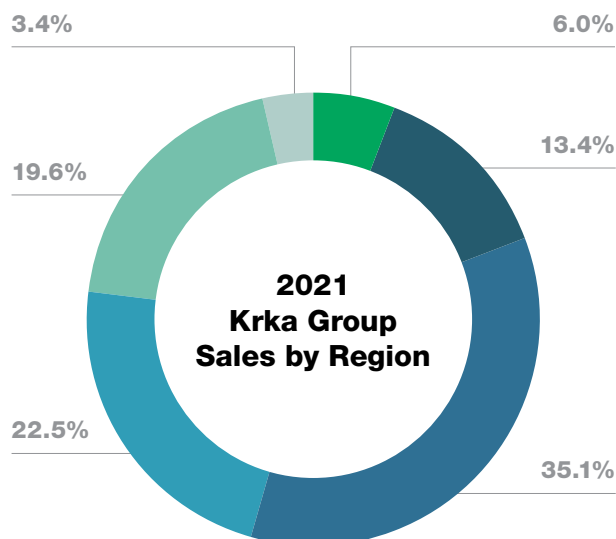
# Marketing and Sales

**In 2021, the Krka Group generated €1,565.8 million from sales of products and services, a 2% year-on-year rise.**

Of that revenue from contracts with customers on sales of products and services amounted to €1,560.3 million, while other revenue from contracts with customers on sales of material and other sales revenue constituted the difference. Sales in markets outside Slovenia reached €1,467.4 million and accounted for 94% of overall Krka Group sales. Product sales volume increased by 2%.

## Sales by Region<sup>23</sup>

Region East Europe recorded the highest sales, €547.8 million or 35.1% of total Krka Group sales. Region Central Europe achieved the second-highest sales, €351.5 million or 22.5% of total Krka Group sales. Region West Europe ranked third in terms of sales with €305.2 million, accounting for 19.6% of total Krka Group sales. Sales generated by Region South-East Europe totalled €209.2 million or 13.4% of total sales, and by Region Overseas Markets €53.7 million or 3.4% of total sales. Region Slovenia generated sales of €92.9 million, accounting for 6% of total Krka Group sales.



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

## Krka Group and Krka Sales by Region

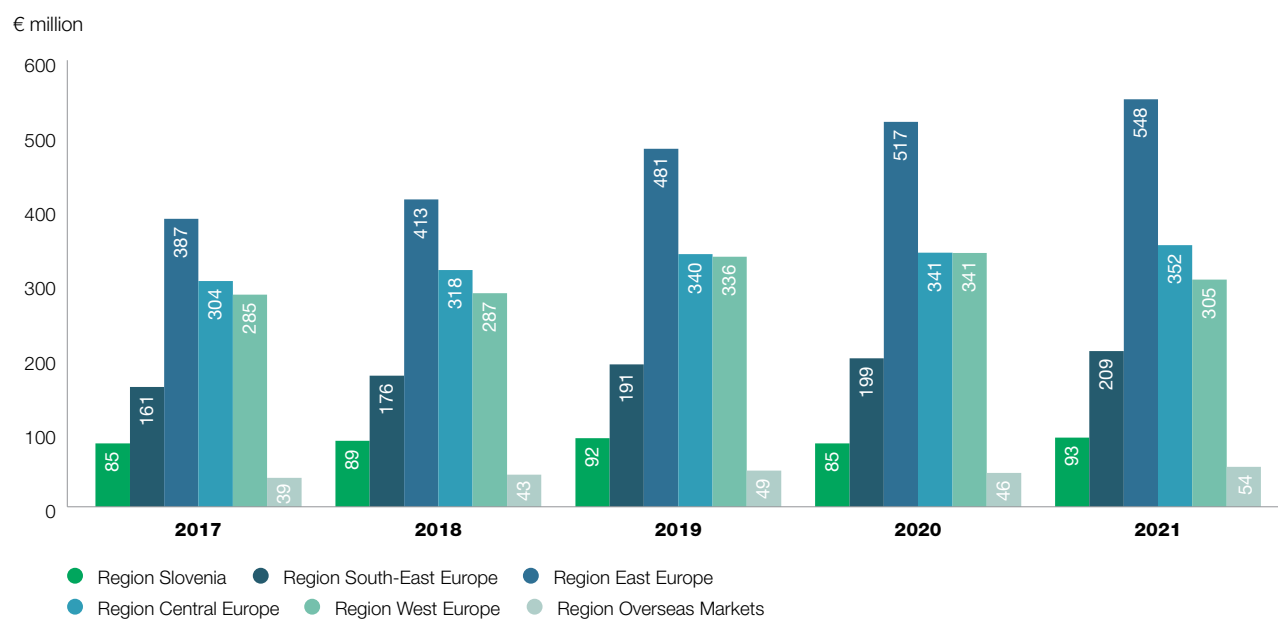
€ thousand	Krka Group			Krka		
	2021	2020	Index 2021/20	2021	2020	Index 2021/20
Region Slovenia	92,880	85,138	109	56,421	55,385	102
Region South-East Europe	209,166	199,406	105	205,491	197,185	104
Region East Europe	547,778	517,231	106	320,973	289,471	111
Region Central Europe	351,501	341,463	103	336,699	325,793	103
Region West Europe	305,246	341,057	89	246,350	313,365	79
Region Overseas Markets	53,717	45,664	118	45,560	40,812	112
<b>Total</b>	<b>1,560,288</b>	<b>1,529,959</b>	<b>102</b>	<b>1,211,494</b>	<b>1,222,011</b>	<b>99</b>

<sup>23</sup> GRI GS 102-6, 102-7

## Quarterly Krka Group Sales by Region

	2021				2020			
€ thousand	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Region Slovenia	18,270	23,502	27,033	24,075	23,325	15,022	26,207	20,584
Region South-East Europe	53,276	58,990	51,900	45,000	63,794	39,740	48,279	47,593
Region East Europe	132,122	144,401	121,226	150,029	153,082	118,606	105,495	140,048
Region Central Europe	97,805	91,098	82,955	79,643	113,706	68,969	79,328	79,460
Region West Europe	80,535	79,087	69,334	76,290	94,312	87,260	81,458	78,027
Region Overseas Markets	12,515	14,945	14,298	11,959	13,510	10,521	13,951	7,682
<b>Total</b>	<b>394,523</b>	<b>412,023</b>	<b>366,746</b>	<b>386,996</b>	<b>461,729</b>	<b>340,118</b>	<b>354,718</b>	<b>373,394</b>

## Krka Group Sales by Region in Past Five Years



Revenue since 2017 is presented in compliance with the *IFRS 15*.

## Region Slovenia

In Slovenia, one of Krka's key markets, sales of products and services amounted to €92.9 million in 2021. Product sales reached €56.4 million, accounting for 2% growth in value. Prescription pharmaceuticals made up a major proportion of sales or 74%. Non-prescription products accounted for 21%, and sales of animal health products generated the remaining 5%. Holding a 7.4% market share, we maintained the leading position among providers of generic medicines in Slovenia in terms of sales value. Health resorts and tourist services generated €36.5 million, up 23% on the year before, contributing to 9% sales growth in the domestic market.

Medicines for the treatment of cardiovascular diseases, pain, the gastrointestinal tract, and the central nervous system contributed to the highest prescription pharmaceutical sales. Market shares of all key therapeutic classes of prescription medicines increased.

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

Our most prominent pain relievers were Nalgesin Forte (naproxen) and Doreta (tramadol/paracetamol), including Doreta SR (tramadol/paracetamol) prolonged-release tablets. We placed on the markets our non-opioid analgesic Algomin (metamizole). Nolzapa (pantoprazole) and Emozul (esomeprazole) were our most notable agents for treating gastrointestinal diseases. From our range for the central nervous system, our most prominent brands included: Asentra (sertraline); Mirzaten (mirtazapine); Dulsevia (duloxetine); Kventiax (quetiapine); Parnido (paliperidone); and Memaxa (memantine). We added to our product portfolio Vitamin D3 Krka (cholecalciferol) available on prescription and an oncology agent Pemetrexed Krka (pemetrexed).

Sales of non-prescription products were driven by Magnezij Krka, followed by Nalgesin S (naproxen), and Vitamin D3 Krka (cholecalciferol). Sales of animal health products were driven by Fypryst Combo (fipronil/S-methoprene), Rycarfa (carprofen), and Grovit vitamins and minerals.

## Krka Group Market Position in Slovenia



**Holding a 7.4% market share, we placed first among all providers of generic medicines. Of all medicines sold in Slovenia, one in five was made by Krka.**

# No. 1

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 more than a 55% 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, anxiolytics, anti-dementia medicines, and antidepressants, accounting for approximately a 35% market share.

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

We were the leading provider of generic medicines containing aripiprazole; duloxetine; etoricoxib; olanzapine; tamsulosin; 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; magnesium-containing products; and vitamin D.

Among medicines that generated strongest sales were: Nalgesin (naproxen); Nolzapa (pantoprazole); Sorvasta (rosuvastatin); Prenewel (perindopril/indapamide); Prenessa (perindopril); and Doreta (paracetamol/tramadol).



## Region South-East Europe

Product sales in Region South-East Europe amounted to €209.2 million, a 5% year-on-year increase. We recorded growth on all regional markets. Serbia recorded the highest absolute sales growth of €2.4 million year on year. In terms of absolute sales growth, it was followed by North Macedonia and Bulgaria, where sales increased by €2.1 million and €1.9 million, respectively.

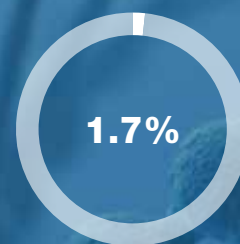
Prescription pharmaceuticals accounted for almost 87% of regional sales and were followed by non-prescription products at just shy of 10%. Animal health products constituted slightly less than 4% of total regional sales. Our leading product group of prescription pharmaceuticals achieved 6% growth year on year. Non-prescription product sales advanced by 2%, while animal health products lagged behind the 2020 sales figure by 1%.

In **Romania**, one of our key markets and the largest regional one, year-on-year sales increased by 1% to €58.6 million. We held a 2.1% market share, or more than 6.8% of the market share volume, ranking us the country's third foreign provider of generic prescription pharmaceuticals. Our most important medicines in terms of sales were: Atoris (atorvastatin); Co-Prenessa (perindopril/indapamide); Doreta (tramadol/paracetamol); Roswera (rosuvastatin); Nolpaza (pantoprazole); and Dexametazona Krka (dexamethasone). Our best-selling non-prescription products were Bilobil (ginkgo leaf extract) and Nalgesin (naproxen) in that order. Companion animal products constituted the major part of animal health product sales, notably Fypryst (fipronil) and Milprazon (milbemycin/praziquantel).

**Croatia**, our another key market, ranked second in the region in terms of sales. Croatian sales totalled €36.1 million, up 2% on 2020. We ranked fifth among all providers of generic medicines and placed second among manufacturers of animal health products. Year-on-year sales of prescription pharmaceuticals and non-prescription products increased, while sales of animal health products decreased.

According to the plan, sales of prescription pharmaceuticals generated the highest value, above all: Atoris (atorvastatin); Emanera (esomeprazole); Co-Perineva (perindopril/indapamide); Roswera (rosuvastatin); Co-Dalneva (perindopril/amlodipine/indapamide); Valsacombi (valsartan/hydrochlorothiazide); Helex (alprazolam); and Dexamethason Krka (dexamethasone). Of non-prescription products, Nalgesin (naproxen) and the Septolete brand products recorded the strongest sales. Sales of Fypryst (fipronil) and Enroxil (enrofloxacin) were most substantial in the animal health range.

## Krka Group Market Position in Romania



**We ranked fifth among foreign providers of generic medicines holding a 1.7% market share.**

# No. 5

We were among the leading providers of:

- SNRI antidepressants, accounting for more than a 55% market share;
- Statins, accounting for more than a 20% market share;
- Antimicrobials (fluoroquinolones), accounting for approximately a 20% market share;
- Prescription analgesics and antipyretics, accounting for approximately a 20% market share;
- Angiotensin II receptor antagonists, also their combinations with diuretics, accounting for approximately a 15% market share;
- ACE inhibitors and ACE-based combinations, accounting for more than 10% market share.

We were the leading provider of medicines containing ciprofloxacin; dexamethasone; 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; combination of perindopril and indapamide; and combination of perindopril, indapamide, and amlodipine.

## Krka Group Market Position in Croatia

3.2%

We placed third among foreign providers of generic medicines, holding a 3.2% market share.

# No. 3

We were the leading provider of:

- Angiotensin II receptor antagonists, also their combinations with diuretics, accounting for more than a 60% market share;
- Antimicrobials (oral fluoroquinolones), accounting for more than a 55% market share;
- Antitussives, accounting for more than a 35% market share;
- Statins, accounting for approximately a 30% market share;
- ACE inhibitors and ACE-based combinations with diuretics, accounting for more than a 25% market share;
- Antidepressants, accounting for more than a 15% market share.

We were among the leading providers of:

- Mono-component corticosteroids for systemic treatment, accounting for more than a 40% market share;
- Typical antipsychotics, accounting for approximately a 30% market share;
- Sulphonamide antidiabetics, accounting for more than a 25% market share;
- Proton pump inhibitors, accounting for approximately a 25% market share;
- Anxiolytics, accounting for more than a 15% market share;
- ACE inhibitors and ACE-based combinations with calcium channel blockers, accounting for more than a 15% market share;
- Angiotensin II receptor antagonists, also in combination with calcium channel blockers, accounting for more than a 15% market share.

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

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

**Serbia** generated €30.2 million in sales and recorded 9% growth, ranking it third among regional markets. Owing to strong sales of prescription pharmaceuticals in pharmacies, rapid market share growth continued. Their share grew by 10% and accounted for 87% of total sales. Nalpaza (pantoprazole); Co Amlessa (perindopril/amlodipine/indapamide); Roxera (rosuvastatin); Co-Prenessa (perindopril/indapamide); Atoris (atorvastatin); and Ampiril (ramipril) were key medicines from this group. Nalpaza (pantoprazole) with 6.3 million packs sold and 16% year-on-year sales value growth remained one of five medicines presenting strongest sales in Serbia. Nalgesin (naproxen), Bilobil (ginkgo leaf extract), and products sold under the Septotele brand generated strongest non-prescription product sales, down 2% in terms of value. Sales of animal health products increased by 3% compared to 2020. Fypryst (fipronil); Dehinel; Enroxil (enrofloxacin); and Tuloxin (tulathromycin) were at the forefront.

In **Bulgaria**, sales climbed for the eighth consecutive year, primarily due to successful expansion of our product range in several therapeutic areas, and rapid adaptation to the state of the market. Prescription pharmaceuticals climbed by 8% to €25.5 million and contributed the most to overall sales. Co-Valsacor (valsartan/hydrochlorothiazide); Valsacor (valsartan); Roswera (rosuvastatin); Co-Amlessa (perindopril/amlodipine/indapamide); Dexamethason Krka (dexamethasone); Nalpaza (pantoprazole); and Wamlox (valsartan/amlodipine) generated strongest sales. Non-prescription product sales climbed by 11% on 2020, while animal health products advanced by 5%.

We have recorded sales growth in **North Macedonia** for seventeen successive years. Sales totalled €24.3 million, up a good 9% on 2020. Krka remained the leading foreign provider of generic medicines in the country. Contributing most to sales total, prescription pharmaceuticals were pivotal, in particular: Roswera (rosuvastatin); Nalpaza (pantoprazole); Enap (enalapril); Co-Prenessa (perindopril/indapamide) Atoris (atorvastatin); Tanyz (tamsulosin); and Lorista (losartan). Our non-prescription product sales went up by 25% on 2020, and were driven by: Daleron (paracetamol); Septanazal (xylometazoline/dexpantenol); Bilobil (ginkgo leaf extract); Septotele Total (benzylpyridinium chloride); and Nalgesin (naproxen). We increased sales of animal health products by 29%. Fypryst (fipronil) and Floron (florfenicol) contributed to the increase the most. In 2021, we started marketing several products in North Macedonia, most notably our prescription pharmaceutical Xerdoxo (rivaroxaban).

In **Bosnia and Herzegovina**, we recorded sales of €20.3 million, up 1% on 2020. Despite restrictions that applied to foreign manufacturers on certain reimbursement lists, we maintained the leading position among foreign providers of generic medicines on the

market. Sales were driven in particular by prescription pharmaceuticals. Agents that recorded strongest sales were: Enap H/HL (enalapril/hydrochlorothiazide); Lexaurin (bromazepam); Roswera (rosuvastatin); Enap (enalapril); Nolpaza (pantoprazole); Atoris (atorvastatin); Amlewel (perindopril/amlodipine/indapamide); and Lorista H/HD (losartan/hydrochlorothiazide). Non-prescription product sales were driven by: Nalgesin (naproxen); B-Complex; the Septotele brand products; Panatus (butamirate); and Bilobil (ginkgo leaf extract). Key animal health products were Fypryst (fipronil), Rycarfa (carprofen), and Calfoset. In 2021, we started marketing several products, most notably our prescription pharmaceutical, Xerdoxo (rivaroxaban) and a non-prescription product, Vitamin D3 Krka (cholecalciferol).

In **Kosovo**, we recorded a 12% sales increase, placing us among the leading providers of medicines in the country. Sales reached €7.9 million. Year-on-year sales went up by 7% to €3.6 million in **Albania**. As we expected, prescription pharmaceuticals constituted the mass of sales total. Utop (omeprazole), Atoris (atorvastatin), and Nolpaza (pantoprazole) generated strongest prescription pharmaceutical sales. In **Montenegro**, sales totalled €2 million, up 6%. Overall country sales were driven by prescription pharmaceuticals, in particular Nolpaza (pantoprazole), Lorista (losartan), and Roswera (rosuvastatin). In 2021, we launched several medicines in the country, most notably Sobycor (bisoprolol); Naklofen Duo (diclofenac); Nalgesin Relief (naproxen); and Vitamin D3 Krka (cholecalciferol). In **Greece**, we started promoting our own products and in the first year generated product sales totalling €0.55 million. Strongest sales were made by prescription pharmaceuticals, above all Pitavador (pitavastatin); Rosuvador (rosuvastatin); Co-Valsareta (valsartan/hydrochlorothiazide); and Zoletad (lansoprazole).

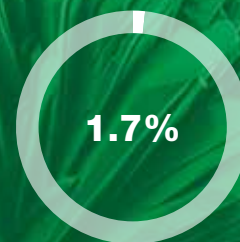
## Region East Europe

Region East Europe remained our leading sales region in 2021, with €547.8 million in sales, up 6% year on year. The two key regional markets contributed most to the result. We also recorded growth in all other regional markets, except in Armenia and Tajikistan.

The **Russian Federation** remained our leading regional and largest individual market. Sales reached €332.9 million, or €6 million more than in 2020, accounting for just shy of 2% growth. Growth denominated in the Russian rouble was 9%. We were the leading provider of generic prescription pharmaceuticals in the pharmacy segment.

The leading product group was prescription pharmaceuticals, which constituted 83% of overall sales

## Krka Group Market Position in the Russian Federation



We ranked third among foreign providers of generic medicines holding a 1.7% market share.

# No. 3

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

We were the leading provider of generic prescription pharmaceuticals in the pharmacy segment.

We were the leading provider of:

- Angiotensin II receptor antagonists, also in combinations, accounting for more than a 35% market share;
- Statins, accounting for more than a 20% market share.

We were among the leading providers of:

- ACE inhibitors and ACE-based combinations, accounting for approximately a 20% market share;
- Proton pump inhibitors, accounting for approximately 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.

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

We were the leading provider of generic medicines containing escitalopram; esomeprazole; ivabradine; clopidogrel; perindopril, including all perindopril-based combinations with amlodipine and indapamide; ramipril; rosuvastatin; telmisartan; and valsartan in combination with amlodipine and hydrochlorothiazide.

## Krka Group Market Position in Ukraine



**We ranked second among foreign providers of generic medicines holding a 2.5% market share.**

# No. 2

We were the leading provider of:

- Parenteral corticosteroids, accounting for more than a 35% market share;
- Statins, accounting for more than a 35% market share;
- Angiotensin-II antagonists, also in combinations, accounting for more than a 30% market share;
- ACE inhibitors, also ACE-based 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;
- Antimicrobials (oral fluoroquinolones), 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; perindopril in combination with indapamide; rosuvastatin; simvastatin; and valsartan.

We were the leading provider of generic medicines containing betamethasone; perindopril; perindopril in combination with amlodipine; and perindopril in combination with amlodipine and indapamide.

and remained at the 2020 level. Our medicines that recorded strongest sales were: Lorista (losartan); Valsacor (valsartan); Lorista H/HD (losartan/hydrochlorothiazide); Nolpaza (pantoprazole); Atoris (atorvastatin); Co-Perineva (perindopril/indapamide); Roxera (rosuvastatin); Vamloset (valsartan/amlodipine); Valsacor H/HD (valsartan/hydrochlorothiazide); and Co-Dalvea (perindopril/amlodipine/indapamide). We successfully 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 total of €38.4 million, up 19% on 2020. Septotele Total (benzylamine/cetylpyridinium chloride), products sold under the Herbion brand, and Nalgesin (naproxen) were at the forefront. We also recorded solid sales of Panatus (butamirate), Flebaven (diosmin/hesperidin), and Sleepzone (doxylamine).

Sales of animal health products were valued at €18.2 million, up 2%. Doxatib (doxycycline), Milprazon (milbemycin/praziquantel), and Enroxil (enrofloxacin) generated strongest sales.

We have been increasing the production capacity of our subsidiary Krka-Rus, which manufactures more than 75% of Krka products on demand in the Russian Federation.

In **Ukraine**, also our key market, sales of pharmaceuticals stagnated over the past few years. We, however, recorded sales growth again in 2021. Value of the domestic currency spurred market growth in terms of value in the euro, even though sales volume presented a drop. Sales volume increased by 11%, generating total sales of €96.4 million, up 12% on 2020. We ranked second among foreign providers of generic medicines holding a 2.5% market share. Prescription pharmaceuticals were the leading product group and presented 11% growth primarily owing to: Dexamethason (dexamethasone); Co-Amlessa (perindopril/amlodipine/indapamide); Co-Prenessa (perindopril/indapamide); Nolpaza (pantoprazole); and Valsacor (valsartan). Sales of non-prescription products increased by 23%. The Herbion brand products, Nalgesin (naproxen), and the Septotele brand products achieved the highest sales. Sales of animal health products increased by 2% compared to 2020.



## Subregion East Europe B

In Subregion East Europe B, which includes Belarus, Mongolia, Armenia, and Azerbaijan, our product sales reached €43.7 million, up 20%. In Belarus, Mongolia, and Azerbaijan our product sales saw two-digit growth.

Sales in **Belarus** totalled €20.1 million, up 14% on 2020. We increased our market share by above-average growth dynamics in terms of value and volume and retained second place among foreign providers of generic medicines. Co-Amlessa (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), and Lorista H/HD (losartan/hydrochlorothiazide) accounted for the mass of prescription pharmaceuticals, our key product group. We launched Kventiax (quetiapine); Telmista H (telmisartan/hydrochlorothiazide); Telmista (telmisartan); and Elicea (escitalopram). In the non-prescription product range, the Septotele and Herbion brand products sold best. Sales of our animal health products generated €0.6 million.

In **Mongolia**, we recorded €12.6 million sales total and 48% year-on-year growth, maintaining the position of the leading foreign provider of medicines. Growth of prescription pharmaceuticals was driven essentially by a sharp rise in sales of cardiovascular agents. Lorista (losartan) and Nolpaza (pantoprazole) surpassed sales of €1 million. Of our most new products, Vamloset (valsartan/amlodipine) and Emanera (esomeprazole) were most notable, recording high sales increases.

In 2021, we started marketing Co-Vamloset (valsartan/amlodipine/hydrochlorothiazide), Pregabalin (pregabalin), and a non-prescription product Septotele Total honey-and-lemon flavour lozenges. Non-prescription product sales were driven by Bilobil (ginkgo leaf extract), the Duovit brand products, and Nalgesin (naproxen).

In **Azerbaijan**, our product sales reached €6.5 million, up 13% on 2020, and placed us among the leading generic manufacturers in the country, holding a 2.9% market share. Sales of prescription pharmaceuticals, our leading product group, climbed by 12%, while non-prescription products lagged behind 2020 sales figures. Sales of animal health products totalled €0.2 million.

In **Armenia**, we generated €4.4 million by product sales, a 2% drop on 2020 primarily due to a sharp decrease in prices. By increasing our market share to 4.2%, we ranked first among providers of generic medicines in the country. Prescription pharmaceuticals generated the major proportion, or 87% of sales, above all Co-Amlessa (perindopril/amlodipine/indapamide), Captopril (captopril), and Dexamethasone (dexamethasone). We recorded an 11% increase in sales of non-prescription products. Sales of non-prescription products were driven by products from the Septotele and Herbion brands.

## Subregion East Europe K

Product sales in Kazakhstan, Moldova, and Kyrgyzstan were valued at €32.5 million, up 5% year on year. We recorded growth in all markets of the subregion.

In **Kazakhstan**, product sales generated €15.9 million, up 3% on 2020, despite the high exposure to currency risk as prices for our products are registered in national currency. Denominated in national currency, we achieved 14% sales growth. Prescription pharmaceuticals accounted for 68% of country sales, the same as in 2020. Sales were driven by: Nolpaza (pantoprazole); Enap (enalapril); Atoris (atorvastatin); Valodip (valsartan/amlodipine); and Valsacor (valsartan). Of prescription pharmaceuticals, we started marketing Co-Valodip (valsartan/amlodipine/hydrochlorothiazide). Sales of non-prescription products amounted to €4.2 million, up 5%. Products sold under the Herbion, Septotele, and Duovit brands recorded the strongest sales. We successfully launched Herbion Ivy lozenges. Animal health products generated €0.9 million in sales, up 65%.

Product sales in **Moldova** generated €11.5 million, or 8% more than in 2020. We maintained the high market share and remained the leading provider of prescription pharmaceuticals, accounting for 77% of overall country sales, up 9%. Lorista (losartan), Dexamethason (dexamethasone), and Rawel (indapamide) generated the bulk of sales total. We started marketing two new products, Dekenor (dexketoprofen) and Mirzaten (mirtazapine). Sales of non-prescription products amounted to €2.4 million, up 7%. The leading non-prescription products were Septanazal (xylometazoline/dexpantenol), Septotele Total (benzylamine/cetylpyridinium chloride), and the Herbion brand products. Sales of our animal health products generated €0.3 million.

In **Kyrgyzstan**, our sales were affected by government regulations for improving accessibility of therapy, above all regulation of medicine prices in the compulsory health insurance reimbursement list and reimbursement list for the treatment of the COVID-19 infections, and release of medicine imports. We generated €5.1 million by product sales and recorded a 2% increase, winning us a 3.6% market share, which placed us second among providers of generic pharmaceuticals. Prescription pharmaceuticals accounted for the major (74%) share of total sales. Lorista (losartan), Atoris (atorvastatin), and Nolpaza (pantoprazole) generated strongest sales. Of non-prescription products, sales were driven by Septotele, Herbion, and Pikovit brand products. We successfully launched Herbion Ivy lozenges.

## Subregion East Europe U

Our Subregion East Europe U, composed of Uzbekistan, Georgia, Tajikistan and Turkmenistan, generated €42.3 million by product sales, up 15%. While sales advanced in Uzbekistan, Georgia, and Turkmenistan, they presented a drop in Tajikistan.

Product sales in **Uzbekistan** totalled €31.2 million, up 18% on 2020. We ranked second among the most important providers of medicines in the country and were the leading provider of medicines for the treatment of cardiovascular diseases. Of our prescription pharmaceuticals, Amlessa (perindopril/amlodipine), Lorista (losartan), and Nolpaza (pantoprazole) generated the strongest sales. Key non-prescription products were those marketed under the Septotele and Pikovit brands.

Our product sales amounted to €7 million in **Georgia**, a 14% year-on-year increase. Our 4.4% market share ranked us fifth among all providers of medicines in the country. Prescription pharmaceuticals were key in terms of sales, above all Lorista H/HD (losartan/hydrochlorothiazide), Co-Amlessa (perindopril/amlodipine/indapamide), and Atoris (atorvastatin).

Key non-prescription products were Nalgesin (naproxen), and the Panzynorm and Herbion product brands.

In **Tajikistan**, sales reached €2.2 million, an 8% year-on-year drop. Pikovit, a non-prescription product, remained our best-selling product in the country. Nolpaza (pantoprazole) and Co-Amlessa (perindopril/amlodipine/indapamide) were our new products that contributed to sales growth the most.

In **Turkmenistan**, product sales amounted to €1.8 million, recording a 2% year-on-year increase. Nolpaza (pantoprazole) and Amlessa (perindopril/amlodipine) from our leading product group of prescription pharmaceuticals, and the Pikovit and Herbion brand products of non-prescription products generated the strongest sales.

## Region Central Europe

Region Central Europe product sales totalled €351.5 million, up 3%. We recorded sales growth in all regional markets. 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 €166.7 million, up 2% on 2020. We placed third among foreign providers of generic medicines. Sales were driven by prescription pharmaceuticals, most notably pharmaceuticals from the reimbursement list. Our new medicines placed

### Krka Group Market Position in Poland

2.3%

We ranked third among foreign providers of generic medicines, holding a 2.3% market share.

# No. 3

We were the leading provider of:

- Angiotensin II receptor antagonists, also in combinations, accounting for approximately a 40% 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;
- Proton pump inhibitors, accounting for approximately a 15% market share;
- Aminosaliclates for bowel disease, accounting for approximately a 15% market share;
- ACE inhibitors and ACE-based combinations, accounting for more than 10% market share;
- Antimicrobials (fluoroquinolones), accounting for more than a 10% market share;
- Antiparkinsonians, accounting for approximately a 10% market share.

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

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

on the market in the past years also contributed significantly to sales.

We focused on medicines for the treatment of cardiovascular diseases. Despite market pressures, sartan sales remained at the 2020 level, maintaining our leading position among providers of products from the sartan family. Our most notable new medicines launched in the recent years were Valtricom (valsartan/amlodipine/hydrochlorothiazide), the first generic medicine put on the reimbursement list at the end of 2020, and Co-Roswera (rosuvastatin/ezetimibe), whose sales more than doubled from 2020. Through sales of our lipid lowering agents, notably Atoris (atorvastatin) and Roswera (rosuvastatin), we maintained the position of the leading provider of medicines despite sharp competition and price pressure. Owing to Doreta (tramadol/paracetamol), which accounted for approximately 60% market share, we were the leading provider of this combination for pain relief. We should also mention the more than 20% increase in sales of central nervous system agents, where Dulsevia (duloxetine) was a significant contributor. We retained the leading position among all providers regarding prescription pharmaceuticals from the reimbursement list 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 edged down compared to 2020. The leading non-prescription products were those of the Septotele brand, followed by Bilobil (ginkgo leaf extract). Nolpaza (pantoprazole) from the same product group advanced by 10%. Sales of animal health products also edged down on 2020. Generating the strongest sales, Milprazon (milbemycin/praziquantel) grew by 6% and Floron (florfenicol) by 11%, respectively.

**Hungary**, another key market of Krka, generated sales of €50.3 million, up 1% year on year, placing the country second among our regional markets. We ranked second among primarily foreign providers of generic medicines in the country, holding a 1.8% market share. Prescription pharmaceuticals contributed most to sales, in particular: Co-Prenessa (perindopril/indapamide); Roxera (rosuvastatin); Valsacor (valsartan); Emanera (esomeprazole); Atoris (atorvastatin); and Zyllt (clopidogrel).

Sales of non-prescription products generated €3.4 million, up 31% on 2020. Sales were driven by Bilobil (ginkgo leaf extract), Venter (sucralfate), and Flebaven (diosmin). Our animal health product sales saw a decrease. Milprazon (milbemycin/praziquantel) and Fypryst (fipronil) generated the strongest sales.

## Krka Group Market Position in Hungary

1.8%

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

# No. 2

We were the leading provider of:

- SNRI antidepressants, accounting for approximately a 40% market share;
- Angiotensin II receptor antagonists, also in combination with diuretics, accounting for more than a 35% market share;
- Platelet aggregation inhibitors (ADP receptor antagonists), accounting for approximately a 35% market share;
- Mono-component thiazide diuretics and analogues, with a market share of over 25%;
- Antimicrobials (oral fluoroquinolones), accounting for approximately a 25% market share.

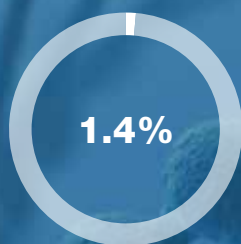
We were among the leading providers of:

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

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

We were the leading provider of generic medicines containing aripiprazole, glimepiride, and tadalafil.

## Krka Group Market Position in the Czech Republic



We ranked fourth among foreign providers of generic medicines, holding a 1.4% market share.

# No. 4

We were the leading provider of:

- Sulphonamide antidiabetics, accounting for approximately a 30% market share;
- Mono-component products used in the treatment of benign hypertrophy of the prostate, accounting for more than a 15% market share.

We were among the leading providers of:

- Anxiolytics, accounting for more than a 30% market share;
- Angiotensin II receptor antagonists, also combinations with diuretics, accounting for approximately a 25% market share;
- Statins, accounting for more than a 20% market share;
- Proton pump inhibitors, accounting for approximately a 20% market share;
- SSRI and SNRI antidepressants, accounting for more than a 15% market share;
- ACE inhibitors and ACE-based combinations with diuretics, accounting for approximately a 15% market share.

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

We were the leading provider of generic medicines containing: aripiprazole; escitalopram; levocetirizine; pantoprazole; perindopril, including all perindopril-based combinations with amlodipine and indapamide; sulfasalazine; tadalafil; and tamsulosin.

In the **Czech Republic**, also one of our key markets, sales of €48 million increased by 5% on the 2020 figure. We ranked fourth among foreign providers of generic medicines, holding a 1.4% market share. Prescription pharmaceuticals maintained the leading position, above all: Lexaurin (bromazepam); Atoris (atorvastatin); Sorvasta (rosuvastatin); Nolpaza (pantoprazole); Tonanda (perindopril/amlodipine/indapamide); Doreta (tramadol/paracetamol), Asentra (sertraline), Kventiax (quetiapine), Elicea (escitalopram); and Prenewel (perindopril/indapamide).

Sales of non-prescription products decreased by 3%. In addition to Nalgesin S (naproxen), Bisacodyl (bisacodyl) and Septotele brand products sold best. Sales of animal health products decreased by 14%. The leading products were Dehinel and Fypryst (fipronil).

In **Slovakia**, another key market, which ranked fourth among the regional markets, product sales totalled €40.3 million, up 5%. Prescription pharmaceuticals were the leading product group in terms of sales, above all: Co-Prenessa (perindopril/indapamide); Nolpaza (pantoprazole); Atoris (atorvastatin); Co-Amlessa (perindopril/amlodipine/indapamide); Prenessa (perindopril); and Lexaurin (bromazepam). Year on year, sales of non-prescription products went up by 8%. Best-selling products were Nalgesin S (naproxen) and Flebaven (diosmin). We also recorded 8% growth in animal health products, with Enroxil (enrofloxacin) and Fypryst (fipronil) at the forefront.

Sales in **Lithuania** totalled €21.5 million, up 4% on 2020. Prescription pharmaceuticals, above all: Captopril (captopril); Nolpaza (pantoprazole); Roswera (rosuvastatin); Atoris (atorvastatin); and Valsacombi (valsartan/hydrochlorothiazide) constituted the major part of overall sales. Sales of non-prescription products jumped by 35%. Key products were Septabene (benzylamine/cetylpyridinium chloride) and Nalgesin S (naproxen). Animal health product sales of €1.5 million were 2% beneath the 2020 figures.

In **Latvia**, sales reached €15 million in 2021, a 6% year-on-year rise. By this attainment, Krka strengthened its leading position among providers of generic medicines in the country. As expected, prescription pharmaceuticals accounted for the major part of sales total, above all Co-Amlessa (perindopril/amlodipine/indapamide); Sorvasta (rosuvastatin); Prenewel (perindopril/indapamide); and Nolpaza (naproxen). Sales of non-prescription products generated €1.4 million, the same as in 2020. The leading products were Nalgedol (naproxen) and Septanazol (xylometazoline/dexpanthenol). Animal health product sales decreased by 14%.



## Krka Group Market Position in Slovakia



2.7%

We ranked third among all providers of generic pharmaceuticals, holding a 2.7% market share.

# No. 3

We were the leading provider of:

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

We were among the leading providers of:

- Sulphonamide antidiabetics, accounting for approximately a 25% market share;
- ACE inhibitors and ACE-based 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, dexamethasone; duloxetine; escitalopram; indapamide; carvedilol; quetiapine; paliperidone; pantoprazole; pramipexole; tramadol in combination with paracetamol; venlafaxine; valsartan, including valsartan in combination with hydrochlorothiazide.

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

In **Estonia**, sales totalled €9.8 million, slightly more than in 2020. Prescription pharmaceuticals again contributed most to total sales, above all: Co-Prenessa (perindopril/indapamide); Roswera (rosuvastatin); Co-Dalnessa (perindopril/amlodipine/indapamide); Atoris (atorvastatin); and Prenessa (perindopril). Non-prescription product sales advanced by 7% on 2020. Septolete Omni (benzylamine/cetylpyridinium chloride) and Nalgesin S (naproxen) remained the leading product in terms of sales. Animal health product sales decreased by 19%.

## Region West Europe

The markets of Region West Europe are collectively regarded as one of our key markets. Regional sales amounted to €305.2 million in 2021, an 11% year-on-year decrease. Germany, the Scandinavian countries, France, and Italy led in terms of sales. Sales through our subsidiaries amounted to €234 million, a 7% drop on 2020 primarily due to an increased price pressure exerted by competitors and fewer product launches. We generated 23% of regional sales through unrelated parties.

Sales generated by prescription pharmaceuticals, our leading product group, decreased from 2020 and accounted for 87% of overall sales. Medicines containing esomeprazole, candesartan, valsartan, clopidogrel, and venlafaxine were at the forefront. We remained one of the leading sartan providers on regional markets of western Europe.

Animal health products recorded a 27% increase, and accounted for a good 11% of total sales. Sales through related parties reached 28% growth in 2021, 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, products containing fipronil, and tulathromycin-based products.

Non-prescription products grew by 4% and accounted for slightly less than 2% of total sales. Paracetamol-based products, the Septolete brand products, and diosmin-based products were best-selling non-prescription products.

In **Germany**, our most important regional market, sales totalled €80.3 million, down 12% on 2020. Sales through our subsidiary TAD Pharma amounted to €76.5 million. Our most important products in terms of sales 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 2021, we strengthened our position as the leading provider of sartans in terms of sales volume. In 2021, medicines containing candesartan, valsartan, ramipril, and esomeprazole recorded strongest sales.

## Krka's Big Five



### Product sales exceeding one billion tablets

- Valsartan group of products
- Perindopril group of products
- Losartan group of products
- Atorvastatin products
- Pantoprazole products

In the **Scandinavian countries**, sales totalled €49.1 million. Our product sales were most substantial in **Sweden**, followed by **Finland, Norway, Denmark, and Iceland**. Sales through our subsidiaries Krka Sverige and Krka Finland fell by 19% and 3%, respectively. Overall sales through subsidiaries reached 98%. Sales were driven by medicines containing esomeprazole, losartan, candesartan, venlafaxine, and sertraline. In Norway, we retained the leading position by many medicines, above all those containing esomeprazole, pantoprazole, losartan, valsartan, candesartan, enalapril, and venlafaxine.

Sales in **France** totalled €37.6 million, similar to 2020. Sales through unrelated parties accounted for more than 60%. Medicines that sold best contained esomeprazole, clopidogrel, and gliclazide, and a combination of milbemycin and praziquantel – an animal health product. Sales through our subsidiary Krka France recorded a 26% year-on-year rise in terms of value. The majority of sales were generated by prescription pharmaceuticals, most notably those containing tadalafil, emtricitabine in combination with tenofovir, and dasatinib. In the non-prescription product group, medicines containing paracetamol stood out and were the second best-selling product of the subsidiary also in 2021. We should also mention strong sales of our animal health products for

protecting companion animals against parasites, above all the combination of milbemycin and praziquantel.

In **Italy**, year-on-year sales in terms of value slipped by 11% to €30.7 million. Products marketed under our own brand names decreased by 4% and accounted for 71% of sales. However, sales of our animal health products increased. The leading prescription pharmaceuticals were products containing pantoprazole, clopidogrel, esomeprazole, paliperidone, and gliclazide.

In **Portugal**, sales totalled €23.1 million, a 6% drop on 2020. Sales of products under our own brand names went up by 11% and accounted for 77% of our total sales in the country. All product groups contributed to the rise. Prescription pharmaceuticals recorded the highest absolute growth maintaining the 6% generic market share. Of leading prescription pharmaceuticals, we should mention esomeprazole products; the single-pill combination of rosuvastatin and ezetimibe; the single-pill combination of perindopril and indapamide; and an olanzapine product.

In **Spain**, year-on-year sales in terms of value slipped by 37% to €22.6 million. While 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, tulathromycin, pramipexole, galantamine, and esomeprazole generated strongest sales.

In the **Benelux countries**, sales amounted to €17.3 million, a 4% year-on-year rise. Strongest sales were generated by products sold under our own brands, as their sales climbed by over 30% from 2020. Sales of medicines containing valsartan, esomeprazole, and a combination of milbemycin and praziquantel were the highest.

Sales in the **United Kingdom** advanced by 9% compared to the year before and reached €14 million. Medicines containing esomeprazole and duloxetine generated strongest sales. Our subsidiary Krka UK increased sales by 64% compared to 2020, accounting for 48% of our overall sales in the country.

In **Ireland**, we made €11.6 million by product sales and exceeded the 2020 sales by 13%. Sales through our subsidiary Krka Pharma Dublin went up by 12% and accounted for 86% of total sales in the country. We were one of the leading providers of generic medicines containing esomeprazole; tadalafil; venlafaxine; candesartan; valsartan; aripiprazole; indapamide; and duloxetine.

In **Austria**, our sales grew by 6% to €10.5 million. Medicines containing pregabalin, duloxetine, and valsartan were heading in terms of sales. The proportion of sales through our subsidiary Krka Pharma Wien grew by 7% and accounted for 95%.

In **other European countries**, we sold most products through unrelated parties. Sales in 2021 reached €8.4 million, similar to 2020.

## Region Overseas Markets

Region Overseas Markets generated sales of €53.7 million, an 18% year-on-year rise. All three sales offices recorded sales growth. Prescription pharmaceuticals contributed to the increase the most. We primarily marketed them under our own brands, and they constituted over 90% of total regional sales.

Year-on-year sales in the **Middle East** countries increased by 42% to €24.2 million, primarily due to increased sales to Iran, which remained our largest regional market. We recorded the highest relative growth in the United Arab Emirates, where we expect high sales growth rates also in the future. In the Middle East countries, our most saleable products included: Asentra (sertraline); Zyllt (clopidogrel); Nolpaza (pantoprazole); Valsacor (valsartan); and Yasnal (donepezil).

Product sales in the **Far East and Africa** markets reached €28 million, up 3% on 2020. Products containing pregabalin; esomeprazole; gliclazide; saw palmetto extract; and lansoprazole generated the strongest sales. In **Vietnam**, which remained our largest individual and the second-largest market in the region, sales declined by 8% as the country's borders were closed for a long time due to a high number of infections during the COVID-19 pandemic. After winning the tender for pregabalin in **China**, we achieved the highest increase in value and 170% relative sales growth. We also recorded high growth rates in **Sudan** and **Ghana**.

Our **Americas** sales office remained focused on the countries of Central America, where overall product sales reached €1.4 million, up 1% on 2020. Our medicines in high demand were Valsacor (valsartan); Valsaden (valsartan/hydrochlorothiazide); Yasnal (donepezil); and Vizarsin (sildenafil).

# 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
- Complex products (peptides and similar biological medicines)

### Therapeutic Areas in Development

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

## Non-Prescription Products

### Key Therapeutic Areas

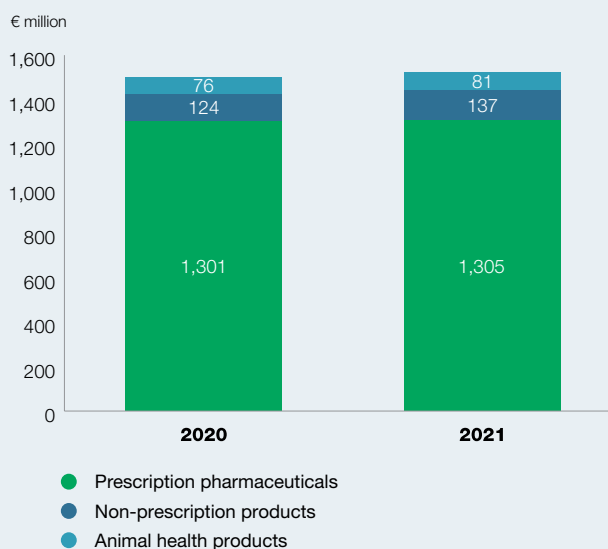
- Cough and cold
- Pain relief
- Gastrointestinal tract and metabolism
- Vasoprotectives

## Animal Health Products

### Key Therapeutic Areas

- Antiparasitics
- Antimicrobials
- Pain relief

### Krka Group Sales by Product Group

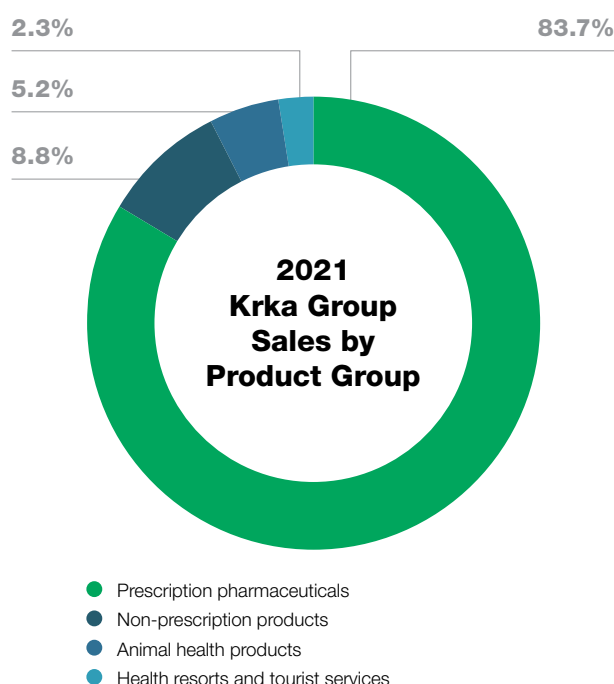




# Product\* and Service Groups<sup>24</sup>

**In 2021, sales of prescription pharmaceuticals accounted for 83.7% of total sales, followed by non-prescription products with 8.8%, animal health products with 5.2%, and health resorts and tourist services with 2.3%.**

Sales revenue of the Krka Group increased by 2% in 2021. Sales of prescription pharmaceuticals increased by 0.4%, non-prescription products by 11%, animal health products by 7%, and health resorts and tourist services by 22.6%.



## Krka Group and Krka Sales by Region by Product and Service Group

€ thousand	Krka Group			Krka		
	2021	2020	Index 2021/20	2021	2020	Index 2021/20
Human health	1,442,566	1,424,292	101	1,135,800	1,149,667	99
– Prescription pharmaceuticals	1,305,316	1,300,640	100	1,017,273	1,039,105	98
– Non-prescription products	137,250	123,652	111	118,527	110,562	107
Animal health products	81,257	75,913	107	75,694	72,344	105
Health resorts and tourist services	36,465	29,754	123			
<b>Total</b>	<b>1,560,288</b>	<b>1,529,959</b>	<b>102</b>	<b>1,211,494</b>	<b>1,222,011</b>	<b>99</b>

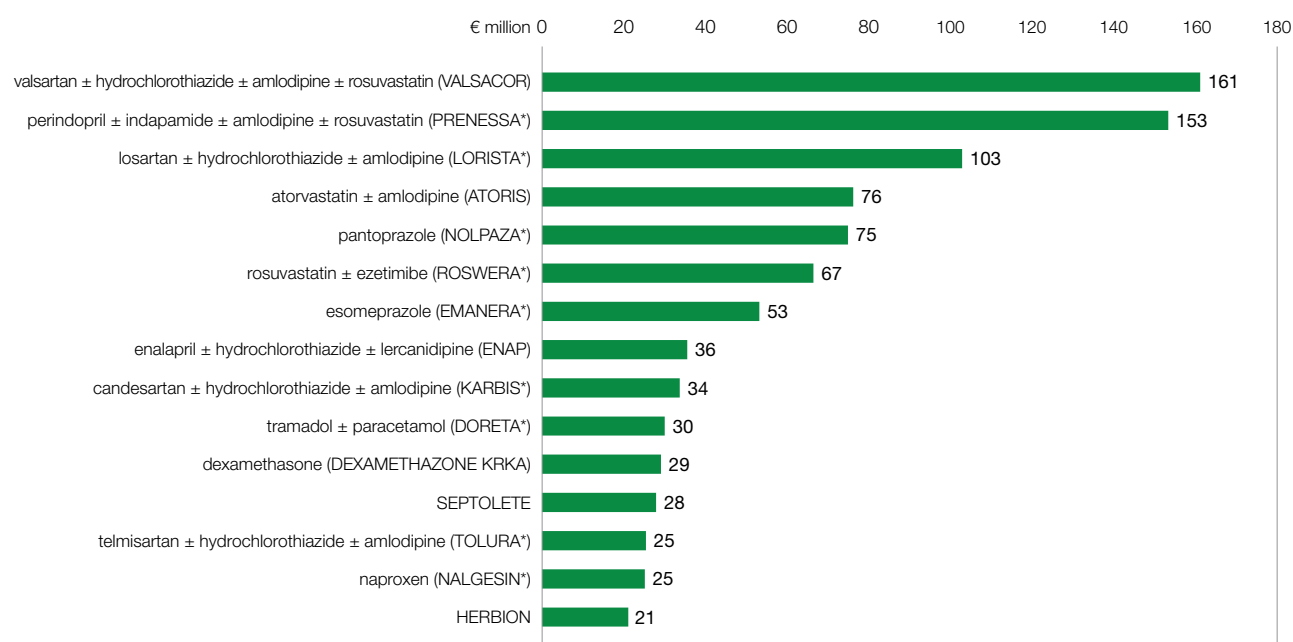
<sup>24</sup> GRI GS 102-2, 102-6, 102-10

\* 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.

## Krka Group Quarterly Sales by Product and Service Group

€ thousand	2021				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Human health	368,010	380,236	334,098	360,222	432,600	320,574	325,240	345,878
– Prescription pharmaceuticals	340,921	348,208	298,556	317,631	389,389	302,291	299,184	309,776
– Non-prescription products	27,089	32,028	35,542	42,591	43,211	18,283	26,056	36,102
Animal health products	21,656	23,304	19,619	16,678	22,221	16,459	17,139	20,094
Health resorts and tourist services	4,857	8,483	13,029	10,096	6,908	3,085	12,339	7,422
<b>Total</b>	<b>394,523</b>	<b>412,023</b>	<b>366,746</b>	<b>386,996</b>	<b>461,729</b>	<b>340,118</b>	<b>354,718</b>	<b>373,394</b>

## 2021 Sales of Main Products\*



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

## New Products

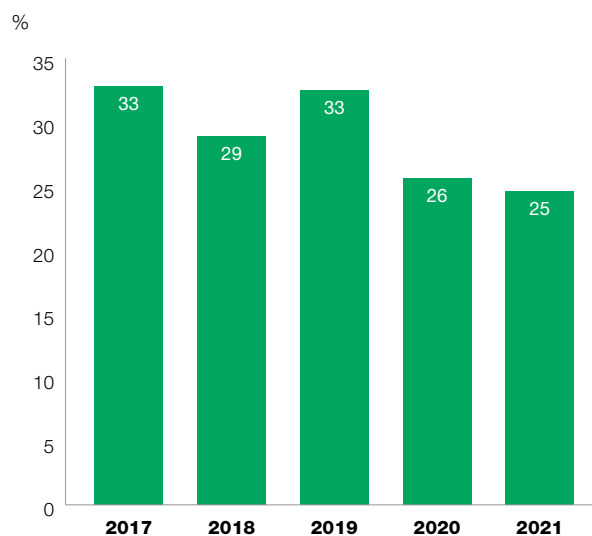
In 2021, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 25% of the Krka Group overall sales, or 1 percentage point down on the year before. The COVID-19 pandemic significantly slowed down the launch of new products in 2021 also.

In 2021, the following new products were most important in terms of absolute sales growth:

Co-Roswera\* (rosuvastatin/ezetimibe), first marketed in 2019; Efavemten\* (efavirenz/emtricitabine/tenofovir), first marketed in 2018; and Emtenovo\* (emtricitabine/tenofovir), first marketed in 2017. Our non-prescription product Flebaven\*, which we started marketing in 2018, was another new product that recorded highest sales growth.

In 2021, we launched several new products containing new generic active ingredients and their combinations, and added new pharmaceutical forms or pack sizes to the existing range, and placed 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.

## New Products in 2021

Prescription pharmaceuticals	
Pain relief	Algominol (metamizole) Doreta SR (tramadol/paracetamol)
Blood and blood-forming organs	Atixarso (ticagrelor)
Oncology	Pemetrexed Krka (pemetrexed) Anastrozole Krka (anastrozole)



\* 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.

## Wide variety of products



**Prolonged-release formulations**



**Pellet-filled capsules**



**Bilayer tablets (fixed-dose combinations)**



**New generation of lozenges**



**Tablets with OROS delivery system**



**Orodispersible tablets**



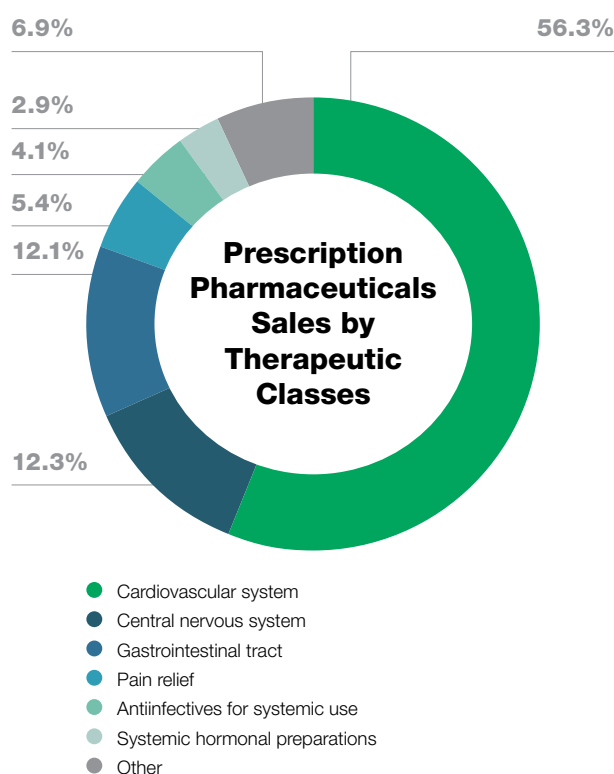
**Suspension formulation**

## Prescription Pharmaceuticals

In 2021, the Krka Group sales of prescription pharmaceuticals amounted to €1,305.3 million, up 0.4% year on year. Ukraine, Poland and the Czech Republic contributed to sales growth the most. The COVID-19 pandemic also impacted our 2021 sales. In certain countries, the use of medicines was still low, new products were few, and they were getting recognised slowly. Our established brands of prescription pharmaceuticals generated healthy sales from key therapeutic areas that achieved considerable market shares.

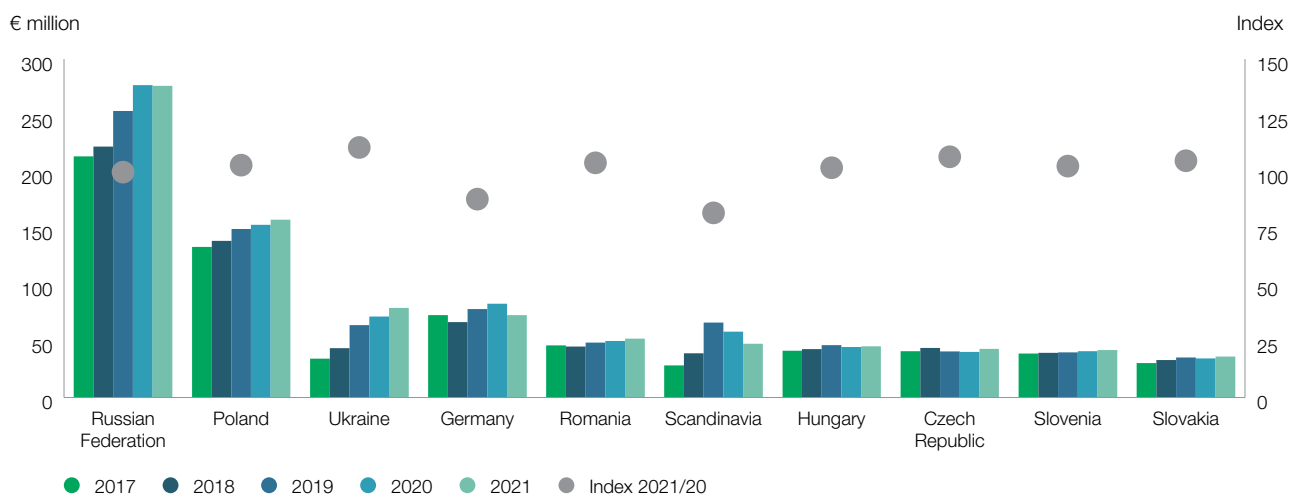
Top-ranking 2021 therapeutic classes of prescription pharmaceuticals included medicines for the treatment of cardiovascular diseases, the central nervous system, and the gastrointestinal tract.

We market our prescription pharmaceuticals under our brands in most European countries through our marketing-and-sales network. We have one of the most robust marketing-and-sales networks of all pharmaceutical companies in countries, where our presence is long standing. We have been managing sales on most markets of Region West Europe through our network. We use it for communicating with the expert community, especially physicians and pharmacists. In 2021, we started marketing prescription pharmaceuticals through our marketing-and-sales network in Greece.





## Prescription Pharmaceuticals Sales by 10 Major Markets



Revenue since 2017 is presented in compliance with the IFRS 15.

## Cardiovascular System

### Sartans (Angiotensin II Receptor Antagonists)

#### 2021 highlights

- We have been the leading producer of sartans in Regions Slovenia, Central, East, and South-East Europe for several consecutive years. We held more than a 30% market share there last year.
- Krka made almost one in three sartans prescribed in that region.
- We sold more than 3.5 billion sartan-based tablets.
- In Germany, physicians most often prescribed our medicines of all generic valsartan varieties.

#### Sartans and their single-pill combinations

- We market 20 sartan-based products. The range comprises six different sartans.
- Our product portfolio includes single-pill combinations of sartans with a diuretic, a calcium channel blocker, and a statin.
- We are the only pharmaceutical provider in Europe that markets a sartan in combination with a statin.
- Our sartans are available almost 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 (Karbisi*)	candesartan/hydrochlorothiazide (Karbicombi*)	candesartan/amlodipine (Camlocor*)		
olmesartan (Olimestra*)	olmesartan/hydrochlorothiazide (Co-Olimestra)	olmesartan/amlodipine (Olssa*)	olmesartan/amlodipine/hydrochlorothiazide (Olsitri*)	
irbesartan (Ifirmasta*)	irbesartan/hydrochlorothiazide (Ifirmacombi*)			

\* 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.

Our valsartan products retained first place among all Krka products in terms of sales also in 2021. We sold more than 1.3 billion valsartan-based tablets. This product group consisted of five medicines: **Valsacor\*** (valsartan); **Valsacombi\*** (valsartan/hydrochlorothiazide); **Wamlox\*** (valsartan/amlodipine); **Valtricom\*** (valsartan/amlodipine/hydrochlorothiazide); and **Valarox\*** (valsartan/rosuvastatin). In Regions Slovenia, Central, East, and South-East Europe, we remained the leading producer of all valsartan-based medicines and held a high, almost 45%, market share. Two out of three patients on valsartan therapy took our medicines in this region, which added up close to 4 million patients. Most patients treated by a generic variety of valsartan in Germany used our medicines. Valarox\* is indicated for the treatment of lipitension and is the only single-pill combination of a sartan and a statin in Europe. In 2021, we launched our valsartan products on new markets. We started marketing: valsartan and valsartan in combination with hydrochlorothiazide in Greece; Wamlox\* in Hungary and as the first generic provider in Kosovo; Valtricom\* in Ireland, Kosovo, Mongolia, Kazakhstan, and as the first generic provider in Uzbekistan.

Losartan-based products are second on the list of our sartans in terms of sales and included: **Lorista\*** (losartan); **Lorista H\*** (losartan/hydrochlorothiazide); and **Tenloris\*** (losartan/amlodipine). They ranked third of all Krka products. In terms of absolute sales growth in 2021, losartan-based medicines ranked first. We sold more than 1.4 billion losartan-based tablets. In Regions Slovenia, Central, East, and South-East Europe, we retained more than a 40% market share and were the leading producer of losartan medicines. In Uzbekistan, Moldova, Kyrgyzstan, and Georgia, Lorista\* (losartan) and losartan in combinations were the leaders among all sartans. In Germany, we became the leading generic manufacturer of losartan and losartan in combination with hydrochlorothiazide. We remained the only provider of losartan in combination with amlodipine in the country.

Candesartan ranked third among our sartans as regards sales and included: **Karbis\*** (candesartan); **Karbicombi\*** (candesartan/hydrochlorothiazide); and **Camlocor\*** (candesartan/amlodipine), our newest candesartan combination, which we started marketing in 2020. In 2021, we started marketing Karbis\* and Karbicombi\* in Latvia. In Europe, we were among the leading generic producers of candesartan and candesartan-based combinations. We surpassed all competitors in Germany, Poland, Hungary, and certain other countries.

In Regions Slovenia, Central, East, and South-East Europe, we were the leading generic producer of telmisartan and telmisartan-based combinations. In 2021, we increased its market share to almost 18%. We were the leading producer of telmisartan-based products in Latvia and Croatia. Our range comprised: **Tolura\*** (telmisartan); **Tolucombi\*** (telmisartan/hydrochlorothiazide); and **Teldipin\*** (telmisartan/amlodipine). In 2021, we started marketing Tolura\* and Tolucombi\* in Belarus.

**Olimestra\*** (olmesartan) and olmesartan combinations generated strongest sales in Region West Europe. In Germany, we were among the leading generic producers of olmesartan and olmesartan-based combinations. **Olsitri\*** (olmesartan/amlodipine/hydrochlorothiazide) is our newest triple combination, which we launched in 2020. Last year, we started marketing it in Belgium, and as the first generic provider in Lithuania, Latvia, and Estonia.

\* 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.

## Angiotensin-Converting Enzyme (ACE) Inhibitors

### 2021 highlights

- We were the leading generic producer of ACE inhibitors in Regions Slovenia, Central, East, and South-East Europe.
- We were the leading generic producer of perindopril-based products in Europe.
- We sold more than 1.5 billion perindopril tablets.
- We were the only producer in Europe that marketed triple combinations of perindopril/amlodipine/rosuvastatin and perindopril/indapamide/rosuvastatin.

### Angiotensin-converting enzyme inhibitors and their single-pill combinations

- We market 15 medicines from the ACE-inhibitor class based on 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.
- We are a generic pharmaceutical company with the most comprehensive perindopril-based product range 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	Combinations containing a statin
perindopril (Prenessa*)	perindopril/indapamide (Co-Prenessa*)	perindopril/amlodipine (Amlessa*)	perindopril/amlodipine/indapamide (Co-Amlessa*)	perindopril/indapamide/rosuvastatin (Roxiper*) perindopril/amlodipine/rosuvastatin (Roxampex)
enalapril (Enap)	enalapril/hydrochlorothiazide (Enap-H*)	enalapril/lercanidipine (Elernap*)		
ramipril (Ampri*)	ramipril/hydrochlorothiazide (Ampri HL*)	ramipril/amlodipine (Rameam*)		
lisinopril (Laaven*)				
cilazapril (Cazaprol)	cilazapril/hydrochlorothiazide (Cazacombi)			

Our most important medicines of that class were perindopril-based products and in terms of sales ranked second of all Krka products. They ranked second for absolute sales growth. The perindopril product group is one of our five product groups that in 2021 surpassed the milestone of 1 billion tablets sold. Our perindopril portfolio is the most complex of any generic pharmaceutical company in Europe and includes 6 medicines in 25 strengths. It comprises: **Prenessa\*** (perindopril); **Co-Prenessa\*** (perindopril/indapamide); **Amlessa\*** (perindopril/amlodipine); **Co-Amlessa\*** (perindopril/amlodipine/indapamide); **Roxiper\*** (perindopril/indapamide/rosuvastatin); and **Roxampex** (perindopril/amlodipine/rosuvastatin). Roxiper\* and Roxampex are used to treat lipitension, i.e. coexisting hypertension and hyperlipidemia. They combine three active ingredients in a single pill, two antihypertensives and a statin. We are the only provider of these combinations in Europe. In 2021, we started marketing Roxampex in Slovenia and Roxiper\* in Ukraine. We also placed other combinations on new markets. We started marketing Co-Prenessa\* in Uzbekistan, Amlessa\* as the first generic producer in Latvia, and the lowest strength of Amlessa\* for the initial treatment of hypertension as the first generic producer in Poland. We are the leading generic producer of perindopril-based products in Europe. In 2021, we consolidated our position of the leading generic producer of perindopril and perindopril-based combinations in Regions Slovenia, Central, East and South-East Europe, as our market share climbed to almost 25%.

In terms of sales, **Enap** (enalapril) and enalapril combinations remained one of our leading medicines also in 2021, even though promotion focused primarily on our new angiotensin-converting enzyme inhibitors. We are the leading manufacturer of medicines containing enalapril and hold more than a 30% market share in the region. We also rank among the leading manufacturers of those products in Germany.

Our ACE-inhibitor range also comprises **Ampri\*** (ramipril); ramipril combinations with hydrochlorothiazide; and **Rameam\*** (ramipril/amlodipine), the combination containing a calcium channel blocker, which is among the leading generic combinations of this kind in Germany.

### Other Antihypertensives

Altogether, we supply almost 50 antihypertensives in more than 150 strengths. Our most important antihypertensives are ACE-inhibitors and sartans, including their combinations with diuretics and calcium channel blockers. Our product portfolio also includes **Tenox\*** (amlodipine), a calcium channel blocker; **Rawel SR** (indapamide), a diuretic; and several adrenergic receptor blockers: **Coryol** (carvedilol), **Bloxazoc\*** (metoprolol), **Niperten\*** (bisoprolol), **Nolibeta\*** (nebivolol); and **Sobycombi\*** (bisoprolol/amlodipine), a single-pill combination that we market as the only generic provider in Poland, Hungary, and Bulgaria. In 2021, we were one of Germany's leading generic producers of carvedilol. We started marketing Sobycombi\* in Azerbaijan, and Nolibeta\* in Italy.

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## Statins and Other Hypolipemics

### 2021 highlights

- As in previous years, we remained the leading generic producer of hypolipemics in Regions Slovenia, Central, East, and South-East Europe, holding more than a 25% market share.
- The leading statins in the region were Atoris\* and Roswera\*.
- One in four patients on statin therapy in this region took Krka statins.

### Hypolipemics and their single-pill combinations

- We market 12 medicines based on five different statins and ezetimibe.
- The portfolio consists of single-pill combinations with other hypolipemics, and single-pill statin-based combinations with antihypertensives.
- We market the broadest range of atorvastatin strengths and remain the only manufacturer of 30 mg and 60 mg tablets in many markets.

Statins and other hypolipemics	Combinations of hypolipemics	Combinations containing a calcium channel blocker	Combinations containing other antihypertensives
rosuvastatin (Roswera*)	rosuvastatin/ezetimibe (Co-Roswera*)		perindopril/indapamide/rosuvastatin (Roxiper*) perindopril/amlodipine/rosuvastatin (Roxampex*) rosuvastatin/valsartan (Valarox*)
atorvastatin (Atoris*)		atorvastatin/amlodipine (Atordapin*)	
simvastatin (Vasillip)	simvastatin/ezetimibe (Ezesimin*)		
lovastatin (Holetar)			
pitavastatin (Pitavador*)			
ezetimibe (Ezoleta*)	rosuvastatin/ezetimibe (Co-Roswera*) ezetimibe/simvastatin (Ezesimin*)		

**Atoris** (atorvastatin) is our most important statin and ranks among our five top-selling medicines. It is one of Krka's five products that in 2021 surpassed the milestone of 1 billion tablets sold. In Regions Slovenia, Central, East, and South-East Europe, it held almost a 15% market share and remained the leading statin-based product. When prescribing statins, physicians in the Russian Federation, Poland, and several other countries, most often prescribed Atoris\*. In 2021, we started marketing it in Greece. We market the broadest range of atorvastatin strengths and are the only provider of 30 mg and 60 mg tablets in many countries.

**Roswera\*** (rosuvastatin) is our second most important statin. It ranked among our ten top-selling products and three leading products, recording the highest absolute sales growth. Year on year, the sales went up by more than 15%. In Regions Slovenia, Central, East, and South-East Europe, Roswera\* was the leading rosuvastatin, of all statins preceded only by Atoris\*. Of statins, Roswera\* further increased its market share in 2021, presenting the highest sales growth of all competing products in the region. We also started marketing it in Greece.

**Pitavador\*** (pitavastatin) is our latest statin, first placed on the market in 2020. In 2021, we launched it in Greece as the first generic provider.

**Ezoleta\*** (ezetimibe), which is not a statin, supplements our hypolipemic portfolio. In Slovenia, Serbia, and the Baltic states, it remained the leading ezetimibe product in 2021. Our portfolio also included two single-pill combinations of ezetimibe and statin, **Co-Roswera\*** (rosuvastatin/ezetimibe) and **Ezesimin\*** (ezetimibe/simvastatin).

In 2021, we launched Co-Roswera\* in Armenia. We started marketing the 40 mg/10 mg strength in Poland and Latvia as the only producer. Also, in Slovenia and Croatia, we were the sole provider of that strength.

Statins are incorporated in single-pill lipitension medicines, which combine hyperlipidemic and antihypertensive agents. Our lipitension medicines are: **Valarox\*** (valsartan/rosuvastatin), a single-pill combination of statin and sartan; and two single-pill combinations of statin and perindopril: **Roxiper\*** (perindopril/indapamide/rosuvastatin); and **Roxampex** (perindopril/amlodipine/rosuvastatin).

## 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 Regions Slovenia, Central, East, and South-East Europe, its market share increased, strengthening its position as the leading generic ivabradine variety. We recorded strong sales also in Germany, where we were one of the leading generic manufacturers of ivabradine.

**Apleria\*** (eplerenone) is one of the new aldosterone receptor antagonists. It is used in combination with other medicines to treat heart failure. Last year, we placed it on the market in the Russian Federation and Estonia.

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## Central Nervous System

### Antidepressants

#### 2021 highlights

- We were the leading generic producer of antidepressants in Regions Slovenia, Central, East, and South-East Europe.
- Of all competing products, physicians there most frequently selected our antidepressant.

#### Antidepressants

- We market six advanced antidepressants from different groups.
- We are the only producer in Germany that makes available the 90 mg strength of duloxetine.

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

**Dulsevia\*** (duloxetine) is one of our most important antidepressants. It ranked first of all duloxetine products in Romania, the Russian Federation, Poland, Ireland, and several other countries. It was one of the leading generic varieties in Germany, where we were the only provider of 90 mg strength of duloxetine. Dulsevia\* ranked first of all duloxetine products throughout our Regions Slovenia, Central, East, and South-East Europe, accounting for over a 30% market share.

In that region, another two antidepressants are the leading generic varieties, **Elicea\*** (escitalopram) and **Asentra\***

(sertraline), while **Alventa\*** (venlafaxine) and **Lamegom\*** (agomelatine) rank among the leading generic varieties.

**Mirzaten** (mirtazapine) is the leader of all mirtazapine products. In 2021, we placed Elicea\* on market in Belarus, and Mirzaten in Moldova. Elicea\* (escitalopram) was first of all escitalopram products in Serbia, Croatia, and Slovakia. In Slovenia, Romania, and several other markets, Mirzaten and Alventa were the leaders. In the Russian Federation, we were the leading generic producer of antidepressants. In Slovenia, Estonia, and Croatia, we outperformed all antidepressant manufacturers, holding more than a 15% market share.

### Antipsychotics

#### 2021 highlights

- We were the leading generic producer of antipsychotics in Regions Slovenia, Central, East, and South-East Europe.
- We were the leading generic producer of paliperidone in Europe.

#### Atypical antipsychotics

- We market six atypical antipsychotics, including all five leading oral agents of this class in Europe:

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

**Kventiax\*** (quetiapine) is our flagship antipsychotic. It is available in tablets and prolonged-release tablets, all together in ten strengths. Holding more than a 40% market share, it was the leading quetiapine in Slovenia, Latvia, and Slovakia. Throughout Regions Slovenia, Central, East, and South-East Europe, we were the leading producer of quetiapine, holding a nearly 15% market share.

In that region, also our other two atypical antipsychotics, **Aryzalera\*** (aripiprazole) and **Zypsilan\*** (ziprasidone) were the leading generic varieties, while **Zalasta\*** (olanzapine) placed among the leading products. In the Russian Federation, Portugal, and Latvia, Zalasta\* was the leading of all olanzapine products.

**Parnido\*** (paliperidone) is one of our newest antipsychotics, which we started marketing in 2018 as the only generic producer in Europe. It is the only generic variety of paliperidone tablets in Region West Europe and several other markets. In 2021, we remained the leading generic producer of paliperidone in that pharmaceutical form in Europe.

### Anti-Parkinson Agents

Our portfolio comprises three medicines for the treatment of Parkinson's disease: **Opryme** (pramipexole); **Rolpryna SR\*** (ropinirole); and **Rasagea\*** (rasagiline). In Regions Slovenia, Central, East, and South-East Europe,

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we were the leading generic producer of medicines for the disease. In Hungary, we surpassed all competitors, holding more than a 15% market share.

Oprymea (pramipexole), our flagship medicine in this class, recorded the most substantial sales in Region West Europe. It was one of the leading generic pramipexole varieties in Germany, while in Romania, Poland, Portugal, and several other markets, Oprymea outperformed all pramipexole products. In Poland, Romania, and certain other markets, our variety outperformed all other ropinirole products, and in Hungary, all rasagiline products. Our products from this group were the leading generic varieties in Regions Slovenia, Central, East, and South-East Europe.

## Anti-Alzheimer Agents

Four oral agents are used as therapy for Alzheimer's disease, and all four are also part of our product portfolio: **Yasnal\*** (donepezil); **Marixino\*** (memantine); **Galsyo\*** (galantamine); and **Nimvastid** (rivastigmine). They are available as tablets and capsules. Yasnal\* and Nimvastid are also available in orodispersible tablets. In Regions Slovenia, Central, East, and South-East Europe, we were the only producer supplying rivastigmine in that pharmaceutical form. In 2021, we ranked among the leading generic manufacturers of medicines for treating Alzheimer's disease in the region. In Slovakia and Lithuania, we were the leading provider of those medicines, holding over a 25% market share. In Lithuania, we were the leading generic provider of memantine, while in Slovenia and Slovakia, we were the leading producer of donepezil and memantine.

## Gastrointestinal Tract

### Proton Pump Inhibitors

#### 2021 highlights

- We have been the leading manufacturer of proton pump inhibitors for more than a decade in Regions Slovenia, Central, East, and South-East Europe.
- Of all competitors, we recorded the highest absolute growth.
- We sold more than one billion tablets of Nolpaza\*.

#### Proton pump inhibitors

- We have been marketing proton pump inhibitors for more than 30 years.
- We were the first company in Europe to present a range of five medicines in this class.
- Our proton pump inhibitors are available in more than 60 countries worldwide.

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

**Nolpaza\*** (pantoprazole) is our flagship proton pump inhibitor. It ranked among the top five Krka products in terms of sales. In 2021, it was also among the five leading medicines as regards absolute sales growth. More than 1 billion tablets were sold. In Regions Slovenia, Central, East and South-East Europe, Nolpaza\* was the leading proton pump inhibitor, accounting for over a 12% market share. It achieved large market shares among pantoprazoles. In many markets, Nolpaza\* held more than a 50% market share among pantoprazoles, and in the Russian Federation, more than 80%. Pantoprazole is also marketed as a non-prescription medicine.

Our second most important medicinal product in this class was **Emanera\*** (esomeprazole), also one of Krka's leading products. In Regions Slovenia, Central, East, and South-East Europe, Emanera\* was the leading generic variety of esomeprazole. Physicians in the region most often prescribed our product of all esomeprazole

products, in Ireland most often of all proton pump inhibitors. Emanera\* was the leader of all esomeprazole products in ten regional markets, accounting for more than a 50% market share in seven markets. In Germany, we were the leading generic producer of esomeprazole.

### Other Medicines for Acid-Related Disorders

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

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## Pain Relief

### 2021 highlights

- We were among the leading generic producers of the tramadol/paracetamol combination in Europe.
- In Regions Slovenia, Central, East and South-East Europe, this combination therapy headed all competing products.
- We started marketing Doreta SR\* (tramadol/paracetamol) prolonged-release tablets and Algominal (metamizole).

### Pain relief

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

Non-steroidal anti-inflammatory and antirheumatic drugs (NSAIDs)	Opioids and opioid-based combinations	Other analgesics	Other agents for treating neuropathic pain
naproxen (Nalgesin*)	tramadol (Tadol) tramadol/paracetamol (Doreta*, Doreta* SR ●)	metamizole (Algominal) ●	pregabalin (Pragiola*)
diclofenac (Naklofen Duo*)	oxycodone/naloxone (Adolax*)		duloxetine (Dulsevia*)
dexketoprofen (Dekenor)			
etoricoxib (Roticox*)			
celecoxib (Aclexa*)			

● New in 2021

**Doreta\*** (tramadol/paracetamol) is our flagship analgesic that was among top ten Krka's medicines in terms of sales. In Regions Slovenia, Central, East, and South-East Europe, it was the leading combination of tramadol and paracetamol, accounting for almost a 50% market share. In 2021, we further increased that market share. We recorded strong Doreta sales also in Region West Europe, where we were among the leading producers of that combination. In Ireland, our product was the leading generic variety, while in Germany it outperformed all tramadol/paracetamol products, accounting for over a 65% market share. We market two strengths of Doreta\*. In Hungary and Bulgaria, we are the only provider of the tramadol/paracetamol 75 mg/650 mg combination. In 2021, we were the only producer in Europe to start marketing the tramadol/paracetamol prolonged-release tablets. We made **Doreta SR** available in seven countries: the Czech Republic, Hungary, Poland, Portugal, Slovakia, Romania, and Slovenia.

**Naklofen Duo\*** (diclofenac) and **Nalgesin\*** (naproxen) are non-steroidal anti-inflammatory and antirheumatic medicines. In Regions Slovenia, Central, East, and South-East Europe, Nalgesin\* was the leading naproxen-based medicine, accounting for over a 60% market share, which further increased in 2021. It was among the most frequently prescribed non-steroidal antirheumatic medicines in several markets, and it took first place in Slovenia. We also market Nalgesin\* as a non-prescription product. **Dekenor** (dexketoprofen) belongs to the same product group. In 2021, we made it available in Italy, Spain, and Moldova.

**Roticox\*** (etoricoxib) is a non-steroidal anti-inflammatory and antirheumatic medicine from the class of coxibs. It was the leading generic etoricoxib variety in Regions Slovenia, Central, East, and South-Eastern Europe. In 2021, its market share further increased. We were one of the leading producers of etoricoxib in Germany and the leading producer of all etoricoxib varieties in Hungary, Uzbekistan and certain other markets. **Aclexa\*** (celecoxib) belongs to the class of coxibs. It was the leading generic celecoxib variety in that region in 2021. In Poland, the Czech Republic, Slovakia, and Estonia, it was the leading celecoxib.

In 2021, we added a new analgesic with antipyretic and spasmolytic properties **Algominal** (metamizole) tablets to our portfolio of analgesics. We launched it in Slovenia.

Agents also indicated for neuropathic pain therapy are **Dulsevia\*** (duloxetine), an antidepressant, and an antiepileptic **Pragiola\*** (pregabalin). In Slovakia, Ireland, Austria, and certain other countries, we ranked among the leading generic producers of pregabalin with our Pragiola\*. In Estonia, it was the leading pregabalin product, accounting for more than a 50% market share. In 2021, we started marketing Pragiola\* in Azerbaijan.

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## Blood and Blood-Forming Organs

**Zyllt\*** (clopidogrel) is our most important medicine for treating diseases of blood and blood-forming organs in terms of sales. We market it in more than 40 countries. In 2021, it remained the leading generic variety of clopidogrel in the Russian Federation and certain other markets. It was the leading clopidogrel product in Hungary and Kyrgyzstan. We have been among the leading generic producers of clopidogrel in Regions Slovenia, Central, East, and South-East Europe for several consecutive years.

Our latest medicine for treating blood and blood-forming organs is **Eliskardia\*** (prasugrel). We started marketing it in 2019, and in 2021 also made it available in Croatia. Our prasugrel was the leading generic variety in the Czech Republic and Slovenia. In Slovakia, our prasugrel surpassed all prasugrel products.

**Xerdoxo** (rivaroxaban) is one of the most advanced anticoagulants, which we made available in Europe as one of the first generic producers in 2020. In 2021, we launched it in Malta, Serbia, Bosnia and Herzegovina, and as the first generic producer in North Macedonia.

In 2021, we added **Atixarso** (ticagrelor) to our product range of this therapeutic class. 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 to prevent atherothrombotic events. We launched it in Croatia, and intend to start marketing it also on other markets.

## Antidiabetics

Our most important medicine in this class was sulphonylurea **Gliclada\*** (gliclazide). In Regions Slovenia, Central, East, and South-East Europe, it was the leading generic variety of gliclazide, and we were the leading generic producer of sulphonylureas. We were the only producer in the region that supplied three strengths of gliclazide modified-release tablets: 30 mg, 60 mg, and 90 mg. Gliclada\* outstripped all gliclazide products in the Czech Republic, Slovenia, and Latvia.

**Glypvilo** (vildagliptin), an antidiabetic agent, is our first dipeptidyl peptidase-4 (DPP-4) inhibitor. We marketed it in three countries last year but intend to launch it on many more markets in the future. We intend to add other agents of this and other product groups to our range of antidiabetics.

We market another antidiabetic agent, **Enyglid\*** (repaglinide), from the glinide class.

## Antiinfectives for Systemic Use

### Antibacterials for Systemic Use

Our portfolio of antibiotics comprises medicines from various classes: macrolides,  $\beta$ -lactam antibiotics, fluoroquinolones, and other antibiotics.

In Regions Slovenia, Central, East, and South-East Europe, we were one of the leading generic producers of macrolide antibiotics. **Fromilid** (clarithromycin) is a macrolide antibiotic and our most important medicine of that therapeutic class. It has been the leading generic variety of clarithromycin in the region for years. It was the leading clarithromycin product in Ukraine, Slovenia, Hungary, and several other markets. **Azibiot** (azithromycin) is from the same class. In Slovenia and Latvia it was the leading generic variety of azithromycin, and the leader of all azithromycin products in Moldova.

Our range of  $\beta$ -lactam antibiotics comprises **Furocef\*** (cefuroxime) and **Betaklav\*** (amoxicillin/clavulanic acid) and our fluoroquinolone range comprises four antibiotics: **Levalox\*** (levofloxacin); **Moloxin\*** (moxifloxacin); **Ciprinol** (ciprofloxacin); and **Nolicin** (norfloxacin). Moloxin\* was the leading generic variety of moxifloxacin in Hungary, Portugal, and Ukraine, while in Poland it was at the head of all moxifloxacin products. We started marketing Levalox\* in the Russian Federation last year. Also, last year, we maintained the leading position among the producers of fluoroquinolones in Regions Slovenia, Central, East, and South-East Europe.

### Antiretrovirals and Other Antivirals

We market four medicines for the treatment of HIV infection: **Emtenovo\*** (emtricitabine/tenofovir); **Efavemten\*** (efavirenz/emtricitabine/tenofovir); **Darunasta\*** (darunavir); and **Atazam\*** (atazanavir). Our antiviral range also includes **Entecavir Krka\*** (entecavir), indicated for chronic hepatitis B therapy. Our Region West Europe recorded the strongest sales of medicines from this class. Last year, Emtenovo\* and Efavemten\* were among the leading generic varieties in Germany. We surpassed all competing products with our double single-pill combination emtricitabine/tenofovir in Slovakia, Slovenia, and Lithuania; with a triple single-combination in Austria; and with our darunavir in Slovakia.

\* 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.



## Urologicals

Our most important urinary tract medicines are those used to treat benign prostatic hyperplasia, erectile dysfunction, and urinary incontinence.

We market five medicines used for benign prostatic hyperplasia therapy: **Tanyz**\* (tamsulosin); **Dutrys**\* (dutasteride); and **Finpros**\* (finasteride); **Sidarso**\* (silodosin); and **Tadusta**\* (dutasteride/tamsulosin).

The latter two are our newest products, first launched in 2020. In 2021, we were the leading generic producer of a dutasteride/tamsulosin combination in Regions Slovenia, Central, East, and South-East Europe. In Latvia, **Tadusta**\* ranked first of all dutasteride/tamsulosin products. In Slovenia and the Czech Republic, **Tanyz**\* was the leading generic variety of tamsulosin.

**Vizarsin**\* (sildenafil), **Tadilecto**\* (tadalafil), and **Viavardis**\* (vardenafil) compose our range of medicines for erectile dysfunction. In Regions Slovenia, Central, East, and South-East Europe, we were one of the leading generic producers of tadalafil, and the leading producer in Estonia.

Our range of urologicals also includes **Asolfena**\* (solifenacin) and **Loxentia**\* (duloxetine) for treating urinary incontinence.

## Oncology

Over the past few years, we started marketing 12 oncology agents. Last year, we added two agents to our oncology portfolio, **Pemetrexed Krka** (pemetrexed) and **Anastrozole Krka** (anastrozole). Pemetrexed Krka (pemetrexed) powder for solution for infusion is indicated for treating patients with metastatic non-small cell lung cancer. We launched it in Slovenia and intend to place it on other markets as well in the future. Anastrozole Krka is indicated for the treatment of breast cancer. We started marketing it in France.

Among the most recent additions to the oncology range are **Dasatilen**\* (dasatinib) and **Erlotev**\* (erlotinib), first launched in 2020. Last year, we placed erlotinib on the markets of Poland and Hungary. In Slovenia and Hungary, we became the leading generic provider of erlotinib, and one of the leading providers in Poland. We market **Dasatilen**\* primarily in countries of Western Europe. In Germany and Sweden, our dasatinib was the leading generic variety last year, and we were the only generic provider of dasatinib in Slovenia and Slovakia.

We placed **Gefitad**\* (gefitinib) on market in Lithuania. We were the only generic provider of gefitinib in Slovenia. **Gefitad**\* was one of the leading gefitinib varieties in Germany. We also market **Meaxin**\* (imatinib). Last year, it was the leading imatinib product in Latvia and Bosnia and Herzegovina, and one of the leading generic varieties of imatinib in Slovenia, Serbia, Bulgaria, and Poland. Krka's oncology portfolio is supplemented by **Ecansya**\* (capecitabine); **Lortanda** (letrozole); and **Escepran**\* (exemestane), etc.

## Other Medicines

The portfolio of oncology medicines acting directly on cancer cells is also supplemented by certain complementary medicines. **Dexamethasone Krka** can be used in oncology, haematology, and other therapeutic areas. It plays an essential role in treating COVID-19 infections and, as a result, has been in high demand over the past two years. It is available in tablets and solution for injection. We started marketing it in Greece last year and also placed the solution for injection on the market in Hungary, and 4 mg tablets in Bosnia and Herzegovina. In Germany, Spain and many other markets, Krka is the only producer that markets 20 mg and 40 mg dexamethasone tablets. In these markets and throughout Regions Slovenia, Central, East, and South-East Europe, we were the leading producer of dexamethasone.

**Febuxodor**\* (febuxostat) is indicated for treating gout and high levels of uric acid in the blood in initial chemotherapy for leukaemia. We started marketing it in 2019, and in 2021 we made it available in Italy and Mongolia.

**Cinacabet** (cinacalcet) regulates parathyroid hormone levels and is used in patients with kidney disease on dialysis therapy, parathyroid gland cancer, or with primary hyperparathyroidism.

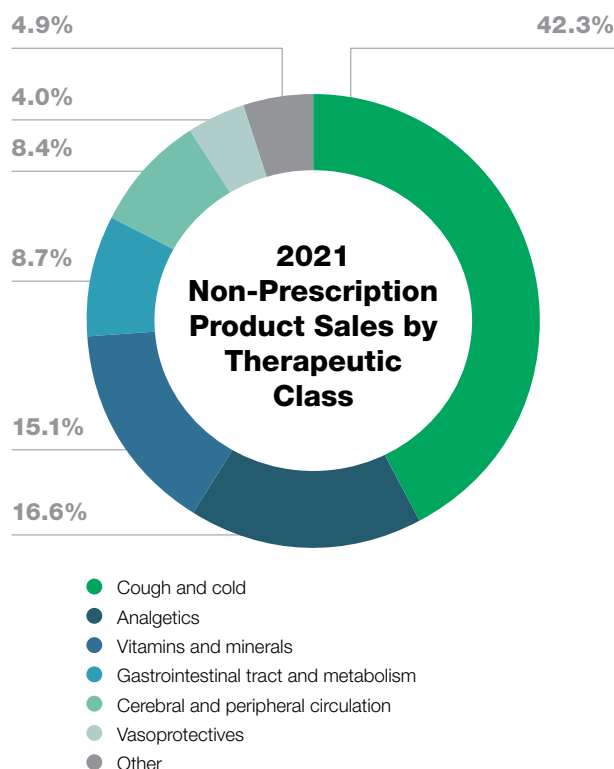
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## Non-Prescription Products

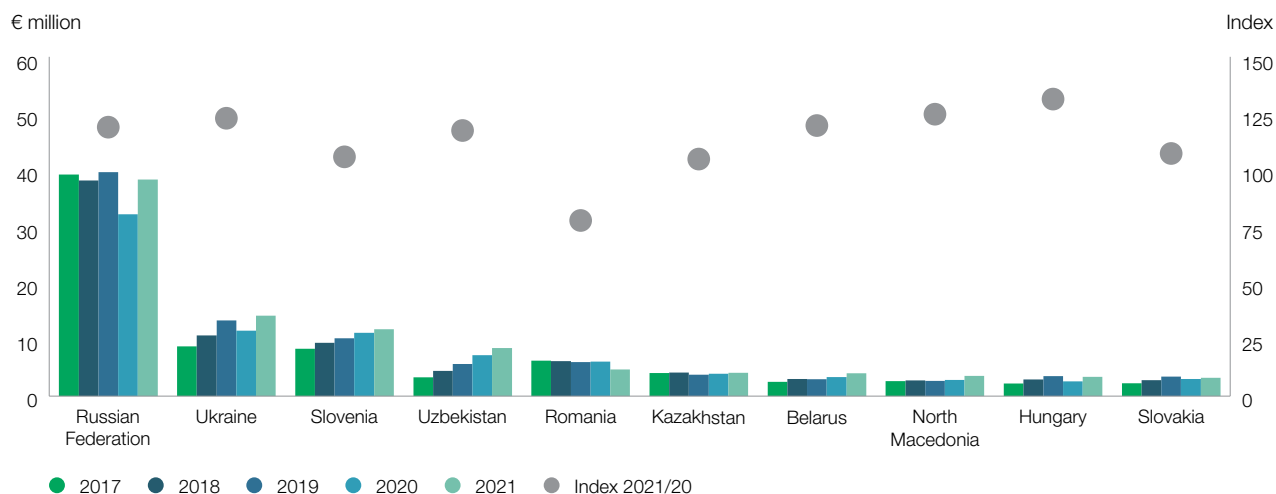
In 2021, the Krka Group sales of non-prescription products totalled €137.3 million, an 11% year-on-year increase. The Russian Federation, Ukraine, and Uzbekistan saw the strongest sales increase. Last year on the back of the COVID-19 pandemic and the related measures, sales of non-prescription products dropped. Coughs and colds resurged in the second half of 2021, prompting an increase in cough-and-cold product sales, our most important group of non-prescription products.

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

Septotele, Herbion\*, Nalgesin\*, and Bilobil\* are our most important non-prescription product brands in terms of sales.



## Non-Prescription Product Sales by 10 Major Markets



Revenue since 2017 is presented in compliance with the *IFRS 15*.

\* 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.

Septotele\* from the cough-and-cold product group was our leading non-prescription product brand last year. Septotele ranked among the 15 leading Krka products in sales and was the leading non-prescription product brand in terms of absolute sales growth. **Septotele Total\*** (benzylamine/cetylpyridinium chloride) generated most sales and is available in spray and lozenges. We market eucalyptus, elder-and-lemon, and honey-and-lemon flavoured lozenges. In 2021, we extended marketing various flavours of Septotele Total\* to new markets. We made elder-and-lemon flavoured lozenges available in Montenegro, and honey-and-lemon in Mongolia and Spain. In Slovenia, Lithuania, Belarus, and Uzbekistan, Septotele Total\* was the best-selling non-prescription product in the category of products with an effect on the pharynx. The product accounted for more than a 20% market share in Slovenia and Uzbekistan.

**Herbion\***, our second most important non-prescription product brand, also ranked among the 15 leading Krka products. Its sales climbed by more than 15% on 2020. Herbion was one of the leading non-prescription products in terms of absolute sales growth. Herbal cough syrups for various types of cough are marketed under the Herbion brand. **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 cough. **Herbion Ivy Lozenges** acts much like the syrup and helps expectoration. This pharmaceutical form is especially suitable for adults. In 2021, we started marketing lozenges in Ukraine, Kazakhstan, and other countries. We were the first to provide lozenges containing ivy leaf extract in the Russian Federation, Belarus, and Moldova. In Regions Slovenia, Central, East, and South-East Europe, Herbion was one of the three leading cough-and-cold brands and remained the leading natural syrup in 2021.

The nasal decongestant **Septanazal\*** (xylometazoline/dexpanthenol) is also among our non-prescription products for cough and cold. It is available as spray for adults and spray for children. In Slovenia and Latvia, it was one of the leading sprays with that composition, and ranked first of all competing products in Moldova, holding an over 20% market share.

**Nalgesin\*** is our third most important non-prescription product brand. Nalgesin (naproxen) is an analgesic, which is also available as a prescription pharmaceutical. In 2021, Nalgesin was a non-prescription brand that recorded the highest absolute growth. For several successive years, Nalgesin\* has been a leading variety of naproxen in Regions Slovenia, Central, East, and South-East Europe, holding a 30% market share. Its market share accounted

for 25% in Slovenia, making Nalgesin the leading non-prescription NSAID.

**Bilobil\***, another best-selling non-prescription product, belongs to the group of products improving cerebral and peripheral circulation. It contains ginkgo extract and is indicated for slowing the progression of cognitive decline. We have been marketing it for more than 30 years. In Regions Slovenia, Central, East, and South-East Europe, it was the third ginkgo-based product in terms of sales volume. In Romania, Ukraine, and certain other markets it was the leading ginkgo-based product.

**Flebaven\*** (diosmin) belongs to the group of vasoprotectives. It is used to treat chronic venous insufficiency, and acute haemorrhoidal syndrome. In certain countries, it is available on prescription as well. In 2021, its sales went up by more than 50%. The rise was the sharpest on our largest market of the Russian Federation. We placed 1 000 mg tablets on that market, which was a new strength.

**Pikovit** and **Duovit** are our brands of vitamins and minerals. Duovit products are intended for adults, and Pikovit products for children. We recorded strong sales of Pikovit, especially in Region West Europe where it was one of the leading brands of vitamins and minerals for children. Pikovit was the market leader in its product class in Uzbekistan, Kyrgyzstan, and Moldova.

**Vitamin D3 Krka** (cholecalciferol) is one of our new non-prescription products. It was first launched in 2020. It is indicated for the treatment and prevention of vitamin D deficiency, and as adjunctive therapy in the specific treatment of osteoporosis. As vitamin D3 stimulates immune system function, our product was in high demand on certain markets during the COVID-19 pandemic. In 2021, we started marketing Vitamin D3 Krka on nine markets, also in the Russian Federation, France, and Italy. Vitamin D3 Krka is the only vitamin D3 in tablets available on prescription or as a non-prescription product in Slovenia.

Our food supplement **Magnezij Krka 300** is available in water-soluble granules. It ranked first of all magnesium-based products in pharmacies and accounted for more than a 35% market share. We also started marketing it in Saudi Arabia.

**Noctiben Mea** (doxylamine) is one of the new non-prescription product brands of Krka. It is indicated for adults with occasional insomnia. It is one of the leading non-prescription products in the category of medicines for the treatment of insomnia in Slovenia and its market share grew also in 2021.

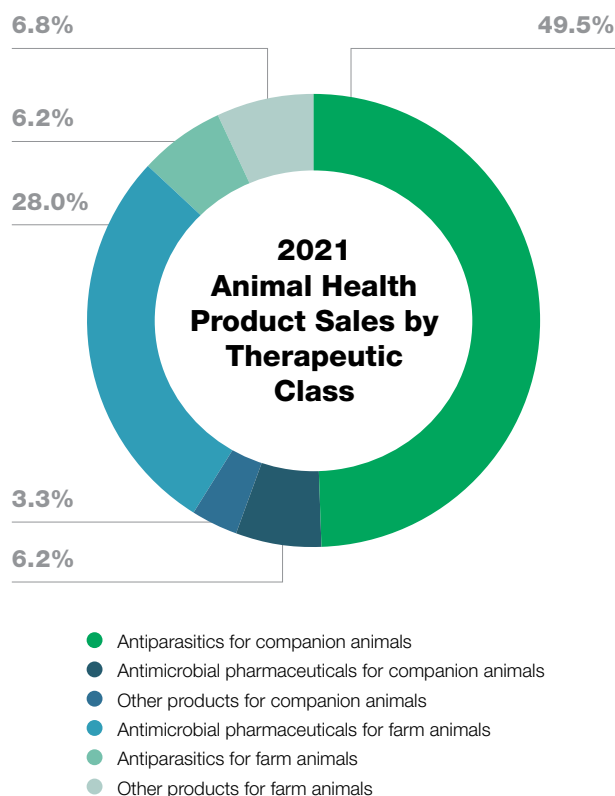
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## Animal Health Products

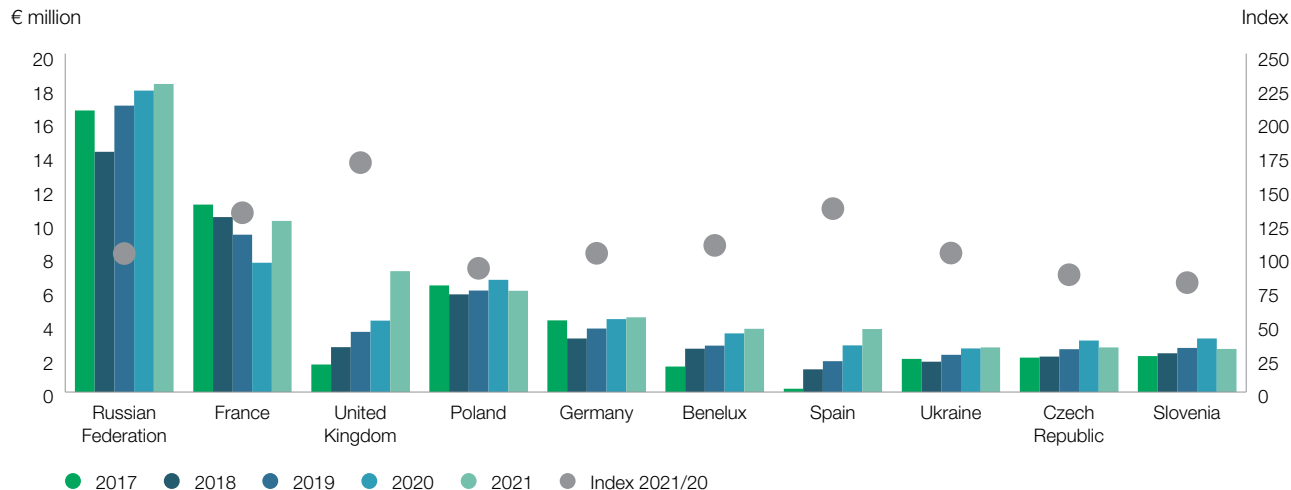
In 2021, the Krka Group sales of animal health products amounted to €81.3 million, a 7% year-on-year climb. The largest contributors to sales growth were the United Kingdom, France, Spain, and the Russian Federation.

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

The combination of milbemycin and praziquantel (Milprazon\*) was our best-selling animal health product in 2021. It was followed by products containing fipronil (Fypryst\*, Fypryst\* Combo); enrofloxacin (Enroxil\*); florfenicol (Floron); and pyrantel/praziquantel (Dehinel\*, Dehinel Plus\*).



## Animal Health Product Sales by 10 Major Markets



Revenue since 2017 is presented in compliance with the IFRS 15.

We produce animal health products for farm animals and companion animals. Sales growth relies primarily on companion animal products, which accounts for over 50% of animal health products.

Our most important companion animal product is the antiparasitic **Milprazon\*** (milbemycin/praziquantel), which is also our leading animal health product in terms of sales. Last year, its sales increased almost by one third, placing the product among the leading Krka products for absolute sales growth. We recorded the strongest Milprazon sales in Region West Europe, where its sales climbed by more

than 30% on 2020. Milprazon\* is a broad-spectrum wormer available in tablets of four strengths.

Spot-on solutions account for a significant proportion of the companion animal product range. Our most important companion animal brand and second most important animal health product brand is **Fypryst\***. It is composed of **Fypryst** (fipronil) and a fixed-dose combination **Fypryst\* Combo** (fipronil/S-methoprene). The brand products generated strongest sales in the United Kingdom and other markets of our Region West Europe. This antiparasitic is available in spot-on solution and cutaneous spray.

\* 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.



**Selehold\*** (selamectin) spot-on solution is another antiparasitic agent for the treatment of companion animals. It is used to treat and prevent infestations with endo- and ectoparasites. We started marketing it in 2019. In 2021, we placed it on the market in Italy and as the first generic provider in Armenia and North Macedonia. Selehold\* sales increased by more than 50%. It was one of our top ten animal health products and one of the top three in terms of absolute sales growth.

Our second endectocide is **Prinocate\*** (imidacloprid/moxidectin), launched in 2020. In 2021, we started marketing it in Italy and as the first generic provider in Ukraine. We recorded the strongest Prinocate sales in Region West Europe, above all in the United Kingdom. Prinocate\* is available as a spot-on solution.

We also supply another antiparasitic agent, **Ataxxa** (imidacloprid/permethrin) spot-on solution. This combination is used to treat infestations with ectoparasites in dogs. In 2021, we launched Ataxxa in the Russian Federation. This was the only competitor to the product already available in the country. It also remains the only competitor to the products available on other markets that sell Ataxxa.

Our portfolio of antiparasitic agents for companion animals includes the **Dehinel\*** brand products. This is one of our leading animal health brands in terms of sales. We market **Dehinel Plus\*** (febantel/pyrantel/praziquantel) for small dogs and **Dehinel Plus\* XL** for large dogs. Our dog range also includes flavoured tablets **Dehinel Plus\* Flavour**, while **Dehinel\*** (pyrantel/praziquantel) is intended for cats. In 2021, we placed tablets for cats on the market in Romania and Georgia, and Dehinel Plus\* XL for dogs in Romania, Ukraine, and Armenia.

**Rycarfa** (carprofen), available in tablets and solution for injection, is an analgesic from our companion animal product range. In 2021, its sales increased by almost 30%.

Antimicrobials and parasiticides are an important part of our animal health product range for farm animals.

Our leading antibiotic and one of our leading animal health products in terms of sales is **Enroxil\*** (enrofloxacin). Antibiotics **Floron\*** (florfenicol), **Doxatib** (doxycycline), and **Tuloxxin** (tulathromycin) rank among our ten best-selling animal health products. In 2021, we started marketing Tuloxxin as the first generic provider in Ukraine. Our antimicrobials also include **Trisulfon** (sulfamonomethoxine/trimethoprim), and **Amatib** (amoxicillin). In 2021, Doxatib and Enroxil\* ranked among our top animal health products for absolute sales growth. Our most important antiparasitic products for farm animals are **Toltarox\*** (toltrazuril) and **Flimabend\*** (flubendazole).

## Development of new medicines and innovative procedures



### Results of 800+ experts collaborating on research and development

- Patent-protected innovations
- Unique combination medicines
- State-of-the-art pharmaceutical formulations
- Unique strengths

**Catobevit** (butafosfan/cyanocobalamin) solution for injection is one of our new animal health products. It is indicated as supportive therapy for various metabolic or reproductive disorders in farm and companion animals. We began marketing it in 2019, and in 2021 made it available in Ukraine.

**Ecocid\* S** ranks among our top ten animal health products. Last year, we successfully marketed it for prevention against African swine fever.

## Health Resorts and Tourist Services

In the first quarter of 2021, business at Terme Krka was restricted because of preventive measures for curbing the spread of COVID-19, hence the health resort units Terme Dolenjske Toplice, Terme Šmarješke Toplice and Talaso Strunjan only provided medical rehabilitation services. Demand for other services picked up when restrictions were lifted. Throughout the year, domestic guests prevailed, while foreign guests accounted for 7%. The annual occupancy rate at our hotels averaged 60%. Overall, we recorded 314,408 overnight stays and €36.5 million in revenue, up 23% from 2020. Healthcare services accounted for one-third of total revenue.

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## Products Marketed under Different Brands in Individual Markets

APIs	Brands
<b>Prescription Pharmaceuticals</b>	
agomelatine	Lamegom, Agomaval
amlodipine	Tenox, Hipres, Alneta
amlodipine/atorvastatin	Atordapin, Atorcombo
amlodipine/valsartan	Wamlox, Vamloset, Valodip, Amlo-Valsacor
amlodipine/valsartan/hydrochlorothiazide	Valtricom, Valsamtrio, Co-Vamloset
amoxicillin/clavulanic acid	Betaklav, Hiconcil Combi
aripiprazole	Aryzalera, Aripipan, Arisppa, Zylaxera
atorvastatin	Atoris, Atoridor
bismuth	Ulcavis, Ulcamed
bisoprolol	Niperten, Sobycor, Sobyc, Zonsiloc
bisoprolol/amlodipine	Sobycombi, Niperten Combi, Bisodipin
candesartan	Karbis, Candecor, Canocord
candesartan/amlodipine	Camlocor, Candecam
candesartan/hydrochlorothiazide	Karbicombi, Cancombino, Canocombi
capecitabine	Ecansya, Cansata
cefuroxime	Furocef, Ricefan
celecoxib	Aclexa, Dilaxa
clopidogrel	Zyllt, Kardogrel
diclofenac	Naklofen Duo, Naklofen
donepezil	Yasnal, Yasnoro
duloxetine	Dulsevia, Duloxalta, Dulovesic, Loxentia
dutasteride	Dutrys, Dutascar, Dortilla
dutasteride/tamsulosin	Tadusta, Dutastam, Dutamyz, Tadustix
enalapril/hydrochlorothiazide	Enap-H, Enap-HL, Enap-HL 20
enalapril/lercanidipine	Elernap, Elyrno, EnaCanpin
eplerenone	Aperia, Enplerasa
escitalopram	Elicea, Ecytara, Escitalex, Anxila
esomeprazole	Emanera, Emozul, Escadra
etoricoxib	Roticox, Bericox, Etoxib, Etoriax
exemestane	Escepran, Etadron
ezetimibe	Ezoleta, Ezetad
ezetimibe/simvastatin	Ezesimin, Vasitimb
finasteride	Finpros, Finascar TAD
galantamine	Galsya SR, Galhora
glimeclazide	Gliclada, Glyclada
imatinib	Meaxin, Neopax, Meapax, Itivas, Yntam
irbesartan	Ifirmasta, Irabel, Firmasta, Iracor, Irbecor
irbesartan/hydrochlorothiazide	Ifirmacombi, Co-Irabel, Firmasta H, Firmasta HD, Irbecor Comp
ivabradine	Bravadin, Bixebra, Brivecor, Ivabalan
lansoprazole	Lanzul, Lansoptol
letrozole	Lortanda, Likarda
levofloxacin	Levalox, Levnibiot, Leviaben, Levaxela
lisinopril	Laaven, Zonixem
lisinopril/hydrochlorothiazide	Laaven-HL, Zonixem-HL, Laaven-HL 20, Zonixem-HL 20, Laaven-HD, Zonixem-HD
losartan	Lorista, Lavestra
losartan/amlodipine	Tenloris, Alortia, Lortenza, Losamlo
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
olanzapine	Zalasta, Zolrix
olmesartan	Olimestra, Olmecor
olmesartan/amlodipine	Olssa, Olmeamlo, Olmira
olmesartan/amlodipine/hydrochlorothiazide	Olsitri, OlmeAmlo HCT
oxycodone/naloxone	Adolax, Oxycaloxon, Oxynador
paliperidone	Parnido, Inpalix

APIs	Brands
pantoprazole	Nolpaza, Appryo
perindopril	Prenessa, Perineva
perindopril/amlodipine	Amlessa, Dalnessa, Tonarssa, Dalneva
perindopril/amlodipine/indapamide	Co-Amlessa, Co-Dalnessa, Co-Dalneva, Amlewell, Dalnecombi, Tonanda
perindopril/indapamide	Co-Prenessa, Co-Perineva, Prenewel
perindopril/indapamide/rosuvastatin	Roxiper, Triemma
prasugrel	Eliskardia, Prasillt, Sigrada
pregabalin	Pragiola, Pregabador, Pregabio
quetiapine	Kventiax, Quentiax
rabeprazole	Gelbra, Zalbex
ramipril	Ampril, Amprilan
ramipril/amlodipine	Rameam, Ramidipin
ramipril/hydrochlorothiazide	Ampril HL, Amprilan HL, Ampril HD, Amprilan HD
rasagiline	Rasagea, Ralago, Raglysa
repaglinide	Enyglid, Repodiab
risperidone	Torendo, Rorendo
ropinirole	Rolpryna SR, Ralnea SR
rosuvastatin	Roswera, Rosuvador, Roxera, Sorvasta
rosuvastatin/amlodipine	Rosudapin, Rosmela
rosuvastatin/ezetimibe	Co-Roswera, Coroswera, Sorvasta Plus
sertraline	Asentra, Sertrone, Sertra TAD
sildenafil	Vizarsin, Sildegra
silodosin	Sidarso, Silbesan
solifenacin	Asolfena, Solifemin
tadalafil	Tadilecto, Tadagis
tamsulosin	Tanyz, Tadin
telmisartan	Tolura, Telmista
telmisartan/amlodipine	Telassmo, Tamloset, Teldipin
telmisartan/hydrochlorothiazide	Tolucombi, Telmista H
tramadol/paracetamol	Doreta, Tramabian
valsartan	Valsacor, Valsareta
valsartan/hydrochlorothiazide	Valsacombi, Co-Valsacor, Valsacor H, Valsacor HD, Valsaden, Janartan, Co-Valsareta
valsartan/rosuvastatin	Valarox, Ravalsyo
varденаfil	Viavardis, Vardegin
venlafaxine	Alventa, Olwexya
ziprasidone	Zypsilan, Zypsila, Ypsila
<b>Non-Prescription Products</b>	
benzylamine/cetylpyridinium chloride	Septolete Total, Septabene, Septolete Extra, Septolete Omni, Septolete Ultra, Septolete Duo, Septafar
diosmin; diosmin/hesperidin	Flebaven, Fladios, Flebazol, Flabien
doxylamine	Noctiben Mea, Sleepzone, Calmesan
ginkgo leaf extract	Bilobil, Gingonin
Iceland moss extract	Herbion Iceland Moss, Herbisland
ivy leaf extract	Herbion Ivy Syrup, Herbihelix
magnesium citrate	Magnezij Krka 300, Magnesol B2
naproxen	Nalgesin S, Analgesin, Nalgedol, Ilgesin, Nalgesin Dolo, Nalgesin Mini, Nalgesin Relief
vitamins for children	Pikovit, Divakid
xylometazoline/dexpanthenol	Septanazal, Septanasal
<b>Animal Health Products</b>	
enrofloxacin	Enroxil, Enrox, Enroxal
febantel/pyrantel/praziquantel	Dehinel Plus, Anthelmin Plus
fipronil	Fypryst, Amflee, Fyperix
fipronil/S-methoprene	Fypryst Combo, Amflee Combo, Fyperix 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, Oxacid

# Research and Development

## Research and development is part of our vertically integrated business model and key element in designing and upholding a competitive portfolio of products.

Vertical integration and connectivity of development and production know-how and processes are essential advantages of our development strategy. As we manage the entire process, we can introduce quality, effective, safe, and competitive products to the markets, continuously maintain their market position and ensure their long-term and stable availability for end-users.

By following trends and scientific achievements in various areas of expertise, particularly medicine, pharmaceutical industry, and chemistry, we can respond quickly and appropriately to development challenges, marketing requirements, potentials, and opportunities. Increasingly complex regulatory requirements force us to introduce new, additional and improved approaches and methods in the development and conduct new studies, which we constantly upgrade. We also cooperate with external partners, including specialised companies, educational and R&D institutions, and in this way constantly upgrade our own knowledge and improve development results.

To develop value added medicines and place them on markets on time, we adopt rational approaches to research and development 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 can research, develop, evaluate, authorise, and manufacture in-house active pharmaceutical ingredients (APIs), and finished products.

The adopted development strategy and project approach help us manage products in all phases of their life cycles, provide scientific objectives and control timelines and costs. R&D results and understanding of markets and legislative requirements enable us to prepare complex registration documentation and obtain marketing authorisations on time. Our registration procedures are time- and cost-efficient.

Quality is an imperative for our products from early development stages onward to make it an integral part of each our product from the start. We also ensure compliance of all development activities with all established quality systems. We continuously enhance and upgrade all those systems, and improve standard procedures and good practices. Audits and inspections are regularly conducted by regulatory authorities in order to review compliance with the relevant standards.

When entering new, technologically complex areas – for example peptides and similar biological medicines, we cooperate with other companies and institutions. At the same time we conduct our own development studies in finished product development. We consult regulatory authorities to validate key development steps. We assess potential business cooperation in various therapeutic areas, in particular medicines for the treatment of diabetes.

We introduce new products and maintain their competitiveness in 70 countries.

## Investments and Accomplishments<sup>25</sup>

Krka allocates 10% of annual revenue to research and development. Rapid scientific and technological progress and increasing market complexity require constant investing in know-how and the latest equipment. They are essential for innovative approaches and timely introduction of new products while maintaining top quality and competitiveness in all markets.

R&D processes involve comprehensive and complex technological, analytical, preclinical, and clinical studies and procedures that enable us to manufacture innovative dosage forms in new therapeutic areas.

Studies, in most cases bioequivalence studies, demonstrate the safety and efficacy of all new products. We always conduct clinical trials in line with the applicable legal requirements, good practice guidelines, the *Helsinki Declaration*, and Regulation (EU) 2016/679 (*General Data Protection Regulation*). Regular inspections, conducted by regulatory authorities, confirm that safety of the participants, transparency, ethics and high quality of research are ensured.

Krka respects the intellectual property of its competitors; therefore, innovative R&D solutions drive the development of new products. The implementation of solid dispersion

<sup>25</sup> GRI GS 103-1, 103-2, 103-3



technology helped us to circumvent many patents successfully and made it possible to develop new products. In addition to innovative technological approaches, we also develop innovative complex dosage forms with added value, for example, modified-release forms, dispersible tablets, and bilayer tablets. In 2021, we filed twelve patent applications for new product solutions.

Also in 2021, we invested in laboratory equipment and knowledge of physico-chemical analytics and cell tests to develop analytical methods related to complex products, including peptides.

We took a big step forward in terms of digitalisation as we transferred a huge amount of technological and analytical R&D raw data into the electronic system. As a result, we can include, and more importantly, scientifically analyse a larger quantity of information and dig deeper in our research work. We also continued digitalising information and data on project-and-regulatory processes and linking them to manufacturing processes.

We took an important step in robotisation of analytical processes. This improved the repeatability of performance, operation, and execution, while in the next phase, we also plan on optimising costs. Last year, we obtained initial regulatory approval of analytical procedure by automated sample preparation.

Over several years, our in-depth R&D work on nitrosamine impurities made us one of the few pharmaceutical companies that could guarantee uninterrupted supplies of safe and quality sartan products. At the end of 2020, the European Medicines Agency (EMA) published a referral procedure for sartans requiring nitrosamine impurities limits to be included in analytical specifications of finished products. We, therefore, developed and validated analytical methods for content of nitrosamine impurities for all sartan-containing products and clearly proved their high quality.

We conducted extensive development studies on established products, adjusted development activities, coupled development and manufacturing operations, and learnt about regulatory and marketing requirements to enter a new strategic market – China. We obtained marketing authorisations for our first product in China in 2020, and for another three in 2021.

The achievements of our researchers were 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: eight regional awards from the Chamber of Commerce of Dolenjska and Bela Krajina and two national awards from the Slovenian Chamber of Commerce and Industry.



## Top-quality combined with high flexibility

### Committed employees are a guarantee for:

- Krka's development and manufacture of APIs and finished products
- Effective processes and quick response to market needs
- Uninterrupted supply of high-quality and innovative generic medicines marketed under Krka brands

The Chamber of Commerce of Dolenjska and Bela Krajina awarded our researchers for innovative solutions in developing several products. We received gold awards for the following innovations:

- *Bilayer tablet containing the combination of candesartan and amlodipine for the treatment of hypertension;*
- *Pitavastatin-based solid dosage form for lowering cholesterol;*
- *Fixed-dose combination of olmesartan, amlodipine, and hydrochlorothiazide in solid dosage form for the treatment of hypertension; and*
- *Solid dosage form containing vitamin D3.*

Silver awards were received for the following innovations:

- *Erlotinib-based solid dosage form for the treatment of non-small cell lung or pancreatic cancer;*
- *Optimisation of duloxetine hydrochloride finalisation as regards processability and flexibility on an industrial scale;*
- *Optimisation of API ezetimibe production and its transfer from pilot to industrial scale; and*
- *Synthesis of silodosin with reduced oxidation impurity content.*

We received two national silver awards from the Slovenian Chamber of Commerce and Industry for innovations in the development of dosage forms and technologies for finished products:

- *Candesartan and amlodipine in bilayer tablets for the treatment of hypertension; and*
- *Fixed-dose combination of olmesartan, amlodipine, and hydrochlorothiazide in solid dosage form for the treatment of hypertension.*

## Protecting Our Know-How and Industrial Property

In 2021, we filed twelve patent applications for new technological solutions we had developed and evaluated as inventions at the global ranking level. Based on priority applications from 2020, we submitted four international patent applications. We were granted three patents in various countries. Over 200 valid patents protect Krka's technological solutions.

We filed 42 applications for Krka trademarks in Slovenia. We also filed 29 international and 27 national trademark applications. In total, we have registered more than 1,100 trademarks in various countries.

In addition to protecting our own know-how, inventions, and trademarks, the strategy for achieving the 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 2021, we further extended the portfolio of Krka products by obtaining marketing authorisations for 16 new and revised products. We develop and obtain marketing authorisations for our new and revised products to supplement our key product groups and intensify the expansion of our new therapeutic areas, i.e. oncology, antithrombotic agents, and a very important therapeutic category of diabetes. Besides this, we also continue entering new markets. We continue adding new products to our non-prescription and animal health portfolios.

We completed more than 200 registration procedures and obtained more than 1,000 new marketing authorisations on new markets. Thanks to this approach, we can launch value added, quality and affordable medicines for contemporary treatment, saving patients and healthcare systems money in various markets.

We obtained marketing authorisations for several prescription pharmaceuticals:

- Products containing new active ingredients included **Aboxoma** (apixaban), also marketed as **Abidalo**; **Abiraterone Krka** (abiraterone); **Sunitinib Krka** (sunitinib); and **Apeneta** (tapentadol), also marketed as **Adoben**;
- A new fixed-dose combination of vildagliptin and metformin, **Vimetso**, also marketed as **Vildakombi**;
- Products based on a new perindopril salt, i.e. **Neoprenessa** (perindopril arginine) tablets, in markets also available as **Prenessa NEO**, **Prenessa-AS**, or **Perineva**; and a fixed-dose combination of perindopril arginine and indapamide, **Neoprenewel**, also marketed as **Co-Prenessa Neo**, or **Co-Prenessa-AS**;
- Products containing established active ingredients in a new dosage form of dispersible tablets, i.e. **Doreta** (tramadol/paracetamol); and **Hiconcil** (amoxicillin);
- Products for which we carried out new market-based studies: **atorvastatin**, **rosuvastatin**, and **losartan** in China; and **lenalidomide** in the Russian Federation;
- **Ezoleta** (ezetimibe) containing an optimised in-house active ingredient.

We added to our animal health portfolio with a fixed-dose combination **Cladaxxa** (amoxicillin/clavulanic acid) from our antibiotic range, marketed also as **Twinox**; and a new formulation of the fixed-dose combination **Milprazon** (milbemycin/praziquantel) for dogs, also marketed as **Amcofen**, **Mektix**, or **Milgusto**.

As we are committed to the highest quality and safety levels possible, we continuously monitor, evaluate, and upgrade established products and adapt them to the latest findings and requirements. In 2021, we filed marketing authorisation documents for over 36,000 variations.

In compliance with EMA requirements, we included new analytical methods for nitrosamine impurities in registration dossiers for all sartan-based finished products, drew up documents for more than 3,000 variations, and submitted them to regulatory bodies in all EU member states that market our sartan-based products.

We adapted to the requirements of the latest edition of the Russian Pharmacopoeia (GF 14) and filed documents for variations of over 300 products registered in the Russian Federation.

We continued to review and update the dossiers for our established products in compliance with the new product registration legislation effective in the Eurasian Economic Union (EAEU). In 2021, we surpassed our goal and submitted revised dossiers for more than one-third of all our products registered in the EAEU.

## Prescription Pharmaceuticals

In 2021, we were granted marketing authorisations for 14 new prescription pharmaceuticals.

We were granted more than 500 new marketing authorisations in EU Member States.

We developed and obtained marketing authorisations for **Aboxoma** (apixaban) film-coated tablets, also marketed as **Abidalo**, a medicine from an important therapeutic area of antithrombotic agents. It is used for the prevention of atherothrombotic events in adults with cardiovascular diseases. API synthesis and formulation development are the results of our know-how. The API and finished product are manufactured at our production plants. By connecting all development and manufacturing processes, we ensure continuous supply of this advanced antithrombotic agent.

A product based on new arginine salt of Krka's key API perindopril was added to our group of cardiovascular products. Two perindopril arginine-based products were approved: monotherapy **Neoprenessa** (perindopril arginine) tablets, on markets also available as **Prenessa NEO**, **Prenessa-AS**, or **Perineva**; and

a fixed-dose combination **Neoprenewel**, also marketed as **Co-Prenessa Neo**, or **Co-Prenessa-AS** (perindopril arginine/indapamide) tablets. Perindopril arginine product is developed and produced according to our vertical integration model. It is a result of our know-how and is manufactured in Krka's-own facilities. Managing all processes from development to marketing enables us to respond quickly and ensure a product's availability on markets.

Marketing authorisations were granted for the cholesterol lowering agent **Ezoleta** (ezetimibe) containing an optimised active ingredient. Based on new scientific studies, we improved the process of API synthesis. We manufacture the API at our premises.

We continued obtaining new marketing authorisations for our products in China. We completed registration documentation for several products by adding results of additional research and clinical trials performed in compliance with the requirements of the Chinese regulatory authorities. We obtained marketing authorisations for three cardiovascular agents, **atorvastatin**, **rosuvastatin**, and **losartan**, all in tablets.

We are rapidly entering the area of antidiabetics, which is expected to become one of our major therapeutic areas. We extended our portfolio with a new fixed-dose combination **Vimetso** (vildagliptin/metformin) film-coated tablets, marketed also as **Vildakombi**. The two active ingredients exert synergistic action, regulate blood sugar levels, and help increase postprandial insulin levels in adult patients with type 2 diabetes. The product is made according to the vertically integrated production model and incorporates vildagliptin, an in-house developed and manufactured API. The formulation is non-infringing. By controlling development and manufacturing processes in-house, we will ensure uninterrupted supplies of the finished product to our markets.

We added **Apeneta** (tapentadol) prolonged-release tablets, also marketed as **Adoben**, to our analgesic range. Tapentadol is an opioid analgesic and is used to treat various types of severe chronic pain in adults. The medicine is produced according to the vertically integrated production model and is the result of in-house API synthesis and dosage form development. We obtained marketing authorisations for the product via Decentralised Procedure (DCP) as the first generic manufacturer. We manufacture the medicine in our own production facilities to provide for uninterrupted finished product market supply and availability of therapy.

Another result of our development is the approval of our analgesic combination **Doreta** (tramadol/paracetamol) dispersible tablets, a new dosage form. This opioid

analgesic plays an important role in treating moderate to severe pain. Dispersible tablets can be taken whole or dissolved in water. The new dosage form ensures quick dissolution, is palatable and easier to take for the patient.

We obtained marketing authorisations for the first time for two oncology agents, **Abiraterone Krka** (abiraterone) film-coated tablets and **Sunitinib Krka** (sunitinib) hard capsules. Sunitinib is indicated for the treatment of tumours of the stomach, pancreas, and kidneys, while abiraterone is used for the treatment of prostate cancer. We manufacture Abiraterone Krka at our state-of-the-art production plant in Jastrebarsko (Croatia), which is dedicated to producing products containing highly active APIs.

In the Russian Federation, we obtained marketing authorisation for our oncology agent **Lenalidomide** (lenalidomide) hard capsules, indicated for various types of blood cancer. Its key indication is maintenance treatment of multiple myeloma in adult patients. The registration documentation was based on new scientific studies and the availability of this medicine in the Russian Federation was ensured by setting up an additional manufacturing site in the Russian Federation.

Our established antibiotic **Hiconcil** (amoxicillin) was approved in a new dosage form, dispersible tablets. It is indicated for the treatment of bacterial infections in adults and children. The product can be taken whole or dissolved in water, making administration easier for the patient.

In the Region East Europe, we were granted nearly 100 new marketing authorisations. We entered regional markets with value added medicines. In Moldova, we were granted marketing authorisations for our antithrombotic agent **Rivaroxia** (rivaroxaban) film-coated tablets. We obtained marketing authorisations under the product registration procedure applied by the EAEU for **Tadalafil Krka** (tadalafil) film-coated tablets in the Russian Federation and extended our range of medicines for the treatment of erectile dysfunction.

In Belarus, we obtained marketing authorisations under the shortened procedure for **Rivestar** (rivastigmine) capsules and for **Elicea** (escitalopram) film-coated tablets; **Duloxenta** (duloxetine) hard gastro-resistant capsules; **Kventiax** (quetiapine) film-coated tablets; and **Zalasta** (olanzapine) tablets. With this we prepared the grounds for this important therapeutic area of diseases of the central nervous system in the region.

In the Region South-East Europe, 50 new marketing authorisations were granted. The following medicines from two important therapeutic areas containing advanced APIs stood out: an antithrombotic agent **Xerdoxo** (rivaroxaban) in the form of film-coated tablets; and two agents from the promising group of antidiabetics, **Maysiglu** (sitagliptin) film-coated tablets and the fixed-dose combination **Maymetsi** (sitagliptin/metformin) film-coated tablets.

We obtained more than 60 marketing authorisations in our Region Overseas Markets. We make value added medicines from various therapeutic areas available to patients in many countries in the region. Among others, our antidementia agent **Memando** (memantine) film-coated tablets and antipsychotic **Aryzalera** (aripiprazole) tablets were approved in Saudi Arabia. We obtained our first marketing authorisations in the United Arab Emirates for prescription pharmaceuticals as follows: two cardiovascular agents, **Valsacor** (valsartan) tablets and **Valsaden** (valsartan/hydrochlorothiazide) tablets; an antidiabetic agent **Gliclada** (gliclazide) prolonged-release tablets; and **Vizarsin** (sildenafil) orodispersible tablets for the treatment of erectile dysfunction.

We continued obtaining the Certificates of Suitability to the monographs of the European Pharmacopoeia (CEP) based on our own API manufacturing process for a hypolipemic rosuvastatin and rabeprazole for the treatment of stomach problems. We adopted changed legislation on APIs and obtained CEPs for key Krka's APIs: perindopril erbumine, telmisartan, and clopidogrel. We achieve the highest quality of API synthesis in all our production facilities by undertaking extra R&D and registration activities. In this way, we can provide a continuous supply of our finished products.

## New MAs for Established Medicinal Products

Therapeutic areas (ATC)	Brand or registered name	APIs	Dosage form	Country
<b>Cardiovascular system</b>				
	<b>Co-Vamloset Valtricom</b>	amlodipine/valsartan/hydrochlorothiazide	film-coated tablets	Azerbaijan, Mongolia, Albania, Kosovo, United Arab Emirates
	<b>Roxiper, Roxatenz-Inda</b>	perindopril/indapamide/rosuvastatin	film-coated tablets	Montenegro, Belarus
	<b>Roxampex</b>	perindopril/amlodipine/rosuvastatin	film-coated tablets	Croatia, Georgia, Ukraine
	<b>Teldipin</b>	telmisartan/amlodipine	tablets	North Macedonia
	<b>Tolucombi</b>	telmisartan/hydrochlorothiazide	tablets	North Macedonia
	<b>Sorvitimb, Co-Roxera</b>	ezetimibe/rosuvastatin	film-coated tablets	Georgia, Azerbaijan
	<b>Wamlox</b>	amlodipine/valsartan	film-coated tablets	Kosovo, Iraq
	<b>Valsaden</b>	valsartan/hydrochlorothiazide	film-coated tablets	United Arab Emirates
	<b>Niperten Combi</b>	bisoprolol/amlodipine	tablets	Azerbaijan
	<b>Olelom HCT</b>	olmesartan/hydrochlorothiazide	film-coated tablets	Greece
	<b>Candesartan HCT</b>	candesartan/hydrochlorothiazide	tablets	Iraq
	<b>Telmisartan</b>	telmisartan	tablets	Russian Federation
	<b>Valsacor</b>	valsartan	film-coated tablets	United Arab Emirates
	<b>Candesartan TAD</b>	candesartan	tablets	Iraq
	<b>Metazero</b>	metoprolol	prolonged-release tablets	Greece
	<b>Apleria</b>	eplerenone	film-coated tablets	Ukraine
	<b>Amiokordin</b>	amiodarone	tablets	Azerbaijan
	<b>Simvastatin Krka</b>	simvastatin	film-coated tablets	Iceland
	<b>Olelom</b>	olmesartan	film-coated tablets	Greece
<b>Antithrombotics</b>				
	<b>Xerdoxo, Rivaroxia</b>	rivaroxaban	film-coated tablets	Bosnia and Herzegovina, Kosovo; Moldova
	<b>Eliskardia</b>	prasugrel	film-coated tablets	Bosnia and Herzegovina
<b>Central nervous system</b>				
	<b>Aryzalera</b>	aripiprazole	tablets	Saudi Arabia
	<b>Memando</b>	memantine	film-coated tablets	Saudi Arabia
	<b>Pregabalin Krka</b>	pregabalin	hard capsules	Mongolia, Iraq
	<b>Elicea</b>	escitalopram	film-coated tablets	Belarus
	<b>Alventa</b>	venlafaxine	prolonged-release hard capsules	Armenia
	<b>Parnido</b>	paliperidone	prolonged-release tablets	Greece
	<b>Agomaval</b>	agomelatine	film-coated tablets	Malta
	<b>Rivestar</b>	rivastigmine	capsules	Belarus
	<b>Kventiax</b>	quetiapine	film-coated tablets	Belarus
	<b>Duloxenta</b>	duloxetine	gastro-resistant capsules	Belarus
	<b>Zalasta</b>	olanzapine	tablets	Belarus
<b>Antineoplastic agents</b>				
	<b>Pemetrexed Krka</b>	pemetrexed	powder for solution for infusion	North Macedonia
	<b>Erlotinib Krka</b>	erlotinib	film-coated tablets	Ukraine
<b>Corticosteroids for systemic use</b>				
	<b>Dexamethasone Krka</b>	dexamethasone	tablets; solution for injection	Russian Federation, Serbia, Iraq
<b>Musculoskeletal system</b>				
	<b>Dekenor, Deksiaks</b>	dexketoprofen	solution for injection, film-coated tablets	Russian Federation, Azerbaijan, Moldova, Kyrgyzstan, Ukraine
	<b>Etoxiб, Etoriax</b>	etoricoxib	film-coated tablets	Ukraine, Mongolia, Kazakhstan
	<b>Tramadol</b>	tramadol	prolonged-release tablets	Albania
	<b>Naklofen</b>	diclofenac	solution for injection	Sudan



Therapeutic areas (ATC)	Brand or registered name	APIs	Dosage form	Country
<b>Antidiabetics</b>				
	<b>Maysiglu</b>	sitagliptin	film-coated tablets	Serbia, Bosnia and Herzegovina, North Macedonia
	<b>Maymetsi</b>	sitagliptin/metformin	film-coated tablets	Serbia
	<b>Gliclada</b>	gliclazide	prolonged-release tablets	United Arab Emirates
<b>Antibacterials for systemic use</b>				
	<b>Ciprinol</b>	ciprofloxacin	film-coated tablets	Malta
	<b>Fromilid</b>	clarithromycin	film-coated tablets	Malta
<b>Antivirals for systemic use (HIV)</b>				
	<b>Efavirenz/Emtricitabine/Tenofovir Krka</b>	efavirenz/emtricitabine/tenofovir	film-coated tablets	Azerbaijan
<b>Alimentary tract and metabolism</b>				
	<b>Nolpaza</b>	pantoprazole	powder for solution for injection	Tajikistan
	<b>Emanera</b>	esomeprazole	gastro-resistant capsules	Malta, Iraq
	<b>Bismuth Krka</b>	bismuth	film-coated tablets	Greece
<b>Erectile dysfunction</b>				
	<b>Vizarsin</b>	sildenafil	film-coated tablets, orodispersible tablets	Armenia, United Arab Emirates
	<b>Tadalafil Krka</b>	tadalafil	film-coated tablets	Russian Federation
	<b>Vardenafil Krka</b>	vardeafil	film-coated tablets	Kazakhstan
<b>Benign prostatic hyperplasia</b>				
	<b>Twinpros</b>	dutasteride/tamsulosin	hard capsules	Serbia
	<b>Sidarso</b>	silodosin	hard capsules	Serbia
<b>Urologicals</b>				
	<b>Asolfena</b>	solifenacin	film-coated tablets	Lebanon
<b>Antihistamines for systemic use</b>				
	<b>Letizen</b>	cetirizine	film-coated tablets	Iraq
	<b>Cezera</b>	levocetirizine	film-coated tablets	Iraq
	<b>Dasselta</b>	desloratadine	film-coated tablets	Iraq

## Non-Prescription Products

In 2021, we obtained marketing authorisations on new markets for our key non-prescription product brands. We obtained more than 80 marketing authorisations and notifications.

We obtained marketing authorisations for **Vitamin D3 Krka** (cholecalciferol) tablets in Armenia, Kosovo, Bosnia and Herzegovina, Bulgaria and Ukraine, and received notifications in Italy, France, Croatia, Montenegro, and Serbia. In Slovenia, we submitted an application for the status of a prescription product for packages of 90 tablets.

We obtained new marketing authorisations for the renewed formulation of our established product **B-Complex** (thiamine/riboflavin/pyridoxine/cyanocobalamin/calcium pantothenate/nicotinamide) film-coated tablets in Croatia, Serbia, and Albania.

We obtained new marketing authorisations for the Septotele brand products. **Septotele Total** (benzylamine/cetylpyridinium chloride) honey-and-lemon flavour lozenges were approved in Denmark, Iceland, Spain, Montenegro, Albania, Mongolia, and the United Arab Emirates. We obtained a marketing authorisation for **Septotele Total** (benzylamine/cetylpyridinium chloride) elder-and-lemon flavoured lozenges in Montenegro. **Septotele Total** (benzylamine/cetylpyridinium chloride) spray was approved for marketing in Germany, Iceland, and Denmark. Approvals were granted in Spain and Malta for **Septanazal** (xylometazoline/dexpanthenol) nasal spray, marketed also as **Septanasal**.

Of the Herbion brand products, we obtained new marketing authorisations for **Herbion Ivy** (ivy leaf dry extract) lozenges and syrup. Syrup was approved for marketing as a food supplement under the product registration procedure applied by the EAEU in Armenia, the Russian Federation, Belarus, Kazakhstan, and Kyrgyzstan. Syrup was also approved for marketing in Montenegro. Lozenges were approved for marketing as a non-prescription product in Georgia, Armenia, Turkmenistan, and Albania.

According to the changed legislative requirements for medical devices, we revised the dossier for requalification. In the EU Member States, we obtained the certificate for **Herbisland** (ivy leaf dry extract) syrup as a class IIa medical device.

In the Czech Republic, we confirmed amendments in the status of two established products by registration procedures switching them from prescription pharmaceuticals to non-prescription products in small packages. They are **Flebazol** (diosmin) 500 mg film-coated tablets to treat symptoms of chronic venous

insufficiency and **Dasmini** (desloratadine) film-coated tablets for relieving symptoms associated with allergic rhinitis and urticaria. They come in the form of film-coated tablets.

As the first generic manufacturer in Spain, we obtained a marketing authorisation for **Emanera** (esomeprazole) 20 mg gastro-resistant capsules as a non-prescription product. We also obtained marketing authorisations for our esomeprazole-based products as non-prescription products in Bulgaria (**Emanera Kontrol**), Estonia (**Escadra Kontrol**), Lithuania (**Escadra**), and Hungary (**Emozul Kontrol**).

We also increased the number of marketing authorisations in Region East Europe markets. In Azerbaijan, we obtained marketing authorisations for **KontrDiar** (nifuroxazide) capsules for treating acute bacterial diarrhoea. We revised the dossiers for Pikovit and Pikovit Forte vitamin tablets to switch their status from the food supplement category to non-prescription products.

Region South-East Europe expanded marketing opportunities by obtaining marketing authorisations for **Nalgesin** (naproxen) 220 mg film-coated tablets, and dietary supplement notifications for mineral-and-vitamin products Duovit for Women and **Duovit** for Men film-coated tablets, and hair care product **Fitoval** capsules.

Region Overseas Markets expanded marketing opportunities by approvals for **Novolax** (bisacodyl) film-coated tablets, and the **Septotele**, **Bilobil** and **Pikovit** brand products.

## Animal Health Products

We obtained marketing authorisations for our two new animal health products. We extended indications and marketing opportunities for our key animal health product brands and in various countries obtained almost 180 new marketing authorisations.

We added a new fixed-dose combination **Cladaxxa** (amoxicillin/clavulanic acid), chewable tablets in three strengths to our range of products for companion animals. The product is indicated for the treatment of bacterial infections of the skin, gums, respiratory tract, urinary tract, and intestines in cats and dogs. We obtained marketing authorisations for the medicine for the first time in EU Member States and North Macedonia.

Registration procedures were concluded for our new formulation of the fixed-dose combination of milbemycin and praziquantel in film-coated tablets for dogs, on various markets available as **Milprazon Chewable**, **Milprazon Plus**, **Amcofen**, **Mektix Chewable**,



## We obtained marketing authorisations for

14

new prescription pharmaceuticals and

2

new animal health products.

## We filed

12

patent applications for new technological solutions classed as inventions at the global ranking level.

**Milgusto Chewable.** The improved palatability enhances voluntary uptake, reaching over 80% in dogs. This fixed-dose combination is intestinal parasite dewormer. Thanks to its systemic mechanism of action, it at the same time prevents infestations with heartworms and eyeworms.

New indications of **Ataxxa** (imidacloprid/permethrin), our spot-on solution for treating and preventing flea and tick infestations in dogs, were approved. Single treatment provides repellent activity against *I. ricinus* ticks, and protects pets from sand flies and *A. aegypti* mosquitoes.

We introduced **Selafort** on new markets, available also as **Selehold**, (selamectin) 60 mg/ml spot-on solution for cats and small dogs and 120 mg/ml spot-on solution for dogs. Selamectin is a contemporary medicine effective against external parasites, including mange, fleas, lice, and internal gastrointestinal parasites, heartworms, and eyeworms. It is approved for the treatment of mixed infestations in dogs and cats. We obtained marketing authorisations in the Russian Federation and North Macedonia.

In Ukraine, we were granted marketing authorisations for **Prinocate** (imidacloprid/moxidectin) 100 mg/25 mg/ml spot-on solution for dogs in four filling sizes and 100 mg/10 mg/ml spot-on solutions for cats and ferrets in two filling sizes. This medicine is effective against external parasites such as mange, fleas, and lice and against internal gastrointestinal parasites, heartworms, lungworms, and eyeworms. It is used to treat mixed infestations in dogs, cats, and ferrets.

We obtained marketing authorisations for **Rycarfa** (carprofen) tablets in three strengths for dogs and a solution for injection for dogs and cats in North Macedonia. Tablets are indicated for relieving pain and inflammation in chronic arthritis in dogs, while solutions for injection are indicated for postoperative pain relief in dogs and cats.

In the United Kingdom, we obtained marketing authorisations for the febantel/pyrantel/praziquantel fixed-dose combination tablets for treating gastrointestinal infestations in dogs.

We are introducing companion animal products also in countries of Region Overseas Markets. In Egypt, we obtained marketing authorisations for **Fypyrst** (fipronil) spot-on solution and spray used to prevent and treat tick and flea infestations in dogs.

We introduced our products for farm animals on new markets. In Ukraine, we obtained marketing authorisations for **Catobevit** (butafosfan/cyanocobalamin) solution for injection indicated for the treatment and prevention of metabolic or reproductive disorders in cattle, and **Tuloxxin** (tulathromycin) solution for injection for the treatment of respiratory infections in cattle. An additional strength of Tuloxxin (tulathromycin) solution for injection indicated for respiratory tract infections in pigs was approved in Serbia.

In the Russian Federation, we obtained a marketing authorisation for **Solvimin Se** powder for oral solution indicated for pigs, cattle, and poultry. This mixture of vitamins and minerals (including selenium) is indicated as a supportive therapy to enhance the immune system in farm animals and improve their development and growth.

Krka-owned additional production capacities ensured the accessibility of our animal health products. For several animal health products, a regulatory approval was granted for our production plant in Jastrebarsko, Croatia. We adapted the plant to the requirements for the production of tablets for veterinary use, introduced certain automated working processes, and increased capacities. The new plant ensures high quality and safety of animal health products, including **Dehinel** (pyrantel/praziquantel), **Milprazon** (milbemycin/praziquantel), **Rycarfa** (carprofen), **Marfloxin** (marbofloxacin), and **Enroxil** (enrofloxacin).

## Terme Krka

When developing services, programmes, and activities at Terme Krka, we are always mindful of our guests' health and well-being. We primarily focus on medical rehabilitation, medical wellness, and programmes for maintaining health and strengthening the immune system.

In 2021, we developed programmes for long COVID reconvalescents. Our healthcare teams designed programmes to include specialist heart and respiratory treatment, various therapies, and a healthy diet. The three health resorts offer specialised programmes. Talaso Strunjan focuses on respiratory and climatic therapy, Terme Šmarješke Toplice offers specialist cardiology treatment, and Terme Dolenjske Toplice also focuses on psychological support.

In Terme Šmarješke Toplice, we developed a new programme for increasing the immune system dubbed ImmunoRebalance. It ensures active relaxation, strengthening the immune system and revitalisation for our guests in peaceful and clean surroundings, harmonisation through natural methods, restitution of vitamins and minerals by wholesome and ecologically produced food, strengthening the immune system, and professional support for bringing life in balance. The programme offers excellent active relaxation and recovery after daily stress caused by many stressors, including electronic ones. We provide our guests with professional guidance to improve important behavioural patterns in a relaxed way, comprising exercise, diet, relationship with self, etc. European Spas Association (ESPA) conferred an award on Terme Krka for the programme of the most innovative healthcare programme in Europe in 2021, the ESPA Innovation Award.

# 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, continuously improve processes to reduce lead time along the entire supply chain, and integrate supply processes in all Krka Group subsidiaries and other contractual production sites.

We comply with new product manufacturing requirements and relevant laws by promptly introducing advanced technological processes in the production of 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. By controlling all stages of a product life cycle, we can adapt to challenges in markets more easily and effectively.

We effectively integrate research and development with API and pharmaceutical production, which allows us to quickly and smoothly transfer new products from development to regular production. We accelerated technological problem solving, optimised technological processes, and ensured uninterrupted production.

The COVID-19 pandemic continued to pose major challenges. However, sound organisation of work, the prompt introduction of numerous preventive measures and our focus on key tasks and products helped us keep our capacities at pre-pandemic levels.

## Planning

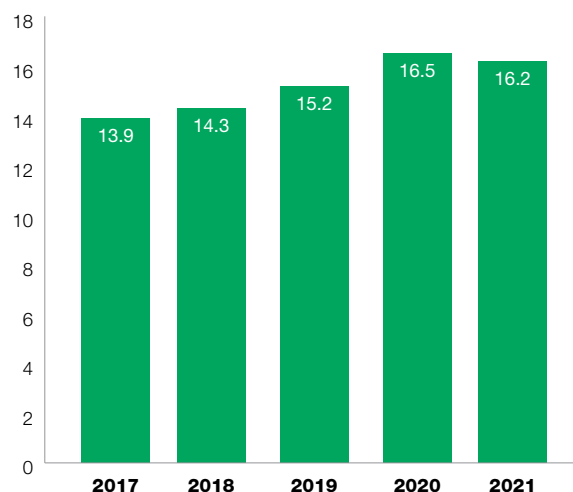
By implementing continuous process improvements, we considerably reduced the average lead time from an order to delivery and, consequently, increased our responsiveness and process flexibility throughout the supply chain. We continue to optimise inventories of raw materials and finished products.

By optimal use of available resources in the controlling company and subsidiaries, and through cooperation with contractors, we manufactured and packed 16.2 billion tablets and other pharmaceutical forms in 2021.

We continued our long-term trend in volume growth of more than 5% a year. Actual product manufacturing was in line with planned market needs.

## Finished Product Manufacturing

In billion pieces



The number of our bulk and finished products rose due to the increasing number of products and production sites, changing market requirements, requirements for package labelling in national languages, and other demands. Careful planning and efficient production allowed us to fulfil diverse customer demands.

We continuously improved post-registration procedures for preparing packaging materials and technological documents for production in Slovenia, our subsidiaries abroad and at contract manufacturers to ensure timely provision of products and a prompt 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. In 2021, we increased the use of production documentation in e-format and improved process digitalisation.



## Supply Process<sup>26</sup>

We mainly use self-produced raw materials for our products but also buy some in the market. In 2021, the number of raw material manufacturers further decreased, primarily due to environmental and financial reasons and those related to good manufacturing practices. Raw material shortage and disruption of transport routes also affected our business. Despite the unstable situation, significant lack of incoming materials, lower manufacturing output at our partners, 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 purchasing raw and packaging materials and upgraded the system for managing purchase agreements and coordinating raw material specifications with suppliers.

We continued introducing alternative sources of active pharmaceutical ingredients, excipients, and packaging materials of equal quality at better prices. This helped mitigate risks posed by changing circumstances that affect supply.

We improved integration of our subsidiaries and optimised purchasing processes. We also improved established partnerships with suppliers.

Purchase and transport agreements concluded with our suppliers and contractors require them to comply with national and international laws and regulations. We work with 76 suppliers with an ISO 45001 certification and 202 suppliers certified to ISO 14001 and regularly audit them. We conduct approximately 145 audits a year.

## Production of Active Pharmaceutical Ingredients

A high level of vertical integration in the production process generates high added value. Vertical integration means that we produce and technologically control a large proportion of the active ingredients that we incorporate into our finished products at various production sites in Slovenia and abroad. In doing so, we reduce the dependency on external suppliers in this key supply chain segment.

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 capacity of our Sinteza 1 plant in Krško in Slovenia and, in turn, considerably expanded capacity to produce active ingredients for our vertically integrated products. We plan to expand our capacities even further. Intensive production

of active ingredients and intermediates continued at our own production sites in Novo mesto and Krško in Slovenia. Production plans for 2021 were implemented.

## Production of Pharmaceutical Products

We have been introducing additional equipment and advanced high-tech solutions into pharmaceutical production. The Notol 2 plant started operating at the end of 2015 and was upgraded in 2021 with several packaging lines. We also ordered the equipment needed to render the plant fully operational. The plant utilises cutting-edge technology, high level of automation and robotisation supported by advanced computerised systems. This approach helps us reinforce our competitive edge on demanding global markets. In 2021, over 30% of total Krka Group products were manufactured at the Notol 2 plant.

We also increased production in our production and distribution centre in the Russian Federation, equipped it with new production machinery, and made a transfer of new technologies and products essential for the Russian market. This further consolidated our position as a local manufacturer. The plant in the Russian Federation manufactures approximately 80% of all our products intended for the Russian market.

In addition to significant investments in new equipment and technology, which provide additional production capacities, we modernised existing machines and production lines. Upgrades and refurbishments resulted in adequate production process cost-effectiveness and augmented the level of digitalisation. Production documentation in e-format was introduced to add to automation and paperless operations.

We promptly responded to a fluid situation in the pharmaceutical market and a changing demand for pharmaceutical products. We 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, increasing product batch sizes and launching new products. At the same time, we maintained a high level of quality standards required by laws, regulations and inspections, and upgraded 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

<sup>26</sup> GRI GS 102-9, 103-1, 103-2, 103-3, 414-1

network of contract manufacturers. We completed the transfer of several products to Ningbo Krka Menovo, our joint venture established together with our Chinese partner. In 2021, several products intended for our traditional markets were in regular production and the first product to be sold in China was launched.

To raise awareness and the quality of work, we upgraded the training centre in Pharmaceutical Production, where our employees acquire skills for working with equipment used in all key production processes. Participants learn through the experience and expertise of their mentors, selected from the most successful Krka employees, and modern methods for knowledge transfer, i.e. video lessons and training in a real-life work setting. The system proved very useful, as the introduction process is faster and more efficient, while the quality of regular work improves. It was initially intended for new employees only but is now used for other groups of employees that can benefit from it.

## Warehousing and Transport

We improved warehouse capacity utilisation through process optimisation, new computer system options, and inventory optimisation in conjunction with other organisational units. The new multipurpose warehouse served its purpose well.

We increased the number of environmentally friendly cargo vehicles to distribute our products and cut operating costs. We augmented sea transport and continued to use rail transport in compliance with temperature-control requirements. In 2021, transport was hindered, so we looked for new transport options and efficiently transported products by road. Road transport is an alternative to the established transport routes. We effectively arranged all necessary means of transport to accommodate increasing sales volumes.

We are approved as an authorised economic operator (AEO) in customs clearance procedures. This allows for a faster flow of goods and facilitates obtaining authorisations for simplified declaration procedures.

We are a registered exporter according to the Registered Exporter system (REX).

## Suppliers<sup>27</sup>

Our long-term relations with business partners, including suppliers of equipment, raw and base materials, contractors, and partners, 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, tender preparation, 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 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 follow 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. In 2021, spending on suppliers of goods and services in Slovenia accounted for 16% of total Krka procurement budget.<sup>28</sup>

<sup>27</sup> GRI GS 102-9, 103-1, 103-2, 103-3 • <sup>28</sup> GRI GS 204-1



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**Our innovative combination medicines have many sustainable advantages.**

**Dr Klemen Korasa, a member of the team awarded for an innovation, said: ‘Overcoming technological, biopharmaceutical, and stability challenges helped us develop a product with added value for the patient, save energy and raw materials, and reduce the environmental impact of transport.’**

**Dr Tatjana Mateović Rojnik, Tadej Stropnik, Dr Ana Vidmar, and Dr Klemen Korasa are few members of the broader Krka's research team that received the 2021 Chamber of Commerce and Industry of Slovenia Award for the best innovation, the bi-layer single-pill combination of candesartan and amlodipine for the treatment of high blood pressure.**



# Investments<sup>29</sup>

**In 2021, the Krka Group allocated €66.4 million to investments, of that €49.4 million to the controlling company, and €17.0 million to subsidiaries.**

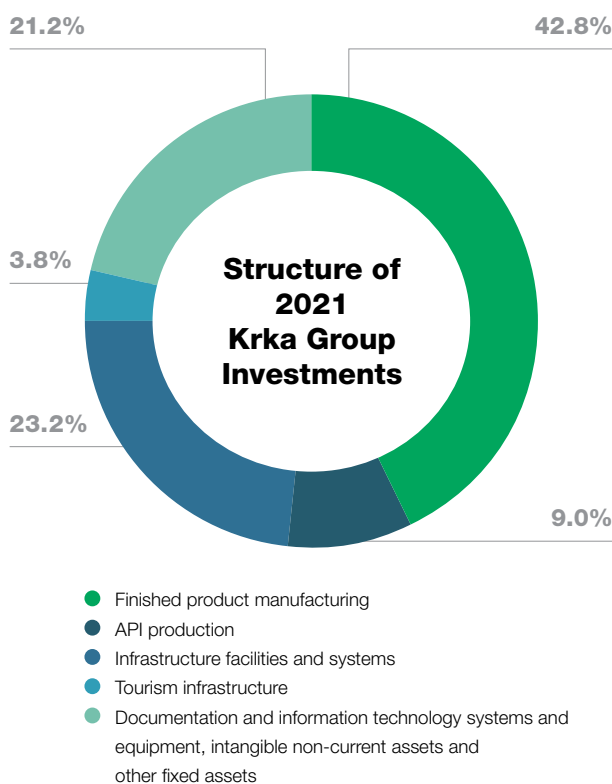
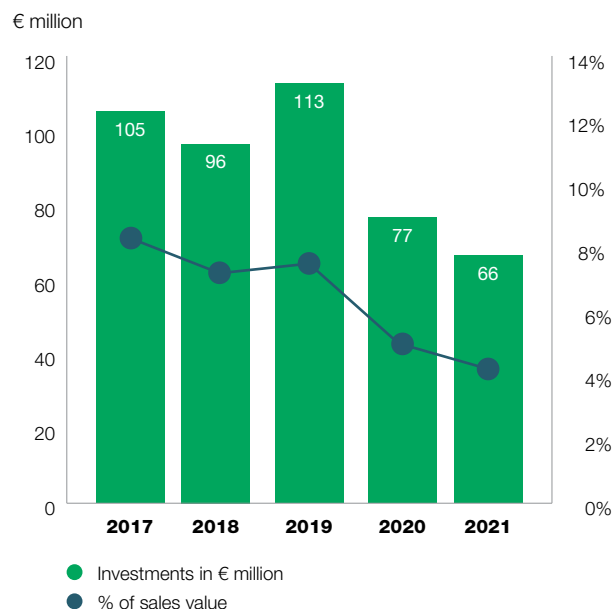
We primarily invested in our production and development plants to enlarge facilities and upgrade technologies, quality management, and our production-and-distribution centres worldwide.

In Slovenia and the Russian Federation, we made multiple investments in new production equipment and upgraded systems and instruments, increasing our production capacities and improving quality. Lengthy procedures for obtaining permits in the two countries stalled funding; hence 2021 investments were lower than planned. Due to the high demand for certain products, we had to increase their production and postpone reconstruction of the Solid Dosage Products plant. The slow-down in investments was partly caused by lack of electronic components on the global markets, postponing the delivery of certain machines and equipment to 2022.

We place a strong emphasis on the values of sustainable development and take into account environmental standards, indirect, and direct environmental impacts in all investment projects. The approved equipment complies with the best available technology for environmental protection and energy efficiency, and guarantees safe and efficient operations.

In 2021, in order to ensure product quality, we streamlined the major part of investments to the production of finished products, increasing and upgrading facilities for development, research, and analysis. This provides for coordinated functioning of our research and development, production and control, which embody the essential advantages of our vertically integrated business model. Investments accounted for 4.2% of sales revenue generated in 2021.

## 2017–2021 Krka Group Investments



## Notol 2 Plant

The Notol 2 plant, our state-of-the-art facility for manufacturing solid dosage forms in Ločna (Novo mesto, Slovenia), has been in operation for several years now. The growing need for production capacities has incited us to acquire additional technological equipment. In 2019, we started equipping a new packaging facility. We installed several highly automated and robotised packaging lines. We plan to install the remaining two packaging lines in 2022. This will make the facility fully technologically equipped. Its full manufacturing capacity is expected to reach 5 billion tablets and its full packaging capacity 8 billion tablets per year. The investment is estimated at €41 million.

In 2021, we allocated €8.5 million to equip the new packaging facility and purchase production equipment.

## Production and Capacity Upgrades

After 20 years of continued operations, we intend to upgrade water supply systems and automated washing systems of the oldest section of the Notol plant in compliance with cGMP guidelines. The investment is estimated at €3.1 million. Also, we plan to renovate the format tool washing room, replace and overhaul the worn-out packaging lines in the same plant to ensure the uninterrupted performance of the packaging room in the next 20 years. The investment is estimated at €38.2 million.

In the Solid Dosage Form Products plant (Novo mesto, Slovenia), we are investing €26 million in additional capacities for compression mixture preparation and granulation in the tablet compression process, and in logistic capacities.

We are finishing several investments totalling €8.2 million to upgrade and increase the capacities for research, development and analyses in our development-and-control laboratories.

We renovated the temporary storage room of the warehousing section of the Ljutomer (Slovenia) manufacturing plant in compliance with the standards of good warehousing practice and health and safety at work. We apportioned €2 million to the investment. We also plan to increase the production capacities for granulation and packaging. The investment is estimated at €13 million.

At our Slovenian Beta Šentjernej plant, we upgraded the systems and equipment in compliance with ATEX standards. We intend to install another mixer to increase the production capacity for the preparation of dry granules. The total value of investments is estimated at €2.6 million.

## Investments for strengthening and optimising vertical integration

- Increasing and technologically upgrading Krka's development capacities
- Quality Management
- Increasing and upgrading Krka's capacities for API and finished product manufacture
- Extending our production and distribution centres across the world

In Ločna (Novo mesto, Slovenia), we intend to replace the one-storey house by a six-storey building called Paviljon 3. The multiple-purpose building will house an extension for our microbiology laboratory and additional rooms for several organisational units. Project documentation for this €18.6 million investment has been completed, and construction works are expected to start in spring 2022 after the construction permit is obtained.

## Increasing API Development and Production Capacities

We plan to build new facilities for developing and producing active pharmaceutical ingredients (APIs) in Krško, Slovenia. The designs for execution have been drawn up. In June 2021, we obtained the integral building permit for Sinteza 2, and laboratories for chemical analyses (Kemijsko-analitski center in Slovene). The permit entered into force at the end of July 2021. We are still waiting for the final IED OVD environmental protection permit, which must be obtained before construction can start. The Sinteza 2 plant will be our second plant for API production in Krško. We plan to build other small technology and infrastructure facilities required for uninterrupted production processes. The investment



estimated at €163 million pursues our strategy of vertical integration. This means that our product is made in-house from its development to production.

## Energy Supply Projects

As our production capacities increase, so do our energy demands. Investment in production capacities for compressed air and construction of new utility lines for energy supplies to manufacturing facilities are drawing to an end. We allocated €2.5 million for energy infrastructure extension at our Novo mesto production facility.

## Investments Outside Slovenia

The Krka-Rus plant in the industrial zone of Istra, a town north-west of Moscow, is one of the key investments in Krka subsidiaries abroad. The plant manufactures more than 75% of products we sell in the Russian Federation, giving us the status of a domestic producer in the country. By the end of 2021, we technologically equipped the Krka-Rus 2 production plant. In 2020, we transferred new technologies to the plant and gradually started producing new products vital for the Russian market.

In summer 2021, we started refurbishing the high-bay warehouse at the Krka-Rus 1 plant to revamp it into production and laboratory rooms. We intend to invest €35 million in increasing the factory production capacity to 3.5 billion tablets per year. In 2021, our investment amounted to €5.6 million.

We continued to purchase manufacturing and quality control equipment for our joint venture Ningbo Krka Menovo in China. In leased production facilities we manufacture products for markets outside China, and in January 2021 also started manufacturing the first product intended for the Chinese market.

## New Projects

Project designs are being drafted for three substantial investments in new solid dosage form production. In 2021, we started preparing project documents for the construction of a new plant in the Russian Federation. Project designs for the solid dosage products plant (Slovene abbreviation: OTO 2) and packaging centre in Novo mesto (Slovenia) are in the course of preparation.

## Terme Krka

We finished refurbishing Mihevc holiday houses, the four accommodation facilities in Strunjan, Slovenia. The refurbishment of 40 accommodation units and construction of a new sewer system totalled €1.5 million. We also began a thorough renovation of the accommodation facility at the Laguna Hotel in Strunjan after the end of the summer season. The reconstruction of the building is still in progress. We are refurbishing the restaurant and the reception room, and converting six rooms above the restaurant into apartments and the conference hall into an accommodation facility of a high price range.

We thoroughly renovated 48 hotel rooms in Šmarješke Toplice health resort (Slovenia), including the triple glazing of the exterior windows. We adjusted 19 bathrooms at the Šmarjeta Hotel to the needs of our guests from the rehabilitation programme making them more comfortable.

We replaced the roof and renovated the façade, giving the exterior of stables near the Struga castle (Slovenia) a new look. This gives the building complex by the golf course a new appearance. We are also planning to renovate the building interior.

In 2021, the subsidiary Terme Krka allocated a total of €2.1 million to investments.

# Integrated Management System and Quality<sup>30</sup>

## Our fundamental strategy in terms of quality is to ensure quality by continuously improving our products, processes and services.

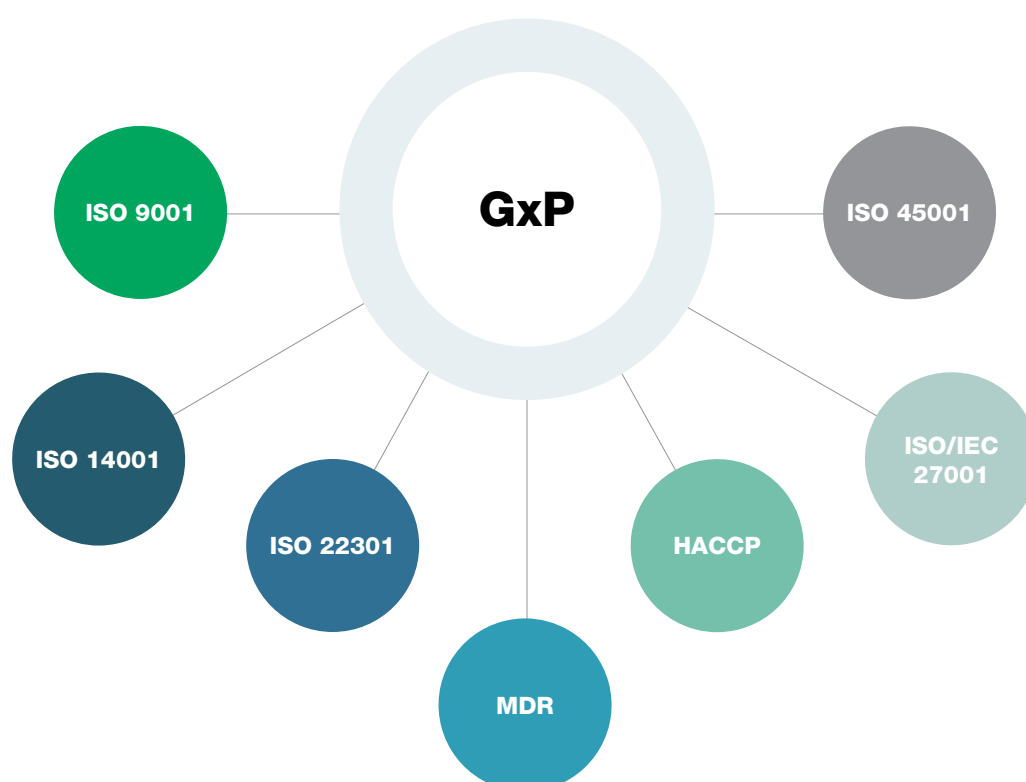
To this end, we pursue effective performance of the integrated management system (IMS) and quality system in compliance with the principles of good pharmaceutical practices (GxP) and regulations governing quality in the pharmaceutical industry. We maintain flexibility, respond quickly to new developments, market needs and legal requirements, improve our processes, make investments, and implement advanced work systems and proper control methods to meet various client requirements. In addition, we demonstrate the continued suitability of processes to deliver on goals. We, therefore, address quality-related

risks and opportunities in all processes systematically. We aim to achieve sustainable development. Careful planning, employee quality culture and continuous development of our processes and services allow us to meet the requirements of our internal and external clients and pave the way for further improvements.

## Management System and Quality

Various aspects of our operations are managed uniformly with our integrated management system (IMS) to achieve optimal business targets. The IMS shapes our attitude to quality, environment, health and safety at work, food safety, medical device safety, information security, and business continuity. The IMS complies with ISO 9001, GxP and HACCP principles, Regulation (EU) 2017/745 (Medical Device Regulation, MDR) and ISO 14001, ISO 45001, ISO/IEC 27001, and ISO 22301.

## Integrated Management System



<sup>30</sup> GRI GS 103-1, 103-2, 103-3, 416-2

In 2021, we again upgraded our management systems in line with the relevant legislation and guidelines. Testament to the management system's compliance is the renewal of good pharmaceutical practice certificates. We also renewed other management system certificates (ISO 9001, ISO 14001, ISO/IEC 27001, ISO 45001, MDR, and HACCP). To ensure the credibility of our IMS and strengthen partner trust, the IMS is regularly certified by SIQ (Slovenian Institute of Quality and Metrology). It has demonstrated its compliance with regulatory and legal requirements during inspections and audits.

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 for transparency as regards our processes and products. We use this approach to conduct analyses, observe trends, ensure sound support for improving process efficiency and product quality, and fulfil all requirements. Our data management system is built on ethical principles of personal integrity, staff responsibility to diligently perform their work, and framework quality guidelines, operating procedures and IT system and organisational process controls.

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 going forward.

## Management and Quality System Controls

The quality assurance system is supervised by certification bodies and domestic and foreign inspections, internal audits and audits by our partners.

Because we manufacture various medicines marketed in various countries, we are supervised by several competent authorities and institutions. In Slovenia, the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) supervises medicinal products and medical devices, while the Health Inspectorate of the Republic of Slovenia (ZIRS) monitors our self-medication products and food supplements. The Chemical Office of the Republic of Slovenia controls biocidal products, compliance with good laboratory practice principles

in studies on mutagenicity, chemical clinical trials, and toxicity of medicines for human and veterinary use, biocides and feed additives. The Administration of the Republic of Slovenia for Food Safety, Veterinary Sector and Plant Protection (UVHVVR) controls feed additives, food and wood packaging materials. The Metrology Institute of the Republic of Slovenia (MIRS) conducts inspections of measuring devices in use and available on the market and prepacked products.

In 2021, the number of inspections and audits remained roughly the same as the year before. The JAZMP regularly inspects medicinal product and API manufacturing processes, clinical trials, and pharmacovigilance. The body carried out:

- Two verifications of new API manufacturing processes at a production plant;
- One verification of new rooms for physico-chemical laboratories;
- Regular inspections of:
  - Production of sterile, semi-liquid, solid, and liquid dosage forms; and
  - Laboratories for quality control and development of analytical procedures.

Regular inspections help us maintain the validity of GMP certificates, which confirm that the manufacture of medicines and APIs complies with the GMP principles and guidelines applicable to medicines and APIs. We were awarded the GLP certificate following a successful periodic review.

As our medicines are also marketed in non-EU states, we were inspected by certain regulatory authorities from those countries. Following successful inspections by the Russian State Institute of Drugs and Good Practices (SID&GP) in 2021, we were granted a new Russian GMP certificate for our Bršljin Department, namely for the production of medicines for human use. At the same time, we successfully passed a veterinary inspection conducted by the Russian State Centre for Animal Feed and Drug Standardization and Quality (VGNKI) on behalf of the Eurasian Economic Union (EAEU). Following that inspection, we obtained a GMP certificate that allows us to register and market animal health products throughout the EAEU. The pharmacovigilance system and interconnections between global and local processes successfully passed a regular inspection conducted by the UK's Veterinary Medicines Directorate.

Our experts took part in European, Russian, and Chinese inspections conducted at our subsidiaries and main contractors. The control over operations and quality management in product manufacture and testing of active pharmaceutical ingredients, bulk products, and



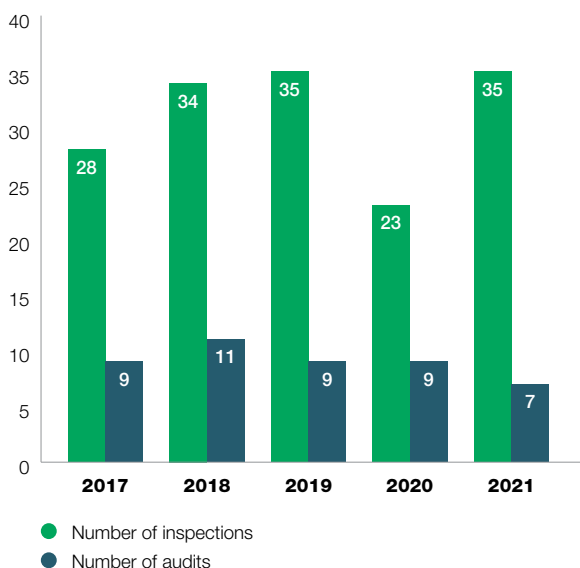
finished products, and clinical trial monitoring contribute significantly to integrated quality management, product safety and efficacy, and risk management control in all areas.

In 2021, we satisfied requirements set down in the new *Federal Law No. 449* governing the import of medicines to the Russian market. Quality audits showed that all our products were compliant, with no deviations identified.

In 2021, Ningbo Krka Menovo continued with regulatory activities to obtain marketing authorisations for products in China. The company was granted its first regulatory approval at the end of 2020. In line with new Chinese legislation, active ingredient and finished product manufacturers must pass a GMP inspection to obtain a marketing authorisation. Krka employees took part in all inspections. All inspections were successful.

Last year, our medicines were subject to 158 controls and analytical tests carried out by agencies from Slovenia, Croatia, Poland, Germany, France, Belgium, Austria, the Czech Republic, Slovakia, Bulgaria, and Spain. We passed all controls confirming our pharmaceutical products' quality, safety, and efficacy.

### Inspections and Audits in the Krka Group



Food safety, safety of wood packaging materials, and fulfilment of HACCP requirements were subject to four inspections conducted by the Administration of the Republic of Slovenia for Food Safety, Veterinary Sector and Plant Protection (UVHVV). We passed all inspections.

Successful inspections and relevant GMP certificates enable us to maintain the marketing authorisation status

of our products and submit marketing authorisation applications for new products, meaning uninterrupted access to our products in various markets.

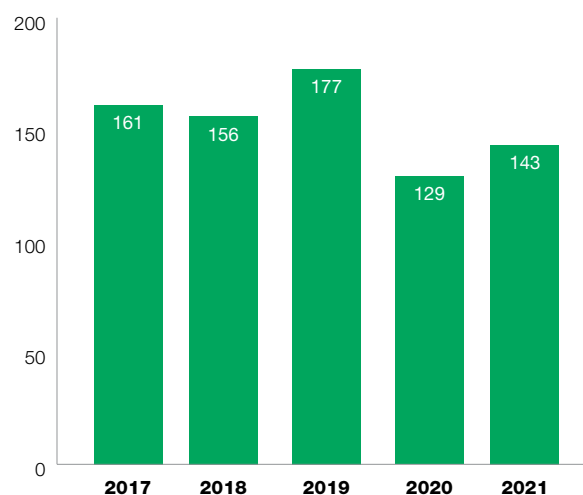
Our partners conduct audits every year to verify good manufacturing practice compliance, the suitability of the pharmacovigilance system, and contract compliance. In 2021, Krka was subject to seven audits and passed all of them. Their findings confirm that we meet our partners' requirements.

We passed all inspections and audits, eliminated all instances of non-compliance within the deadlines, and implemented suitable corrective actions. In the past two years, no breaches or deviations related to health and safety were identified that could lead to penalties or warnings or be related to voluntary commitments.

Also in 2021, we continued auditing quality management systems at our GxP partners, i.e. suppliers and contractual partners, in compliance with GMP. We focused on legislative requirements for good manufacturing practice and other good practices, environmental protection, human resource management, and social responsibility. We implemented measures to reduce the risk to an acceptable level based on findings regarding quality assurance, safety, and efficacy of products and raw materials manufactured by our partners. Suitable quality and timely delivery of products and raw materials manufactured by partners allow for optimal production process planning.

Due to the COVID-19 pandemic, related travel restrictions and personal distancing, we conducted several audits online. Despite all this, the number of audits remained approximately the same as in the past.

### Audits at Suppliers and Contractual Partners



## Quality Assurance Processes

The baselines for establishing and developing the quality system are laid out in the umbrella document on quality – *Krka Group's Quality Policy* – in line with legislation, good practices and standards. We monitor all new developments and systematically roll them out across 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:

- 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 general rules of all process operations. We are committed to continuously upgrading the quality system to increase process efficiency, quality, and competitiveness of products and services. Therefore, 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 opportunities for 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 in various publications and on our corporate intranet and incorporate them into work procedures.

The EU and the Russian Federation adopted laws to prevent the entry into the legal supply chain of falsified medicinal products in consideration of good manufacturing practices. According to Commission Delegated Regulation (EU) 2016/161, the EU requires the placing of safety features consisting of a unique identifier (serialisation) and an anti-tampering device (ATD) on the packaging of medicines for human use, and the unique identifiers to be reported to the European Medicines Verification System via the European Hub (EU Hub). This allows medicines throughout the supply chain to be identified and verified for authenticity. In addition to the unique identifiers, laws in the Russian Federation require records of individual packaging units in a transport box or aggregation to be kept, the introduction of the 'Crypto Code', and reporting serialisation and aggregation data to the Russian governmental 'Markirovka' information system. The Krka Group successfully harmonised its products with

all legislative requirements regarding safety features on 9 February 2019 in the EU and on 1 January 2020 in the Russian Federation. We supply properly furnished medicines to our customers and end-users, and the reporting system works well. Also in 2021, we recorded no market alerts concerning incorrect labelling or reporting on serialisation and/or aggregation data.

Quality is integrated at the earliest stages of research and development to produce a high-quality, safe and effective product. We promptly incorporate legislative amendments in our work processes to follow good practices from the product development phase onwards. When producing medicines for clinical trials, we use new tools and apply extensive expertise to ensure the level of patient and volunteer safety required by law. We employ new technologies in product development to gain a competitive edge on the market and increase the acceptance of our medicines among patients and their adherence.

We set up a system for ensuring the quality of clinical trials, the safety of the patients, and the quality of the pharmacovigilance system to prevent any harm due to adverse reactions in end users of our medicines. We ensure quality through:

- Highly qualified personnel who comply with all applicable laws and guidelines;
- Internal rules;
- Use of adequate equipment and computer systems;
- Risk management;
- Careful selection of contractual partners;
- Clinical study performance monitoring;
- Reporting on patient safety and safety of all other participants in clinical trials; and
- The deviation investigation system.

Organisational units within Krka manage clinical trials and pharmacovigilance on the group level, while our subsidiaries and representative offices manage country-level activities.

We ensure the safety of medicinal products for use in human and veterinary medicine through the pharmacovigilance system, by complying with the requirements of the EU and third countries, and through the internal quality assurance system. We carefully record and medically review all adverse events claimed to be related to our medicines in all countries where we hold marketing authorisations and clinical trials. We regularly analyse data and assess the benefit-risk ratio for our medicines used in therapy. We incorporate new findings important for the safe administration of medicines in product information leaflets, or take other risk mitigation steps. We present data and findings to regulatory authorities.



We have a quality management system for active ingredients, excipients, packaging materials, and finished products, which complies with good manufacturing practice standards. We ensure the compliance of incoming materials and active ingredients through registration documents for the chemical and pharmaceutical production of finished medicines for use in human and veterinary medicine. We continually upgrade incoming material quality control. In 2021, we introduced the Raman spectroscopy to identify incoming materials without opening their packaging. We continuously make an effort to minimise non-compliant incoming materials, meaning we recorded hardly any complaints regarding incoming materials batches over the past five years.

In 2021, various medicines agencies comprehensively tested all relevant products for possible contamination by genotoxic nitrosamine impurities at all marketing authorisation holders. Owing to adequate quality, safety and efficacy, the situation, especially with the delivery of antihypertensives (sartans), represented a business opportunity for the Krka Group rather than a setback suffered by many of our competitors. We used all available production capacities and valid marketing authorisations to seize the opportunity.

The European Medicines Agency (EMA) requested all marketing authorisation holders to test all their medicines on the market for possible nitrosamine impurities and prepare an evaluation by the end of March 2021. We have redoubled the preparation of underlying documents and evaluations of our medicines by taking advantage of our vertically integrated production model (covering all stages from the purchase of raw materials used in API production to finished products and their testing and market release) and by employing our know-how, qualified experts, and experience in vertical integration of quality in all our processes. Although all products we place on the market are safe, we had to apply for marketing authorisation variations for all medicines that contain sartans, which we did within the deadlines. Our communication with regulatory authorities following the detection of genotoxic impurities in medicines produced by many other producers was appropriate and effective.

We produce strategically important active ingredients following technological procedures resulting from our research and development. They are produced at our chemical production plants or by our contractual partners and are subject to quality assurance processes which we further improved in 2021. We successfully adapted to changes caused by the COVID-19 pandemic without impacting the quality of active ingredients. The reliability of supply remained unchanged throughout the year despite the challenging situation. In 2021, we commenced preparations to increase API production capacity in Krško.

Qualifications and validations of investment and computer projects, technological and laboratory equipment, utilities, air-conditioning systems, technological procedures, cleaning processes, calibrations and maintenance processes ensure suitable conditions in production and control processes. Over the past five years, we recorded a linear growth trend in the equipment and systems, increasing the number of qualifications. Process and packaging validations ensure the compliance of technological procedures applied in bulk product manufacturing and finished product packaging. Validations also confirm the suitability of transport conditions. Improvements help us deliver on annual plans and goals and are reaffirmed by permanent controls by internal and external auditors and inspectors.

Before a new investment project is launched or a reconstructed building is made operational by quality approval, the compliance of the new or reconstructed building is verified against all applicable good manufacturing practice requirements. In certain instances, JAZMP must verify new investments and major reconstruction projects before being green-lighted. In 2021, we verified the quality of project implementation in production plants for finished products, warehouses, and control laboratories. The high number of quality certificates illustrates a commitment to investment in new plants and departments, new or reconstructed rooms, new production and laboratory equipment, etc. The two largest projects completed that were granted quality approval for project implementation were moving the small-batch production within the Notol 2 plant, and laboratories for physico-chemical analytics from RKC 1 to RKC 4 (RKC stands for Research and Control Centre). We had to obtain JAZMP verification to make them operational.

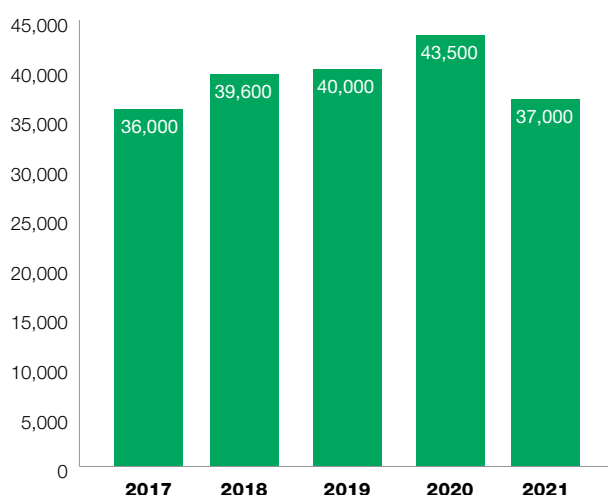
We place a huge emphasis on data integrity by ensuring compliance with regulatory requirements for data completeness, persistence, availability, legibility, accuracy, origin and descriptiveness throughout the prescribed data retention period. We pursue the principle of data integrity in development, production, control, distribution, product quality assurance, and pharmacovigilance. Considerable attention is given to the development and implementation of information systems and introduction and management of laboratory and production equipment. We ensure source data integrity through validations and qualifications of equipment, change control and the management of any process deviations.

Medicines on the market must satisfy quality, safety and efficacy requirements. We control the quality of finished, batch, intermediate products, and inptus, i.e. excipients, APIs, and packaging materials. We also continually monitor the stability of marketed products and APIs and

guarantee their high quality, safety and efficacy throughout their shelf lives. The number of samples analysed annually correspond to the production plans, which depend on market demand.

We use validated or verified analytical methods and calibrated or qualified laboratory equipment in analyses. This ensures the correctness and credibility of results, which are confirmed through internal verification procedures. We manage documents in accordance with good documentation practice guidelines and internal regulations, which provide for data integrity throughout their retention or archiving periods. Constant employee training and monitoring set quality indicators guarantee that analyses are done correctly. This leads to continual improvement and optimisation of work processes in line with legislative requirements and our stakeholders' demands.

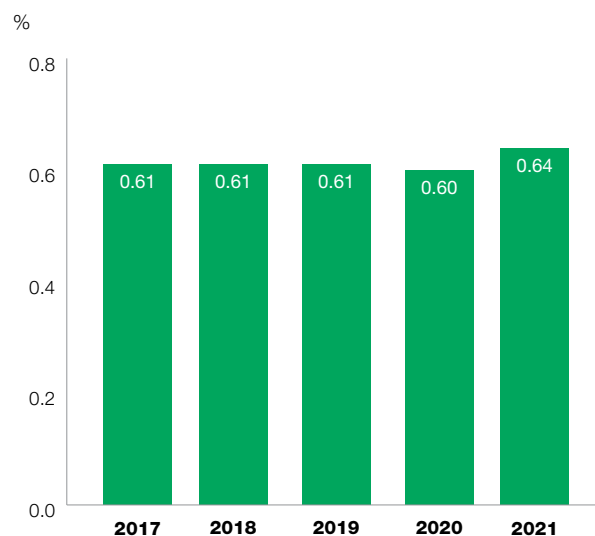
### Analysed Samples



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 to confirm that our medicines are manufactured in compliance with the prescribed procedures and good manufacturing practice guidelines. We continuously make improvements to the production of non-sterile solid, liquid, and sterile dosage forms. Employees who carry out control and supervision undergo job-related training frequently. We discuss the findings with heads of production departments and take corrective and preventive actions together. We periodically check the effectiveness of the adopted actions. During the COVID-19 pandemic, we introduced various disinfection procedures for rooms, air-conditioning systems and surfaces.

All organisational units involved in the production, control and distribution of our products cooperate closely on quality assurance processes. A well-organised structure adds to process efficiency. We continuously monitor the quality of our products. We confirm the quality of our processes and products according to the latest standards and guidelines for pharmaceutical production by using the most advanced statistical tools and reporting systems. We develop product control strategies that include quality attributes for ensuring adequate and reproducible quality of our products. We assess trends in quality attributes of incoming raw materials and products to identify any potential 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 quality indicators. The ultimate indicator is the response of our customers, i.e. patients, healthcare professionals, distributors, and partners, which we follow closely. The indicator confirms that our quality system is effective and ensures high product quality, which is still rising.

### Complaints to Released Batches Ratio



We closely look into each complaint, opinion or suggestion related to quality, thoroughly investigate each case and respond to the customer as soon as possible. The ratio of batches with complaints lodged over several years as a total of all released batches is marginal and shows no upward trend despite rising production volumes.

Over the past five years, we recorded very few recalls. In most cases, the decision to recall was ours. Even though there was no significant impact on quality, safety and efficacy, we opted for recalls because we are aware of the importance of the integrity of our medicines. We cooperate with the JAZMP and other national regulatory bodies in the

event of a recall. In 2021, we carried out four recalls. The Danish Medicines Agency requested one recall because of inconsistent wording on the packaging. The recall ensued from stringent Danish legislation. Although we believe that our recall system is effective, we occasionally test it by simulating a recall.

Qualified persons for the release of medicinal products authorised by the JAZMP confirm the quality, safety and efficacy of each product batch before it is released to the market. Then certificates and batch documents for customers are issued.

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 regularly make improvements to the planning process and actively engage in the project to overhaul product supply planning.

We constantly monitor the quality of our products on the market, collect and evaluate data on the safety of a medicine throughout its life cycle, prior to and after obtaining the marketing authorisation, and during its daily use. We continuously manage risks and provide the correct information to healthcare providers and users of our medicines.

## Quality System Objectives

Documents on the level of the Krka Group, i.e. the *Quality Policy*, guidelines and instructions, set out key provisions for quality, safety and efficacy of medicines and processes. This ensures standardised processes, knowledge transfer, and uniform criteria across our subsidiaries. Every subsidiary draws up internal documents in accordance with Krka Group umbrella documents and in consideration of national legislation.

A key objective of the IMS is the satisfaction of our customers with Krka products and services. Our quality system addresses our customers' demands and expectations in line with legislative requirements and guidelines on good manufacturing practice. We continuously monitor indirect indicators to gauge customer satisfaction with our products and further improve processes.

We regularly update quality assurance contracts and conduct annual product quality reviews to ensure customer satisfaction with our products and services. Successfully completed inspections and audits of product manufacturing for compliance with good manufacturing practice standards and registration documents are also a testament to partner satisfaction.

Our Quality Committee periodically reviews all major processes against our IMS and performance criteria and proposes strategic guidelines for developing them further. 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 objectives have always been met. We conduct monthly reviews of quality indicators for Krka's key processes that affect the quality, safety and efficacy of products to check whether objectives are fulfilled and whether any additional improvements are necessary. In 2021, six such reviews were carried out.

We conduct monthly reviews of quality indicators in our subsidiaries also. We analyse the objectives and their achievement every quarter and prepare guidelines for the next period. We report on quality indicators 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 periodically upgrade the environmental management system and the system for health and safety at work to further improve their efficiency. The right to use the 'Responsible Care' logo every year is recognition of our sound safety at work and environmental protection record.

Quality starts with the daily performance of each organisational unit, process, product, and 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 in-house magazine *Utrip*, and our weekly bulletin *Bilten*. In doing so, we keep our employees informed and raise their awareness about changes to IMS and the impact of quality work on the results of the Krka Group.

Our standing objective is to improve the agility of our operations, in particular, understanding 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. Against that background, we upgrade systems and pursue their optimisation.

We also share information, introduce new developments, and assist subsidiaries, where we regularly audit their quality systems.

The steady growth of production volumes, new product launches and timely implementation of legislative amendments require us to promptly upgrade and control our capacities and make improvements to manufacture and place larger volumes of products and batches on the market and ensure their manufacture to both regulatory and Krka's requirements. Quality issues are also crucial concerning expansion to new markets. We have to 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 2021. We regularly assess risks related to information sources. The ISMS is regularly reviewed by way of self-inspections, audits, and external security inspections. In 2021, we implemented measures required by the external security inspection in 2020, conducted a security inspection and implemented the recommendations. We employed state of the art technologies to protect our systems from external attacks. All Krka subsidiaries actively pursue the guidelines of the controlling Company set out in the *Information Security Policy*.

We reviewed certain personal data processing elements and redesigned them to comply with the latest practices of supervisory bodies in Slovenia, EU Member States, and non-EU states. For example, regular personal data updates in databases maintained by all Krka subsidiaries in the EU, processing geolocation data for certain employee groups, and the use of cookies on websites. We established and rolled out an internal *General Data Protection Regulation* (GDPR) compliance system. We aim to minimise the risk of violations and ensure compliance with applicable legislation and practice.

Key elements for successful implementation of the ISMS include regular and continuous training of our employees and raising their awareness. We updated all relevant rules, particularly those on safe communication practices and data protection in the latest tools, and informed all employees accordingly. In 2021, we focused on raising awareness of all Krka Group employees about phishing attacks through the use of simulated attacks to mimic real-life situations.

We maintain a high uptime of critical systems, including the business system, production system, documentation system, e-mail, control systems, etc. The expected minimum availability of critical systems is 99.5%. Krka has implemented various measures and duplicated its data centre to support system availability and data safety. Together with the main data centre, they ensure a high level of redundancy, meeting the requirements of high-level availability and data safety. Backups are made in real time for all computer systems, applications and databases at a remote location outside Novo mesto.

## Annual Availability of Critical Systems

	Annual availability (%)				
	2021	2020	2019	2018	2017
Production system	99.9	99.9	99.9	99.9	99.9
Documentation system	100.0	100.0	99.6	99.8	99.9
E-mail	99.9	99.9	99.9	99.3	99.8
Business system	100.0	100.0	99.9	99.9	99.9

## Business Continuity Management System

The purpose of the business continuity management system (BCMS) is to prepare and implement measures and procedures for uninterrupted production and sales of our flagship products in the event of major incidents and disasters. BCMS operates according to the adopted strategy and policy, and makes improvements in line with ISO 22301 – the Business Continuity Management Standard. In 2020, we supplemented the strategy with steps to be taken in the event of an epidemic outbreak and pursued them throughout 2021 due to the COVID-19 pandemic. Essential parts of the BCMS include procedures for optimising our resilience to damaging incidents, procedures for incident management, and business continuity plans for crisis management. The BCMS forms an integral part of comprehensive risk management in the Company. We are also introducing it in our subsidiaries that are engaged in production. We regularly control the system through internal audits and inspections.

In 2021, we checked the implementation of the BCMS strategy and focused in particular on the reliability of external resources at our remote plants. We arranged regular drills and comprehensive training courses to verify the feasibility and efficiency of planned business continuity measures in all critical processes. This honed the skills of employees tasked with taking charge of emergencies and leading activities to contain damage and rapidly get processes back online. We made the requisite improvements to business continuity plans or confirmed the suitability of planned measures following training.

## Timely and cost-effective provision of sufficient quality product quantities



### Planning

- Significantly cutting the average lead time from order to delivery
- Extending the use of electronic production documents
- Rising the process digitalisation level



### Purchasing

- 76 suppliers certified according to ISO 45001
- 202 suppliers certified according to ISO 14001
- 145 Krka supplier audits



### Production

- 16.2 billion finished and packed product units
- Increased capacity at our Sinteza 1 plant in Krško for API synthesis
- Additional production lines at the Notol 2 plant in Novo mesto
- Optimised production processes at all production sites



### Warehousing and transport

- Increasing maritime transport use
- Authorised economic operator (AEO) in customs clearance procedures
- Registered exporter according to the REX system



# Sustainable Development

Environmental, social and corporate governance (ESG) is a significant element of Krka's ability for long-term value creation and effective implementation of business strategy. Sustainability governance, achievement of sustainability goals, and transparent reporting are becoming increasingly important for Krka Group stakeholders. Hence, they are gradually and comprehensively finding their way into our business strategy and operations.

We carefully plan the development of our products and all processes that affect lives and the environment in which we operate. We build the trust of our patients and partners through our know-how, professional and ethical approach, and high-quality standards in all spheres of our operations. Sustainable development principles guide us in our efforts to further improve our performance regarding nature conservation, health and safety, and to co-design our social environment.

The needs of our stakeholders and the social environment and the impacts of our business are addressed through a constant, proactive dialogue. In 2021, we conducted a materiality assessment for our company and updated the list of our key stakeholders. They were considered when identifying key ESG topics of the Krka Group and defining their boundaries. Information on this aspect is also available in the 'Krka Group Development Strategy' section. Key stakeholders and sustainability issues are detailed below.

An interdisciplinary sustainability project team outlined key ESG topics, which were then assessed in a comprehensive and open process involving other business functions beyond the ESG team. We gathered information on the concerns of our stakeholders through various forms of interaction, such as surveys on stakeholders' needs, questions received from the stakeholders and topics discussed with them, media analyses, and identification of increasingly important stakeholders' concerns. We used the information in in-depth discussions with representatives from seven stakeholder groups to verify their understanding, assessment of ESG topics, and the scope of expected disclosures. In addition to determining key stakeholders, we identified 22 material ESG topics of the Krka Group and divided them into seven groups. The Management Board of Krka considered and approved all the above-mentioned aspects. The results are presented in the Krka Group materiality matrix below.<sup>31</sup>

The process allowed us to improve reporting on our impacts on the environment, society and economy. The annual report fully considers indicators of GRI (Global Reporting Initiative) Standards and introduces indicators of SASB (Sustainability Accounting Standards Board) Standards for pharmaceutical industry. They are disclosed in relevant sections of the Annual Report, as indicated in footnotes and the GRI content index. They are complemented by management approaches, which will be aligned in the process with updated policies on key topics, strategic objectives and indicators. We also identified major sustainable development goals of the United Nations that we help to achieve through our operations. Goal 3 'Good health and well-being' is the most important one because our core business can contribute to it significantly.

## Main Sustainable Development Goals from the Perspective of the Krka Group



<sup>31</sup> GRI GS 102-46

## About the Report

Relevant departments prepare the contents of the comprehensive Annual Report, while Finance, Corporate Performance Management and Public Relations are responsible for preparing the Report. GRI sustainability indicators generally apply to Krka d. d., Novo mesto (also referred to as Krka or the Company). If they apply to all subsidiaries of the Krka Group, reference to the Group is made in the text. The indicators will be upgraded and further applied to other subsidiaries of the Group. The reporting period covers one calendar year. There have been no significant changes in data from the previous reports, and any specific changes and deviations are clarified in relevant sections of the Annual Report.<sup>32</sup>








Any questions regarding the Annual Report can be sent to [letno.porocilo@krka.biz](mailto:letno.porocilo@krka.biz).<sup>33</sup>

## Key Stakeholder Groups and Approach to Stakeholder Engagement<sup>34</sup>

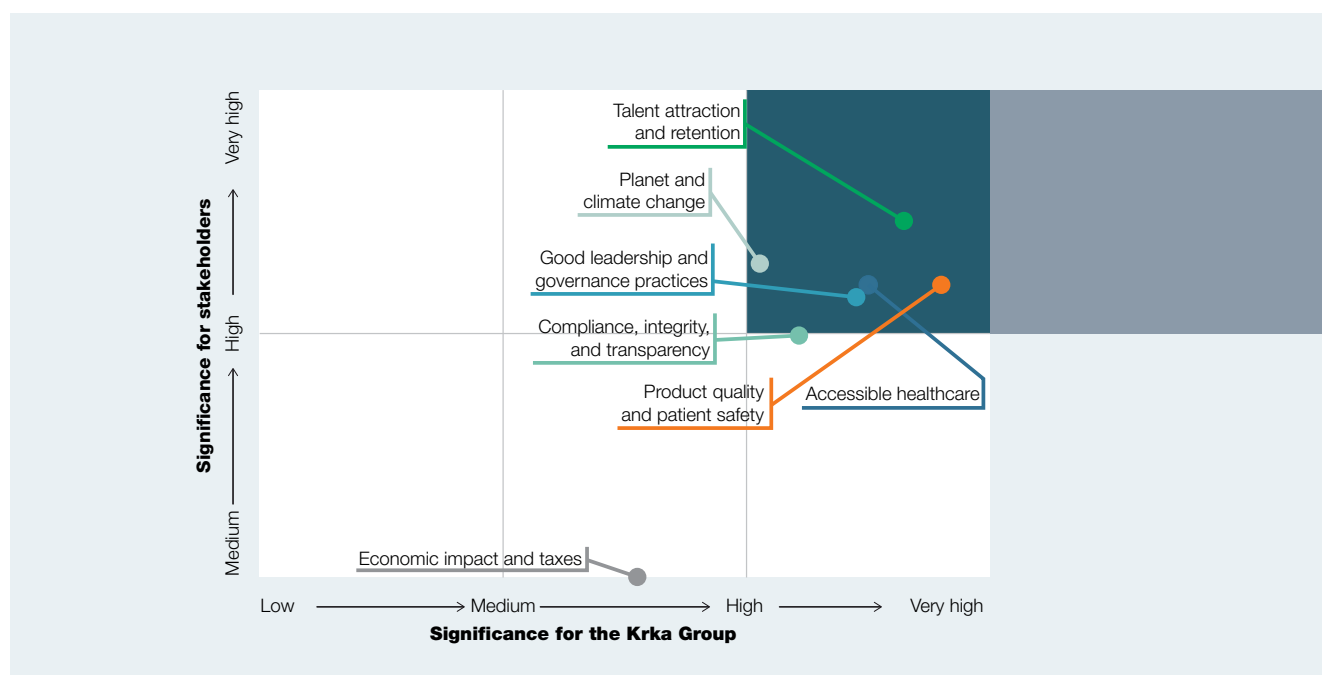
Stakeholder group	Engagement modality
<b>Patients</b>	<ul style="list-style-type: none"> <li>Responsible, professional communication about products through various media, including social networks and digital channels</li> </ul>
<b>Health professionals, healthcare providers and direct customers</b>	<ul style="list-style-type: none"> <li>Long-term partnerships</li> <li>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)</li> <li>Suggestions for improvement</li> <li>Regular information on products provided in print and electronic forms</li> <li>Direct contacts through medical representatives in 40 countries</li> <li>Organisation and support for professional and educational meetings</li> <li>Advanced digital content for the professional community</li> <li>Feedback and opinion obtained through daily contact and market research</li> </ul>
<b>Employees, prospective employees, and trade union organisations</b>	<ul style="list-style-type: none"> <li>International conferences for employees (on various topics)</li> <li>Measuring organisational climate</li> <li>Works Council</li> <li>Worker assemblies</li> </ul>
<b>Regulatory agencies/bodies and government organisations</b>	<ul style="list-style-type: none"> <li>Long-term cooperation and provision of reliable documents</li> </ul>
<b>Educational and scientific research institutions</b>	<ul style="list-style-type: none"> <li>Cooperation with secondary schools, universities and scientific institutes</li> <li>Cooperation under the Krka Prizes Fund for young researchers</li> </ul>
<b>Shareholders, financial institutions and other capital market stakeholders</b>	<ul style="list-style-type: none"> <li>Meetings with investors at the Krka headquarters</li> <li>Meetings between financial analysts and Krka management</li> <li>Participation in investor conferences</li> <li>Roadshows in financial centres around the world</li> <li>Conference calls with financial analysts after releasing business results</li> <li>Regular annual general meetings</li> <li>Communication with financial media</li> </ul>
<b>Strategic partners and suppliers</b>	<ul style="list-style-type: none"> <li>Participation in tenders and competitions</li> <li>Working meetings</li> <li>Auditing</li> </ul>
<b>Local communities and non-governmental organisations</b>	<ul style="list-style-type: none"> <li>Identification of needs of local and social environments through various activities related to donations and sponsorships, annual meetings for clubs and associations, and Krka's Week of Charity and Volunteering</li> <li>Open dialogue and exchange of views with residents (inclusion of environmental goal planning and sustainable environmental protection)</li> <li>Cooperation with environmental organisations</li> </ul>
<b>Media</b>	<ul style="list-style-type: none"> <li>Transparent information on business operations and events in press releases and responses to media inquiries</li> <li>Press conferences and meetings with media representatives</li> <li>Information on websites</li> </ul>
<b>Professional associations and interest groups</b>	<ul style="list-style-type: none"> <li>Work with specialised development institutions and companies</li> <li>Involvement in the development of professional, scientific and regulatory environments by participating in various professional and industry associations in Slovenia, the European Union, and other markets</li> </ul>

<sup>32</sup> GRI GS 102-48, 102-49 • <sup>33</sup> GRI GS 102-53 • <sup>34</sup> GRI GS 102-40, 102-42, 102-43, 102-44

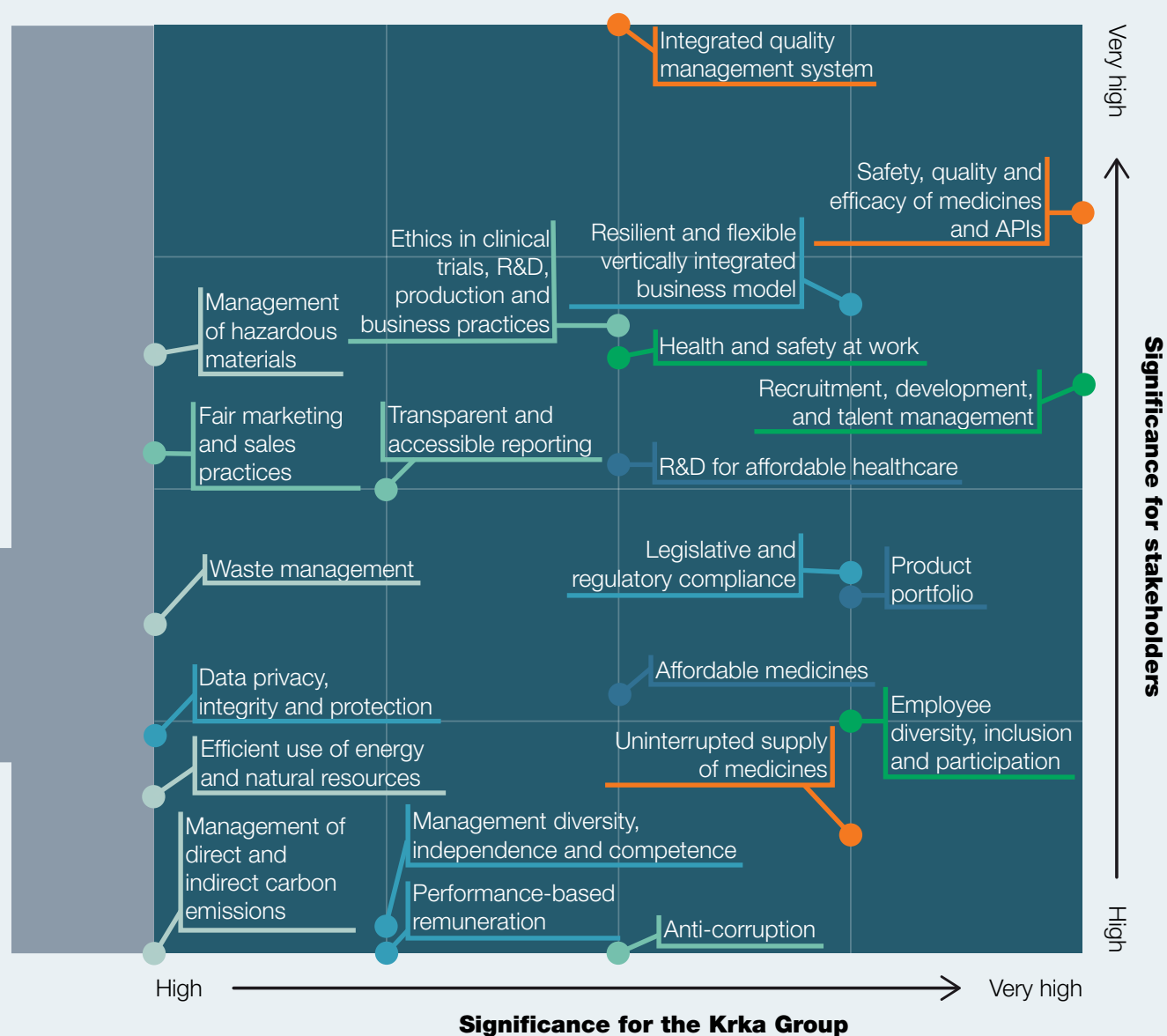
## Material ESG Topics and Their Seven Groups<sup>35</sup>

Topic groups	Topics
 <b>Product quality and patient safety</b>	<ul style="list-style-type: none"> <li>• Safety, quality and efficacy of products and APIs</li> <li>• Uninterrupted supply of medicines</li> <li>• Integrated quality management system</li> <li>• Product labelling</li> <li>• Anti-counterfeiting</li> </ul>
 <b>Talent attraction and retention</b>	<ul style="list-style-type: none"> <li>• Recruitment, development and talent management</li> <li>• Employee diversity, inclusion and participation</li> <li>• Health and safety at work</li> <li>• Flexible working</li> </ul>
 <b>Accessible healthcare</b>	<ul style="list-style-type: none"> <li>• Product portfolio</li> <li>• Affordable medicines</li> <li>• R&amp;D for affordable healthcare</li> <li>• Cost-effective business operations and efficient registration procedures</li> <li>• Expert support for health professionals</li> <li>• Initiatives to raise awareness of healthy lifestyles and identification of widespread diseases</li> </ul>
 <b>Good leadership and governance practices</b>	<ul style="list-style-type: none"> <li>• Resilient and flexible vertically integrated business model</li> <li>• Legislative and regulatory compliance</li> <li>• Management diversity, independence and competence</li> <li>• Performance-based remuneration</li> <li>• Data privacy, integrity and protection</li> <li>• Prosperous business operations and financial strength</li> <li>• Innovative technologies</li> <li>• Cyber security</li> </ul>
 <b>Compliance, integrity and transparency</b>	<ul style="list-style-type: none"> <li>• Ethics in clinical trials, R&amp;D, production and business practices</li> <li>• Anti-corruption</li> <li>• Transparent and accessible reporting</li> <li>• Fair marketing and sales practices</li> <li>• Human rights</li> <li>• Supply chain business practices</li> </ul>
 <b>Planet and climate change</b>	<ul style="list-style-type: none"> <li>• Management of direct and indirect carbon emissions</li> <li>• Waste management</li> <li>• Efficient use of energy and natural resources</li> <li>• Management of hazardous materials</li> </ul>
 <b>Economic impact and taxes</b>	<ul style="list-style-type: none"> <li>• Contribution to local community development</li> <li>• Tax policy</li> <li>• Tax transparency</li> </ul>

## Double Materiality Matrix of the Krka Group


<sup>35</sup> GRI GS 102-47

The figure 'Double materiality matrix of the Krka Group' presents identified main groups of ESG topics of the Krka Group on the left and the most crucial individual material ESG topics on the right. The topics are ranked from high to very high by their significance and assigned the colour of the relevant group of topics.





# Employees

**Employees are the key to our success; therefore, we maintain a working environment where they can develop professionally and personally.**

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 and contribute to the development of skills, competencies and careers of our employees. Special attention is paid to attracting, identifying, and developing young talent to ensure that the company remains successful in the future. The trend of new employments continued in 2021, as we recruited more than 1,500 new employees. We intensified educational activities and increased the number of hours of training per employee. The health and safety of our employees remained among our top priorities. The workplace injury rate slightly increased, yet the injuries were mainly minor.

The Krka Group operates in diverse cultural settings. To that end we foster a common culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible and efficient work. We ensure equal opportunities to our employees regardless of their gender, race, religion, sexual orientation, nationality or other cultural differences. 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. We are 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 the Company and its subsidiaries. Clear rules and procedures ensure a quick response to any identified inappropriate conduct in interpersonal relations and prevent any forms of mobbing.<sup>36</sup>

The progress reported below mainly refers to the Company. Common guidelines, management approach and policies as well as good practices are being transferred to work processes of the Krka Group subsidiaries. This increases the scope of compiled data, which is expected to expand in the future.

## Organisational Climate

Highly dedicated and engaged employees shape a positive working environment and organisational climate and thus contribute to business results. We regularly gauge the organisational climate in the Company to learn how our employees feel about their work at the Company. Analyses of the findings are helpful in preparing improvements, which contribute to an efficient and creative environment. The most recent organisational climate survey confirmed that Krka employees feel loyal to the Company and are eager to achieve the set goals. Our employees acknowledged Krka's corporate social responsibility and adherence to high ethical standards.

## Key Data about Employees<sup>37</sup>

31 Dec 2021	
Number of employees	11,511 of which 54.2% in Slovenia
Number of agency workers	948 (7.6% of total personnel)
Employees covered by collective bargaining agreements	62%
Average age	38.7 years
Female employees	60%
Female employees in management positions	49%
Permanent employees	89% (women 88% and men 89%)

<sup>36</sup> GRI GS 103-1, 103-2, 103-3 • <sup>37</sup> GRI GS 102-7, 102-8, 102-41, 405-1



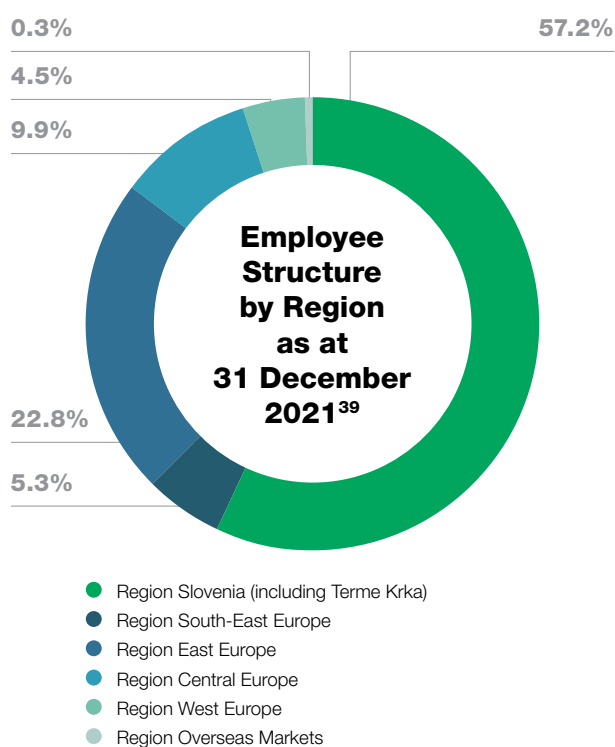
## 2021 Employment Index

	Index 2021/20
Krka in Slovenia	100
Krka's representative offices abroad	105
<b>Company</b>	<b>101</b>
Subsidiaries abroad	97
Terme Krka	94
<b>Krka Group</b>	<b>99</b>
Agency workers	99

We hired 1,522 new employees in 2021, accounting for 12% of total Krka Group headcount. Employee turnover of the Krka Group was 12%.

## 2021 New Employee Hires by Age Group, Gender and Region<sup>38</sup>

	Rate of new employee hires
<b>Age groups</b>	
Under 30 years old	49%
30–50 years old	49%
Over 50 years old	2%
<b>Gender</b>	
Male	37%
Female	63%
<b>Region</b>	
Slovenia (including Terme Krka)	22%
South-East Europe	8%
East Europe	46%
Central Europe	15%
West Europe	9%
Overseas Markets	0%



<sup>38</sup> GRI GS 401-1 • <sup>39</sup> GRI GS 405-1

## Educational Structure

One of the pillars of Krka's human resource policy is the improvement of the educational structure of its employees. We are aware that only a high level of qualification of our experts allows us to respond to the demands of a highly competitive market quickly and effectively. The Krka Group employs 5,882 people with at least university-level qualifications, accounting for 51% of all Krka employees. Of that number, 207 employees hold a doctoral degree and 391 employees a master's degree or specialisation.

### Krka Group Employees by Education Level at the End of 2021

Higher professional, university degree or higher (level VII or higher)	66%
Vocational college degree (level VI)	3%
Secondary school education (level V)	22%
Other (less than level V)	9%

## Employee Education and Development<sup>40</sup>

We provide planned and systematic development and continuous education programmes to our employees where they can upskill in various fields, develop professionally and personally, and advance their career.

Our competence-based system for various work areas helps us determine development requirements that inform our knowledge development and upskilling programmes. Competencies are a good starting point for recruiting new employees and for designing training and skills development programmes and their evaluation. Our employees participate in continuing educational and training programmes in various specialised fields, such as management, quality management, modern information technologies, personal growth, and foreign languages, especially English and Russian. They learn about the most recent and significant developments at higher-education institutions, institutes and other organisations in Slovenia and abroad. In 2021, 456 Krka employees were part-time students, of whom 55 were pursuing postgraduate studies to obtain a specialisation, master's, or doctoral degree.

An important tool enabling effective leadership, identification of potentials, motivation and development of employees is the Krka appraisal interview. 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 plan their future work and training.<sup>41</sup>

We are the only company in Slovenia to offer six national vocational qualification programmes for the pharmaceutical industry. These programmes are available also to employees of pharmacies and other pharmaceutical companies. In 2021, as many as 104 Krka employees successfully completed the training programme (level IV). In total, 1,827 certificates have been awarded since 2004: 1,685 to Krka employees and 142 to employees of other companies and pharmacies.<sup>42</sup>

Krka has almost 70 in-house trainers in its marketing-and-sales network. Their task is to implement Krka strategy and ensure that good practices are transferred in the market. Trainers support employees and managers at regular training sessions and individually in the field.

The combination of traditional forms of training and e-learning and e-testing has been particularly important given Krka's widely dispersed organisation. It proved helpful during the COVID-19 pandemic because we could continue our training processes.

We place a considerable emphasis on preparing training programmes on people management, conflict resolution, and effective and respectful communication. Quality comprises a significant proportion of our educational activities. In 2021, we recorded 90,988 hours of training on quality.

### 2021 Key Data on Employee Education in the Krka Group<sup>43</sup>

	2021
Average training hours per employee	39
Proportion of revenue allocated for education	0.33%
Average cost of training per employee	€452
Hours of training on human rights	4,289
Proportion of employees trained on human rights	67%

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 opportunity to gain experience and to identify potential new hires for the company. 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 in undergraduate and master's study programmes and help design their content. In 2021, Krka had 99 scholarship students, 18 of whom graduated and started work at Krka. We also work with secondary schools and faculties in providing obligatory work placements.

<sup>40</sup> GRI GS 103-1, 103-2, 103-3 • <sup>41</sup> GRI GS 404-3 • <sup>42</sup> GRI GS 203-2 • <sup>43</sup> GRI GS 404-1, 412-2

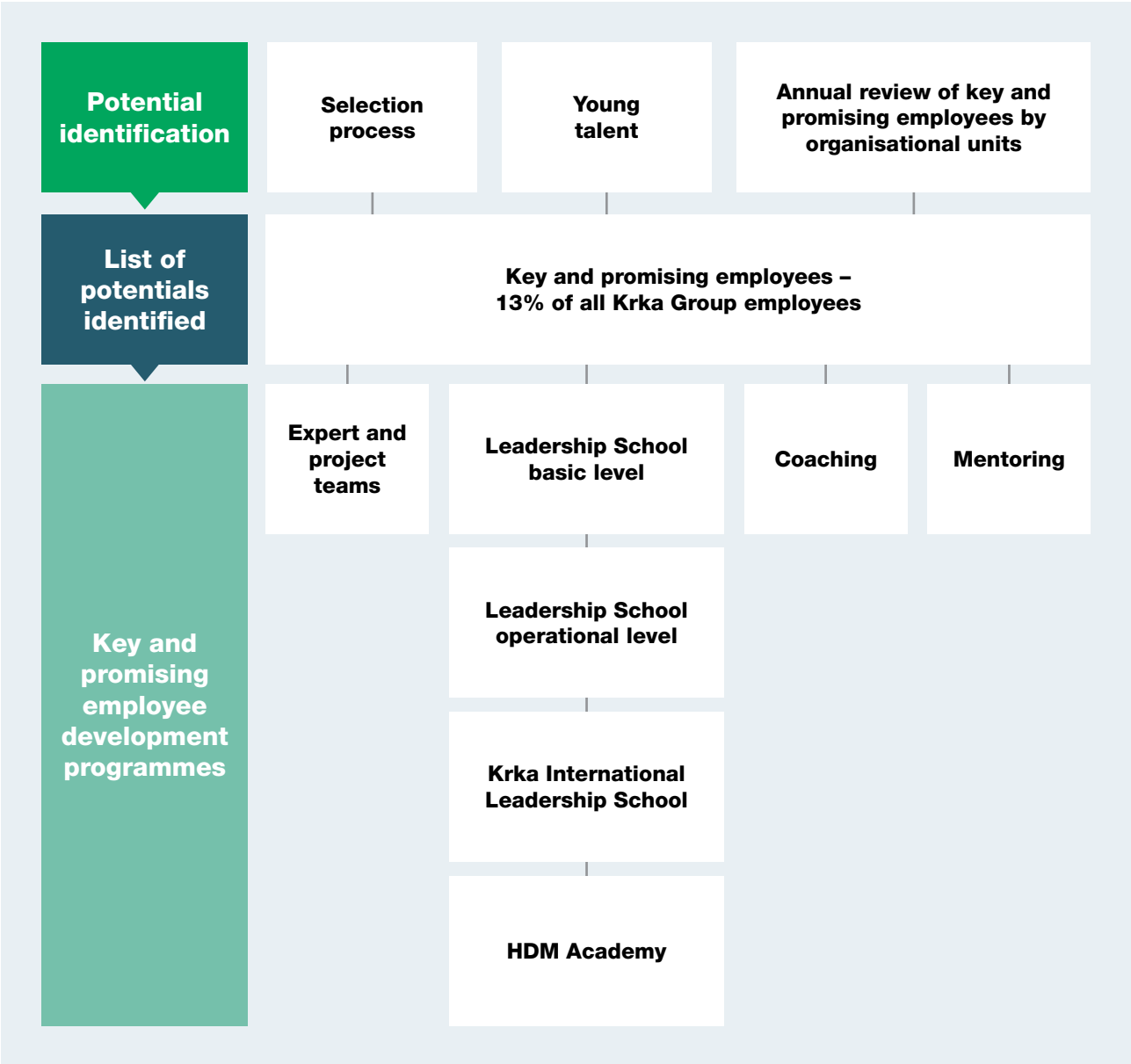
## Key and Promising Employees

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.

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 are invited to a workshop. Here we test their abilities in various individual and group task settings. We observe them to identify their motivation, insight and capacity to cooperate. We also use this method to select candidates for challenging roles and for internal transfers of employees to other roles.

To support their individual development, we offer identified key and promising employees and young talents 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 for different levels of leadership: the Krka International Leadership School, the Krka Operational Leadership School, the basic level leadership programme, and the HDM Academy specially designed for heads of district managers. The programmes are complemented by coaching and action learning that contribute to the development of leaders.

### Key and Promising Employees





## 393 employees provided 452 useful suggestions and proposed innovations

We encourage our employees to look for solutions and improvements in their jobs continuously. Practical proposals and improvements enhance the quality system and generate savings.

We also provide an international programme for expert and project teams focused on communication skills, teamwork and project work, learning about and exchanging Krka's good practices, establishing links between employees from various backgrounds, and employees' personal development. New employees who have just started in their jobs and employees who take on roles carrying greater responsibility learn about their tasks through mentoring. A special form of mentorship at an international level is used to systematically develop promising employees.

## Rewarding and Motivation

We systematically recognise good work and encourage employees to perform well through various reward and recognition systems. We encourage dedication and praise excellence and loyalty. Various reward and recognition systems cover all our employees.

Our best employees receive recognitions and awards for their work at the Krka Awards Day, our traditional and most important event dedicated to Krka employees. We select and award the best employees and the best managers in organisational units and the Krka Group as a whole, the best employees in the sales-and-marketing network, and the best employees in regulatory affairs and other fields. Our most loyal employees receive long-service awards and special recognition awards. In 2021, we conferred the awards at several hybrid events due to circumstances at that time.

## Encouraging Innovation

The inventive work system leads to continuous improvement of the quality system and hence the integrated management system and generates savings through useful proposals and improvements. The corporate campaign Your Effectiveness Counts encourages our employees to strive continuously to improve the quality of their work. We try to inspire them 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 encourage inventive work by quarterly awards, by a token award with a thank you letter from the President of the Management Board and CEO, presentation of proposers on Krkanet and in our bulletin *Bilten*, interviews in the *Utrip* internal magazine, an annual meeting of proposers, and awards and recognitions that

the best employees receive for inventive work on Krka Awards Day. In 2021, as many as 452 useful proposals and improvements were submitted, and we awarded 450 proposals put forward by 393 employees. Their contributions were presented in a video clip because of the situation at that time.

## Digitalisation in Human Resources

Modern technologies add to the simplicity and integrity of human resource processes and ensure that IT systems support them. In 2021, we continued to optimise and digitalise our human resource processes, mainly those that are uniform in the entire Krka Group.

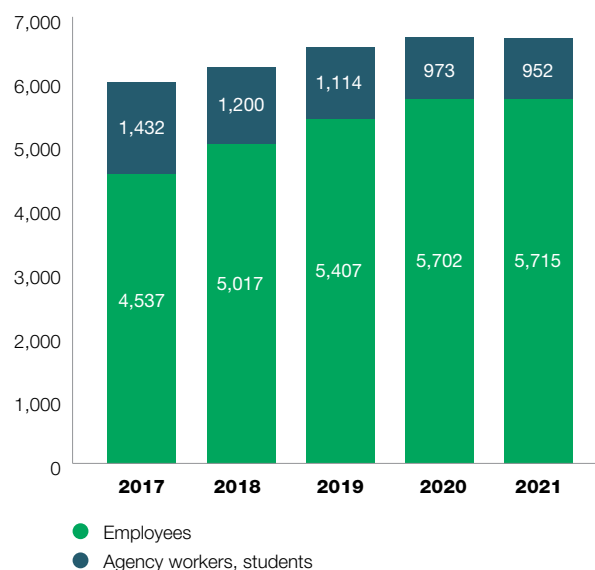
We constantly upgrade our human resource information system to take account of business-related and legal requirements. We also introduce new solutions. We digitalised the onboarding process for new employees and upgraded our time management system, which now includes a solution for submitting and approving absence, arrival and departure requests. The new system is being phased in at all organisational units. We completed the digitalisation of the system of rewarding the most successful employees in our markets abroad and introduced the e-recruitment system at our subsidiaries in Germany and the Russian Federation.

## Health and Safety at Work<sup>44</sup>

We ensure a safe and healthy work environment for all our employees and contractors of Krka. The latest developments in health and safety at work and fire prevention are incorporated into every new project and technology.

The Management Board adopted the policy on health and safety at work in line with Krka's strategic goals. The implemented system complies with the ISO 45001 standard and is fully incorporated into Krka's integrated management system. External auditors verify its performance every year. We also conduct internal audits of the system to improve its efficiency constantly. At the Company level, we have a health and safety at work team responsible for preparing and implementing key objectives and programmes approved by the Management Board. The group regularly reports on the implementation of set goals to the Management Board. Health and safety at work workgroups operate in organisational units and production sites and comprise, among others, an authorised certified HSW officer having relevant competencies from Safety and Health.

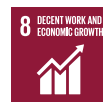
## Workers Covered by ISO 45001 System



We conduct periodic risk assessments for all workplaces using our own methodology. We assess the probability of incidents, their consequences, and the probability of health implications for every work position. Specific safety measures are in place to maintain the risks at acceptable levels and ensure continued long-term improvement in the working environment.

Risk assessments are also conducted for all new technological procedures in API research and development and pharmaceutical research and development, and any changes to these procedures. In order to ensure continued long-term improvement in the working environment, risks are assessed periodically and protective measures are taken to reduce them to acceptable levels. The assessment methodology is based on identifying different risks related to each technological procedure. We identify hazards for each technological phase and determine a safety measure strategy to prevent exposure of employees who perform a certain technological procedure. We continually verify the suitability and appropriateness of technical and organisational measures and personal protective equipment by conducting relevant measurements during technological operations.

We organise regular occupational health and safety training to ensure process continuity, which is mandatory for all employees. They are conducted during working hours and fully compensated by Krka. Related information is published in internal media and accessible to all employees. The programme and duration of training depend on risk assessments and identification of hazards workers are or might be exposed to. We provide training for high-risk positions at least every two years. It is



<sup>44</sup> GRI GS 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7



delivered by internal authorised certified health and safety officers and mentors responsible for introducing correct and safe working practices to employees. We conduct written and/or oral exams to verify the level of acquired knowledge and skills. All training courses are provided in languages that employees easily understand.

Training effectiveness is evaluated in regular safety audits in all organisational units and production sites.

We gather information also through managing safety incidents, near misses and accidents and take all necessary systematic corrective and preventive actions if any deviations are identified.

Workplace accident and safety incident management complies with internal instructions for handling dangerous events and workplace accidents. All employees, agency workers and student workers are informed about the instructions. Contractors at Krka receive a summary of key information from internal documents on safety.

We promote healthy lifestyles for our employees and raise awareness of the importance of health and safety at work. Care for health is the shared responsibility of all employees, managers, professional services, and occupational medicine doctors. The Works Council and both trade unions are also incorporated into the system.

We foster awareness of promoting health for a quality life through our Health Promotion Plan, which we update every year and publish on Krkanet. Health promotion planning is a dynamic process because all employees, agency workers and student workers can contribute by presenting their proposals and initiatives. They also voluntarily participate in sporting activities organised by Trim Klub Krka, healthy diet campaigns, satisfaction surveys, and other activities. Certain Krka departments or external providers conduct them during work hours or outside regular work hours.

To prevent the spread of viral infections, we updated the risk assessment and adopted many sanitary, health and organisational measures to prevent the introduction and spread of infectious diseases in our company and to ensure uninterrupted work processes.

Various activities that help reduce sick leave have been in place in the Krka Group for several years. In 2021, the sick leave rate was 6.9%, up 1.2 percentage points compared to 2020. The increase can be attributed to the COVID-19 pandemic, which resulted in an increased number of sick days and childcare leave days. In 2021, there were 5.3% of Krka employees on parental leave, which they can take in compliance with their national legislation.<sup>45</sup>

There are 5% of Krka employees with a registered disability. We adjusted their workplaces to enable them to do their jobs in accordance with laws and regulations governing persons with disabilities. We apply various preventive measures to reduce the risk of additional health issues and disabilities. Employees who can no longer work in their current positions are included in appropriate re-qualification programmes.

We measure the occurrence of workplace accidents using the LTIFR (Lost Time Injury Frequency Rate) indicator, which refers to the number of workplace accidents with three or more days' absence from work per one million hours worked. In 2021, the LTIFR reached 3.41, up 4.3% on 2020. There were no fatalities or workplace accidents requiring absence of 6 months or more. All accidents were minor and involved hits, cuts and slips. There were no cases of work-related ill-health. 67% of accidents involved men, and 33% involved women with no significant age group representation.<sup>46</sup>

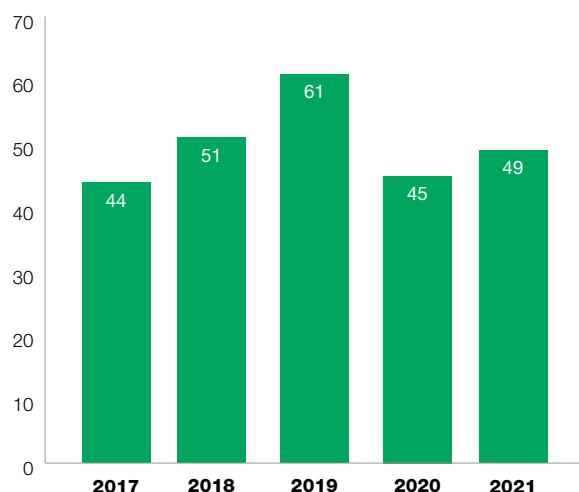
### LTIFR Indicator by Year for Krka Employees and Agency Workers<sup>47</sup>



The Fire Safety Unit and the Industrial Fire Brigade are mobilised if any incident occurs. In 2021, we recorded no major safety incidents that might cause a fire or a major spillage of hazardous chemicals or have an impact on manufacturing processes. We conducted 49 fire drills, five of which were full scale. We worked hand-in-hand with the Novo Mesto Professional Fire and Rescue Brigade, local external fire services, and emergency medical service teams. We assessed and presented the risks and realistic emergency scenarios and their impact on the stability and continuity of business operations in Krka. We also tested the coordination and efficiency of internal and external intervention teams and Krka first aid and medical teams.

<sup>45</sup> GRI GS 401-3 • <sup>46</sup> GRI GS 403-9 • <sup>47</sup> GRI GS 403-9

## Number of Drills and Simulations for Emergency Situations



Systems of health and safety at work in our subsidiaries abroad conform to relevant national laws; however, we have been gradually streamlining them by introducing internal instructions, safety documents and policy on health and safety at work.

## Communicating with Employees

We promote open, regular, responsible, and ethical communication between employees and the management team, contributing to a productive working environment. This helps increase a sense of belonging and builds a culture of mutual trust and respect and responsible and efficient work.

The members of the Works Council represent all organisational units and are a link between employees and the management team. Employees can put their initiatives and questions forward through their Council representatives, the President of the Works Council, or the Worker Director. At annual worker assemblies, the President of the Management Board, Management Board members and representatives of the Works Council inform employees about operating results of the past year, plans for the current year, development strategy, and other news. 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 simultaneously through various internal media and tools. Employees receive information regularly via the *Bilten*, our internal weekly bulletin, and our internal web portal *Krkanet*. 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 *Krkaš.si*, information screens, and notice boards at manufacturing and other sites. Over the past few years, videos have become an important communication channel for online events, announcements and instructions. We have also expanded our corporate communication tools by creating official Krka profiles on Instagram, LinkedIn and YouTube. We use them to post corporate content for our employees and members of the external public.

Employees also learn about important corporate guidelines in communication campaigns and at various internal events. The campaign Your Effectiveness Counts encourages employees to find ways to be more effective at work, and Krka's Mobility Plan promotes the use of alternative and less environmentally harmful means of transport.

When COVID-19 was declared a pandemic, we coordinated communication in our subsidiaries and representative offices. We asked them to closely follow and apply measures to prevent the spread of COVID-19 and legislation in force in their respective countries.

Internal communication tools abroad include local issues of the *Utrip (Puls)*, *Bilten (Bulletin)*, *Krkanet* and e-mailings about local and important corporate news and campaigns. Employees in key markets use intranet websites (*Krkanet*) in national languages, and our marketing and sales staff also receives *M-Bulletin*, another Krka newsletter in electronic form. Employees learn news important to all Krka Group employees by e-mail and on *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.

# Patients and Other Customers

## We are closely connected to healthcare systems because we develop and produce high-quality, innovative generic medicines.

Our high-quality, safe and effective medicines for the treatment and prevention of the most common diseases of modern time are used to treat more than 50 million patients around the globe. Our guiding principle is caring for their health.

We differentiate two groups of users of our products: the group made up of patients and other end users, and the group made up of health professionals, healthcare providers and direct customers. Their trust is the result of the long-term relationship we nourish by responsible and professional communication and provision of all necessary information about our products in compliance with the relevant legislation.<sup>48</sup>



### Patients and Other End Users

The quality of active ingredients, excipients, incoming materials and finished products is laboratory tested using state-of-the-art and validated analytical methods, devices and procedures. All our prescription pharmaceuticals and non-prescription products are tested and compliant with all regulations. We market only products that have been approved and comply with relevant requirements and regulations.

Detailed information about Krka products is regularly published on our product, corporate, and thematic web pages in more than 30 languages. We are developing digital media and tools that help users alleviate symptoms in certain therapeutic areas. We also create digital content to promote healthy lifestyles. We are constantly optimising digital communication channels and improving information to fully and accurately address the concerns and needs of our end users. All our product information complies with relevant regulations and is pre-approved by the responsible regulatory body in each country, i.e. the public agency for medicinal products. No incidents of non-compliance concerning product information and labelling were identified in 2021.<sup>49</sup>

Advertising of pharmaceutical products is subject to strict regulation and control. No complaints about non-compliance of marketing activities with regulations and ethical standards were received in 2021.<sup>50</sup>

We implement health protection, safety, and patient and other end-user protection systems according to clear guidelines incorporated into our operations. Our risk management system related to these aspects complies with legal requirements and regulations.

Our system for collecting information about risks to the health of patients or public health related to prescription pharmaceuticals and non-prescription products, scientific data evaluation, assessment of potentials for risk reduction and prevention, and the adoption of measures for the safe use of medicines complies with European legislation and regulations in other countries where Krka holds marketing authorisations.

Our e-Health portal featuring various articles on health is an important source of diverse, verified and credible information in Slovenia.

### Health Professionals, Healthcare Providers and Direct Customers

We cooperate with various institutions, health insurance companies and other bodies dealing with medicinal and other Krka products at all stages of product development, production, sales and marketing. We follow all prescribed procedures and ensure our documents are up to date and reliable. To this end, we carry out our procedures properly and make sure our documentation is systematically organised, transparent and complete.

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.

Every year, we conduct satisfaction surveys among direct customers, i.e. distributors, pharmacy chains, hospitals, and other pharmaceutical companies. Online opinion polls help us determine customer satisfaction with our products, sales personnel, order processing, complaint procedures, and general level of satisfaction. After a thorough analysis of responses, we can identify challenges and opportunities for improvement and set measurable goals, adopt relevant actions, and monitor their performance at the next survey.

<sup>48</sup> GRI GS 103-1, 103-2, 103-3 • <sup>49</sup> GRI GS 417-1, 417-2 • <sup>50</sup> GRI GS 417-3

In 2021, as many as 86% of our customers responded to the survey. The satisfaction index rose from a sound 89% in 2020 to 92%, reinforcing a high level of customer satisfaction in recent years. Satisfaction scores improved in most survey sections. We achieved above-average satisfaction rates in sales staff response to customer needs and in all aspects of order processing and fulfilment, which the respondents attached the highest importance to.<sup>51</sup>

Indirect customers or health professionals comprise doctors, veterinarians and pharmacists, who prescribe, recommend, and dispense our products and represent a crucial link with patients and other end users. We regularly inform them about our products, enabling them to make an informed decision about which product is most suitable for their patients and users. We are in direct contact with them through our medical representatives in 42 countries and provide them information in printed or electronic form. Whenever we communicate with health professionals, we act responsibly and in accordance with the applicable laws and other regulations on business operations, including regulations on product marketing and personal data protection. We comply with good business practices, recommendations of the Medicines for Europe, and an ethical code of promotion.

We contribute to the professional development of doctors, pharmacists and veterinarians. We organise and support professional and educational meetings where they can upgrade their knowledge, learn about new guidelines, exchange opinions and experience, and establish contacts. Meetings take place in various countries where Krka is present. In 2021, we mainly organised online or hybrid meetings, and only a few took place in person.

As a response to our stakeholder needs, we intensified educational activities and prepared added-value tools and contents that contribute to effective disease detection and facilitate communication with patients. Doctors and pharmacists can access educational information on our thematic web pages, which we constantly upgrade.

Our medical representatives regularly undergo professional training so they can inform health professionals about the latest treatment guidelines and provide accurate and current information about therapeutic classes and our products. We make sure that they have appropriate communication skills, are familiar with and follow legal and other regulations and standards of work. Special emphasis is given to compliance with ethical standards.

Feedback and opinions obtained through daily contact and independent market research are important. 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, with cardiologists ranking us the most visible. Proxima Research data for the Russian Federation, our major market, and Ukraine showed that general practitioners ranked us first and cardiologists second in terms of visibility. We also ranked first among general practitioners and second among cardiologists in both countries in terms of frequency of prescribing.

We recognise the major importance of clinically proven medicines and monitor their efficacy, safety, and quality during registration procedures and after obtaining relevant marketing authorisations. To that end, we conduct many bioequivalence studies and researches in pre-authorisation phases and support post-authorisation clinical studies. We are one of the few generic pharmaceutical companies whose products have had clinical efficacy demonstrated in post-authorisation clinical studies. Physicians participate in the studies as investigators, which significantly contributes to understanding and advancing treatment.

We ensure high quality, transparency and ethics in clinical research by complying with legal regulations, good clinical practice guidelines and the Helsinki Declaration. Patients can only be included in a study after expressing their willingness to freely and voluntarily participate in the study. Investigators inform them about the course of the study and any risks involved. Our main concerns are patient safety, privacy, and data confidentiality. We pursue them in line with Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data. We identified no privacy or confidentiality breaches. We apply good pharmacovigilance practices in monitoring and reporting adverse events. Results of interventional clinical studies were published in the EU Clinical Trials Register to support transparency of clinical trials.<sup>52</sup>

More than 350,000 patients from 27 countries have so far participated in over 150 post-authorisation clinical studies with our key medicinal products from the main therapeutic classes. In 2021, BLOSSOM, the international randomised interventional clinical study with pregabalin (Pragiola\*) and duloxetine (Dulsevia\*) was completed. The study took place in five countries and included 254 patients with painful diabetic peripheral neuropathy. Statistical data processing is expected in 2022. Study data will allow us to assess the efficacy and safety of both medicines and their impact on pain, quality of life, symptoms of depression,

<sup>51</sup> GRI GS 102-43, 102-44 • <sup>52</sup> GRI GS 103-1, 103-2, 103-3, 418-1



**We are one of the few generic pharmaceutical companies whose products have had clinical efficacy demonstrated in several clinical studies.**

BLOSSOM, the international randomised interventional clinical study with pregabalin (Pragiola\*) and duloxetine (Dulsevia\*), was completed. The study took place in five countries and included patients with painful diabetic peripheral neuropathy.

**We also support studies on medicines in regular clinical practice.**

cognitive function, quality of sleep at night, and daily somnolence. In 2021, a regulatory body of a participating state inspected the conduct of the BLOSSOM clinical study and concluded that good clinical practice guidelines had been applied, and identified no deficiencies.<sup>53</sup>

An international interventional clinical study is being designed to investigate the efficacy and safety of telmisartan/amlodipine (Teldipin\*) and telmisartan/indapamide combinations in patients with high blood pressure levels.

Krka also supports studies on medicines in regular clinical practice aimed at monitoring the efficacy and safety of Krka medicines in daily use. The studies are conducted with medicines from various therapeutic classes. In 2021, 37 non-interventional and epidemiological studies were conducted in 21 countries. Five of them were international.

<sup>53</sup> GRI GS 419-1



# Corporate Social Responsibility

**We aim to develop long-term partnerships that foster an integrated and responsible social development, scientific research, intergenerational and interdisciplinary cooperation, adherence to diversity principles, and healthy lifestyles.**

We are aware of our impacts related to sustainability topics, as we are an international pharmaceutical group and one of the largest companies in Slovenia. Our strategic guidelines require us to conduct our day-to-day business in line with social responsibility principles and consider social needs. In 2021, our commitment to fostering long-term relations was reflected in important anniversaries, most notably the 50th Krka Prizes.

We support projects related to health and the quality of life by allocating sponsorships and donations. We build partnerships through sports, culture, healthcare, science, education, and humanitarian actions and contribute to protecting the natural environment in line with the set criteria. We identify the needs of our partners through regular contacts, long-term sponsorships, annual meetings with sponsorship recipients, and the process of preparing new sponsorship and donation contracts. Our sponsorship and donation committee examines all sponsorship and donation applications. In 2021, we fulfilled all agreed sponsorship and donation obligations as much as possible given the circumstances caused by the pandemic.<sup>54</sup>

We allocated 0.18% of our sales revenue to sponsorship and donations and helped more than 400 institutions, associations, and organisations achieve their goals.<sup>55</sup> We allocated 0.09% of sales revenue for donations alone, representing 50% of the total amount for sponsorships and donations.

As many as 17 sports and cultural clubs and associations appeared under the Krka banner, and Krka supported another seven clubs and associations as their main sponsor. Three outstanding young people were given

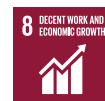
the Talent-of-the-Year Award and 14 young individuals received recognition for their achievements. For the first time, we expressed our appreciation to ten representatives of clubs, associations and institutions for their invaluable contribution and long-term success, dedication and creativity, commitment to cooperation, respect, and tolerance, active role in sharing their knowledge and values with young people, and active promotion of the sponsor.

## Encouraging New Scientific Discoveries<sup>56</sup>

Krka Prizes are an incentive for young researchers to engage in research and development. Over the past 51 years, we awarded 2,981 Krka Prizes. The Krka Prizes Council has played a prominent role in making research work popular among students, pupils and mentors in educational institutions. In 2021, we marked the 50th anniversary of Krka Prizes with a special ceremony. The President of the Republic of Slovenia Borut Pahor conferred the state Order of Merit to Krka for its Krka Prizes, which have been encouraging scientific achievements, particularly among the young, for half a century.

In two calls for secondary school research papers and graduate and postgraduate research papers in 2021, as many as 173 pupils and students handed in 166 research papers. We announced the recipients of Krka Prizes at an online ceremony and held an online symposium where students and pupils presented the best research papers. Five Krka Grand Prizes, 25 Krka Prizes, and 44 special commendations were presented to graduate and postgraduate students for their research work. Among the recipients, 31 held doctoral degrees. We also awarded 40 recognitions to students for presenting research papers of exceptional quality. With the help of their supervisors and co-supervisors, 86 pupils from 17 Slovenian secondary schools prepared 52 research papers. For the fifth year in a row, we awarded a special plaque to one supervisor for his long-standing encouragement and successful supervision of pupils.

We are also engaged in projects run by various educational and scientific institutions designed to upgrade infrastructure and to provide scholarships, above-standard educational activities, research work, and participation at national and international competitions.



<sup>54</sup> GRI GS 103-1, 103-2, 103-3 • <sup>55</sup> GRI GS 201-1 • <sup>56</sup> GRI GS 203-1, 203-2



## We encourage

- New scientific findings
- Charity and volunteering among our employees
- Culture
- Activities for a better society

## We collaborate with

- Healthcare institutions
- Patient societies and associations
- Senior citizen support services
- Environmental protection groups
- Sports clubs and associations

In 2021, we supported projects at two primary schools and contributed to school funds for talented pupils. Our contribution to the Janez Drnovšek Scholarship Fund, named after a prominent Slovenian politician, also showed our support for the Fund's activities for the fourth consecutive time.

Krka is a long-time sponsor of the Slovene Science Foundation. In 2021, the Foundation organised the 23rd Slovene Science Festival, which took place online and attracted participants from around the world. Our donation was used by the Faculty of Arts of the University of Ljubljana to acquire the collection of major works for scholars and students Oxford Scholarly Editions Online. We contributed to scientific and research work of the Faculty of Health Sciences of the University of Ljubljana and supported an international conference on nuclear magnetic resonance in Europe, which brought together academic professionals and active practitioners in versatile NMR spectroscopy. Our involvement in the project added to our successful long-term collaboration with the Slovenian NMR Centre. We also supported FEBS 2021, a virtual congress organised by the Federation of European Biochemical Societies, which aims to promote biochemistry, molecular biology, and related research areas in Europe and neighbouring regions.

## Charity and Volunteering

We have been fostering the spirit of volunteering ever since Krka was established. All our charity and volunteering actions were united under Krka's Week of Charity and Volunteering in 2012. Since then, the campaign has brought together more than 8,300 Krka employees. Due to the poor epidemiological situation, we had to cancel it in 2021.

Krka's management encourages Krka employees to participate in volunteering activities by supporting sponsorship boards of non-profit institutions and providing supplies.

We have supported the Novo mesto Dragotin Kette Primary School for children with special needs since 1974; since 1977 through our sponsorship board. In 2021, the school used Krka's donation to lay out and plant the garden and the park. We have been sponsoring the running of several occupational activity centres and retirement homes. We have supported the retirement home in Novo mesto for 40 years. To mark its 40th anniversary, we attended a special celebration and prepared a special publication. Our donation was used to set up a room for relaxation, physical and occupational therapy.

We have been conferring the Volunteer of the Year Award since 2012 to acknowledge volunteer work of our colleagues. In 2021, we also thanked 145 Krka employees who donated blood 10 to 80 times. Our employees donated 933 litres of blood just during Krka's Week of Charity and Volunteering in eight years. Sound awareness of the importance of blood donation is reflected in the fact that on average, more than 1,000 Krka employees donate blood twice a year and many new blood donors join the cause every year.

## Support for Health Care Institutions

Modern medicinal devices facilitate the work of healthcare professionals and ensure a high level of service. Therefore, we donated towards the construction of new premises of the Emergency Department of the Community Health Centre in Ljutomer in Slovenia, the purchase of new equipment for the Centre, and the acquisition of ten electrically operated hospital beds for General Hospital in Brežice in Slovenia. We donated to the purchase of 50 bedside ultrasound machines featuring a tablet computer. They were provided to 38 health centres across Slovenia. The donation also included necessary trainings on the use of the machines.

## Support for Patient Associations and Societies

Healthcare associations and societies contribute to an improved quality of treatment and patient safety. We have supported them in their effort to raise awareness of how to prevent or delay certain diseases or to teach patients how to live their lives to the fullest.

Among others, we supported two projects, which significantly raise awareness and provide support to patients. Both are related to our key therapeutic areas. What Does Your Heart Beat for? was a campaign run by the Slovenian Hypertension Society and the Slovenian Society of Cardiology, while Neuropathic Pain was a project managed by the Slovenian Association for Pain Management.

We supported the celebration of the 160th anniversary of the Slovenian Medical Association, one of the oldest medical organisations in Central European countries. The event featured a professional programme on academic medicine in Slovenia and the importance of medical texts in Slovene.

## Support for Nature Protection Projects

We cultivated our traditional partnership with Krka Beekeepers' Association, which was established in 1979. In 2021, we supported the set up of a new beehive of the Beekeepers' Association in the Trebelno-Mokronog municipality in Slovenia. The beehive will be used as a training centre for Association members and pupils of the beekeeping course at the primary school in Trebelno.



## Partnership in Sports

We promote many sporting activities, which contribute to a healthy lifestyle. We support primarily local clubs and associations encouraging young people to take up recreational or professional sports. Our long-term partners in sports are Krka Athletic Club Novo mesto, Gymnastics Society Novo mesto, Golf Club Grad Otočec, Krka Bowling Society Novo mesto, Adria Mobil Cycling Club Novo mesto, Krka Equestrian Club - Grm Novo mesto, Krka Basketball Club, Krka Men's Volleyball Club Novo mesto, Krka Men's Handball Club, Krka Table Tennis Club Novo mesto, Krka Football Club, TPV Volley Club Novo mesto, Krka Mountaineering Society Novo mesto, Krka Rog Ski Society, Krka Chess Society Novo mesto, Krka Otočec Tennis Club, Krka Women's Basketball Club Novo mesto, and Krka Women's Handball Club.

Through our campaign Caring for Your Health – Together We Scale the Heights we carried out maintenance work on signposted hiking trails and contributed to safety in the Slovenian mountains together with the Alpine Association of Slovenia.

Our sponsorship of the Ski Flying World Championship in Planica was an acknowledgement of the 36-year-long collaboration. We also supported the Women FIS Ski Jumping World Cup in Ljubno in Slovenia, events organised by the Slovenian Tennis Association and the Slovenian Gymnastics Federation, and the biggest amateur cycling event in Slovenia, Maraton Franja BTC City.

We donated funds to purchase sports equipment to schools and other organisations that promote a healthy lifestyle.

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 our employees' lives. That incited us 67 years ago to support various cultural genres and activities that make an important contribution to wider society.

The importance of reading culture in Krka is reflected in Krka's book collection and our contributions to book publishing. In 2021, we contributed to the publication of 17 books. We staged the Krka Cultural Evening at the church constituting the Galerija Božidar Jakac gallery in Kostanjevica na Krki for the fifteenth year running.

Krka's Culture and Arts Society, established 50 years ago, adapted its activities to the COVID-19 pandemic. Certain events were organised in their traditional form, while others had to be replaced or moved online. The Society arranged 19 exhibitions in Novo mesto and Ljubljana. Krka Theatre Club organised five online meetings with actors, and Krka's mixed choir practised regularly and performed at two important occasions. Krka Octet was established at the year-end. Instead of the traditional Dolenjska Book Fair, Krka's Culture and Arts Society arranged an exhibition on the history of the Book Fair and new best-selling books. Over the last five decades, the Society has organised more than 850 exhibitions, 550 Krka's mixed choir performances, 233 Theatre Club meetings, 42 Book Fairs, numerous workshops, and gatherings of culture and art enthusiasts of different generations.

We also supported other cultural societies and events, among them the Galerija Božidar Jakac gallery in Kostanjevica na Krki, Pihalni orkester Krka brass band, the Novo Mesto Anton Podbevšek Teater theatre, the Cankarjev dom cultural and congress centre, the Slovenian Reading Badge Society, a literary contest for pupils and students from Slovenia and the neighbouring countries, the Slavic Society of Dolenjska and Bela krajina, the Europe Readr digital platform, the 53rd international PEN Writers' Meeting organised by the Slovene PEN Centre, the Cankar Award for the best original literary work, and the Tone Pavček Fund, which fosters the Russian language and culture in primary and secondary schools in Slovenia.

## Support for Non-Governmental Organisations<sup>57</sup>

Every year, we support several non-profit, non-governmental and non-political organisations.

In January, we donated €25,000 to the Slovenian Red Cross for the restoration of damaged buildings and to help local people after a severe earthquake in Petrinja, Glina and Sisak in Croatia. We also made a donation of our non-prescription products worth €3,000. Employees of Krka Croatia and those from Marketing and Sales in Slovenia contributed funds to purchase a container home.

We made a substantial donation to Sonček – the Cerebral Palsy Association of Slovenia (in the Dolenjska and Bela Krajina regions) to purchase new premises. The Polžek Society for Children with Special Needs received our donation to purchase a mobile home adapted to carry out a therapeutic swimming programme.

In collaboration with the local Association of Friends of Youth Mojca in Novo mesto, we gave presents to more than 2,500 children. Santa Claus visited children from three municipalities in the Dolenjska region and children of Krka employees at a special event, which took place at the main square in Novo mesto due to COVID-19 restrictions.

We frequently respond to the Red Cross and Karitas charities' calls for donations. Krka has been the main sponsor of the People in Need Fund of the Regional Branch of Red Cross in Novo mesto for several years. We worked together with humanitarian organisations and made several substantial donations to help six families in need. Our executive managers also made a contribution to the Regional Branch of Red Cross in Novo mesto to help three children from Novo mesto who lost their parents. In 2021, we continued our association with the Chain of Good People project launched by the Association of Friends of Youth Ljubljana Moste-Polje. The funds collected as part of this humanitarian programme are intended for families in need in Slovenia. We have been sponsoring the running of Novo mesto Occupational Activity Centre through various projects. The residents of the Centre prepared New Year gifts for Krka employees and our business partners also in 2021.

We provided material and financial support to firefighting departments. In 2021, we supported 15 fire departments and firefighting agencies in Slovenia by contributing towards the purchase of new fire engines, equipment, and the renovation of fire stations.

<sup>57</sup> GRI GS 201-1, 203-1

In June, the Krka Volunteer Industrial Fire Service marked its 50th anniversary and received an Order of Merit in Firefighting from the Slovenian Firefighters Association. The Krka Volunteer Industrial Fire Service has a record number of 346 members with a strong female participation in their ranks. The all-male fire crew has achieved remarkable results at various national and international firefighting competitions. The all-female firefighting team has also taken top spots in firefighting competitions in Slovenia. To celebrate the 50th anniversary, the Krka Volunteer Industrial Fire Service members compiled their inspiring stories and the milestones of the Service into a book titled *For the Safety of the Plant and its Workers*.

We continued to support the Elderly for the Elderly programme in the Dolenjska and Bela Krajina regions. Members of pensioner's organisations and senior volunteers visit all senior citizens in their region to see their living conditions and cater for their needs.

## Social Responsibility Projects

If you need further information on social responsibility projects, please e-mail us at [druzbeni.odgovornost@krka.biz](mailto:druzbeni.odgovornost@krka.biz) or contact us by regular post at Krka, tovarna zdravil, d. d., Novo mesto, Public Relations, Šmarješka cesta 6, 8501 Novo mesto, Slovenia.



# Natural Environment

## Krka made further progress in environmentally sound management and climate change mitigation in 2021.

To that end, we downsized certain pack units, introduced power supply from renewable energy sources, improved our separate waste collection system, established a waste management system for certain waste streams based on circular economy principles, and reduced water consumption.

### 2021 Environmental Milestones

	The quantity of waste for disposal in landfills was reduced by 1,143 tonnes.
	Indirect CO <sub>2</sub> emissions of Krka in Slovenia were reduced by 45,000 tonnes. The impact of the reduction is comparable to planting 170,000 trees.
	The quantity of packaging materials was reduced by 18 tonnes thanks to downsized pack units.
	Consumption of river water for cooling tower supply was reduced by 8% and replaced by clean rinse-water from production and rainwater.
	Drinking water consumption was reduced by 6%.
	River water consumption was reduced by 13%.
	A total of 495 tonnes of waste composites were handed over for processing, from which the contractor recovered 180 tonnes of aluminium and 270 tonnes of plastic.



In 2021, all our energy consumers in Slovenia switched to zero-carbon energy sources and contributed to reducing indirect CO<sub>2</sub> emissions. Many energy efficiency projects generated energy savings of 2,583 MWh, while the specific use of energy by production volume remained at 2020 levels. Despite an increase in production volume, we reduced the total quantity of waste by 1,143 tonnes and the quantity of waste disposed at landfills by 3.5% (or 28 tonnes). The quantity of recyclable waste increased by 2.3%. The quantity of separately collected waste composites increased by 13.7%. They were sent to a waste processing plant, which recovered 180 tonnes of aluminium and 270 tonnes of plastic for further processing. By downsizing pack units, we reduced the consumption of packaging materials by 18 tonnes and proportionally reduced the quantity of waste packaging and purchase costs. Year on year, drinking water consumption and river water consumption decreased by 6% to 643,965 m<sup>3</sup> and by 13% to 817,059 m<sup>3</sup>, respectively. Total wastewater generated dropped by 8.8% compared to 2020, while total environmental load units (ELUs) for wastewater treatment increased by 9.5%. All water monitoring results at all sites in Slovenia were compliant with the requirements of environmental protection permits. We follow the guidelines on environmentally sound management in the entire Krka Group.

We strive to reduce the environmental impacts of our operations by finding sustainable solutions. Our updated 2022–2026 business strategy, adopted in 2021, restates

the close connection between our operations and sustainable development. Responsible environmental management adds to our long-term competitiveness and helps us achieve strict environmental standards. Our stakeholders also rely on us to mitigate environmental risks. Krka established its comprehensive environmental management system under the ISO 14001 standard 20 years ago. The *Environmental Management System* (EMS) certificate binds us to reduce all our impacts on the environment constantly. 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. Successful audits confirm that we have made improvements in all areas that impact the environment.

All employees are included in the comprehensive environmental management system detailed in our internal document on the environmental management system. Employees of Environmental Protection carry our tasks at the operational level. The system's goals are: (i) a high level of environmental protection throughout the lifecycle of a product; (ii) constant reduction of our environmental impact; (iii) compliance; and (iv) attainment of the corporate environmental objectives. The 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 apply the precautionary principle when a risk assessment, a hazard assessment for the water environment, or a feasibility study shows that new technology, production process or a product might lead to a significant environmental burden. If a risk of this kind is determined for a product in the pre-development phase, the product is discontinued. For products in the development phase, we consider options to replace substances posing major environmental hazards, while for products in the production phase, we adopt additional measures to mitigate their environmental impacts.

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 the suitability and efficiency of the system and indicate opportunities for improvement.<sup>58</sup>

We report environmental data 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. Environmental data in the Annual Report are compiled according to GRI Standards and will be further aligned with the Standards in the future.

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.

All our activities comply with the requirements of 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.), which we regularly and closely follow. They serve as the basis for environmental protection permits issued for individual production sites. We regularly account for environmental taxes and submit them to competent institutions in conformity with environmental legislation. Environmental legislation composes an extensive part of the European acquis, and we have collected a compendium for our own use listing 21 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 to implement 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. A management review deals with the achievement of goals and the implementation of programmes. Environmental Protection and the Committee assess identified environmental risks within environmental planning. Environmental risks are also integrated in business continuity, quality, and risk assessments of contractual partners.<sup>59</sup>

We control compliance with legislation and environmental protection permits by regular monitoring of air and water emissions, noise, and electromagnetic radiation, waste assessments, and regular checks of reservoirs and equipment. Any deviations from legal threshold values are managed in compliance with internal standards, and we introduce necessary corrective measures to ensure compliance of our operations with the existing legislation. No deviations were identified in 2021.<sup>60</sup>

In 2021, the Inspectorate of the Republic of Slovenia for the Environment inspected our production plants in Ločna, Krško, and Bršljin in Slovenia. The Inspectorate issued a decision that required us to set up measurement points at the cooling wastewater outlet into the Krka River at our production site in Ločna. All works to comply with the decision were completed within the set deadline. The remaining findings by the Inspectorate confirmed that Krka's operations comply with relevant legislative

<sup>58</sup> GRI GS 102-11 • <sup>59</sup> GRI GS 103-1, 103-2, 103-3 • <sup>60</sup> GRI GS 103-1, 103-2, 103-3



## Comprehensive environmental management system



**High level of environmental protection throughout the product lifecycle**



**Constant reduction of our environmental impact**



**Efficient use of natural resources and energy**



**Corporate compliance and fulfilment of environmental objectives**

requirements. The Inspectorate issued a decision in 2019 ordering us an intervention for wastewater treatment at our Krško plant. We have been implementing the remedial actions within our Sinteza 2 project.

The procedure to obtain an environmental permit is underway. In 2021, we received a complaint from a nearby resident of our Ljutomer plant regarding noise level. We examined the complaint, took appropriate measures, and replied to the complainant in writing. We carried out further and more extensive noise measurements and regular noise monitoring. They showed that noise levels in the plant's immediate vicinity were significantly below the legal thresholds. No non-compliances were found in environmental audits. Their findings show that Krka complies with the requirements of ISO 14001 and constantly improves the environmental protection situation.<sup>61</sup>

In 2021, we prepared extensive documentation for our Ločna site and applied at the Slovenian Ministry of the Environment and Spatial Planning for an environmental protection permit for a low environmental risk facility. The project complies with the Seveso III Directive on the prevention and control of major-accident hazards involving dangerous substances, especially chemicals. The permit is expected in 2022.

## Environmental Protection Costs

Continuous improvement in environmental protection requires technical and organisational measures as well as considerable financial assets. Over the last five years, we have allocated more than €40 million to environmental protection, of that €11.6 million in 2021. Direct costs amounted to €6.3 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 €5.3 million in equipment and technology for environmental protection to further reduce environmental impacts.

## Use of Natural Resources

Depletion of natural resources has become evident in our lifetime, revealing our planet's physical limits and its vulnerability. We understand that dependence of the economic growth on the 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.

<sup>61</sup> GRI GS 307-1, 413-1

## Water<sup>62</sup>

Access to clean drinking water is essential for the pharmaceutical industry because it is used as a raw material in preparing pharmaceutical water, which must meet strict chemical and microbiological quality requirements. Therefore, water is a crucial aspect of environmental protection, and we consistently plan, monitor and control it. We encourage employees to drink tap water wherever the working process allows it. Tap water is considered potable from a health care standpoint and a much better alternative to bottled water, which increases the amount of waste.

We devote much effort to preserving the quality of water bodies at our production sites. Water systems at Krka are managed in compliance with good manufacturing practice (GMP) and the HACCP requirements. Water quality parameters are within prescribed limits and change with seasonal variations and precipitation. We closely monitor any changes to ensure optimum operation of facilities for preparing pharmaceutical water. Wastewater that comes from rinsing the machines for preparing pharmaceutical water and does not contain chemicals is reused in the preparation of water for energy supply. Two separate supply systems deliver water to the central distribution system and ensure that pharmaceutical water is continuously supplied to production. If the water supply is disrupted, the system reduces the quantity of water from the public network. Instead, pre-prepared pharmaceutical water flows into the system from reservoirs designed to cover the drinking water shortage.

### Drinking and River Water Use

Our main water sources are:

- Drinking water from the municipal utility services; and
- River water.

Drinking water consumption is monitored by a computerised control system, which records the total flow rate and total consumption at the plant input and main user points. We can immediately identify any increase or deviation in drinking water consumption and investigate the underlying reasons. We comply with stringent requirements of pharmacopoeias regarding water preparation in the pharmaceutical industry. We strictly use drinking water of officially controlled quality from the municipal water supply utility. Water is additionally purified depending on its purported use, most commonly using sophisticated membrane technologies. Correct preventive maintenance, machine operation monitoring,

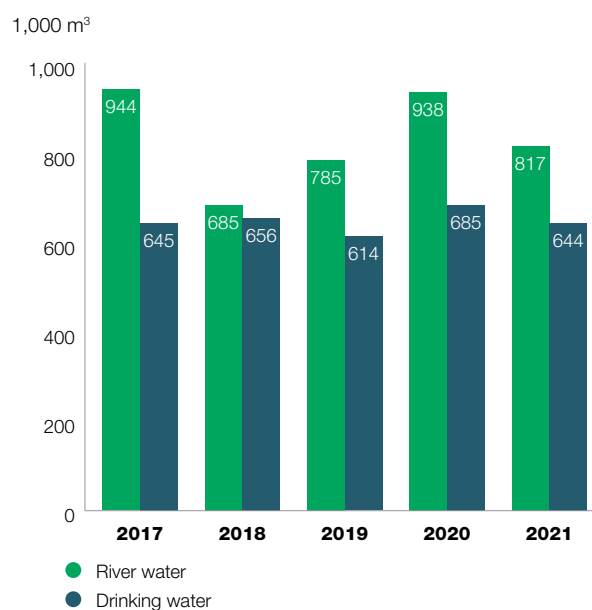
and technological improvements ensure consistent water quality, extended the useful life of the equipment, decreased water and chemical consumption, and reduced waste generation.

In 2021, drinking water consumption in Krka in Slovenia decreased by 6% compared to the previous year thanks to proper management and maintenance of water preparation and distribution systems, active water consumption monitoring, and prompt interventions in case of water leaks.

River water consumption declined by 13% compared to 2020. Approximately 50% of total river water is used for cooling through various heat exchangers, especially in API production, while the rest is used for preparing technological waters to meet the demands of energy supply and production. We have been replacing adequately treated river water used in cooling towers by rainwater and clean rinsing water from production. We plan to use all rainwater in cooling towers in 2022 as well.



### Drinking and River Water Use<sup>63</sup>



<sup>62</sup> GRI GS 103-1, 103-2, 103-3, 303-1 • <sup>63</sup> GRI GS 303-3, 303-5

## Energy

Our main energy resources are:

- Natural gas;
- Electric power; and
- Fuel oil as back-up fuel.

The electric power supply comes from the public utility electricity grid, from in-house generators powered by renewable sources such as the solar power station, and from the cogeneration plant operating on natural gas.

### Energy Management System<sup>64</sup>

Energy management strategy is incorporated into Krka's integrated management system and drafted in accordance with the principles of ISO 50001 *Energy Management System*. The strategy is a part of the corporate strategy and comprises activities and actions for achieving cost-related and environmental objectives. 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 sustainable development and circular economy principles to maintain a high level of environmental protection.

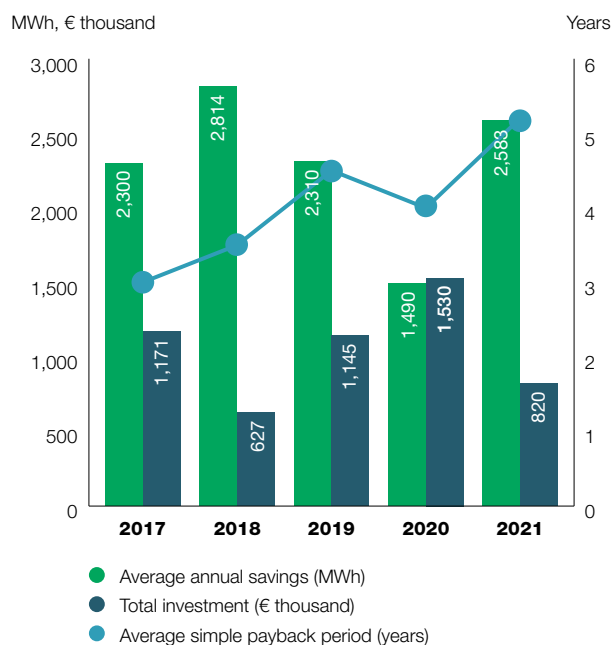
Energy management system incorporates:

- 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 efficient and rational energy use pursuant to the environmental policy.

Regular energy audits are also a part of the system. In 2021, we completed the comprehensive energy audit of all production sites in Slovenia and adopted various measures in line with the action plan.

The 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 2021, measurements were added to the system to increase the transparency of mass and energy flows in the company. We upgraded it with new tools. We updated the energy management control system to allow for advanced analyses and evaluation of the achievement of set environmental goals.

### Multi-Year Survey of Implemented Measures and Their Effects on Energy Management<sup>65</sup>

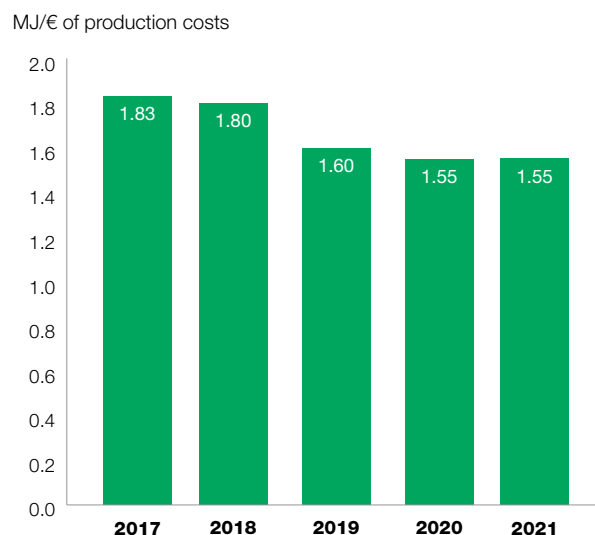


In accounting for an average simple payback period, only measures taken exclusively for economic viability were considered.

### Specific Use of Energy<sup>66</sup>

Specific use of energy portrays production costs in consideration of the physical volume of production. Specific use of energy as regards production costs remained at the 2020 levels.

### Specific Use of Energy by Production Costs

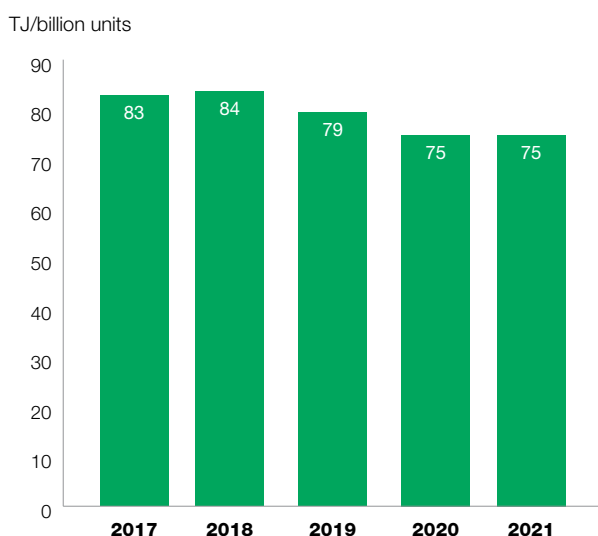


<sup>64</sup> GRI GS 103-1, 103-2, 103-3 • <sup>65</sup> GRI GS 302-4 • <sup>66</sup> GRI GS 302-3



The specific use of energy in correlation to the physical production volume remained stable year over year thanks to many activities geared towards efficient energy use, energy efficiency investment, and energy-efficient maintenance.

### Specific Use of Energy by Production Volume



### Energy Efficiency Projects

We have been dealing with specific use of energy for years and constantly optimising our specific water and energy consumption. Systematic measures and investments have returned average electricity and natural gas savings of more than 50 GWh per year in recent years. This means we have reduced our CO<sub>2</sub> emissions by more than 17,000 tonnes. In 2021, all energy efficiency projects generated savings of 2,583 MWh and reduced our CO<sub>2</sub> emissions by 454 tonnes. We started devising a new regenerative thermal oxidation system at our Ločna Plant in Novo mesto, which will allow us to use waste heat from flue gas. This will help us achieve natural gas savings of 1,100 MWh or reduce our CO<sub>2</sub> emissions by 190 tonnes. The project is due for completion in 2022.

### Replacement of Liquefied Petroleum Gas with Natural Gas at Šentjernej

In 2021, we connected our plant in Šentjernej to the natural gas distribution system. Natural gas is considered a reliable, safe and affordable power source as it generates on average 25% savings compared to liquefied petroleum gas. The quantity of dust particles as well as NO<sub>x</sub> and SO<sub>x</sub> emissions are much lower than those from liquefied petroleum gas. The entire site in Šentjernej was supplied with natural gas in 2021.

### Optimisation of Air-Conditioning System Operation

Air-conditioning (HVAC) systems impact approximately 60% of end use of energy at Krka and must be used as efficiently as possible. The following projects were delivered in 2021:

- Upgrade of the system for targeted monitoring of energy media consumption in individual buildings at the Ločna site in Novo mesto. The system will improve the overview of the energy balance of each building and help us identify anomalies and improve our energy efficiency system;
- Replacement of the existing air dehumidification system with drying wheels with a glycol cooling system –1/3 °C at our site in Ljutomer, Slovenia. The replacement will generate annual natural gas savings of 1,935 MWh and consequently reduce annual CO<sub>2</sub> emissions by 454 tonnes.

### Improved Reliability of the 8-Bar Compressed Air Supply at Ločna (Novo mesto)

At the Notol 2 compressor station at Ločna, we started installing an additional high-pressure compressor to achieve more reliable and efficient supply of 8-bar compressed air. We will also increase the capacity of the existing connection between compressor stations to improve the supply reliability further. This will save more than 200 MWh of electricity each year.

### Replacement of FLUO Lighting with LED Lights

We have been gradually replacing FLUO lights with LED lights. We upgraded the lighting system in two warehouses at Ločna and Gotna vas sites in Novo mesto. The upgrade improved illumination of rooms and work surfaces. The project will generate 112 MWh electricity savings per year.

### Recovery of Waste Heat

We make constant efforts 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.

## Biodiversity<sup>67</sup>

Biodiversity balances the functioning of all ecosystems and human life on Earth and should be maintained. Biodiversity in Slovenia is among the greatest in the European Union. Slovenia covers only 0.004% of the Earth's total surface area but is home to more than one percent of all known species and more than two percent of terrestrial species.

All Krka production sites comply with and implement all guidelines and requirements of the European and national legislation on biodiversity to preserve the ecological, biotic and landscape features of the natural world. We inform employees about the importance of biodiversity at internal training courses because every person can significantly help improve the present state.

Krka industrial buildings are concentrated in the area around the Krka River. The area 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, an EIA is an important contributor to biodiversity, while Natura 2000 demonstrates our commitment to preserving natural heritage important for Slovenia and Europe. Responsibilities are clearly defined in the European Birds Directive and the Habitats Directive. The Krka River is a habitat for several threatened species. These include fish species such as the asp, huchen, and cactus roach, the thick-shelled river mussel, the olm, as well as the European otter and beaver.

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) issued a new 2013–2018 assessment of biodiversity and nature in compliance with the EU Birds and Habitats Directives. Based on the reported and assessed data about species living in habitats of Slovenia, the report found that biodiversity in 2013–2018 remained stable compared to the previous reporting period.

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 Vipav wastewater treatment plant in Krško so that we do not endanger biodiversity with our emissions.

## Transport

We use all means of transport in our logistic processes. We use most modern vehicles for road transport with environmentally sound engines. We supply products to distant markets by sea or by air. 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.

In 2021, we continued to transport goods from Shanghai in China to Novo mesto in Slovenia by road, because road transport proved to be a good alternative to air transport. Transport went unhindered despite the COVID-19 restrictions and air and maritime transport difficulties.

We organised transport for almost 11,000 shipments of finished products, raw materials and packaging materials. Total mileage by our own vehicles surpassed 2 million km, and fuel consumption totalled 576,000 litres. We continued to modernise our fleet of vehicles and organised training for vehicle operators.

We closely follow and comply with the requirements of the laws governing the transport of pharmaceutical products and pay special attention to duly informing all our contractual carriers and their drivers about the requirements and other specificities. Last year, the competent national bodies for transport control found no violations of the legislation.

Krka's fleet comprises 19 vehicles and is regularly renewed. In 2021, we ordered three new vehicles (truck and trailer combinations). Their supply is planned for 2022. All vehicles satisfy relevant requirements regarding drivers, safety, and environmental standards. New vehicles are equipped with state-of-the-art accessories (e.g. adaptive cruise control systems, ESP/ESC emergency braking, traction control system, and blind-spot detection system) that enhance traffic safety.

We select our transport contractors carefully and encourage them to use modern vehicles that comply with the highest environmental standards. Their fleet includes vehicles running on liquefied natural gas.

<sup>67</sup> GRI GS 103-1, 103-2, 103-3, 304-2, 304-4

We have seven electric vehicles in our personal carpool and plan to add another two electric vehicles and one hybrid vehicle in 2022. Based on our vehicle acquisition strategy, we plan to replace 20 used diesel and petrol vehicles with electric ones by 2025. We have eight charging stations at two sites. When possible, we substitute business travel with teleconferencing or video conferencing to minimise fuel consumption and air pollution.

For the sixth consecutive year, we participated in the European Mobility Week with our Krka Car-Free Day campaign to promote sustainable mobility activities. We included them in *Krka's Mobility Plan*, which encourages the use of alternative and less environmentally harmful ways of commuting. In 2021, the campaign ran in 15 subsidiaries. This proves that sustainable mobility is becoming a habit of Krka employees. Green mobility should be safe, which is why we regularly adopt health and safety recommendations and measures and raise awareness among our employees of how important it is to follow them at the workplace and on the way to work. We arranged additional bike parking areas to encourage our employees to cycle to work.

## Emissions

### Wastewater<sup>68</sup>

Wastewater treatment protects surface and groundwater from organic and microbiological pollution and fouling by nitric and phosphorus substances. Therefore, one of our top environmental protection priorities is ensuring the most comprehensive and effective treatment. We use various physical, chemical and biological processes to remove pollutants from wastewater. We comply with the Decree on the Emission of Substances and Heat in the Discharge of Wastewater from Installations for the Production of Pharmaceutical Products and Active Substances, which serves as the basis for environmental protection permits issued for individual Krka production sites. At all our sites, an authorised contractor carries out wastewater monitoring. Its frequency and scope are defined in individual permits.

We reduce industrial wastewater quantities and pollution at all stages of the production process. We consider requirements of environmental protection permits and legislative requirements already at the development stage of a product and opt for technologies that use the 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 in technological processes and minimise the quantity of detergents used in washing procedures in production. At all our production sites, wastewater is treated in compliance with all legislative parameters for effluents before discharging into rivers. Wastewater in Ločna, Novo mesto, is treated at our advanced in-house industrial wastewater treatment plant using the best available technologies to meet the requirements. Wastewater from dislocated plants is treated at highly efficient municipal wastewater treatment plants.

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. In 2021, we treated 778,818 m<sup>3</sup> of wastewater. Organic pollution expressed by chemical oxygen demand was cleaned in 92.7%, while removal of organic pollution expressed by biochemical oxygen demand within 5 days reached 98.9%. We generated 406,307 m<sup>3</sup> of cooling water that was not polluted and was discharged into the Krka River through a cooling-and-rainwater discharge system.

Our plant in Bršljun 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 2021, we generated a total of 16,004 m<sup>3</sup> 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 2021, we generated a total of 13,274 m<sup>3</sup> 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 2021, we generated a total of 27,674 m<sup>3</sup> 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 2021, we generated a total of 24,417 m<sup>3</sup> of wastewater. Construction of an in-house water treatment plant is planned at the site and we have already prepared project design documents. The project is at its final stage of obtaining a final environmental protection permit. Construction work can start only after obtaining the permit.

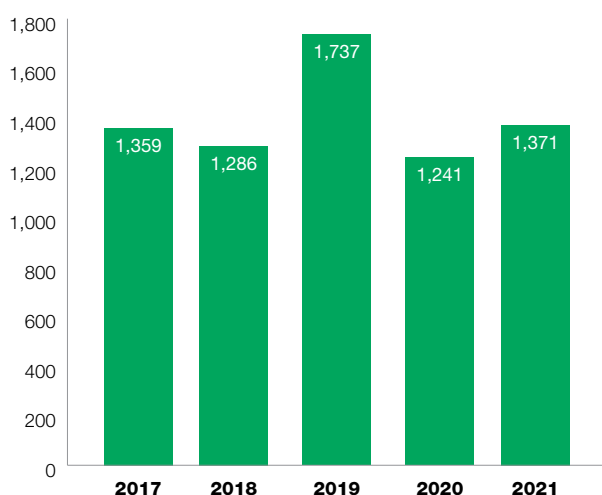
<sup>68</sup> GRI GS 303-2, 303-4

Total environmental load units (ELU) increased by 130 ELU or 9.5% compared to 2020 due to higher wastewater load at wastewater treatment plants. Water monitoring results at all sites in Slovenia were compliant with the requirements of environmental protection permits.

Study findings show that the proportion of active pharmaceutical ingredients discharged into water from the pharmaceutical industry is lower than the proportion of these substances released into the water by end users. Nevertheless, we supplemented this well-managed aspect of wastewater treatment with hazard assessments for the water environment for individual active pharmaceutical ingredients and other substances. Hazard assessment for the water environment is a part of a broad risk assessment. The method of treating wastewater, any additional measures and the procedure for handling waste are prescribed according to the calculated risks based on physico-chemical, ecotoxicological and toxicological data for each active pharmaceutical ingredient and data on the familiar water environment. We regularly control and update the calculations and use most recent research findings and other credible technical information in wastewater and waste management. Complex analytical methods for monitoring wastewater residue concentrations were developed with our external partners for several active pharmaceutical ingredients that present an increased environmental risk.

## Wastewater Management

Environmental load units (ELU)



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.

## Waste<sup>69</sup>

Waste management in Krka complies with the waste management plan, which considers legal requirements and sets out technical and organisational measures and waste management goals. We consider extended producer responsibility in common plans for managing waste medicines and packaging waste to ensure collection and appropriate processing of packaging materials and safe disposal of unused medicines by end users.

We comply with the legally prescribed waste management classification and consider the commitment to reduce environmental impacts, as set out in the environmental standard. The most important step in waste management is to prevent waste generation. This is achieved by downsizing pack units, improved technological procedures and production development, use of recovered solvents, pallet reuse, and many other measures. By downsizing pack units, we reduced the consumption of packaging materials by 18 tonnes and proportionally reduced the quantity of waste packaging and purchase costs in 2021.

Waste is an important source of raw materials and energy, so special attention is paid to separating waste at source, i.e. at the point where it is generated, and to preparing it for reuse. In doing so, we contribute to the circular economy. We have set up a separate waste collection system. All employees take part in the process. Our system relies on advanced equipment for separated collection, pressing and waste transportation. In 2021, we collected 495 tonnes of waste composites, accounting for a 14% increase compared to 2020. We handed them over to an authorised waste processing company, which recovered 180 tonnes of aluminium and 270 tonnes of plastic for further processing.

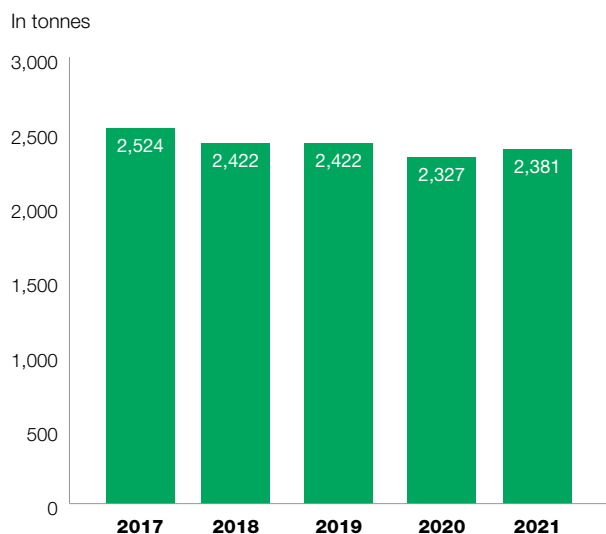
We achieved the set goals by constantly improving the waste management system and increasing the quantity of separately collected waste materials. We reduced the amount of waste disposed at landfills by 28 tonnes compared to 2020 despite an increase in production.

Risks related to the reception and removal of certain types of waste in Slovenia persisted in 2021. We diversified our waste management channels and extended cooperation to several waste collection and removal companies in Slovenia and abroad to manage the risks.

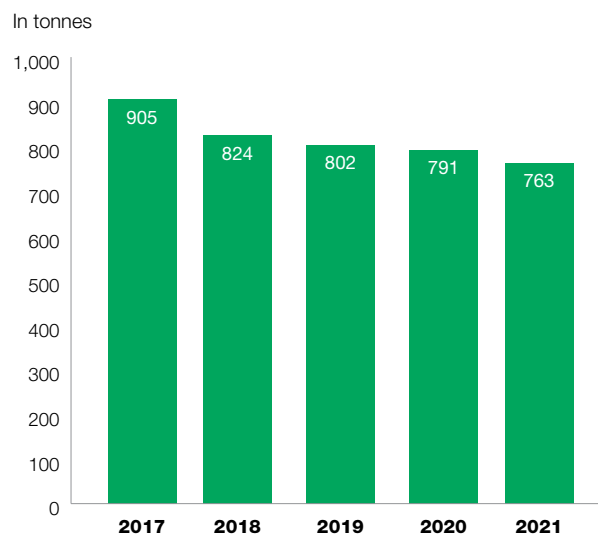
Good results can only be achieved if all employees work responsibly. To accomplish this, we provided our employees with regular waste management training.

<sup>69</sup> GRI GS 103-1, 103-2, 103-3, 306-1, 306-2

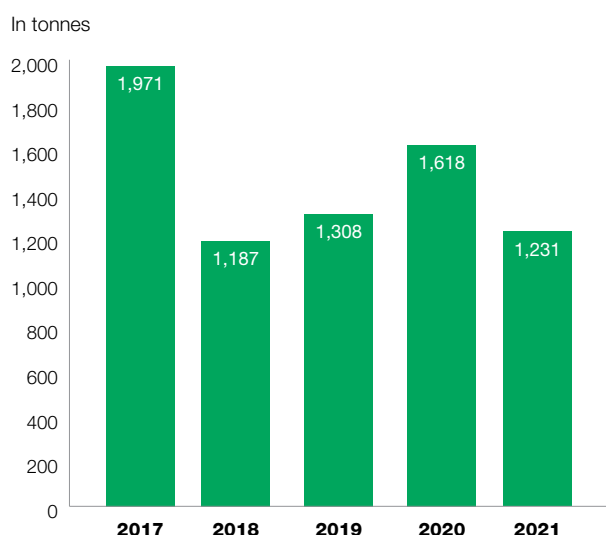
## Recyclable Waste<sup>70</sup>



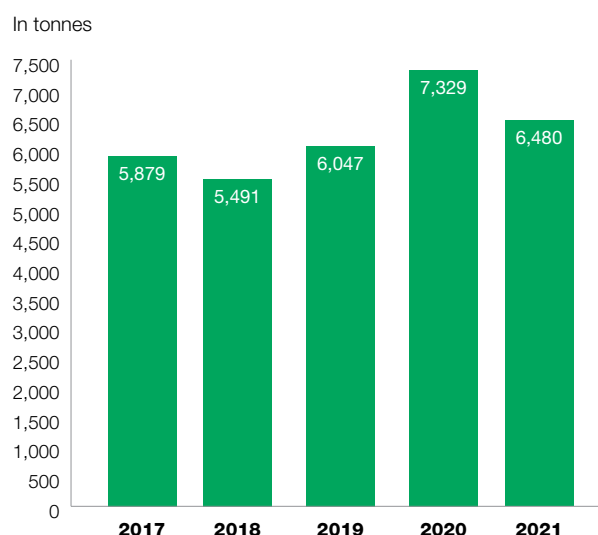
## Waste Disposed at Landfills



## Waste for Biological Processing<sup>71</sup>



## Waste for Incineration<sup>72</sup>



## Noise

According to the European Environment Agency (EEA) estimate, 20% of the European population is exposed to long-term health-damaging noise levels. Noise is, therefore, a key aspect of environmental protection in Slovenia. 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. Results of monitoring conducted by an authorised contractor in 2021 at all our sites in Slovenia confirm this.

## Air Emissions<sup>73</sup>

Air pollution by sulphur dioxide, nitrogen oxide, carbon monoxide, ozone and particulate matter greatly impacts our health and quality of life. Reduction of air emissions is, therefore, our environmental protection priority. We comply with the EU actions to implement the European Green Deal, legal requirements, and the strict requirements for the pharmaceutical industry to prevent any cross-contamination. We reduce air emissions with

<sup>70</sup> GRI GS 306-4 • <sup>71</sup> GRI GS 306-4 • <sup>72</sup> GRI GS 306-5 • <sup>73</sup> GRI GS 103-1, 103-2, 103-3

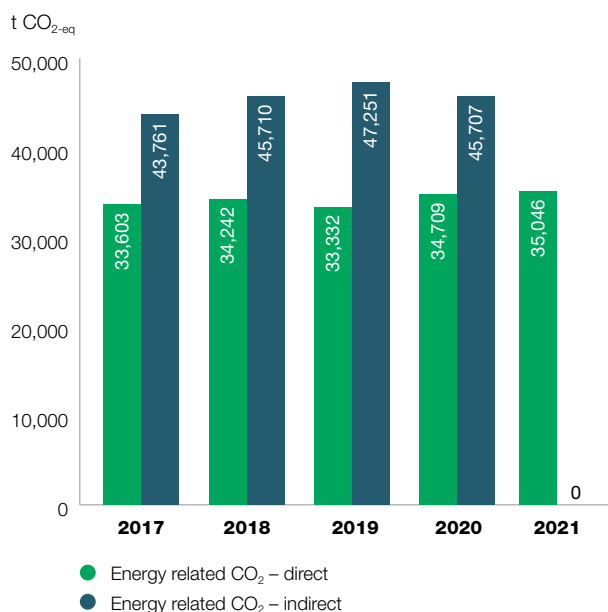


treatment systems fitted to all outlets that constitute a potential source of pollution. We use effective de-dusting systems, filters, wet-type filtration systems, condenser columns, and thermal oxidisers to keep air emissions below the legal threshold or the levels allowed for by the best available technology.

We remove organic compounds from waste air by advanced thermal oxidisers. In 2020, the third thermal oxidiser was installed at our production site in Ločna. In 2021 at our plant in Krško, we replaced an obsolete thermal oxidiser with an advanced high-capacity thermal oxidiser and upgraded the waste-air distribution system. The device will be started up in 2022.

Slovenia still has the problem of harmful and, at times, excessive air pollution with PM<sub>10</sub> particles and certain other pollutants, for example, PM<sub>2.5</sub> particles, nitrogen dioxide, ozone, and benzo(a)pyrene, which cause many health issues. At Krka, absolute air filtration is applied to all airborne particle emissions to remove all particulate matter, or at least over 99.7% of all particles. Our air emissions are not polluted by particulate matter and do not increase air pollution with PM<sub>10</sub> particles.

## Air Emissions<sup>74</sup>



We generate direct CO<sub>2</sub> emissions (Scope 1 under the Greenhouse Gas (GHG) Protocol) 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. Even though production increased, direct CO<sub>2</sub> emissions remained at similar levels as in 2020.

In 2021, all our energy consumers in Slovenia switched to zero-carbon energy sources. We made great progress in reducing our carbon footprint and neutralised indirect CO<sub>2</sub> emissions (Scope 2 under the GHG Protocol). Over the past few years, average indirect CO<sub>2</sub> emissions amounted to approximately 45,000 t CO<sub>2</sub>. We aim to reduce further total CO<sub>2</sub> emissions (Scope 1 and Scope 2 under the GHG Protocol) and maximise the carbon neutrality of our processes.<sup>75</sup>

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 universally present in our living environment. However, extended electric power grids and appliances also emit high-level electromagnetic radiation harmful to living organisms. We constantly follow relevant legislation and carry out required 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 comply with laws on electromagnetic radiation at our other production and business sites in Slovenia, even though there are no mobile phone base stations there, making them less intense energy-wise.

## Light Pollution

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 signboards and billboards are also illuminated. The astronomical clock regulates the automatic switching on and off of outdoor lighting, sign boards, and billboards. We separately measure electric power consumption for outdoor lighting at our major sites.

We are aware of the impact of light pollution. To address it, we responsibly started upgrading outdoor lighting six years ago and have essentially reduced total rated electric power over that time. In Ločna, Novo mesto, we replaced old lamps in 2015 and 2016, and recorded a 47% decrease in rated power. In 2021, total rated power for all

<sup>74</sup> GRI GS 305-1, 305-2 • <sup>75</sup> GRI GS 305-5

sites in Slovenia amounted to 25 kW or 17% less than in 2014 in Ločna alone.

## Environmental Protection at Krka's Subsidiaries

We incorporate the responsibility to our natural environment in various activities of our subsidiaries abroad, where we coordinate the environmental management systems according to the 'function-for-function' principle.

We transfer good environmental protection guidelines and 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 handed 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. Wastewater at Krka-Rus in the Russian Federation is treated at the in-house wastewater membrane biological wastewater treatment plant. Conceptual design for ramping up production capacities was prepared in 2021. The project includes an upgrade of the wastewater treatment plant. Wastewater from other production plants and companies is discharged to modern municipal wastewater treatment plants.

We install highly efficient absolute filtration devices on units emitting particulate matter to reduce emissions. We transfer good practices in the rational use of energy and water to subsidiaries. We upgraded the energy management system in our subsidiary Krka-Rus in the Russian Federation by additional energy flow meters and implemented data in Krka's energy management control system. We also launched the project on the installation of another glycol cooling tower to increase the capacity of the existing free cooling system and provide redundancy for critical components of the cooling system during the winter.

## Environmental Communication

We know that each employee can contribute to good environmental protection results. We, therefore, encourage them to constantly upgrade their knowledge and handle the environment with a high level of awareness. Our internal communication campaign Your Care for the Environment Counts promotes energy savings, print savings and separate waste collection.

In 2021, two articles on environmental protection were published in our internal magazine, the *Utrip*, while several notices and advice on environmental issues were published in our internal bulletin, the *Bilten*, and on internal web pages. We publish posts on environmental topics to mark Earth Day, World Water Day, and Earth Hour each year.

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* and courses on waste, wastewater, noise, air emissions, and light pollution. In 2021, 393 employees attended environment-related training courses. We transferred all environment-related content online as a response to the pandemic.

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 co-founders and active members of the Environment and Energy Section of the Dolenjska and Bela Krajina Chamber of Commerce and Industry. We work hand in hand with professional and scientific organisations in Slovenia and abroad.

Improvement of the environment also depends on good relationships with the stakeholders in the social environment, especially with our immediate neighbours, because we impact their living space and the quality of life. Every other year, we organise a traditional meeting for local residents. We provide them with information on our activities, performance, and plans related to environmental protection. These meetings help us maintain an open dialogue and exchange opinions. We learn what the locals think and consider this when planning environmental goals and programmes. The most recent meeting took place in 2019. The COVID-19 pandemic prevented us from organising the traditional meeting in 2021. Instead, we prepared an informative booklet *Utrip okolja*.

We have a formal complaint system in place. If members of the local community or our stakeholders have a complaint, a question or a suggestion related to environmental protection, they can send it to us via the system. Publicly available information on environmental protection and contact details are published on [www.krka.biz](http://www.krka.biz).

# Krka's Sustainable Development Indicators

ENVIRONMENTAL DATA		2021	2020	2019	2018	2017
<b>Water consumption (total)</b>	<b>m<sup>3</sup></b>	<b>1,461,024</b>	<b>1,623,046</b>	<b>1,399,303</b>	<b>1,341,333</b>	<b>1,588,474</b>
Drinking water	m <sup>3</sup>	643,965	684,950	613,919	655,837	644,577
River water	m <sup>3</sup>	817,059	938,096	785,384	685,496	943,897
<b>Energy (total)</b>	<b>GJ<sup>1</sup></b>	<b>953,366</b>	<b>969,833</b>	<b>956,577</b>	<b>961,319</b>	<b>935,484</b>
Electric power	GJ	330,453	344,957	356,610	344,983	330,274
Natural gas	GJ	601,041	604,287	580,048	595,739	588,121
Liquid petroleum gas	GJ	17,750	20,564	19,409	20,214	17,029
Fuel oil (extra light)	GJ	4,122	26	510	383	60
<b>Generated electric power – alternative sources (total)</b>	<b>GJ</b>	<b>53,337</b>	<b>48,294</b>	<b>39,482</b>	<b>46,909</b>	<b>46,014</b>
Solar power plant	GJ	266	280	252	223	258
Cogeneration	GJ	53,071	48,014	39,230	46,686	45,756
<b>Energy intensity</b>						
Specific use of energy	MJ/€	1.55	1.55	1.60	1.80	1.83
Specific use of energy	TJ/billion units	74.8	74.8	79.4	83.6	82.8
<b>Wastewater (total)<sup>76</sup></b>	<b>m<sup>3</sup></b>	<b>1,266,494</b>	<b>1,388,829</b>	<b>1,225,003</b>	<b>1,150,578</b>	<b>1,376,629</b>
Cooling water	m <sup>3</sup>	407,807	517,090	392,490	298,137	509,091
Industrial wastewater	m <sup>3</sup>	858,687	871,739	832,513	852,441	867,538
– Suspended solids load	t	11.8	10.3	23.9	16.1	24.3
– Biochemical oxygen demand	t	3.1	7.0	6.9	5.0	5.8
– Chemical oxygen demand	t	41.4	42.1	57.5	38.4	43.6
– Nitrogen	t	5.1	2.9	4.9	4.8	3.9
– Phosphorus	t	0.7	0.6	0.7	0.6	0.6
Environmental load units (ELU) <sup>2</sup>	ELU	1,371	1,241	1,737	1,286	1,359
<b>Waste (total)</b>	<b>t</b>	<b>11,369</b>	<b>12,512</b>	<b>11,091</b>	<b>10,312</b>	<b>11,541</b>
<b>Hazardous waste (total)</b>	<b>t</b>	<b>6,480</b>	<b>7,329</b>	<b>6,047</b>	<b>5,491</b>	<b>5,879</b>
Solid waste	t	808	889	789	670	718
Liquid waste	t	5,672	6,440	5,258	4,821	5,161
<b>Non-hazardous waste (subtotal)</b>	<b>t</b>	<b>4,889</b>	<b>5,183</b>	<b>5,044</b>	<b>4,821</b>	<b>5,662</b>
Disposal at landfills (subtotal)	t	763	791	802	824	905
Composites (energy use and processing)	t	495	427	489	371	246
Biomass (composting)	t	1,231	1,618	1,308	1,187	1,971
Recycling waste (total)	t	2,381	2,327	2,422	2,422	2,524
– Paper	t	1,243	1,273	1,221	1,191	1,097
– Plastics	t	421	380	401	432	392
– Glass	t	110	135	136	125	132
– Metal	t	186	150	239	201	193
– Wood	t	421	389	425	473	710
Electric and electronic equipment	t	19	20	23	17	16
<b>Air emissions<sup>77</sup></b>						
Energy related CO <sub>2</sub> – direct	t CO <sub>2</sub> -eq <sup>3</sup>	35,046	34,709	33,332	34,242	33,603
Energy related CO <sub>2</sub> – indirect	t CO <sub>2</sub> -eq <sup>3</sup>	0	45,707	47,251	45,710	43,761
Energy related SO <sub>2</sub>	t	1	1	1	1	1
Energy related NO <sub>x</sub>	t	28	27.9	26.8	27.6	27
Ozone-depleting substances and fluorinated greenhouse gases	t CO <sub>2</sub> -eq <sup>3</sup>	1,277	2,501	1,744	1,954	2,267
<b>Compliance</b>						
Extraordinary events related to environment		0	0	0	3	0
<b>Environmental protection (total)</b>	<b>€ thousand</b>	<b>11,599</b>	<b>10,056</b>	<b>7,672</b>	<b>6,738</b>	<b>6,585</b>
Environmental protection costs	€ thousand	6,258	6,357	5,517	5,107	4,882
Investments in environmental programmes	€ thousand	5,301	3,699	2,155	1,631	1,703

<sup>76</sup> GRI GS 306-3 • <sup>77</sup> GRI GS 305-7

SOCIETY		2021	2020	2019	2018	2017
<b>Number of employees</b>		<b>6,228</b>	<b>6,191</b>	<b>5,907</b>	<b>5,496</b>	<b>5,020</b>
Slovenia		5,690	5,679	5,386	4,995	4,514
Representative offices abroad		538	512	521	501	506
<b>Health and safety</b>						
Number of accidents		27	21	27	18	27
Lost time injury frequency rate (LTIFR)		2.4	2.3	2.8	1.9	3.3
Proportion of disabled employees	%	5.0	4.9	5.3	5.4	5.5
<b>Education and training</b>						
Number of education and training hours	hour/employee	27	32	41	42	42
Education and training costs	€/employee	603	667	897	881	862

<sup>1</sup> The calculation of GJ was based on net calorific values published on the website of the Slovenian Environment Agency.

<sup>2</sup> 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).

<sup>3</sup> The calculation of tonnes of CO<sub>2</sub> was based on the emission factors published on the website of the Slovenian Environment Agency.

# GRI GS (Global Standards) Content Index

This report has been prepared in accordance with the GRI Standards: Core option

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103-1 103-2 103-3	Explanation of the material topic and its boundaries	190	Biodiversity	
304-2	Significant impacts of activities, products, and services on biodiversity	190	Biodiversity	
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	190	Biodiversity	
<b>GRI 305: Emissions 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	193–194	Air Emissions	
305-1	Direct (Scope 1) GHG emissions	194	Air Emissions	
305-2	Energy indirect (Scope 2) GHG emissions	194	Air Emissions	
305-5	Reduction of GHG emissions	194	Air Emissions	
305-7	Nitrogen oxides (NO <sub>x</sub> ), sulfur oxides (SO <sub>x</sub> ), and other significant air emissions	194	Krka's Sustainable Development Indicators	
<b>GRI 306: Waste 2020</b>				
103-1 103-2 103-3 306-1	Waste generation and significant waste-related impacts	192	Waste	
306-2	Management of significant waste-related impacts	192	Waste	
306-3	Waste generated	196	Krka's Sustainable Development Indicators	
306-4	Waste diverted from disposal	193	Waste	
306-5	Waste directed to disposal	193	Waste	
<b>GRI 307: Environmental Compliance 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	185	Natural Environment	
307-1	Non-compliance with environmental laws and regulations	186	Natural Environment	

SPECIFIC STANDARD DISCLOSURES				
Management approach and disclosures	Material topics	Page	Chapter	Limitations/notes
<b>SOCIAL</b>				
<b>GRI 401: Employment 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	168	Employees	
401-1	New employee hires and employee turnover	169	Employees	Data capturing includes employee turnover at the Krka Group level.
401-3	Parental leave	174	Health and Safety at Work	Data capturing includes the share of employees who took parental leave.
<b>GRI 403: Occupational Health and Safety 2018</b>				
403-1	Occupational health and safety management system	173–174	Health and Safety at Work	
403-2	Hazard identification, risk assessment, and incident investigation	173–174	Health and Safety at Work	
403-3	Occupational health services	173–174	Health and Safety at Work	
403-4	Worker participation, consultation, and communication on occupational health and safety	173–174	Health and Safety at Work	
403-5	Worker training on occupational health and safety	173–174	Health and Safety at Work	
403-6	Promotion of worker health	173–174	Health and Safety at Work	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	173–174	Health and Safety at Work	
403-9	Work-related injuries	174	Health and Safety at Work	
<b>GRI 404: Training and Education 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	170	Employee Education and Development	
404-1	Average hours of training per year per employee	170	Employee Education and Development	Data capturing does not include breakdown by gender and employee category.
404-3	Percentage of employees receiving regular performance and career development reviews	170	Employee Education and Development	
<b>GRI 405: Diversity and Equal Opportunity 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	168	Employees	
405-1	Diversity of governance bodies and employees	50–51 51 168–169	Composition of the Supervisory Board of Krka as at 31 December 2021 Composition of the Board of Management of Krka as at 31 December 2021 Employees	Data capturing includes categorisation by gender and education.
<b>GRI 406: Non-Discrimination 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	47	Management Approach to Non-Discrimination	
406-1	Incidents of discrimination and corrective actions taken	47	Management Approach to Non-Discrimination	
<b>GRI 412: Human Rights Assessment 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	47	Human Rights in Business Operations	
412-2	Employee training on human rights policies or procedures	170	Employee Education and Development	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	47	Human Rights in Business Operations	

SPECIFIC STANDARD DISCLOSURES				
Management approach and disclosures	Material topics	Page	Chapter	Limitations/notes
<b>GRI 413: Local Communities 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	185	Natural Environment	
413-1	Operations with local community engagement, impact assessments, and development programs	186	Natural Environment	
<b>GRI 414: Supplier Social Assessment 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	149	Supply Process	
414-1	New suppliers that were screened using social criteria	149	Supply Process	Data capturing includes the number of assessments by all criteria.
<b>GRI 415: Public Policy 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	47	Contributions and Other Financial Commitments	
415-1	Political contributions	47	Contributions and Other Financial Commitments	
<b>GRI 416: Customer Health and Safety 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	155–157	Integrated Management System and Quality	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	155–157	Integrated Management System and Quality	
<b>GRI 417: Marketing and Labeling 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	176	Patients and Other Customers	
417-1	Requirements for product and service information and labeling	176	Patients and Other End Users	
417-2	Incidents of non-compliance concerning product and service information and labeling	176	Patients and Other End Users	
417-3	Incidents of non-compliance concerning marketing communications	176	Patients and Other End Users	
<b>GRI 418: Customer Privacy 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	177	Health Professionals, Healthcare Providers and Direct Customers	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	177	Health Professionals, Healthcare Providers and Direct Customers	
<b>GRI 419: Socioeconomic Compliance 2016</b>				
103-1 103-2 103-3	Explanation of the material topic and its boundaries	177	Health Professionals, Healthcare Providers and Direct Customers	
419-1	Non-compliance with laws and regulations in the social and economic area	178	Health Professionals, Healthcare Providers and Direct Customers	

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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 referred to as: 'the Company'). The financial statements have been prepared in compliance with the *International Financial Reporting Standards* (hereinafter referred to as: '*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 2021 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 in a manner that gives the interested public a true and fair view of the financial position and the results of operations of the Company and its subsidiaries in 2021.

The Management Board hereby acknowledges as follows:

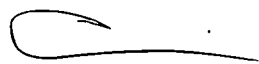
- The financial statements of the Company and its subsidiaries have been prepared on a going concern basis.
- The selected accounting policies are applied consistently and any changes in accounting policies have been reported.
- The accounting estimates have been prepared in a fair and reasonable manner and are in compliance with the principles of prudence and due diligence.
- The financial statements and the Notes thereto for the Company and the Krka Group have been prepared in accordance with the applicable legislation and the *IFRS*, as adopted by the 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.

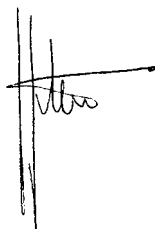
The tax authorities may, at any time within a period of five years after the end of the year for which tax assessment was due, carry out the audit of the Company operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regard to corporate income tax or other taxes and levies. The Management Board is not aware of any circumstances that may result in a significant tax liability.

Novo mesto, 28 March 2022

Management Board  
Krka, d. d., Novo mesto



Jože Colarič  
*President of the Management Board and CEO*



Dr Aleš Rotar  
*Member of the Management Board*



Dr Vinko Zupančič  
*Member of the Management Board*



David Bratož  
*Member of the Management Board*



Milena Kastelic  
*Member of the Management Board, Worker Director*

# Consolidated Financial Statements of the Krka Group

## Consolidated Statement of Financial Position

€ thousand	Notes	31 Dec 2021	31 Dec 2020	Index 2021/20
<b>Assets</b>				
Property, plant and equipment	12	774,352	807,824	96
Intangible assets	13	104,301	107,371	97
Loans	14	40,300	15,376	262
Investments	15	108,883	10,420	1,045
Deferred tax assets	16	46,883	48,969	96
Other non-current assets		1,028	1,038	99
<b>Total non-current assets</b>		<b>1,075,747</b>	<b>990,998</b>	<b>109</b>
Assets held for sale		41	41	100
Inventories	17	455,707	453,690	100
Contract assets		1,214	1,644	74
Trade receivables	18	467,764	383,560	122
Other receivables	18	29,564	27,768	106
Loans	14	192,360	54,774	351
Investments	15	155,448	9,499	1,636
Cash and cash equivalents	19	159,838	313,568	51
<b>Total current assets</b>		<b>1,461,936</b>	<b>1,244,544</b>	<b>117</b>
<b>Total assets</b>		<b>2,537,683</b>	<b>2,235,542</b>	<b>114</b>
<b>Equity</b>				
Share capital	20	54,732	54,732	100
Treasury shares	20	-114,541	-99,279	115
Reserves	20	145,077	103,595	140
Retained earnings	20	1,819,937	1,684,285	108
<b>Total equity holders of the controlling company</b>		<b>1,905,205</b>	<b>1,743,333</b>	<b>109</b>
Non-controlling interests	20	13,880	8,479	164
<b>Total equity</b>		<b>1,919,085</b>	<b>1,751,812</b>	<b>110</b>
<b>Liabilities</b>				
Provisions	22	126,153	134,686	94
Deferred revenue	23	6,875	7,804	88
Trade payables	24	10,000	10,006	100
Lease liabilities	28	8,724	9,121	96
Deferred tax liabilities	16	10,922	11,179	98
<b>Total non-current liabilities</b>		<b>162,674</b>	<b>172,796</b>	<b>94</b>
Trade payables	24	130,011	107,116	121
Lease liabilities	28	3,433	2,712	127
Income tax payables		7,023	15,748	45
Contract liabilities	25	124,730	106,299	117
Other current liabilities	26	190,727	79,059	241
<b>Total current liabilities</b>		<b>455,924</b>	<b>310,934</b>	<b>147</b>
<b>Total liabilities</b>		<b>618,598</b>	<b>483,730</b>	<b>128</b>
<b>Total equity and liabilities</b>		<b>2,537,683</b>	<b>2,235,542</b>	<b>114</b>

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	2021	2020	Index 2021/20
<b>Revenue</b>		<b>1,565,802</b>	<b>1,534,941</b>	<b>102</b>
– Revenue from contracts with customers	5	1,562,266	1,531,674	102
– Other revenue		3,536	3,267	108
Cost of goods sold		-674,594	-623,616	108
<b>Gross profit</b>		<b>891,208</b>	<b>911,325</b>	<b>98</b>
Other operating income	6	11,376	10,495	108
Selling and distribution expenses		-305,870	-291,203	105
– Of that net impairments and write-offs of receivables		-1,048	3,206	
R&D expenses		-154,559	-153,447	101
General and administrative expenses		-87,367	-86,426	101
<b>Operating profit</b>		<b>354,788</b>	<b>390,744</b>	<b>91</b>
Financial income	10	19,711	23,259	85
Financial expenses	10	-12,082	-75,011	16
<b>Net financial result</b>		<b>7,629</b>	<b>-51,752</b>	
<b>Profit before tax</b>		<b>362,417</b>	<b>338,992</b>	<b>107</b>
Income tax	11	-54,267	-50,043	108
<b>Net profit</b>		<b>308,150</b>	<b>288,949</b>	<b>107</b>
Attributable to:				
– Equity holders of the controlling company		309,214	290,995	106
– Non-controlling interests		-1,064	-2,046	52
<b>Basic earnings per share (€)</b>	<b>21</b>	<b>9.92</b>	<b>9.27</b>	<b>107</b>
<b>Diluted earnings per share (€)</b>	<b>21</b>	<b>9.92</b>	<b>9.27</b>	<b>107</b>

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	2021	2020	Index 2021/20
<b>Net profit</b>		<b>308,150</b>	<b>288,949</b>	<b>107</b>
<b>Other comprehensive income for the year</b>				
<b>Other comprehensive income reclassified to profit or loss at a future date</b>				
Translation reserve	20	14,503	-43,726	
<b>Net other comprehensive income reclassified to profit or loss at a future date</b>		<b>14,503</b>	<b>-43,726</b>	
<b>Other comprehensive income that will not be reclassified to profit or loss at a future date</b>				
Change in fair value of financial assets		5,441	739	736
Restatement of post-employment benefits	22	6,759	-11,271	
Deferred tax effect		-1,622	873	
<b>Net other comprehensive income that will not be reclassified to profit or loss at a future date</b>		<b>10,578</b>	<b>-9,659</b>	
<b>Total other comprehensive income of the year (net of tax)</b>		<b>25,081</b>	<b>-53,385</b>	
<b>Total comprehensive income of the year (net of tax)</b>		<b>333,231</b>	<b>235,564</b>	<b>141</b>
Attributable to:				
– Equity holders of the controlling company		333,030	237,689	140
– Non-controlling interests		201	-2,125	

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		
			Reserves for treasury shares	Share premium	Legal reserves
<b>At 1 Jan 2021</b>	<b>54,732</b>	<b>-99,279</b>	<b>99,279</b>	<b>105,897</b>	<b>14,990</b>
<b>Net profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total other comprehensive income of the year</b> (net of tax)	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total comprehensive income of the year</b> (net of tax)	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total transactions with owners, recognised in equity</b>					
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	-15,262	0	0	0
Formation of reserves for treasury shares	0	0	15,262	0	0
Dividends paid	0	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0	0
<b>Total transactions with owners, recognised in equity</b>	<b>0</b>	<b>-15,262</b>	<b>15,262</b>	<b>0</b>	<b>0</b>
<b>At 31 Dec 2021</b>	<b>54,732</b>	<b>-114,541</b>	<b>114,541</b>	<b>105,897</b>	<b>14,990</b>

The accompanying Notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

€ thousand	Share capital	Treasury shares	Reserves		
			Reserves for treasury shares	Share premium	Legal reserves
<b>At 1 Jan 2020</b>	<b>54,732</b>	<b>-73,774</b>	<b>73,774</b>	<b>105,897</b>	<b>14,990</b>
<b>Net profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total other comprehensive income of the year</b> (net of tax)	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total comprehensive income of the year</b> (net of tax)	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Transactions with owners, recognised in equity</b>					
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	-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
<b>Total transactions with owners, recognised in equity</b>	<b>0</b>	<b>-25,505</b>	<b>25,505</b>	<b>0</b>	<b>0</b>
<b>At 31 Dec 2020</b>	<b>54,732</b>	<b>-99,279</b>	<b>99,279</b>	<b>105,897</b>	<b>14,990</b>

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	-35,059	-111,512	1,280,090	138,705	265,490	1,743,333	8,479	1,751,812
0	0	0	0	0	309,214	309,214	-1,064	308,150
0	12,982	13,238	0	-2,404	0	23,816	1,265	25,081
0	12,982	13,238	0	-2,404	309,214	333,030	201	333,231
0	0	0	90,812	-90,812	0	0	0	0
0	0	0	0	265,490	-265,490	0	0	0
0	0	0	0	0	0	-15,262	0	-15,262
0	0	0	0	0	-15,262	0	0	0
0	0	0	0	-155,896	0	-155,896	0	-155,896
0	0	0	0	0	0	0	5,200	5,200
0	0	0	90,812	18,782	-280,752	-171,158	5,200	-165,958
30,000	-22,077	-98,274	1,370,902	155,083	293,952	1,905,205	13,880	1,919,085

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

## Consolidated Statement of Cash Flows

€ thousand	Notes	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net profit</b>		<b>308,150</b>	<b>288,949</b>
<b>Adjustments for:</b>		<b>176,925</b>	<b>135,729</b>
– Amortisation/Depreciation	12, 13	108,837	111,688
– Foreign exchange differences		4,828	-19,263
– Investment income		-5,699	-24,076
– Investment expenses		13,199	15,504
– Interest expenses and other financial expenses		1,532	1,975
– Financial income		-39	-142
– Income tax	11	54,267	50,043
<b>Operating profit before changes in net current assets</b>		<b>485,075</b>	<b>424,678</b>
Change in trade receivables		-83,704	55,699
Change in inventories	17	-2,017	-32,112
Change in trade payables	24	45,164	-33,681
Change in provisions		-2,647	1,572
Change in deferred revenue		-929	-905
Change in other current liabilities		9,484	-892
Income tax paid		-64,329	-53,600
<b>Net cash flow from operating activities</b>		<b>386,097</b>	<b>360,759</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		718	2,144
Dividends received		668	575
Proceeds from sale of property, plant and equipment		3,700	516
Purchase of property, plant and equipment	12	-65,914	-74,806
Purchase of intangible assets	13	-6,213	-6,017
Acquisition of subsidiaries and a share of minority interests net of financial assets acquired		0	-5
Net payments for non-current loans		-25,235	-4,558
Net payments for current loans		-137,277	-22,857
Net payments for non-current investments		-92,114	-554
Net payments for current investments		-42,513	-6,801
Net payments for/proceeds from derivatives		-8,457	2,769
<b>Net cash flow from investing activities</b>		<b>-372,637</b>	<b>-109,594</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Interest paid		-366	-247
Net payments for current borrowings		0	-3
Lease liabilities paid	28	-3,515	-3,086
Dividends and other profit shares paid	29	-155,907	-133,283
Repurchase of treasury shares	29	-15,262	-25,505
Proceeds from payment of non-controlling interests		5,200	7,515
<b>Net cash flow from financing activities</b>		<b>-169,850</b>	<b>-154,609</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>-156,390</b>	<b>96,556</b>
Cash and cash equivalents at beginning of year		313,568	218,667
Effect of foreign exchange rate fluctuations on cash held		2,660	-1,655
<b>Closing balance of cash and cash equivalents</b>		<b>159,838</b>	<b>313,568</b>

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 registration number: 5043611000.

The consolidated financial statements for the year ended 31 December 2021 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 'Profile of the Krka Group'.

The Krka Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health resorts and tourist services.

## 1. Basis of preparation

### Statement of compliance

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') adopted by the European Union, and in compliance with the *Companies Act (ZGD-1)*.

The consolidated financial statements were approved by the Krka Management Board on 28 March 2022.

### 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 2 'Fair Value'.

### Functional and reporting currency

The consolidated financial statements are presented in the euro, which is Krka's functional currency. All financial information presented in the euro has been rounded to the nearest thousand.

### Use of estimates and judgements

The preparation of financial statements requires the Management Board of the controlling company to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities of the Krka Group, as well as the reported income and expenses for the period.

Management estimates include among others: determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; revenue from contracts with customers, allowances made for inventories and receivables; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of provisions for lawsuits, as well as assumptions and estimates relating to impairment of goodwill and TAD Pharma trademark, the assumptions and estimates for the impairment testing of the Terme Krka cash-generating unit, and the estimate of the lease term and the interest rate used. Regardless of the fact that the Management Board of the managing company duly considers all factors that may impact the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, management makes judgements while considering potential changes in the business environment, new business events, new and additional information that may be available, as well as experience. 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 12 '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 a 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 may be subject to payment terms in excess of one year in certain markets. Krka recognises financial income and expenses on these sales using the appropriate discount rate.

- Note 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 the Note.

- 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'

Lawsuits and claims may be brought against individual companies in the Krka Group for alleged breaches of intellectual property (patent rights or competition law) and those referring to other civil law areas. A provision is recognised when a 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 assesses contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If this is the case, a provision is recognised in the financial statements of the period in which the change in probability occurs.

- 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 estimated bond yield if the Krka Group were to incur debt on the financial markets, depending on the maturity of the contract.

## 2. Significant accounting policies

The Krka Group applied the same accounting policies in all periods presented in the accompanying consolidated financial statements.

Accounting policies applied by subsidiaries have been changed where necessary and adjusted with policies applied by the Group.

The accounting policies and the calculation methods used are the same as for the last annual reporting, except for the 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 2021

### *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase Two*

The International Accounting Standards Board (IASB) published phase two 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 to respond to the effects of Interbank Offered Rates (IBOR). The amendments introduce a temporary exemption for reporting the financial effects of replacing the interbank offered rates (IBOR) with an alternative nearly risk-free interest rate (RFR). They provide a practical expedient to companies when accounting for modification in the basis for determining the contractual cash flows of a financial asset and liability, where an entity is required to adjust the effective interest rate that is equivalent to the fluctuation of the market interest rates. In addition, they provide entities with certain relief from discontinuing hedge accounting, including a temporary exemption from the requirement of differentiation for hedging relationships in which an alternative interest rate reference has been specified as a non-contractually determined risk component.

### *Amendments to IFRS 7 – Financial Instruments*

Amendments require entities to make appropriate disclosures to enable the financial statement users to understand the effect of the interest rate benchmark reform on their financial instruments and risk management strategy. The entity must apply the amendments retrospectively, without restatement of prior period data. 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 16 Leases – COVID-19-Related Rent Concessions after 30 June 2021*

The amendments are effective for annual periods beginning on or after 1 April 2021 and must be applied retrospectively, with early application permitted even in financial statements that were not authorised for issue at the date of the amendments. In March 2021, the IASB amended the conditions for applying the practical expedient in *IFRS 16*, which allows a lessee not to treat lease rent adjustments that arise as a direct result of the COVID-19 pandemic under the guidance in the standard *IFRS 16*. An entity may obtain practical expedient relief from the treatment of a rent concession where the individual rent reduction affects only payments that would have been originally due on or before 30 June 2022, and provided that all the conditions for applying the practical expedient are met. The Krka Group applied the amendments on 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 controlling company'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. 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.

More detailed presentation of the effects of the merger are disclosed in Notes to the separate financial statements of the controlling company Krka for the previous year.

## 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.

## Fair value

A number of the Krka Group's accounting policies and disclosures require the determination of fair value for both, financial and non-financial assets and liabilities.

Fair value is the amount for which an asset could be sold or a liability exchanged in a regular transaction between market participants. All assets and liabilities measured and disclosed at their fair value in financial statements are classified in the fair value hierarchy on the basis of lowest level of input data significant for measurements of total fair value:

- Level 1 – market value (unadjusted) from the active market for similar assets and liabilities;
- Level 2 – valuation model, which is not classified in level 1, is valued directly or indirectly on the basis of comparable market data;
- Level 3 – valuation model which is not based on the market data.

Fair 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.

## Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss and at fair value through OCI is determined by reference to their quoted closing bid price. For investment in debt securities at amortised cost, for reporting purposes the fair value is calculated on the basis of the closing rate, which is increased by accrued interest on the reporting date.

## Trade and other receivables

Fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest effective at the reporting date.

## Financial liabilities

Fair value is determined based on the present value of future principal and interest payments discounted at the market rate of interest prevailing at the reporting date.

## Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## Financial assets

Financial assets of the Krka Group include cash and cash equivalents, receivables and loans and investments.

## 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.

The Krka Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to the contractual cash flows from the financial asset in a transaction that transfers all the risks and rewards of ownership of the financial asset.

## Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

### Financial assets at amortised cost (debt instruments)

Cash and cash equivalents comprise cash, bank deposits up to three months, and other current, highly realisable investments with an original maturity of three months or less. The latter can be easily converted into known amounts of cash and for which the risk of changes in value is insignificant. The cash flows derived from these assets are solely payments of the principal and interest are therefore classified as financial assets at amortised cost.

According to the SSPI test, loans issued by the 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.

Krka's investments in debt securities, which include only low credit risk government bonds, are classified as financial assets at amortised cost.

The Group's financial assets at amortised cost also include trade receivables.

After initial recognition, these investments are measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

### Financial assets at fair value through OCI (debt instruments)

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 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.

Impairment of financial assets is described in the 'Impairment – financial assets' section.

## Financial liabilities

Financial liabilities consist mainly of loans, payables to suppliers and other liabilities. Lease liabilities and employee benefits are treated separately (see accounting policies in sections 'Leases' and 'Employee Benefits'). All other financial liabilities are initially recognised on the trade date or when the Krka Group becomes a contracting party in relation to the instrument. On initial recognition, the Krka Group classifies non-derivative financial liabilities as subsequently measured at amortised cost and derivative financial liabilities as at fair value through profit or loss. After initial recognition, financial liabilities arising from loans are measured using the effective interest method. Gains and losses are recognised in profit or loss when these liabilities are discharged or modified. The Krka Group derecognises a financial liability if the obligations set out in the contract are fulfilled, cancelled or expired.

## Property, plant and equipment

The items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (refer to the accounting policy *Impairment*).

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 of 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.

## 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 estimated bond returns if it were to incur debt on the financial markets, while considering their maturity if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. 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.

## 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 of 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. The Krka Group reviews the net realisable value of inventories once a year at the financial position date. If the carrying amount of inventories exceeds their net realisable value, inventories are impaired.

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).

### Impairments of receivables and assets from contracts

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Trade receivables that do not contain a significant financing component or for which the Krka 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.

### Impairment of investments

For investments that include government bonds measured at amortised cost, the Group measures expected credit losses annually. If there has been a significant increase in credit risk since recognition, the Group recognises an allowance over the life of the expected credit loss.

### 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.

## Share capital

### Repurchase of treasury shares

When treasury shares recognised as a part of share equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

### Dividends

Dividends are recognised in the Krka Group's consolidated financial statements in the period in which they are declared by the Annual General Meeting.

## Current employee benefits

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

## Non-current employee benefits

### Provisions for post-employment benefits and other non-current employee benefits

Pursuant to the local legislation of countries where the controlling company and subsidiaries are located, the Krka Group is liable to pay to its employees' anniversary bonuses and termination benefits upon retirement. Provisions are set aside for these obligations.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is performed using the projected unit credit method. Employee benefit costs, as well as cost of interest, are recognised in profit or loss, whereas restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in other comprehensive income.

## Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

## Provisions for disputes

The Group discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of a favourable or unfavourable outcome of the lawsuit is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

## Revenue from contracts with customers

The Krka Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health resorts 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 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 products sold) is also recognised for the right to recover products from a customer.

### Bonuses and volume rebates

The Group provides retrospective bonuses and volume rebates to certain customers once the quantity or value of products or services purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group considers the terms and conditions of the contract, including criteria and elements that provide the basis for the recognition of bonuses and volume rebates.

For valuation, Krka Group uses the most probable value method or the expected value method. The method chosen, which best predicts the value of the rebates and volume discounts, is based on the number of thresholds in the contract.

In addition to discounts available to end customers, the Krka Group also grants discounts for public procurement to countries, ministries, or insurance companies in individual countries, based on the agreed tender conditions or contractual provisions and the actual sales orders realised.



Disclosures about the use of estimates and judgements in estimating variable consideration are provided in the 'Basis of preparation of the financial statements' section.

## Significant financing component

In some cases, the Group receives current advances from its customers. Using the practical expedient in *IFRS 15.63*, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised goods or services to the customer and when the customer pays for those goods or services will be one year or less.

## Contract balances

### Contract assets

A contract asset is the right to an amount of consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or payment is due, a contract asset is recognised for the earned consideration that is conditional. Once the transaction is completed and the customer is confirmed, the contract assets are reclassified as trade receivables.

### Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional, i.e. only the passage of time is required before payment of consideration is due. Refer to the accounting policy *Recognition of financial instruments*.

### Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the goods or services are transferred to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

### Right-of-return assets

Right-of-return assets represent the Group's right to recover the goods expected to be returned by customers.

The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of returned goods. The Group regularly updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

### Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable from the customer). The refund liability arises from bonuses and volume discounts. It is measured at the amount the Group ultimately expects it will have to return to the customer.

The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

## 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).

Revenue generated by individual segments of the Krka Group are presented in terms of customers' geographical location. The data are calculated on the basis of revenue and expenses, assets and liabilities directly attributable to each Krka Group market. Eliminations relate to transactions between the controlling company and subsidiaries and to transactions between subsidiaries themselves.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

## Amendments to standards and interpretations issued but not yet effective

The following new and amended standards have not come into effect by the date of the financial statements and will be applied in future periods. The 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 by an entity when a transaction involves assets that do not constitute the entity's 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 and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

### *Amendments to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current*

The amendments were initially effective for annual periods beginning on or after 1 January 2022. Early adoption was 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 help promoting 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; however, they 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.

In November 2021, the IASB published an Exposure Draft (ED) that clarifies how an entity treats liabilities that are subject to commitments that are due to be fulfilled at a date after the reporting period.

In particular, the Board proposes a limited scope of amendments to *IAS 1* that effectively repeal the 2020 amendments that require an entity to classify the liabilities to which the commitments are linked as current liabilities that it is not required to meet until within the next twelve months after the reporting period if it is not meeting them at the end of the reporting period.

Instead, the proposed amendments require an entity to present separately and make additional disclosures about any non-current liabilities, to which the commitments are linked that it is not required to meet until within the next twelve months after the reporting period if it is not meeting them at the end of the reporting period.

The proposed amendments are effective for annual periods beginning on or after 1 January 2024 and, in accordance with the requirements of *IAS 8*, an entity shall apply them retrospectively. Early adoption is permitted. At the same time, the Management Board has proposed to postpone the entry into force of the amendments from 2020, which means that companies do not need to change their existing practices before the proposed amendments enter into force. The EU has not yet endorsed the updates to the standard and the drafts for public consultation. 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 management has assessed the impact of the amendments and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

*Amendments to IAS 1 – Presentation of Financial Statements and Note 2 to IFRS – Disclosure of Accounting Policies*

The amendments are effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted. The amendments provide guidance for assessing materiality in the disclosure of accounting policies and replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. At the same time, the Note provides guidance and illustrative examples to assist in applying the concept of materiality in assessing disclosures about accounting policies. The amendment has 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 IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors Definition of accounting estimates*

The amendments are effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted. They address changes in accounting policies and accounting estimates at the beginning of the period or subsequently and define accounting estimates as monetary amounts in the financial statements that have measurement uncertainty associated with them. They also explain what changes in accounting estimates are and how they differ from changes in accounting policies and corrections of errors. The amendment has 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 IAS 12 – Income Taxes: Deferred Tax related to Assets and Liabilities from a single transaction*

The amendments are effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted. In May 2021, the IASB issued amendments to IAS 12 to restrict the application of the initial recognition exemption under IAS 12 and to specify how an entity should account for deferred tax on certain transactions, such as leases and decommissioning liabilities. Under the amendments, the exemption does not apply to transactions for which the taxable amount at initial recognition is equal to the amount of deductible temporary differences. The exception applies only if, on recognition of the leased asset and the related liability (or the liability in connection with the decommissioning and decommissioning of a component of the asset), the taxable amount is not equal to the amount of the deductible temporary differences. The amendment has so far not been endorsed by the EU. The management has assessed the impact of the amendments and believes they will have no impact on the consolidated financial statements of the Krka Group.

## 4. Segment reporting

The Krka Group reports in terms of certain geographical segments. Revenue generated by individual segments are presented in terms of customers' geographical location. The data are calculated on the basis of revenue and expenses, assets and liabilities directly attributable to each Krka Group market. Eliminations relate to transactions between the controlling company and subsidiaries and to transactions between subsidiaries themselves.

### Segment reporting

	European Union		South-Eastern Europe	
€ thousand	2021	2020	2021	2020
<b>Revenue from external customers</b>	<b>851,210</b>	<b>866,521</b>	<b>88,481</b>	<b>82,447</b>
– Revenue from contracts with customers	848,023	863,524	88,481	82,447
– Other revenue	3,187	2,997	0	0
<b>Sales between Group companies</b>	<b>204,426</b>	<b>250,981</b>	<b>50,877</b>	<b>47,746</b>
Other operating income	11,005	10,161	46	96
Operating costs	-713,409	-717,723	-61,607	-55,605
Operating expenses to Group companies	-344,147	-376,183	-55,573	-51,996
<b>Operating profit</b>	<b>148,806</b>	<b>158,959</b>	<b>26,920</b>	<b>26,938</b>
Interest income	249	152	4	0
Interest income from Group companies	278	414	-1	-1
Interest expenses	-366	-169	-11	-15
Interest expense to Group companies	-264	-308	0	0
<b>Net financial result</b>	<b>-1,104</b>	<b>-5,933</b>	<b>-155</b>	<b>-191</b>
Income tax	-26,730	-20,560	-3,963	-3,182
<b>Net profit</b>	<b>120,972</b>	<b>132,466</b>	<b>22,802</b>	<b>23,565</b>
Investments	54,623	67,672	363	131
Depreciation of property, plant and equipment	71,657	72,765	2,004	1,982
Depreciation of the right-of-use assets	2,502	2,116	105	107
Amortisation	4,261	4,461	351	322
	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
<b>Total assets</b>	<b>1,957,545</b>	<b>1,743,793</b>	<b>56,344</b>	<b>49,641</b>
Goodwill	42,644	42,644	0	0
Trademark	34,918	35,788	0	0
<b>Total liabilities</b>	<b>405,218</b>	<b>338,453</b>	<b>23,401</b>	<b>15,444</b>



Eastern Europe		Other		Eliminations		Total	
2021	2020	2021	2020	2021	2020	2021	2020
<b>547,916</b>	<b>517,348</b>	<b>78,195</b>	<b>68,625</b>	<b>0</b>	<b>0</b>	<b>1,565,802</b>	<b>1,534,941</b>
547,781	517,242	77,981	68,461	0	0	1,562,266	1,531,674
135	106	214	164	0	0	3,536	3,267
<b>252,938</b>	<b>301,391</b>	<b>5,172</b>	<b>3,879</b>	<b>-513,413</b>	<b>-603,997</b>	<b>0</b>	<b>0</b>
307	238	18	0	0	0	11,376	10,495
-386,483	-327,483	-60,891	-53,881	0	0	-1,222,390	-1,154,692
-558,710	-599,288	-17,227	-10,982	975,657	1,038,449	0	0
<b>161,740</b>	<b>190,103</b>	<b>17,322</b>	<b>14,744</b>	<b>0</b>	<b>0</b>	<b>354,788</b>	<b>390,744</b>
216	1,926	351	70	0	0	820	2,148
2	4	1	7	-280	-424	0	0
-113	-132	-5	-3	0	0	-495	-319
0	-8	0	-1	264	317	0	0
<b>5,891</b>	<b>-44,879</b>	<b>2,997</b>	<b>-749</b>	<b>0</b>	<b>0</b>	<b>7,629</b>	<b>-51,752</b>
-21,634	-24,751	-1,940	-1,550	0	0	-54,267	-50,043
<b>145,997</b>	<b>120,473</b>	<b>18,379</b>	<b>12,445</b>	<b>0</b>	<b>0</b>	<b>308,150</b>	<b>288,949</b>
10,619	6,652	781	2,158	0	0	66,386	76,613
22,586	24,690	2,442	2,232	0	0	98,689	101,669
600	587	66	120	0	0	3,273	2,930
1,989	2,055	274	251	0	0	6,875	7,089
<b>31 Dec 2021</b>	<b>31 Dec 2020</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
<b>484,051</b>	<b>404,474</b>	<b>39,743</b>	<b>37,634</b>	<b>0</b>	<b>0</b>	<b>2,537,683</b>	<b>2,235,542</b>
0	0	0	0	0	0	42,644	42,644
0	0	0	0	0	0	34,918	35,788
<b>151,208</b>	<b>110,326</b>	<b>38,771</b>	<b>19,507</b>	<b>0</b>	<b>0</b>	<b>618,598</b>	<b>483,730</b>

## 5. Revenue from contracts with customers

### Breakdown of revenue from contracts with customers

€ thousand	2021	2020
Revenue from contracts with customers (products)	1,523,823	1,500,205
Revenue from contracts with customers (health resorts and tourist services)	36,465	29,754
Revenue from contracts with customers (materials)	1,978	1,715
<b>Total revenue from contracts with customers</b>	<b>1,562,266</b>	<b>1,531,674</b>

### Revenue from contracts with customers by region

€ thousand	2021	2020
Region Slovenia	56,415	55,384
Region South-East Europe	209,166	199,406
Region East Europe	547,778	517,231
Region Central Europe	351,501	341,463
Region West Europe	305,246	341,057
Region Overseas Markets	53,717	45,664
<b>Total</b>	<b>1,523,823</b>	<b>1,500,205</b>

### Revenue from contracts with customers by product groups

€ thousand	2021	2020
Prescription pharmaceuticals	1,305,316	1,300,640
Non-prescription products	137,250	123,652
Animal health products	81,257	75,913
<b>Total</b>	<b>1,523,823</b>	<b>1,500,205</b>

All revenue from contracts with customers of health resorts and tourist services are generated in Slovenia.

## Contract balances

Trade receivables are described in Note 18 'Trade and other receivables', while liabilities recognised from contracts with customers in Note 25 'Current liabilities from contracts with customers'. Contract assets are reported in the consolidated statement of financial position. The Group recognised assets from contracts with customers in the amount of €437 thousand (2020: €524 thousand) and liabilities from contracts in the amount of €7,766 thousand (2020: €4,229 thousand).

## Right-of-return assets and liabilities

The Krka Group recognised right-of-return assets within the amount of €777 thousand (€1,120 thousand) and right-of-return liabilities within the amount of €116,965 thousand (2020: €102,071 thousand).

## Performance obligations

The Krka Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health resorts 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	2021	2020
Reversal of non-current provisions	5,116	2,290
Deferred revenue reversal	1,229	1,286
Gains on sale of property, plant and equipment and intangible assets	1,161	959
Other operating income	3,870	5,960
<b>Total other operating income</b>	<b>11,376</b>	<b>10,495</b>

Detailed information on reversal of non-current provisions is included in Note 22 'Provisions'.

Other operating income includes €618 thousand (2021: €2,817 thousand) of State grants aimed at curbing the COVID-19 pandemic. State grants are unconditional and as such are recognised in the 2021 financial statements in the full amount.

## 7. Costs by nature

€ thousand	2021	2020
Cost of goods and materials	394,891	370,142
Cost of services	229,106	219,594
Employee benefits	441,476	438,412
Amortisation and depreciation	108,837	111,688
Inventory write-offs and allowances (net)	20,738	23,019
Receivable impairments and write-offs (net)	1,048	-3,206
Formation of provisions for lawsuits	563	50
Other operating expenses	34,716	34,479
<b>Total costs</b>	<b>1,231,375</b>	<b>1,194,178</b>
Change in the value of inventories of finished products and work in progress	-8,985	-39,486
<b>Total</b>	<b>1,222,390</b>	<b>1,154,692</b>

## 8. Employee benefits<sup>78</sup>

€ thousand	2021	2020
Gross wages and salaries and continued pay	339,342	336,920
Social security contributions	25,003	24,822
Pension insurance contributions	46,601	45,972
Payroll tax	784	847
Post-employment benefits and other non-current employee benefits	7,799	8,285
Other employee benefits	21,947	21,566
<b>Total employee benefits</b>	<b>441,476</b>	<b>438,412</b>

Post-employment benefits and other non-current employee benefits are detailed in Note 22 'Provisions'. Other employee benefits include primarily vacation bonuses and commuting allowances.

<sup>78</sup> GRI GS 201-1

## 9. Other operating expenses

€ thousand	2021	2020
Grants and assistance for humanitarian and other purposes	1,548	1,456
Environmental protection expenditures	5,161	5,019
Other taxes and levies	21,264	22,886
Loss on sale and write-offs of property, plant and equipment and intangible assets	2,754	1,503
Other operating expenses	3,989	3,615
<b>Total other operating expenses</b>	<b>34,716</b>	<b>34,479</b>

Other levies include €17,320 thousand of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries for pursuing promotional activities (2020: €19,244 thousand).

## 10. Financial income and expenses

€ thousand	2021	2020
Net foreign exchange differences	15,145	0
Interest income	820	2,148
Derivatives income	2,968	20,319
– Realised revenue	2,002	17,212
– Fair value change	966	3,107
Income from dividends	691	650
Other financial income	87	142
<b>Total financial income</b>	<b>19,711</b>	<b>23,259</b>
Net foreign exchange differences	0	-58,563
Interest expenses	-495	-319
– Interest paid	-199	-30
– Interest expenses on lease liabilities	-296	-289
Derivatives expenses	-10,459	-14,443
– Incurred expenses	-10,459	-14,443
Other financial expenses	-1,128	-1,686
<b>Total financial expenses</b>	<b>-12,082</b>	<b>-75,011</b>
<b>Net financial result</b>	<b>7,629</b>	<b>-51,752</b>

The net financial result in 2021 was better mainly due to a better result of €73,708 thousand in the net foreign exchange result. In 2021, Krka continued its policy of partial hedging against rouble-related risk and the US dollar with financial instruments. The most significant impact was the exchange rate of the rouble (final exchange rate on 31 December 2021 €1 = RUB 85.3004 and on 31 December 2020 €1 = RUB 91.4671).

Detailed information on the risk of changes in foreign exchange rates can be found in Note 30 'Financial Instruments and Financial Risks' and in the chapter 'Risk Management' in the business part of the *Annual Report*.

## 11. Income tax

### Adjustment to effective tax rate

€ thousand	2021	2020
Income tax	53,767	50,421
Deferred tax	500	-378
<b>Total income tax</b>	<b>54,267</b>	<b>50,043</b>
<b>Profit before tax</b>	<b>362,417</b>	<b>338,992</b>
Income tax calculated at the rate of 19% (the same as in 2020)	68,859	64,408
Income tax from increased expenses	-1,366	-2,385
Income tax from non-exempt expenses	7,268	4,297
Income tax from tax incentives	-16,028	-17,322
Income tax from adjustment of revenue decreasing the tax base	-611	-1,365
Income tax from adjustment of revenue increasing the tax base	749	780
Effect of different tax rates	603	480
Other	-5,207	1,150
<b>Total income tax</b>	<b>54,267</b>	<b>50,043</b>
<b>Effective tax rate</b>	<b>15.0%</b>	<b>14.8%</b>

Investments in R&D and investment relief represent the major share of tax incentives.

## 12. Property, plant and equipment

€ thousand	31 Dec 2021	31 Dec 2020
Land	40,645	40,345
Buildings	359,247	376,130
Equipment	313,864	338,059
Property, plant and equipment being acquired	44,090	38,042
Advances for property, plant and equipment	4,743	3,685
Right-of-use assets	11,763	11,563
<b>Total property, plant and equipment</b>	<b>774,352</b>	<b>807,824</b>

In 2021, the most significant investments in the controlling company Krka included the relocation of small series production and the increase of semi-finished products production capacity in Notol 2 in the amount of €7,260 thousand (2020: €7,025 thousand), and the construction of Sinteza 2 in Krško in the amount of €5,351 thousand (2020: €1,247 thousand). A total of €3,606 thousand was spent on various projects in the area of information technology and telecommunications (2020: €4,279 thousand), for relocation and redevelopment projects. €3,470 thousand (€691 thousand in 2020) were earmarked for the reconstruction of RKC 4 and RKC 1 in the laboratory rooms, and €2,583 thousand (€4 thousand in 2020) for the reconstruction of RKC 2 and the relocation of equipment to RKC 4.

Major investments in subsidiaries included investment in subsidiary Krka-Rus in Russian Federation amounting to €5,690 thousand (2020: €5,068 thousand). An additional €2,152 thousand was invested in subsidiary Terme Krka (2020: €2,001 thousand); €72 thousand was invested in subsidiary Krka-Farma Zagreb (2020: €610 thousand); €25 thousand was invested in subsidiary Krka - Polska (2020: €173 thousand).

Most of the right-of-use assets relate to the right-of-use buildings in the amount of €8,487 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
<b>Cost</b>							
<b>At 1 Jan 2020</b>	<b>39,796</b>	<b>851,995</b>	<b>1,191,881</b>	<b>43,113</b>	<b>3,082</b>	<b>15,541</b>	<b>2,145,408</b>
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 – <i>IFRS 16 Leases</i>	0	0	0	0	0	3,041	3,041
Disposals, impairment, deficit, surplus	0	-162	-19,116	0	0	-1,452	-20,730
Translation reserve	-207	-17,975	-19,715	-2,684	-271	-612	-41,464
Transfers, reclassification	0	289	-330	-7	0	-10	-58
<b>At 31 Dec 2020</b>	<b>40,345</b>	<b>848,028</b>	<b>1,210,181</b>	<b>38,042</b>	<b>3,685</b>	<b>16,508</b>	<b>2,156,789</b>
<b>At 1 Jan 2021</b>	<b>40,345</b>	<b>848,028</b>	<b>1,210,181</b>	<b>38,042</b>	<b>3,685</b>	<b>16,508</b>	<b>2,156,789</b>
Additions	0	0	0	60,166	959	0	61,125
Capitalisation – transfer from PP&E under construction	336	8,165	45,356	-53,857	0	0	0
Capitalisation – <i>IFRS 16 Leases</i>	0	0	0	0	0	3,871	3,871
Disposals, impairment, deficit, surplus	-80	-723	-18,310	-907	0	-1,135	-21,155
Translation reserve	44	4,087	5,214	677	99	172	10,293
Transfers, reclassification	0	0	-8	-31	0	0	-39
<b>At 31 Dec 2021</b>	<b>40,645</b>	<b>859,557</b>	<b>1,242,433</b>	<b>44,090</b>	<b>4,743</b>	<b>19,416</b>	<b>2,210,884</b>
<b>Accumulated depreciation</b>							
<b>At 1 Jan 2020</b>	<b>0</b>	<b>-449,720</b>	<b>-830,138</b>	<b>0</b>	<b>0</b>	<b>-2,702</b>	<b>-1,282,560</b>
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
<b>At 31 Dec 2020</b>	<b>0</b>	<b>-471,898</b>	<b>-872,122</b>	<b>0</b>	<b>0</b>	<b>-4,945</b>	<b>-1,348,965</b>
<b>At 1 Jan 2021</b>	<b>0</b>	<b>-471,898</b>	<b>-872,122</b>	<b>0</b>	<b>0</b>	<b>-4,945</b>	<b>-1,348,965</b>
Depreciation	0	-27,560	-71,129	0	0	-3,273	-101,962
Disposals, deficit, surplus	0	423	17,835	0	0	641	18,899
Transfers, reclassification	0	0	5	0	0	0	5
Translation reserve	0	-1,275	-3,158	0	0	-76	-4,509
<b>At 31 Dec 2021</b>	<b>0</b>	<b>-500,310</b>	<b>-928,569</b>	<b>0</b>	<b>0</b>	<b>-7,653</b>	<b>-1,436,532</b>
<b>Carrying amount</b>							
<b>At 1 Jan 2020</b>	<b>39,796</b>	<b>402,275</b>	<b>361,743</b>	<b>43,113</b>	<b>3,082</b>	<b>12,839</b>	<b>862,848</b>
<b>At 31 Dec 2020</b>	<b>40,345</b>	<b>376,130</b>	<b>338,059</b>	<b>38,042</b>	<b>3,685</b>	<b>11,563</b>	<b>807,824</b>
<b>At 1 Jan 2021</b>	<b>40,345</b>	<b>376,130</b>	<b>338,059</b>	<b>38,042</b>	<b>3,685</b>	<b>11,563</b>	<b>807,824</b>
<b>At 31 Dec 2021</b>	<b>40,645</b>	<b>359,247</b>	<b>313,864</b>	<b>44,090</b>	<b>4,743</b>	<b>11,763</b>	<b>774,352</b>

No borrowing costs relate to the items of property, plant and equipment in 2021.

The carrying amount of the items of property, plant and equipment, which are temporarily not used amounted to €1,864 thousand as at 31 December 2021 (2020: €1,467 thousand).

Of total property, plant and equipment in use as at 31 December 2021, 38% was fully depreciated (2020 year-end: 35%). The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

All property, plant and equipment is free of encumbrances. The status of known future commitments related to the acquisition of property, plant and equipment is disclosed in Note 27 'Contingent Liabilities and Commitments'.

The movements and lease liabilities recognised in profit or loss are presented in Notes 28 'Leases' and 30 'Financial Instruments and Risk'.

## 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 due to the impact of the COVID-19 pandemic on the economic environment. With the entry into force of the RVT conditions in 2021, the tourism and health resort services are operating normally. A portion of the loss of revenue during the closure of activities was recovered by the Terme Krka, 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. Terme Krka's performance in 2021 was successful.

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 7.0%, and the long-term growth rate of net cash flows (g) after the forecast period (after 2026) 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 2021	31 Dec 2020
Goodwill	42,644	42,644
Trademark	34,918	35,788
Concessions, trademarks and licences	22,806	24,452
Intangible assets being acquired	3,933	4,487
<b>Total intangible assets</b>	<b>104,301</b>	<b>107,371</b>

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
<b>Cost</b>					
<b>At 1 Jan 2020</b>	<b>42,644</b>	<b>42,629</b>	<b>131,640</b>	<b>4,096</b>	<b>221,009</b>
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
<b>At 31 Dec 2020</b>	<b>42,644</b>	<b>42,629</b>	<b>135,155</b>	<b>4,487</b>	<b>224,915</b>
<b>At 1 Jan 2021</b>	<b>42,644</b>	<b>42,629</b>	<b>135,155</b>	<b>4,487</b>	<b>224,915</b>
Additions	0	0	0	5,261	5,261
Transfer from IA being acquired	0	0	4,865	-4,865	0
Disposals, deficit, surplus	0	0	-651	-952	-1,603
Transfers, reclassification	0	0	-6	2	-4
Translation reserve	0	0	246	0	246
<b>At 31 Dec 2021</b>	<b>42,644</b>	<b>42,629</b>	<b>139,609</b>	<b>3,933</b>	<b>228,815</b>
<b>Accumulated depreciation</b>					
<b>At 1 Jan 2020</b>	<b>0</b>	<b>-5,970</b>	<b>-105,957</b>	<b>0</b>	<b>-111,927</b>
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
<b>At 31 Dec 2020</b>	<b>0</b>	<b>-6,841</b>	<b>-110,703</b>	<b>0</b>	<b>-117,544</b>
<b>At 1 Jan 2021</b>	<b>0</b>	<b>-6,841</b>	<b>-110,703</b>	<b>0</b>	<b>-117,544</b>
Amortisation	0	-870	-6,005	0	-6,875
Disposals, deficit, surplus	0	0	106	0	106
Transfers, reclassification	0	0	2	0	2
Translation reserve	0	0	-203	0	-203
<b>At 31 Dec 2021</b>	<b>0</b>	<b>-7,711</b>	<b>-116,803</b>	<b>0</b>	<b>-124,514</b>
<b>Carrying amount</b>					
<b>At 1 Jan 2020</b>	<b>42,644</b>	<b>36,659</b>	<b>25,683</b>	<b>4,096</b>	<b>109,082</b>
<b>At 31 Dec 2020</b>	<b>42,644</b>	<b>35,788</b>	<b>24,452</b>	<b>4,487</b>	<b>107,371</b>
<b>At 1 Jan 2021</b>	<b>42,644</b>	<b>35,788</b>	<b>24,452</b>	<b>4,487</b>	<b>107,371</b>
<b>At 31 Dec 2021</b>	<b>42,644</b>	<b>34,918</b>	<b>22,806</b>	<b>3,933</b>	<b>104,301</b>

Of total intangible assets in use as at 31 December 2021, 67% was fully amortised, (2020 year-end: 65%). The share of fully amortised intangible assets is calculated in consideration of their cost.

## Impairment test of goodwill and TAD Pharma trademark

An 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 6.8% was applied in the projection for the TAD Pharma cash generating unit (7.6% in 2020) and 7.9% for Krka (8.5% in 2020). For both cash-generating units, cash flows over 5 years are extrapolated by 2.0% average annual growth, the same as in 2019. For both cash-generating units, cash flows over 5 years are extrapolated with an average annual growth rate of 2.0% (also in 2020, cash flows over 5 years for both cash-generating units have been extrapolated with an average annual growth rate of 2.0%). In the opinion of the management, a reasonable change in the discount rate or growth rate would not result in impairment of goodwill.

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 €34,770 thousand as at 31 December 2021 (2020 year-end: €35,619 thousand).

## 14. Loans

€ thousand	31 Dec 2021	31 Dec 2020
<b>Non-current loans</b>	<b>40,300</b>	<b>15,376</b>
– Loans to others	40,300	15,376
<b>Current loans</b>	<b>192,360</b>	<b>54,774</b>
– Portion of non-current loans maturing next year	1,826	1,641
– Loans to others	190,585	53,128
– Current interest receivable	-51	5
<b>Total loans</b>	<b>232,660</b>	<b>70,150</b>

Non-current loans include loans by a subsidiary in China for the construction of a production plant for an amount of €27,798 thousand, as well as housing loans granted by the controlling company and certain subsidiaries to employees in accordance with the internal rules.

Current loans to others include bank deposits in total of €190,264 thousand maturing in more than 90 days (2020 year-end: €52,988 thousand).

## 15. Investments

€ thousand	31 Dec 2021	31 Dec 2020
<b>Non-current investments</b>	<b>108,883</b>	<b>10,420</b>
– Financial assets at fair value through OCI	15,861	10,420
– Financial assets at amortised cost	93,022	0
<b>Current investments including derivatives</b>	<b>155,448</b>	<b>9,499</b>
– Financial assets at amortised cost	113,987	0
– Derivatives	1,491	524
– Other current financial investments at fair value through profit or loss	39,970	8,975
<b>Total investments</b>	<b>264,331</b>	<b>19,919</b>

Financial assets at fair value through other comprehensive income (OCI) comprised €1,002 thousand of investments in shares and interests in companies in Slovenia (2020 year-end: €801 thousand), and €14,859 thousand of investments in shares of companies located abroad (2020 year-end: €9,619 thousand). Investments at amortised cost include investments in Slovenian government bonds amounted to €4,455 thousand, while investments in foreign government bonds amounted to €202,554 thousand. Other current investments at fair value through profit or loss include an investment in a foreign highly liquid money market fund of €39,970 thousand. In 2020, there were no investments in government bonds and money market funds.

### Movement in financial assets

€ thousand	Financial assets at fair value through OCI	Financial assets at amortised cost	Financial assets at fair value through profit or loss
<b>At 1 Jan 2020</b>	<b>9,681</b>	<b>0</b>	<b>0</b>
Adjustment to market value	739	0	0
<b>At 31 Dec 2020</b>	<b>10,420</b>	<b>0</b>	<b>0</b>
<b>At 1 Jan 2021</b>	<b>10,420</b>	<b>0</b>	<b>0</b>
Increase	0	205,946	40,000
Decrease	0	0	0
Exchange rate differences	0	1,063	0
Adjustment to market value	5,441	/	-30
<b>At 31 Dec 2021</b>	<b>15,861</b>	<b>207,009</b>	<b>39,970</b>

Adjustments of non-current investments at fair value through OCI were recognised in other comprehensive income in the amount of €5,441 thousand (2020: €739 thousand). Exchange differences on investments at amortised cost of €1,063 thousand are recognised in financial income. The mark-to-market adjustment of investments at fair value through profit or loss in the amount of -€30 thousand is recognised in financial expenses.



## 16. Deferred tax assets and liabilities

€ thousand	Assets		Liabilities	
	2021	2020	2021	2020
Investments, property, plant and equipment and intangible assets	367	360	12,316	12,566
Financial investments at fair value through OCI	1,727	1,727	2,466	1,432
Inventories	24,378	30,481	-37	-66
Receivables	10,242	4,693	0	0
Dividends	19	14	0	0
Provisions for post-employment benefits and other non-current employee benefits	13,398	13,642	0	0
Transfer of tax loss	575	805	0	0
<b>Total</b>	<b>50,706</b>	<b>51,722</b>	<b>14,745</b>	<b>13,932</b>
<b>Offsetting</b>	<b>-3,823</b>	<b>-2,753</b>	<b>-3,823</b>	<b>-2,753</b>
<b>Net</b>	<b>46,883</b>	<b>48,969</b>	<b>10,922</b>	<b>11,179</b>

€ thousand	At 1 Jan 2020	Recognised in P&L	Translation reserve	Recognised in OCI	At 31 Dec 2020	Recognised in P&L	Translation reserve	Recognised in OCI	At 31 Dec 2021
Investments, property, plant and equipment and intangible assets	-12,438	149	83	0	-12,206	296	-39	0	-11,949
Financial assets at fair value through OCI	436	0	0	-141	295	0	0	-1,034	-739
Inventories	30,120	598	-171	0	30,547	-6,208	76	0	24,415
Receivables	5,626	-337	-596	0	4,693	5,290	259	0	10,242
Dividends	95	-81	0	0	14	5	0	0	19
Provisions for post-employment benefits and other non-current employee benefits	12,382	258	-12	1,014	13,642	347	-3	-588	13,398
Transfer of tax loss	1,012	-207	0	0	805	-230	0	0	575
<b>Total</b>	<b>37,233</b>	<b>380</b>	<b>-696</b>	<b>873</b>	<b>37,790</b>	<b>-500</b>	<b>293</b>	<b>-1,622</b>	<b>35,961</b>

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to €850 thousand at the end of 2021 (2020 year-end: €1,139 thousand).

## 17. Inventories

€ thousand	31 Dec 2021	31 Dec 2020
Materials	188,994	191,649
Work in progress	104,640	100,741
Finished products	152,597	150,263
Merchandise	7,299	9,614
Advances for inventories	2,177	1,423
<b>Total inventories</b>	<b>455,707</b>	<b>453,690</b>

The write-downs and write-offs of inventories to their net realisable value amounted to €20,738 thousand in 2021. In 2020, they amounted to €23,019 thousand.

The Krka Group does not pledge inventories as collateral.

## 18. Trade and other receivables

€ thousand	31 Dec 2021	31 Dec 2020
Current trade receivables	467,764	383,560
– Trade receivables	468,589	385,237
– Deferred revenue from contracts with customers	-825	-1,677
Other current receivables	29,564	27,768
<b>Total trade and other receivables</b>	<b>497,328</b>	<b>411,328</b>

The net amount of the receivable write-offs and impairment disclosed in operating expenses amounted to €1,048 thousand in 2021 (2020: -€3,206 thousand).

Of the total amount, more than 98.6% of trade receivables was insured with the Coface PKZ, d. d. insurance company (2020 year-end: 98.2%).

### Current trade receivables

€ thousand	Gross value	Receivable allowances	Net value at 31 Dec 2021	Net value at 31 Dec 2020
Due from domestic customers	12,285	73	12,212	9,172
Due from foreign customers	493,853	37,476	456,377	376,065
Deferred revenue from contracts with foreign customers	-825	0	-825	-1,677
<b>Total current trade receivables</b>	<b>505,313</b>	<b>37,549</b>	<b>467,764</b>	<b>383,560</b>

### Other receivables

Other receivables were mostly due by the State. Income tax credits amounted to €3,057 thousand (2020: €1,220 thousand), while the remaining €17,368 thousand related to other receivables due by the State (2020: €17,457 thousand).

Advances for services reached €2,442 thousand at the year-end (€2,620 thousand as at 31 December 2020).

## 19. Cash and cash equivalents

€ thousand	31 Dec 2021	31 Dec 2020
Cash in hand	30	17
Bank balances	159,808	313,551
<b>Total cash and cash equivalents</b>	<b>159,838</b>	<b>313,568</b>

The Krka Group concluded contracts with two banks to secure bank overdrafts in total of €5,415 thousand (in 2020, contracts in total of €5,075 thousand were concluded with two banks). No negative balances were recorded on these bank accounts as at 31 December 2021 as no overdraft facilities were used.

The Krka Group had an undrawn credit facility of €20,000 thousand as at 31 December 2021 (2020 year-end: €20,000 thousand).

## 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 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 share class only, and the first and only issue of shares was carried out in 1995. The share capital was 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, the total amount of treasury shares should not exceed 10% of Company's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by Krka as at the date. The authorisation is valid for a period of 36 months from the date of the decision adoption.

Based on this authorisation, Krka is allowed to acquire treasury shares on the regulated market at respective market prices. The Company may also acquire treasury shares 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*, 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 2021

	No. of shares	Weighted average share price (€)	Value of treasury shares (€ thousand)
<b>At 31 Dec 2020</b>	<b>1,541,774</b>		<b>99,279</b>
Repurchases in 2021	142,134	107.38	15,262
<b>At 31 Dec 2021</b>	<b>1,683,908</b>		<b>114,541</b>

The repurchase of treasury shares in 2021 refers to repurchases that were recorded in books of accounts in 2021. A subscription fee is included in the weighted average price of shares.

The 2021 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 €114,541 thousand at the reporting date and increased by €15,262 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 2021 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 2021, 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 2021 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 increased by €12,982 thousand and amounted to -€22,077 thousand as at 31 December 2021. The cumulative change is due to a €5,441 thousand increase in the fair value of financial assets through OCI (equity instruments); a decrease for the impact of deferred taxes of €1,622 thousand and an increase due to the restatement of post-employment benefits of €9,163 thousand.

Compared to the previous period, the value of the *translation reserve* increased by €13,238 thousand and amounted to -€98,274 thousand as at 31 December 2021. The increase occurred 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 €309,214 thousand. On the other hand, they decreased as a result of allocation of accumulated profit to dividend payment (€155,896 thousand) in accordance with the resolution adopted by the 27th Annual General Meeting on 8 July 2021; an additional formation of reserves for treasury shares in total of €15,262 thousand on account of the share repurchase by the controlling company in 2021; and a change in provisions for termination benefits amounting to €2,404 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 €11 thousand of dividends paid in respect of previous periods (2020: €9 thousand).

## Dividends per share

In 2021, the declared gross dividend per share was €5.00 (2020: €4.25).

## 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 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Interest held by minority shareholders in Ningbo Krka Menovo Pharmaceutical Co. Ltd.*	40.0%	40.0%	13,880	8,479	-1,064	-2,046
<b>Total</b>			<b>13,880</b>	<b>8,479</b>	<b>-1,064</b>	<b>-2,046</b>

\* Krka has a 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 €9.92 in 2021 and increased by 7% over the previous year, when it amounted to €9.27. The calculation of earnings per share took into account the profit for the period attributable to the controlling interests in the amount of €309,214 thousand (2020: €290,995 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 31,185,323 shares for 2021, and 31,400,501 shares for 2020. 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 2020	Formation	Utilisation	Reversal	Translation reserve	At 31 Dec 2021
Provisions for lawsuits	2,164	563	-12	-2,138	0	577
Provisions for post-employment benefits	109,698	854	-4,699	-1,421	-3	104,429
Provisions for other non-current employee benefits	20,512	1,243	-1,584	-315	-2	19,854
Other provisions	2,312	629	-406	-1,242	0	1,293
<b>Total provisions</b>	<b>134,686</b>	<b>3,289</b>	<b>-6,701</b>	<b>-5,116</b>	<b>-5</b>	<b>126,153</b>

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, 17 lawsuits referring to intellectual property were filed against Krka and its subsidiaries, 11 of which were in Portugal. In 2021, 8 disputes were closed. The Krka Group has no provisions allocated for intellectual property disputes. In other areas of law (civil, labour, administrative, etc.), Krka and its subsidiaries were involved as defendants in 14 disputes in 2021, with the total value of claims against Krka estimated at €1,073 thousand. For these disputes, the Krka Group has provisions €577 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 1.27% annually, equal to the return on 15-year corporate bonds with high credit rating in the Eurozone at the end of October 2021 (2020: 0.72%). Discount rates applied to subsidiaries ranged from 0.78% to 3.60% (2020: from 0.33% 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 2020.

### Post-employment benefits

€ thousand	2021	2020
<b>At 1 Jan</b>	<b>109,698</b>	<b>96,994</b>
Employee benefit costs (CSC)	6,602	4,949
Interest expense (IC)	796	1,251
Post-employment benefits paid	-4,526	-3,177
Reversal	-1,382	-2,060
Merger by acquisition	0	470
Actuarial surplus/deficit, of that:	-6,759	11,271
– Change in financial assumptions	-7,973	8,253
– Experience	1,214	3,018
<b>At 31 Dec</b>	<b>104,429</b>	<b>109,698</b>

### Sensitivity analysis

	Discount rate		Salary increase	
Change in	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
<b>Impact on liabilities</b> (€ thousand)	<b>-6,643</b>	<b>7,397</b>	<b>7,302</b>	<b>-6,628</b>



## 23. Deferred revenue

€ thousand	At 31 Dec 2020	New deferred revenue received	Deferred revenue reversal	At 31 Dec 2021
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	1,317	0	-259	1,058
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	3,408	0	-88	3,320
Grants received from the European Regional Development Fund (Farma GRS)	2,960	0	-584	2,376
Subsidy for acquisition of electric drive vehicles	4	0	-1	3
Property, plant and equipment received free of charge	16	8	-12	12
Emission coupons	0	10	0	10
Subsidy for the purchase of joinery	95	0	-2	93
Subsidy for acquisition of other equipment	4	19	-20	3
Other deferred revenue	0	263	-263	0
<b>Total deferred revenue</b>	<b>7,804</b>	<b>300</b>	<b>-1,229</b>	<b>6,875</b>

Production of pharmaceuticals in the new Notol 2 Plant and Farma GRS projects are partly funded by the European Union from the European Regional Development Fund. The Notol project is carried out within the framework of the Operational programme for strengthening regional development potentials for the period 2007–2013; Priority axis 1: Competitiveness and Research Excellence: main type of activity 1.1.: *Improvement of competitiveness and research excellence*. The Farma GRS project was eligible for co-financing of costs under R&D projects, including project management and investment in research and development and production activities.

The amounts of deferred 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 2021	31 Dec 2020
<b>Non-current trade payables</b>	<b>10,000</b>	<b>10,006</b>
<b>Current trade payables</b>	<b>130,011</b>	<b>107,116</b>
Payables to domestic suppliers	46,767	38,317
Payables to foreign suppliers	83,244	68,799
<b>Total trade payables</b>	<b>140,011</b>	<b>117,122</b>

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.<sup>79</sup>

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.

<sup>79</sup> GRI GS 206-1

## 25. Current contract liabilities

€ thousand	31 Dec 2021	31 Dec 2020
<b>Refund liabilities</b>	<b>116,965</b>	<b>102,070</b>
– Bonuses and volume rebates	114,795	99,097
– Rights of return	2,170	2,973
<b>Contract liabilities</b>	<b>7,765</b>	<b>4,229</b>
– Contract liabilities – deferred revenue	1,101	0
– Contract liabilities – advances from other customers	6,664	4,229
<b>Total current contract liabilities</b>	<b>124,730</b>	<b>106,299</b>

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 2021	31 Dec 2020
Payables to employees – gross salaries, other receipts and charges	67,978	61,643
Liabilities under repurchase transactions (repo-type operations)	102,234	0
Other	20,515	17,416
<b>Total other current liabilities</b>	<b>190,727</b>	<b>79,059</b>

The liabilities under repurchase transactions relate to the repurchase of bonds in June 2022, maturing in July 2022. The repurchase of bonds has legally taken place, but in terms of economics it is a financing activity. The bonds serve as collateral for a deposit made by the controlling company to the bank. The balance of assets held for repurchase as at 31 December 2021 amounts to €102,228 thousand and is recognised within investments at amortised cost. Liabilities under repurchase transactions were recognised in the amount €102,234 thousand.

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €13,261 thousand (2020: €7,324 thousand) and other current liabilities to the State totalling €4,133 thousand (2020: €7,114 thousand).

## 27. Contingent liabilities and commitments

€ thousand	31 Dec 2021	31 Dec 2020
Guarantees issued	16,019	16,111
Other	976	0
<b>Total contingent liabilities</b>	<b>16,995</b>	<b>16,111</b>

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 that had been signed in connection with the on-going investments, at the end of 2021 Krka recorded €45,539 thousand of commitments for acquisition of property, plant and equipment (2020 year-end: €29,338 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	
<b>At 1 Jan 2020</b>		<b>13,000</b>
Increase/Decrease		1,654
Accretion of interest		289
Lease payments		-3,086
Translation reserve		-24
<b>At 31 Dec 2020</b>		<b>11,833</b>
– Current lease liabilities		2,712
– Non-current lease liabilities		9,121
<b>At 1 Jan 2021</b>		<b>11,833</b>
Increase/Decrease		3,473
Accretion of interest		296
Lease payments		-3,515
Translation reserve		70
<b>At 31 Dec 2021</b>		<b>12,157</b>
– Current lease liabilities		3,433
– Non-current lease liabilities		8,724

The maturity analysis of lease liabilities is disclosed in Note 30 'Financial instruments and financial risks'.

### Amounts recognised in profit or loss

€ thousand	2021	2020
Depreciation of right-of-use assets	3,273	2,930
Interest expenses on lease liabilities	296	289
Expenses relating to current leases	1,357	1,204
Expenses relating to leases of low-value assets	0	3
<b>Total amount recognised in profit or loss</b>	<b>4,926</b>	<b>4,426</b>

## 29. Financial liabilities

### Movement in financial liabilities in 2021

€ thousand	At 31 Dec 2020	Monetary changes	Non-monetary changes	Other	At 31 Dec 2021
Dividends	1,335	-155,907	155,894	0	1,322
Treasury shares	0	-15,262	15,262	0	0
Leases	11,833	-3,515	3,543	296	12,157
Liabilities under repurchase transactions (repo-type operations)	0	102,292	0	-58	102,234
<b>Total</b>	<b>13,168</b>	<b>-72,392</b>	<b>174,699</b>	<b>238</b>	<b>115,713</b>

Liabilities under repurchase transactions (repo-type operations) are presented in Note 26 'Other current liabilities'.

### Movement in financial liabilities in 2020

€ thousand	At 31 Dec 2019	Monetary changes	Non-monetary changes	Other	At 31 Dec 2020
Dividends	1,344	-133,283	133,274	0	1,335
Treasury shares	0	-25,505	25,505	0	0
Leases	13,000	-3,086	1,630	289	11,833
<b>Total</b>	<b>14,344</b>	<b>-161,874</b>	<b>160,409</b>	<b>289</b>	<b>13,168</b>

## 30. 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 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 570 at the end of 2021, they accounted for more than 95% of total trade receivables. Receivables due from small customers accounted for less than 5% of total trade receivables. Control over small customers is decentralised in the sales network and under the constant supervision of the controlling company.

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

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

The second step in the credit-control process involves regular dynamic monitoring of a customer's payment discipline. The information systems of all Krka Group companies engaged in sales monitor available limits and overdue receivables. Control is exercised for each shipment of Krka products to customers. A shipment is automatically blocked if a customer is in arrears or if receivables together with the new shipment exceed the approved credit limit. Sales personnel are required to initiate a payment collection procedure or arrange hedging for the outstanding settlements.

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

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

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

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

Despite the risks arising from the COVID-19 pandemic, receivables were well managed in 2021. At the end of 2021, the value of trade receivables increased by 22% compared to the beginning of the year. However, the amount of overdue and outstanding receivables remained within limits acceptable for Krka.

The amount of the newly established valuation allowance for receivables exceeded the amount of the reversed allowance. The impact of net impairments and write-offs on the Krka Group's bottom line in 2021 was less than 0.07% of sales.

## Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below:

€ thousand	Notes	31 Dec 2021	31 Dec 2020
Loans	14	232,660	70,150
Investments	15	264,331	19,919
Trade receivables	18	467,764	383,560
Cash and cash equivalents	19	159,838	313,568
<b>Total</b>		<b>1,124,593</b>	<b>787,197</b>

As for the financial assets exposed to credit risk, the loans and trade receivables are presented separately.

### Loans by geographical region

€ thousand	31 Dec 2021	31 Dec 2020
Region Slovenia	101,727	65,933
Region South-East Europe	114	69
Region East Europe	159	153
Region Central Europe	262	256
Region West Europe	102,302	0
Region Overseas Markets	28,096	3,739
<b>Total</b>	<b>232,660</b>	<b>70,150</b>

### Trade receivables by geographical region

€ thousand	31 Dec 2021	31 Dec 2020
Region Slovenia	12,214	9,173
Region South-East Europe	80,178	76,417
Region East Europe	240,641	167,955
Region Central Europe	58,109	62,337
Region West Europe	71,966	64,229
Region Overseas Markets	4,656	3,449
<b>Total</b>	<b>467,764</b>	<b>383,560</b>



**Maturity analysis of loans as at reporting date**

€ thousand	Gross at 31 Dec 2021	Allowance at 31 Dec 2021	Gross at 31 Dec 2020	Allowance at 31 Dec 2020
Not past due	232,650	0	70,141	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	2	0	3	0
Past due more than 180 days	7	0	5	0
<b>Total</b>	<b>232,660</b>	<b>0</b>	<b>70,150</b>	<b>0</b>

**Maturity structure of trade receivables as at the reporting date**

€ thousand	Gross at 31 Dec 2021	Allowance at 31 Dec 2021	Gross at 31 Dec 2020	Allowance at 31 Dec 2020
Not past due	457,944	487	375,563	569
Past due up to 20 days	7,011	39	4,352	34
Past due from 21 to 50 days	2,341	80	2,310	76
Past due from 51 to 180 days	95	46	823	53
Past due more than 180 days	37,922	36,897	37,798	36,554
<b>Total</b>	<b>505,313</b>	<b>37,549</b>	<b>420,846</b>	<b>37,286</b>

The Krka Group agrees extended terms with certain customers. If the Krka Group did not extend payment terms to some of its customers, receivable maturity structure would be as follows at the reporting date: not past due €400,150 thousand (2020: €345,442 thousand); past due up to 20 days €43,046 thousand (2020: €25,915 thousand); past due between 21 and 50 days €22,462 thousand (2020: €8,030 thousand); past due between 51 and 180 days €104 thousand (2020: €2,762 thousand); and past due more than 180 days €1,610 thousand (2020: €1,243 thousand).

**Movement of allowance for loans**

€ thousand	2021	2020
<b>At 1 Jan</b>	<b>0</b>	<b>11</b>
Impairment reversal	0	-11
<b>At 31 Dec</b>	<b>0</b>	<b>0</b>

**Movement of receivable allowance**

€ thousand	2021	2020
<b>At 1 Jan</b>	<b>37,286</b>	<b>25,506</b>
Formation of allowance	1,550	16,065
Write-off of receivables	-957	-269
Impairment reversal	-334	-3,513
Collected written-off receivables	-16	-3
Effect of exchange rate differences	20	-500
<b>At 31 Dec</b>	<b>37,549</b>	<b>37,286</b>

## Liquidity risk

Business partners value Krka for its excellent financial discipline and stable cash flows. In 2021, we settled all financial liabilities regularly. Krka Group exposure to liquidity risk was low.

We did not use any new short-term funding from banks or draw funds from existing credit lines in 2021.

At the end of 2021, the Krka Group recorded excess liquidity, primarily as cash at bank or deposits with first-class commercial banks. The 2021 increase in excess liquidity resulted from surplus cash flow from operating activities over negative cash flows from investing and financing activities.

In the European Economic and Monetary Union (EMU) money markets, negative interest rates still apply to low-risk cash investments. 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. In this way, we reduced the cost of negative interest rates and invested another part in short-term bonds of selected European countries.

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

The Krka Group also reported favourable and stable liquidity ratios at the end of 2021. The continuing COVID-19 pandemic did not increase the Group's liquidity risk in 2021.

## Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

### Maturity of financial liabilities as at 31 Dec 2021

€ 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
<b>Financial liabilities</b>							
Lease liabilities	12,157	12,157	1,777	1,657	2,851	4,445	1,427
Trade payables excluding advances	130,011	130,011	130,011	0	0	0	0
Contract liabilities excluding advances	114,795	114,795	114,795	0	0	0	0
Liabilities under repurchase transactions (repo-type operations)	102,234	102,234	102,234	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	4,241	4,241	4,241	0	0	0	0
<b>Total financial liabilities</b>	<b>363,438</b>	<b>363,438</b>	<b>353,058</b>	<b>1,657</b>	<b>2,851</b>	<b>4,445</b>	<b>1,427</b>
<b>Total derivative financial liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>363,438</b>	<b>363,438</b>	<b>353,058</b>	<b>1,657</b>	<b>2,851</b>	<b>4,445</b>	<b>1,427</b>

### 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
<b>Financial liabilities</b>							
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
<b>Total financial liabilities</b>	<b>233,220</b>	<b>233,220</b>	<b>222,766</b>	<b>1,333</b>	<b>4,375</b>	<b>3,367</b>	<b>1,379</b>
<b>Total derivative financial liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>233,220</b>	<b>233,220</b>	<b>222,766</b>	<b>1,333</b>	<b>4,375</b>	<b>3,367</b>	<b>1,379</b>

## Foreign exchange risk

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

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

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

At the end of 2021, the Russian rouble accounted for the largest, 29%, share of the Krka Group currency position, taking into account the size of the position in roubles was partially hedged with derivatives. The position in the rouble arises from trade receivables in the Russian market and partly from the controlling company's funding in the Russian Federation.

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

Unlike with other currencies, a surplus of liabilities over assets has accrued in regular business operations from exposure to the US dollar, or in other words, the currency position is short. Exposure to the US dollar arises primarily from purchasing raw and other materials. Considering liquid financial assets in US dollars, which offset the short currency position from operations, the exposure in US dollars accounts for approximately 6% of the Krka Group total currency exposure.

The exposure to the Romanian leu, accounting for 18% of the currency position at the end of 2021, 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 15% 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 32% of the Krka Group currency position.

Krka's key sales and purchase markets experienced imbalanced dynamics in terms of economic recovery and uncertainty with regard to rising inflation in individual countries while at the same time facing a constant risk of economies shutting down again. Uncertainty in currency markets led to high volatility of individual exchange rates.

The 2021 fluctuation in the Russian rouble was favourable for us. The value of the rouble expressed in the euro increased by 7.2% during the year. The average 2021 value of the Russian rouble was 5.1% lower compared to 2020.

The Brent oil price expressed in the US dollar jumped by 50% in 2021. The value of the rouble expressed in the euro did not follow the dynamics of oil price increase. After 2020, which was heavily affected by the pandemic, the Russian economy recorded high economic growth and rising inflation in 2021. Consequently, the Central Bank of the Russian Federation increased its key interest rate by 4.25 percentage points. Owing to high interest rate growth accompanied by a significant rise in oil prices, the rouble strengthened against the euro and the US dollar. Interest rate increase in the Russian Federation led to a gradual rise in the cost of hedging Krka's position in roubles in 2021.

The Polish zloty was more stable in 2021. Its value dropped by 0.8% from the beginning to the end of the year, while the average value was 2.7% lower than in 2020. In the last quarter of 2021, the Polish central bank started to increase its key interest rate due to the rising inflation. The central bank is not in favour of strengthening the domestic currency, which impacted the market value of zloty.

Over the course of 2021, the value of the Romanian leu expressed in the euro declined by 1.7%, which was in line with the gradual depreciation of the currency against the euro in recent years.

The Croatian kuna, participating in the ERM II mechanism since 2020, remained stable against the euro. In 2021, the British pound went up 7% against the euro. Although the movement of both currencies in 2021 positively impacted the Krka Group's net financial result, the contribution was small.

The value of the US dollar expressed in the euro went up by 8.3% over the course of 2021, while the average value of the dollar expressed in the euro was 3.4% below the 2020 level. The US dollar strengthened more significantly in the second half of 2021, when it became clear that the inflation in the US and worldwide would rise over the longer term. In the second half of the year, the US Federal Reserve announced that it would gradually withdraw monetary stimulus measures and increase the key interest rate for the first time in 2022. Meanwhile, the European Central Bank decided to delay and slow down the tightening of its monetary policy, which further contributed to strengthening of the US dollar against the euro in 2021.

In 2021, the Ukrainian hryvnia strengthened again after plummeting in 2020. However, its value against the euro weakened due to the geopolitical risk at the end of the year. The macroeconomic situation in the country remains uncertain, which will continue to be reflected in currency movements.

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, only forward contracts are used for hedging.

In 2021, Krka continued its policy of partial hedging against rouble-related risk. Less than 50% of the risk exposure to the Russian rouble was hedged using forward contracts. Due to the strengthening of the rouble value in the euro, we generated net foreign exchange gains partially offset by net expenses from forward contracts used for hedging the rouble.

The increasing operational risk exposure and an interest rate difference between the euro and the US dollar that is favourable for Krka are two key reasons that contributed to partial hedging of the exposure in the US dollar with financial instruments also in 2021. Due to the short currency position, the dollar strengthening had a negative financial impact on the Krka Group result. In 2021 however, this was largely offset by income from the US dollar hedging instruments.

We generated net foreign exchange losses from other currencies in 2021. Exposure to other currencies was not hedged.

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

The currency risk balance in 2021 was positive, totalling €7,654 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 €7,629 thousand.

## Exposure to the risk of foreign exchange rate fluctuations

€ thousand	31 Dec 2021				
	EUR*	RUB	PLN	HRK	RON
Loans	204,071	69	211	0	31
Trade receivables	118,062	198,121	44,803	17,924	44,213
Cash and cash equivalents	87,416	6,497	3,104	1,733	1,075
Non-current trade payables	-10,000	0	0	0	0
Current trade payables	-101,305	-8,566	-2,058	-496	-283
<b>Financial position exposure (net)</b>	<b>298,244</b>	<b>196,121</b>	<b>46,060</b>	<b>19,161</b>	<b>45,037</b>

\* EUR is the functional currency and does not represent exposure to foreign currency risk.

€ 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
Non-current trade payables	-10,000	0	0	0	0
Current trade payables	-85,994	-8,208	-1,725	-475	-262
<b>Financial position exposure (net)</b>	<b>346,467</b>	<b>146,183</b>	<b>49,437</b>	<b>18,827</b>	<b>43,307</b>

\* EUR is the functional currency and does not represent exposure to foreign currency risk.

## Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2021	2020	2021	2020
RUB	87.15	82.72	85.30	91.47
PLN	4.57	4.44	4.60	4.56
HRK	7.53	7.54	7.52	7.55
RON	4.92	4.84	4.95	4.87

\* 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% increase/decrease of the euro exchange rate in respect of currencies stated as at 31 December 2021 or 31 December 2020 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			
	2021		2020	
Currency fluctuation	+1%	-1%	+1%	-1%
RUB	1,961	-1,961	1,462	-1,462
PLN	461	-461	494	-494
HRK	192	-192	188	-188
RON	450	-450	433	-433

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 2021.

## Exposure to interest rate risk

€ thousand	31 Dec 2021	31 Dec 2020
<b>Financial instruments at a fixed rate of interest</b>	<b>232,701</b>	<b>70,135</b>
Financial assets	232,701	70,135
Financial liabilities	0	0
<b>Financial instruments at a variable rate of interest</b>	<b>10</b>	<b>10</b>
Financial assets	10	10
Financial liabilities	0	0



## Analysis of the cash flow's 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 2021 by €0.1 thousand. Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2020 by €0.1 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.

## 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 Company's approach to capital management in 2021 or 2020.

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.

### Gearing (debt/equity) ratio

€ thousand	31 Dec 2021	31 Dec 2020
Trade payables and other current liabilities	455,468	302,480
Cash and cash equivalents	159,838	313,568
<b>Net indebtedness</b>	<b>295,630</b>	<b>-11,088</b>
Equity	1,919,085	1,751,812
<b>Equity and net indebtedness</b>	<b>2,214,715</b>	<b>1,740,724</b>
<b>Gearing (debt/equity) ratio</b>	<b>13.3%</b>	<b>-0.6%</b>

## Fair value

	31 Dec 2021		31 Dec 2020	
€ thousand	Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-current financial assets</b>				
Loans	40,300	40,300	15,376	15,376
Financial assets at fair value through OCI	15,861	15,861	10,420	10,420
Financial assets at amortised cost	93,022	92,570	0	0
<b>Current financial assets</b>				
Loans	192,360	192,360	54,774	54,774
Financial assets through profit or loss	39,970	39,970	8,975	8,975
Financial assets at amortised cost	113,987	113,912	0	0
Derivatives	1,491	1,491	524	524
Trade receivables	467,764	467,764	383,560	383,560
Cash and cash equivalents	159,838	159,838	313,568	313,568
<b>Non-current financial liabilities</b>				
Trade payables	-10,000	-10,000	-10,006	-10,006
Lease liabilities	-8,724	-8,724	-9,121	-9,121
<b>Current financial liabilities</b>				
Lease liabilities	-3,433	-3,433	-2,712	-2,712
Trade payables excluding advances	-130,011	-130,011	-107,116	-107,116
Contract liabilities excluding advances	-114,795	-114,795	-99,097	-99,097
Liabilities under repurchase transactions (repo-type operations)	-102,234	-102,234	0	0
Other current liabilities excluding amounts owed to the State, to employees and advances	-4,241	-4,241	-15,174	-15,174
<b>Total</b>	<b>751,155</b>	<b>750,628</b>	<b>543,971</b>	<b>543,971</b>

In terms of fair value, assets and liabilities are classified into three levels:

- Level 1 – assets at market price;
- Level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- Level 3 – assets the value of which cannot be determined using observable market data.

## Assets at fair value

€ thousand	31 Dec 2021				31 Dec 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets at fair value</b>								
Financial assets at fair value through OCI	14,474	0	1,387	15,861	9,033	0	1,387	10,420
Financial assets through profit or loss	39,970	0	0	39,970	8,975	0	0	8,975
Derivatives	0	0	1,491	1,491	0	0	524	524
<b>Total assets at fair value</b>	<b>54,444</b>	<b>0</b>	<b>2,878</b>	<b>57,322</b>	<b>18,008</b>	<b>0</b>	<b>1,911</b>	<b>19,919</b>
<b>Assets for which fair value is disclosed</b>								
Loans	0	0	232,660	232,660	0	0	70,150	70,150
Trade receivables	0	0	467,764	467,764	0	0	383,560	383,560
Financial assets at amortised cost	206,482	0	0	206,482	0	0	0	0
Cash and cash equivalents	0	0	159,838	159,838	0	0	313,568	313,568
<b>Total assets for which fair value is disclosed</b>	<b>206,482</b>	<b>0</b>	<b>860,262</b>	<b>1,066,744</b>	<b>0</b>	<b>0</b>	<b>767,278</b>	<b>767,278</b>
<b>Total</b>	<b>260,926</b>	<b>0</b>	<b>863,140</b>	<b>1,124,066</b>	<b>18,008</b>	<b>0</b>	<b>769,189</b>	<b>787,197</b>

## Liabilities at fair value

€ thousand	31 Dec 2021				31 Dec 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Liabilities for which fair value is disclosed</b>								
Trade payables	0	0	10,000	10,000	0	0	10,006	10,006
Borrowings	0	0	0	0	0	0	0	0
Lease liabilities	0	0	12,157	12,157	0	0	11,833	11,833
Trade payables excluding advances	0	0	130,011	130,011	0	0	107,116	107,116
Contract liabilities excluding advances	0	0	114,795	114,795	0	0	99,097	99,097
Liabilities under repurchase transactions (repo-type operations)	0	0	102,234	102,234	0	0	0	0
Other current liabilities excluding amounts owed to the State, to employees and advances	0	0	4,241	4,241	0	0	15,174	15,174
<b>Total liabilities for which fair value is disclosed</b>	<b>0</b>	<b>0</b>	<b>373,438</b>	<b>373,438</b>	<b>0</b>	<b>0</b>	<b>243,226</b>	<b>243,226</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>373,438</b>	<b>373,438</b>	<b>0</b>	<b>0</b>	<b>243,226</b>	<b>243,226</b>

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 0.1191% of voting rights. Members of the Supervisory Board of the controlling company held 3,347 shares, i.e. 0.0102% of total equity or 0.0108% of voting rights. Directors of subsidiaries held 3,114 shares, i.e.: 0.0095% of the total equity or 0.0100% of voting rights.

### Equity stakes held by Management and Supervisory Board members of the controlling company and their shares of voting rights

	31 Dec 2021			31 Dec 2020		
	No. of shares	Equity share (%)	Share of voting rights (%)	No. of shares	Equity share (%)	Share of voting rights (%)
<b>Members of the Management Board</b>						
Jože Colarič	22,500	0.0686	0.0723	22,500	0.0686	0.0720
Aleš Rotar	13,915	0.0424	0.0447	13,915	0.0424	0.0445
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
<b>Total Members of the Management Board</b>	<b>37,040</b>	<b>0.1129</b>	<b>0.1191</b>	<b>37,040</b>	<b>0.1129</b>	<b>0.1185</b>
<b>Members of the Supervisory Board (owner representatives)</b>						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Matej Lahovnik	600	0.0018	0.0019	600	0.0018	0.0019
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Borut Jamnik	0	0.0000	0.0000	0	0.0000	0.0000
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
<b>Members of the Supervisory Board (employee representatives)</b>						
Franc Šašek	1,400	0.0043	0.0045	1,400	0.0043	0.0045
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0016
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
<b>Total Members of the Supervisory Board</b>	<b>3,347</b>	<b>0.0102</b>	<b>0.0108</b>	<b>3,347</b>	<b>0.0102</b>	<b>0.0107</b>
<b>Total</b>	<b>40,387</b>	<b>0.1232</b>	<b>0.1298</b>	<b>40,387</b>	<b>0.1232</b>	<b>0.1292</b>

Treasury shares were eliminated from the calculation of voting rights (1,683,908 treasury shares as at 31 December 2021 and 1,541,774 as at 31 December 2020).

## Remuneration paid to groups of persons (gross)

€ thousand	31 Dec 2021	31 Dec 2020
Members of the Management Board in the controlling company	3,560	3,768
Managers of subsidiaries	2,682	2,609
Members of the Supervisory Board in the controlling company	303	210
Members of the Supervisory and Management Boards in subsidiaries	1	1
<b>Total gross remuneration paid to groups of persons</b>	<b>6,546</b>	<b>6,588</b>

Remuneration paid to members of the Management Board in the controlling company and directors of subsidiaries included wages and salaries, fringe benefits and any other earnings. For each year, they are shown on a cost basis and therefore differ from the remuneration shown in the Report on Remuneration of the Members of the Management Board and Supervisory Board of Krka for 2021, where they are shown by payments in each year.

Remuneration paid to members of the Supervisory Board in the controlling company represents earnings in connection with exercising the function within the Supervisory Board. Remuneration paid to members of the Supervisory and Management Boards in subsidiaries, who simultaneously act as members of the Management Board in the controlling company or are employed under individual employment contracts, also only include earnings for exercising the function within the Supervisory and Management Boards.

Gross earnings paid to persons employed under individual employment contracts in 2021 amounted to €13,091 thousand (2020: €12,670 thousand).

## Remuneration paid to Management Board members in the controlling company in 2021

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	430	178	7	734	306	1,164	491
Aleš Rotar	342	141	11	465	194	807	346
Vinko Zupančič	289	120	13	387	161	676	294
David Bratož	283	120	11	380	159	663	290
Milena Kastelic	170	78	6	80	34	250	118
<b>Total Members of the Management Board</b>	<b>1,514</b>	<b>637</b>	<b>48</b>	<b>2,046</b>	<b>854</b>	<b>3,560</b>	<b>1,539</b>

€ 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	1.79	0.05	1.98	6.64
Aleš Rotar	0.00	2.82	0.00	4.80	1.05	1.98	10.65
Vinko Zupančič	0.00	2.82	0.00	7.15	0.91	1.98	12.86
David Bratož	0.00	2.82	1.34	3.59	1.08	1.98	10.81
Milena Kastelic	0.00	2.82	0.00	0.44	1.08	1.98	6.32
<b>Total Members of the Management Board</b>	<b>0.00</b>	<b>14.10</b>	<b>1.34</b>	<b>17.77</b>	<b>4.17</b>	<b>9.90</b>	<b>47.28</b>



**Remuneration paid to Management Board members in the controlling company in 2020**

	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
€ thousand							
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
<b>Total Members of the Management Board</b>	<b>1,519</b>	<b>634</b>	<b>50</b>	<b>2,249</b>	<b>881</b>	<b>3,768</b>	<b>1,565</b>

	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
€ thousand							
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
<b>Total Members of the Management Board</b>	<b>0.00</b>	<b>14.10</b>	<b>1.86</b>	<b>20.78</b>	<b>4.23</b>	<b>9.04</b>	<b>50.00</b>

Other bonuses refer to the use of a company car for private purposes and other similar bonuses. Refund of work-related costs consists of commuting and meal allowances. Members of the Management Board do not receive attendance fees or any other income for exercising their functions in the Management and Supervisory Boards in subsidiaries.

**Remuneration paid to Supervisory Board members in the controlling company in 2021**

	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
€ thousand								
<b>Members of the Supervisory Board (owner representatives)</b>								
Jože Mermal	33.51	24.38	1.65	1.20	0.00	0.00	35.16	25.58
Matej Lahovnik	30.82	22.41	2.97	2.16	0.23	0.17	34.02	24.74
Borut Jamnik	31.61	22.99	2.97	2.16	0.00	0.00	34.58	25.15
Julijana Kristl	29.70	21.60	2.53	1.84	0.42	0.31	32.65	23.75
Mojca Osolnik Videmšek	29.70	21.60	2.97	2.16	0.40	0.29	33.07	24.05
Boris Žnidarič	31.61	22.99	2.53	1.84	0.41	0.30	34.55	25.13
<b>Members of the Supervisory Board (employee representatives)</b>								
Franco Šašek	31.23	22.71	2.97	2.16	0.00	0.00	34.20	24.87
Tomaž Sever	29.70	21.60	2.53	1.84	0.51	0.37	32.74	23.81
Mateja Vrečer	29.70	21.60	2.53	1.84	0.00	0.00	32.23	23.44
<b>Total remuneration paid to Members of the Supervisory Board</b>	<b>277.58</b>	<b>201.88</b>	<b>23.65</b>	<b>17.20</b>	<b>1.97</b>	<b>1.44</b>	<b>303.20</b>	<b>220.52</b>

In accordance with a resolution adopted at the 27th Annual General Meeting on 8 July 2021, 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 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. Notwithstanding the foregoing, and irrespective of the number of attendances at meetings of the Supervisory Board and the Commissions in any financial year, a member of the Supervisory Board shall be entitled to the payment of attendance fees until the total amount of the attendance fees reaches 50% of the basic pay for exercising the function of a Member of the Supervisory Board on an annual basis. Notwithstanding the foregoing, and irrespective of the number of attendances at meetings of the Supervisory Board and the Commissions in any financial year, a member of the Supervisory Board who is a member of a Commission or Commissions of the Supervisory Board shall be entitled to the payment of attendance fees until the total amount of the attendance fees for attendance at sessions of the Supervisory Board and the Commissions reaches 75% of the basic pay for exercising the function of a Member of the Supervisory Board on an annual basis.

In addition to attendance fees, member of the Company's Supervisory Board receives on an annual basis also a basic pay for exercising the function in the amount of €15,000.00 gross. 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 are further entitled to a bonus corresponding to 25% of the basic fee for exercising the function of a member of the Supervisory Board. The President of the Commission is entitled to a bonus corresponding to 37.5% of the extra fee for exercising the function of a member of the Supervisory Board Commission. A Member of the Supervisory Board Commission is in every financial year entitled – regardless of the above-mentioned or the number of Commissions he/she 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 of the Supervisory Board member on an annual basis. Notwithstanding the above, if the term of office of a member of the Supervisory Board is shorter than a financial year, and irrespective of the number of Commissions of which he/she is a member or presides over, a member of a Commission of the Supervisory Board shall be entitled to pay-outs of extra fees for the performance of his/her duties in a financial year, until the total amount of such pay-outs for exercising the function reaches 50% of the basic pay for of a member of the Supervisory Board in respect of the eligible payments for the period of his/her term of office in the financial year.

Members of the Supervisory Board are also entitled to extra fees for special tasks. Special tasks are those which involve the actual performance of unusual tasks of above-average complexity over a prolonged period of time, normally lasting at least one month. The Supervisory Board is authorised to take decisions with the agreement of the Supervisory Board member on the assignment of special tasks to that member, the duration of the special tasks and the extra fees for the special tasks in accordance with this Assembly Decision. The Supervisory Board is also authorised to take decisions on extra fees for special tasks of the Supervisory Board members due to objective circumstances in the company. Extra fees for special tasks are only admissible for the time when the special tasks are actually carried out, which may exceptionally be decided retrospectively by the Supervisory Board (in particular in the case of special tasks due to objective circumstances in the company), but not more than for the previous financial year. The extra fees for special tasks that a member may receive in a given year may amount to a maximum of 50% of the basic pay for exercising the functions of a member of the Supervisory Board (irrespective of the number of special tasks). The amount of the additional payment shall take into account the complexity of the special task and the increased workload and responsibility involved. The extra fee rate shall be calculated according to the time actually spent on the special task.

Members of the Company's Supervisory Board receive a basic pay and an extra fee for exercising the function and a bonus for special tasks, in proportionate monthly payments which they are entitled while they are performing a function and/or a special task. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Depending on the circumstances, a surcharge for special tasks may also be applied in a lump sum when the special task is completed.

The limitation of the amount of the total amount of the attendance fees and the payment of the extra fees to a member of the Supervisory Board shall in no way affect his/her duty to actively participate in all sessions of the Supervisory Board and of the sessions of the Commissions of which he/she is a member, nor his/her statutory responsibility.

The Members of the Supervisory Board are entitled to reimbursement of transportation costs, daily allowance and overnight accommodation expenses incurred in connection with their work for the Supervisory Board, up to the amount laid down in the rules governing the reimbursement of expenses relating to work and other income not deductible for tax purposes (provisions applicable to transport on official travel and accommodation on business travel). The amount due to a member of the Supervisory Board under the above-mentioned regulation is increased by the corresponding levies, therefore the net payment represents the reimbursement of actual travel expenses. The distances between places calculated on the AMZS public website are used to determine the mileage. Overnight accommodation expenses may be reimbursed only if the permanent or temporary residence of the member of the Supervisory Board or of a member of a Supervisory Board Commission is at least 100 kilometres from the place of work of the body, if he/she was unable to return because the timetable no longer provided for any public transport or for other objective reasons.

## Loans to groups of persons

€ thousand	Balance		Repayments	
	31 Dec 2021	31 Dec 2020	2021	2020
Members of the Management Board in the controlling company	0	0	0	0
Managers of subsidiaries	37	11	10	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
<b>Total loans to groups of persons</b>	<b>37</b>	<b>11</b>	<b>10</b>	<b>0</b>

Loans to staff employed under individual employment contracts amounted to €179 thousand at 31 December 2021 (€155 thousand as at 31 December 2020). In 2021, repayments of loans by staff employed under individual employment contracts reached €26 thousand (2020: €22 thousand).

## 32. Profile of the Krka Group<sup>80</sup>

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 2021 (in thousand)	Currency	Headcount at 31 Dec 2021	Headcount at 31 Dec 2020
<b>Controlling company</b>					
Krka, d. d., Novo mesto	100%	54,732	EUR	6,228	6,191
<b>Subsidiaries</b>					
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753	EUR	548	580
KRKA-FARMA d.o.o., Zagreb, Croatia	100%	143,027	HRK	184	191
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37	RON	144	147
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	65	RSD	77	82
KRKA-FARMA DOOEL Skopje, North Macedonia	100%	49,021	MKD	44	42
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	20	BGN	74	72
KRKA HELLAS E.P.E., Athens, Greece	100%	10	EUR	16	18
KRKA FARMA d.o.o., Sarajevo, Bosnia and Herzegovina	100%	20	BAM	1	1
KRKA-RUS LLC, Istra, Russian Federation	100%	5,361,375	RUB	525	525
KRKA FARMA LLC, Istra, Russian Federation	100%	753,875	RUB	1,427	1,547
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100	UAH	395	384
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	100%	14	USD	93	91
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	100%	17,490	PLN	660	683
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100	CZK	173	187
KRKA Magyarország Kft., Budapest, Hungary	100%	44,880	HUF	174	170
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	EUR	113	122
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	EUR	55	62
SIA KRKA Latvija, Riga, Latvia	100%	10	EUR	39	40
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	EUR	215	235
Krka Sverige AB, Stockholm, Sweden	100%	150	SEK	7	6
KRKA Pharma GmbH, Vienna, Austria	100%	37	EUR	21	22
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	EUR	46	46
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	EUR	62	59
KRKA FARMACEUTICI MILANO S.r.l., Milan, Italy	100%	10	EUR	69	72
KRKA France Eurl, Paris, France	100%	10	EUR	41	28
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	EUR	11	8
KRKA Belgium, SA, Brussels, Belgium	100%	300	EUR	21	22
KRKA Finland Oy, Espoo, Finland	100%	3	EUR	17	15
KRKA UK Ltd, London, United Kingdom	100%	1	GBP	14	12
123 Acurae Pharma GmbH, Cuxhaven, Germany	100%	25	EUR	0	0
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	345	CNY	17	17
KRKA USA LLC, Wilmington, USA	100%	10	USD	0	0
<b>Total</b>				<b>11,511</b>	<b>11,677</b>

The subsidiary Terme Krka, d. o. o. had a 100% interest in Golf Grad Otočec, d. o. o., at 31 December 2021; the subsidiary KRKA France Eurl had a 100-percent interest in HCS bvba in Belgium. The Chinese company Ningbo Menovo Pharmaceutical Co., Ltd. had a 40-percent holding of the company Ningbo Krka Menovo.

### 33. Educational structure of the Krka Group employees

	2021		2020	
	Average headcount	Share (%)	Average headcount	Share (%)
PhD	206	1.8	203	1.7
MSc	397	3.4	391	3.4
University education	5,313	45.9	5,428	46.7
Higher professional education	1,727	14.9	1,700	14.6
Vocational college education	306	2.6	297	2.6
Secondary school education	2,613	22.6	2,547	21.9
Skilled workers	859	7.4	877	7.5
Unskilled workers	160	1.4	188	1.6
<b>Total</b> (average for the year)	<b>11,581</b>	<b>100.0</b>	<b>11,631</b>	<b>100.0</b>

### 34. Transactions with audit firms

The annual fee for auditing of the Krka Group's financial statements in 2021 amounted to €483 thousand (2020: €466 thousand). In addition, the auditing firms provided various consultation services to the Krka Group in 2021 charging a fee of €31 thousand (2020: €60 thousand).

### 35. Subsequent events

The events after the end of the period had no impact on the 2021 financial statements.

### Situation in Ukraine and the Russian Federation: Impact on the Krka Group Operations

We conduct business in Ukraine and the Russian Federation, sales Region East Europe, through three subsidiaries and the controlling company, Krka, d. d., Novo mesto. The registered office of our subsidiary Krka Ukraine LLC engaged only in marketing, but not manufacturing, is in Kiev. The registered office of Krka-Rus LLC engaged in pharmaceutical production is in Istra, a town in the vicinity of Moscow. Main offices of Krka Farma LLC, a company engaged in marketing and sales, are in Moscow.

On account of rapid changes and their unpredictability, it is not possible to reliably forecast the impact of the situation in Ukraine and Russian Federation on our business operations in 2022 and any long-term consequences. Krka has a strong capital structure, generates a strong cash flow from operations and has no financial debt, so its successful business performance in the long run is not jeopardised. Our Management Board closely monitor events and implement all necessary activities to ensure business continuity in the two countries. They also take measures to manage operational risks and reduce the eventual negative impact on business results. The Management Board will prepare and publish the eventual revision of guidance for 2022, when and if tangible assessment of short and long term implication of current situation is possible.

As at 31 December 2022, Krka's trade receivables due from customers outside the Krka Group in Ukraine amounted to €39,159 thousand. Krka's Ukrainian subsidiary does not deal with sales, so it posted no trade receivables due from customers outside the Krka Group, but recorded other assets in total of €2,492 thousand. As at 31 December 2021, the Krka Group recorded trade receivables in total of €181,661 thousand in the Russian Federation. The Krka Group's other assets in the two subsidiaries in the Russian Federation amounted to €133,968 thousand.

In 2022, there was an unfavorable change in the EUR/RUB exchange rate. The exposure at 31 December 2021 and related risks are presented in Note 30 'Financial instruments and financial risks'.

### Acquisition of Treasury Shares in 2022

From 1 January 2022 to 14 April 2022, we acquired 21,689 treasury shares. At the end of this period, Krka held 1,705,597 treasury shares, accounting for 5.201% of total shares.



# Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Company Krka, d. d., Novo mesto

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the consolidated financial statements of Krka, d. d., Novo mesto ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, 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 financial position of the Group as at 31 December 2021 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 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 77.0 million as at 31 December 2021 and represent 3.0% 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 18.4% of total consolidated assets as at 31 December 2021. 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 aging 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 date of the statement of financial position as well as credit notes issued after the date of statement of financial position to assess whether that revenue was recognised in the correct period and whether accruals for bonuses and discounts as at 31 December 2021 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 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 control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 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<sup>th</sup> July 2019, the president of the supervisory board has signed the audit agreement on 28<sup>th</sup> 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 ten 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 16 March 2022.

#### **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 annual report and in the financial statements, no other services which were provided by us to the Group.

### **AUDITOR'S REPORT ON THE COMPLIANCE OF CONSOLIDATED FINANCIAL STATEMENTS IN ELECTRONIC FORMAT WITH THE REQUIREMENTS OF DELEGATED REGULATION NO. 2019/815 ON A SINGLE ELECTRONIC REPORTING FORMAT**

We have conducted a reasonable assurance engagement whether the audited consolidated financial statements of the Group for the financial year ended 31 December 2021, which are included in consolidated annual report (hereinafter: the audited consolidated financial statements), are prepared in accordance with the requirements of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 as well as adjusted Commission Delegated Regulation (EU) 2020/815 of 11 November 2020 supplementing Directive 2004/109 / EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format applicable for 2021 (hereinafter referred to as the "Delegated Regulation").

#### **Responsibility of the management and those responsible for governance**

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

The audit committee and the supervisory board are responsible for overseeing the preparation of audited consolidated financial statements in electronic format in accordance with the requirements of the Delegated Regulation.





### Auditor's Responsibility

Our responsibility is to perform a reasonable assurance engagement and to express a conclusion on whether the audited consolidated financial statements have been prepared in accordance with the requirements of the Delegated Regulation. We conducted our reasonable assurance engagement in accordance with the revised International Standard on Assurance Engagements 3000 (revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform the engagement to obtain reasonable assurance for reaching the conclusion.

We have acted in accordance with the independence and ethical requirements of the Regulation EU no. 537/2014, and the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (including International Independence Standards) (IESBA Code), which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We apply International Standards on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements of applicable law and regulation.

### Summary of Work Performed

Within the scope of work, we have performed primarily the following procedures:

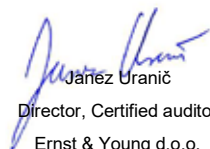
- identified and assessed the risk of material non-compliance of the audited consolidated financial statements with the requirements of the Delegated Regulation due to fraud or error;
- obtained an understanding of internal control relevant to the reasonable assurance engagement in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- assessed whether the audited consolidated financial statements meet the requirements of the Delegated Regulation applicable at the reporting date;
- obtained reasonable assurance that the audited consolidated financial statements, which are included in the annual report of the issuer are accurately presented in electronic XHTML format;
- obtained reasonable assurance that the values and disclosures in the XHTML format of the audited consolidated financial statements are marked-up correctly using the Inline XBRL technology (iXBRL), and that machine reading of these documents ensures complete and true information contained in the audited consolidated financial statements.

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

### Conclusion

Based on the procedures performed and the evidence obtained, in our opinion the audited consolidated financial statements of the Group for the financial year ended 31 December 2021, which are included in the annual report, have been prepared, in all material respects, in accordance with the requirements of the Delegated Regulation.

Ljubljana, 28 March 2022

  
Janez Uranič  
Director, Certified auditor  
Ernst & Young d.o.o.

Dunajska cesta 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 2021	31 Dec 2020	Index 2021/20
<b>Assets</b>				
Property, plant and equipment	12	570,086	605,164	94
Intangible assets	13	25,628	27,893	92
Investments in subsidiaries	14	346,444	339,612	102
Loans	15	31,010	35,024	89
Investments	16	108,882	10,419	1,045
Deferred tax assets	17	12,742	14,222	90
Other non-current assets		627	615	102
<b>Total non-current assets</b>		<b>1,095,419</b>	<b>1,032,949</b>	<b>106</b>
Assets held for sale		41	41	100
Inventories	18	394,323	389,178	101
Contract assets		300	500	60
Trade receivables	19	424,588	415,286	102
Other receivables	19	17,381	15,667	111
Loans	15	195,459	57,836	338
Investments	16	155,448	524	29,666
Cash and cash equivalents	20	144,981	296,398	49
<b>Total current assets</b>		<b>1,332,521</b>	<b>1,175,430</b>	<b>113</b>
<b>Total assets</b>		<b>2,427,940</b>	<b>2,208,379</b>	<b>110</b>
<b>Equity</b>				
Share capital	21	54,732	54,732	100
Treasury shares	21	-114,541	-99,279	115
Reserves	21	246,424	218,787	113
Retained earnings	21	1,689,527	1,617,610	104
<b>Total equity</b>		<b>1,876,142</b>	<b>1,791,850</b>	<b>105</b>
<b>Liabilities</b>				
Provisions	24	113,136	119,830	94
Deferred revenue	25	3,546	4,387	81
Trade payables	26	10,000	10,000	100
Lease liabilities		2,101	2,163	97
<b>Total non-current liabilities</b>		<b>128,783</b>	<b>136,380</b>	<b>94</b>
Trade payables	26	178,143	143,294	124
Borrowings	23	55,092	46,345	119
Lease liabilities		987	659	150
Income tax payables		4,611	13,354	35
Contract liabilities	27	19,477	16,581	117
Other current liabilities	28	164,705	59,916	275
<b>Total current liabilities</b>		<b>423,015</b>	<b>280,149</b>	<b>151</b>
<b>Total liabilities</b>		<b>551,798</b>	<b>416,529</b>	<b>132</b>
<b>Total equity and liabilities</b>		<b>2,427,940</b>	<b>2,208,379</b>	<b>110</b>

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

## Income Statement

€ thousand	Notes	2021	2020	Index 2021/20
<b>Revenue</b>		<b>1,381,367</b>	<b>1,447,112</b>	<b>95</b>
– Revenue from contracts with customers	5	1,374,765	1,440,930	95
– Other revenue		6,602	6,182	107
Cost of goods sold		-614,832	-624,105	99
<b>Gross profit</b>		<b>766,535</b>	<b>823,007</b>	<b>93</b>
Other operating income	6	6,660	5,137	130
Selling and distribution expenses		-271,425	-263,174	103
– Of that net impairments and write-offs of receivables		-50	1,177	
R&D expenses		-150,232	-150,727	100
General and administrative expenses		-78,213	-75,361	104
<b>Operating profit</b>		<b>273,325</b>	<b>338,882</b>	<b>81</b>
Financial income	10	24,714	31,786	78
Financial expenses	10	-12,083	-72,837	17
<b>Net financial result</b>		<b>12,631</b>	<b>-41,051</b>	
<b>Profit before tax</b>		<b>285,956</b>	<b>297,831</b>	<b>96</b>
Income tax	11	-40,740	-39,357	104
<b>Net profit</b>		<b>245,216</b>	<b>258,474</b>	<b>95</b>
<b>Basic earnings per share (€)</b>	<b>22</b>	<b>7.86</b>	<b>8.23</b>	<b>96</b>
<b>Diluted earnings per share (€)</b>	<b>22</b>	<b>7.86</b>	<b>8.23</b>	<b>96</b>

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	2021	2020	Index 2021/20
<b>Net profit</b>		<b>245,216</b>	<b>258,474</b>	<b>95</b>
<b>Net profit – effect of the merger</b>		<b>0</b>	<b>1,778</b>	<b>0</b>
<b>Other comprehensive income for the year</b>				
<b>Other comprehensive income that will not be reclassified to profit or loss at a future date</b>				
Change in fair value of financial assets		5,441	739	736
Restatement of post-employment benefits	24	6,438	-10,966	
Deferred tax effect		-1,645	901	
Effect of the merger		0	35,525	0
<b>Net other comprehensive income that will not be reclassified to profit or loss at a future date</b>		<b>10,234</b>	<b>26,199</b>	<b>39</b>
<b>Total other comprehensive income of the year (net of tax)</b>		<b>10,234</b>	<b>26,199</b>	<b>39</b>
<b>Total comprehensive income of the year (net of tax)</b>		<b>255,450</b>	<b>286,451</b>	<b>89</b>

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
<b>At 1 Jan 2021</b>	<b>54,732</b>	<b>-99,279</b>
<b>Net profit</b>	<b>0</b>	<b>0</b>
<b>Total other comprehensive income of the year</b> (net of tax)	<b>0</b>	<b>0</b>
<b>Total comprehensive income of the year</b> (net of tax)	<b>0</b>	<b>0</b>
<b>Total transactions with owners, recognised in equity</b>		
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	-15,262
Formation of reserves for treasury shares	0	0
Dividends paid	0	0
<b>Total transactions with owners, recognised in equity</b>	<b>0</b>	<b>-15,262</b>
<b>At 31 Dec 2021</b>	<b>54,732</b>	<b>-114,541</b>

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

€ thousand	Share capital	Treasury shares
<b>At 1 Jan 2020</b>	<b>54,732</b>	<b>-73,774</b>
<b>Net profit</b>	<b>0</b>	<b>0</b>
<b>Net profit – effect of the merger</b>	<b>0</b>	<b>0</b>
<b>Total other comprehensive income of the year</b> (net of tax)	<b>0</b>	<b>0</b>
<b>Total comprehensive income of the year</b> (net of tax)	<b>0</b>	<b>0</b>
<b>Total transactions with owners, recognised in equity</b>		
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
<b>Total transactions with owners, recognised in equity</b>	<b>0</b>	<b>-25,505</b>
<b>At 31 Dec 2020</b>	<b>54,732</b>	<b>-99,279</b>

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Reserves					Retained earnings			
Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	Total equity
99,279	105,897	14,990	30,000	-31,379	1,280,090	102,773	234,747	1,791,850
0	0	0	0	0	0	0	245,216	245,216
0	0	0	0	12,375	0	-2,141	0	10,234
0	0	0	0	12,375	0	-2,141	245,216	255,450
0	0	0	0	0	90,812	-90,812	0	0
0	0	0	0	0	0	234,747	-234,747	0
0	0	0	0	0	0	0	0	-15,262
15,262	0	0	0	0	0	0	-15,262	0
0	0	0	0	0	0	-155,896	0	-155,896
15,262	0	0	0	0	90,812	-11,961	-250,009	-171,158
114,541	105,897	14,990	30,000	-19,004	1,370,902	88,671	229,954	1,876,142

Reserves					Retained earnings			
Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	Total equity
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



## Statement of Cash Flows

€ thousand	Notes	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net profit</b>		<b>245,216</b>	<b>258,474</b>
<b>Adjustments for:</b>		<b>126,230</b>	<b>111,062</b>
– Amortisation/Depreciation	12, 13	84,863	85,146
– Foreign exchange differences		-3,634	1,611
– Investment income		-10,118	-28,408
– Investment expenses		12,951	15,131
– Financial income		-3	-3,779
– Interest expenses and other financial expenses		1,431	2,004
– Income tax	11	40,740	39,357
<b>Operating profit before changes in net current assets</b>		<b>371,446</b>	<b>369,536</b>
Change in trade receivables		-10,797	57,672
Change in inventories	18	-5,145	-22,171
Change in trade payables		41,785	-13,832
Change in provisions		-1,128	1,176
Change in deferred revenue	25	-841	-518
Change in other current liabilities		2,567	3,288
Income tax paid		-49,648	-42,641
<b>Net cash flow from operating activities</b>		<b>348,239</b>	<b>352,510</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		403	575
Dividends received		668	575
Proportionate profit of subsidiaries		5,419	7,092
Proceeds from sale of property, plant and equipment		1,391	760
Purchase of property, plant and equipment	12	-48,851	-60,917
Purchase of intangible assets	13	-4,836	-5,582
Acquisition of subsidiaries and a share of minority interests net of financial assets acquired	14	-7,824	-11,281
Refunds of subsequent contributions to subsidiaries	14	992	0
Net proceeds from non-current loans		3,875	2,207
Net payments for current loans		-137,558	-23,210
Net payments for non-current investments		-92,135	-540
Net payments for current investments		-51,488	0
Net payments for/proceeds from derivatives		-8,457	2,769
<b>Net cash flow from investing activities</b>		<b>-338,401</b>	<b>-87,552</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Interest paid		-444	-512
Net proceeds from/payments for current borrowings	31	8,703	-2,269
Lease liabilities paid	30	-991	-732
Dividends and other profit shares paid	31	-155,907	-133,283
Repurchase of treasury shares	31	-15,262	-25,505
<b>Net cash flow from financing activities</b>		<b>-163,901</b>	<b>-162,301</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>-154,063</b>	<b>102,657</b>
Cash and cash equivalents at beginning of year		296,398	195,236
Effect of foreign exchange rate fluctuations on cash held		2,646	-1,751
Cash proceeds from merger of Farma GRS		0	256
<b>Closing balance of cash and cash equivalents</b>		<b>144,981</b>	<b>296,398</b>

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

# Notes to the Financial Statements

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The Company was registered at the District Court of Novo mesto on 13 July 1989, registration number: 1/00097/00. Company registration number: 5043611000.

The financial statements of the Company refer to the year ended 31 December 2021.

The Company is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals and non-prescription products), and animal health products.

## 1. Basis of preparation

### Statement of compliance

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 Management Board on 28 March 2022.

### Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of derivatives, financial instruments at fair value through profit or loss and financial instruments at fair value through OCI for which fair value was used. Methods applied in the measurement of fair value are presented in Note 2 'Fair Value'.

### Functional and reporting currency

The financial statements are presented in the euro, which is the Company's functional currency. All financial information presented in the euro has been rounded to the nearest thousand.

### Use of estimates and judgements

The preparation of financial statements requires the Management Board of the controlling company to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities of Krka as well as the reported income and expenses for the period.

These include, among others: determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; income from contracts with customers, allowances made for inventories and receivables; investment impairment; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of potential provisions for disputes, and an estimate of the duration of the lease and the interest rate used. Regardless of the fact that the 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 contract 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.

The Company is a seller of products that may be subject to payment terms in excess of one year in certain markets. Krka recognises financial income and expenses on these sales using the appropriate discount rate.

- Note 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 2021.

- 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. Hence, 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'

Lawsuits and claims may be brought against the Company for alleged breaches of intellectual property (patent rights or competition law) and those referring to other civil law areas. A provision is recognised when 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 estimated bond yield if the Company were to incur debt on the financial markets, depending on the maturity of the contract.

## 2. Significant accounting policies

Krka applied the same accounting policies in all periods presented in the accompanying financial statements.

The accounting policies and the calculation methods used are the same as for the last annual reporting, except for the newly adopted standards and interpretations, which are noted below and were applied if relevant events occurred in the Company in the reporting period.

### New standards and interpretations effective from 1 January 2021

#### *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase Two*

The International Accounting Standards Board (IASB) published phase two 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 to respond to the effects of Interbank Offered Rates (IBOR). The amendments introduce a temporary exemption for reporting the financial effects of replacing the interbank offered rates (IBOR) with an alternative nearly risk-free interest rate (RFR). They provide a practical expedient to companies when accounting for modification in the basis for determining the contractual cash flows of a financial asset and liability, where an entity is required to adjust the effective interest rate that is equivalent to the fluctuation of the market interest rates. In addition, they provide entities with certain relief from discontinuing hedge accounting, including a temporary exemption from the requirement of differentiation for hedging relationships in which an alternative interest rate reference has been specified as a non-contractually determined risk component.

#### *Amendments to IFRS 7 – Financial Instruments*

Amendments require entities to make appropriate disclosures to enable the financial statement users to understand the effect of the interest rate benchmark reform on their financial instruments and risk management strategy. The entity must apply the amendments retrospectively, without restatement of prior period data. The management has assessed the impact of the amendments and believes they had no significant impact on the Krka's financial statements.

### *Amendments to IFRS 16 Leases – COVID-19-Related Rent Concessions after 30 June 2021*

The amendments are effective for annual periods beginning on or after 1 April 2021 and must be applied retrospectively, with early application permitted even in financial statements that were not authorised for issue at the date of the amendments. In March 2021, the IASB amended the conditions for applying the practical expedient in *IFRS 16*, which allows a lessee not to treat lease rent adjustments that arise as a direct result of the COVID-19 pandemic under the guidance in the standard *IFRS 16*. An entity may obtain practical expedient relief from the treatment of a rent concession where the individual rent reduction affects only payments that would have been originally due on or before 30 June 2022, and provided that all the conditions for applying the practical expedient are met. The Company applied the amendments on 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 Company, with 30 June 2021 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 Krka 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.

In 2020, following the merger of Farma GRS, d. o. o., the Company recognised:

- €1,777,842 of net profit of the 2020 financial period;
- €35,501,994 of retained earnings; and
- €22,421 of value reserves.

A more detailed presentation of the effects of the merger is disclosed below in Notes to the separate financial statements of the Company for the previous year.

## 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.

## Fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair value is the amount for which an asset could be sold or a liability exchanged in a regular transaction between market participants. All assets and liabilities measured and disclosed at their fair value in financial statements are classified in the fair value hierarchy on the basis of lowest level of input data significant for measurements of total fair value:



- Level 1 – market value (unadjusted) from the active market for similar assets and liabilities;
- Level 2 – valuation model, which is not classified in level 1, is valued directly or indirectly on the basis of comparable market data;
- Level 3 – valuation model which is not based on the market data.

Fair 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 and debt securities

The fair value of financial assets at fair value through profit or loss and at fair value through OCI is determined by reference to their quoted closing bid price. For investments in debt securities at amortised cost, for reporting purposes the fair value is calculated on the basis of the closing rate, which is increased by accrued interest on the reporting date.

## Trade and other receivables

Fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest effective at the reporting date.

## Financial liabilities

Fair value is determined based on the present value of future principal and interest payments discounted at the market rate of interest prevailing at the reporting date.

## Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## Financial assets

Financial assets of the Company include cash and cash equivalents, receivables and loans and financial investments and investments in subsidiaries (see accounting policies in the Investments in subsidiaries section).

## 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.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to the contractual cash flows from the financial asset in a transaction that transfers all the risks and rewards of ownership of the financial asset.

## **Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

### **Financial assets at amortised cost (debt instruments)**

Cash and cash equivalents comprise cash, bank deposits up to three months, and other current, highly realisable investments with an original maturity of three months or less. The latter can be easily converted into known amounts of cash and for which the risk of changes in value is insignificant. The cash flows derived from these assets are solely payments of the principal and interest are therefore classified as financial assets at amortised cost.

According to the SSPI test, loans issued by the Company are classified as financial assets at amortised cost, since the cash flows derived from these assets are solely payments of the principal and interest on the principal amount outstanding.

Krka's investments in debt securities, which include only low credit risk government bonds, are classified as financial assets at amortised cost.

The Company's financial assets at amortised cost also include trade receivables.

After initial recognition, these investments are measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

### **Financial assets at fair value through OCI (debt instruments)**

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.

Impairment of financial assets is described in the 'Impairment – financial assets' section.

## Financial liabilities

Financial liabilities consist mainly of loans, payables to suppliers and other liabilities. Lease liabilities and employee benefits are treated separately (see accounting policies in sections 'Leases' and 'Employee Benefits'). All other financial liabilities are initially recognised on the trade date or when the Company becomes a contracting party in relation to the instrument. On initial recognition, the Company classifies non-derivative financial liabilities as subsequently measured at amortised cost and derivative financial liabilities as at fair value through profit or loss. After initial recognition, financial liabilities arising from loans are measured using the effective interest method. Gains and losses are recognised in profit or loss when these liabilities are discharged or modified. The Company derecognises a financial liability if the obligations set out in the contract are fulfilled, cancelled or expired.

## Investments in subsidiaries

Non-current investments made in equity of subsidiaries included in consolidated financial statements are valued at cost. Participation in the profit of a subsidiary is recognised in the profit or loss of the controlling company when an appropriate resolution referring to profit distribution has been adopted. If the investment is required to be impaired due to subsidiary's loss, the amount of loss due to impairment is measured as a difference between the carrying amount of the investment and the present value of expected future cash flows.

## Property, plant and equipment

The items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (refer to the accounting policy *Impairment*). The cost of an item of property, plant and equipment as at 1 January 2004, the date of transition to *IFRS*, is determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of making the asset ready for its intended use, and (if applicable) assessed costs of dismantling and removing the items and restoring the site on which they are located, as well as capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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 of 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.

## 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 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 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 estimated bond returns if the Company were to incur debt on the financial markets, while considering their maturity if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. 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 statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

## Intangible assets

### Research and development

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. The Company reviews the net realisable value of inventories once a year at the financial position date. If the carrying amount of inventories exceeds their net realisable value, inventories are impaired.

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 Company recognises an allowance for the expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since the initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

### Impairments of receivables and assets from contracts

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient (contracts agreed for a period of one year or less) are measured at the transaction price determined under *IFRS 15* less any impairment losses.

Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on a lifetime ECL at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Allowances are recognised using uniform methodology applicable to the Company and in consideration of the probability or assessed probability of receivable settlement by the debtors.

### Impairment of investments

For investments that include government bonds measured at amortised cost, the Company measures expected credit losses annually. If there has been a significant increase in credit risk since recognition, the Company recognises an allowance over the life of the expected credit loss.

### 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.

## Share capital

### Repurchase of treasury shares

When treasury shares recognised as a part of share equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

### Dividends

Dividends are recognised in the Company's financial statements in the period in which they are declared by the Annual General Meeting.

## Current employee benefits

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

## Non-current employee benefits

### Provisions for post-employment benefits and other non-current employee benefits

Pursuant to the local legislation, Krka is liable to pay to its employees' anniversary bonuses and termination benefits upon retirement and recognises relevant amount of provisions for these purposes. The Company has no other pension obligations.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is performed using the projected unit credit method. Employee benefit costs, as well as cost of interest, are recognised in profit or loss, whereas restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in other comprehensive income.

## Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## Provisions for disputes

The Company discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of a favourable or unfavourable outcome of the lawsuit is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

## Revenue from contracts with customers

The Company is engaged in development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and material. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services while considering specific terms and conditions of an individual contract.

Transfer of control over those goods and services depends on terms and conditions of the contract. In general, control is transferred when goods are accepted by the customer or services are rendered. The normal credit term ranges from 30 to 120 days.

The Company 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 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 products sold) is also recognised for the right to recover products from a customer.

## Bonuses and volume rebates

The Company provides retrospective bonuses and volume rebates to certain customers once the quantity or value of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. The Company estimates the variable consideration for the expected future bonuses and volume rebates based on terms and conditions of the contract including criteria and elements that provide the basis for the recognition of those bonuses and volume rebates. For valuation, the Company uses the most probable value method or the expected value method. The method chosen, which best predicts the value of the rebates and volume discounts, is based on the number of thresholds in the contract.

Disclosures about the use of estimates and judgements in estimating variable consideration are provided in the 'Basis of preparation of the financial statements' section.

## Significant financing component

In some cases, the Company receives current advances from its customers. Using the practical expedient in *IFRS 15.63*, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised goods or services to the customer and when the customer pays for those goods or services will be one year or less.

For sales to the subsidiary Krka-Rus in the Russian Federation, the Company has in the past periods agreed payment terms in excess of one year. In order to take into account a significant financing component, in such cases 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. Once the transaction is completed and the customer is confirmed, the contract assets are reclassified as trade receivables.

### Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional, i.e. only the passage of time is required before payment of consideration is due. Refer to the accounting policy *Recognition of financial instruments*.

### Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the goods or services are transferred to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

### Right-of-return assets

Right-of-return assets represent the Company's right to recover the goods expected to be returned by the customer.

The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of returned goods. The Company regularly updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

### Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable from the customer). The refund liability arises from bonuses and volume discounts. It is measured at the amount the Company ultimately expects it will have to return to the customer.

The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. 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. 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 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).

Revenue generated by individual segments of the Company are presented in terms of customers' geographical location. The data are calculated on the basis of revenue and expenses, assets and liabilities directly attributable to each market of the Company.



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 by an entity when a transaction involves assets that do not constitute the entity's 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 and believes they will have no significant impact on the financial statements of the Company.

### *Amendments to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current*

The amendments were initially effective for annual periods beginning on or after 1 January 2022. Early adoption was 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 help promoting 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; however, they 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.

In November 2021, the IASB published an Exposure Draft (ED) that clarifies how an entity treats liabilities that are subject to commitments that are due to be fulfilled at a date after the reporting period.

In particular, the Board proposes a limited scope of amendments to *IAS 1* that effectively repeal the 2020 amendments that require an entity to classify the liabilities to which the commitments are linked as current liabilities that it is not required to meet until within the next twelve months after the reporting period if it is not meeting them at the end of the reporting period.

Instead, the proposed amendments require an entity to present separately and make additional disclosures about any non-current liabilities, to which the commitments are linked that it is not required to meet until within the next twelve months after the reporting period if it is not meeting them at the end of the reporting period.

The proposed amendments are effective for annual periods beginning on or after 1 January 2024 and, in accordance with the requirements of *IAS 8*, an entity shall apply them retrospectively. Early adoption is permitted. At the same time, the Management Board has proposed to postpone the entry into force of the amendments from 2020, which means that companies do not need to change their existing practices before the proposed amendments enter into force. The EU has not yet endorsed the updates to the standard and the drafts for public consultation. 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, 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 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 IAS 1 – Presentation of Financial Statements and Note 2 to IFRS – Disclosure of Accounting Policies*

The amendments are effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted. The amendments provide guidance for assessing materiality in the disclosure of accounting policies and replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. At the same time, the Note provides guidance and illustrative examples to assist in applying the concept of materiality in assessing disclosures about accounting policies. The amendment has 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 IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors Definition of accounting estimates*

The amendments are effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted. They address changes in accounting policies and accounting estimates at the beginning of the period or subsequently and define accounting estimates as monetary amounts in the financial statements that have measurement uncertainty associated with them. They also explain what changes in accounting estimates are and how they differ from changes in accounting policies and corrections of errors. The amendment has 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 IAS 12 – Income Taxes: Deferred Tax related to Assets and Liabilities from a single transaction*

The amendments are effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted. In May 2021, the IASB issued amendments to *IAS 12* to restrict the application of the initial recognition exemption under *IAS 12* and to specify how an entity should account for deferred tax on certain transactions, such as leases and decommissioning liabilities. Under the amendments, the exemption does not apply to transactions for which the taxable amount at initial recognition is equal to the amount of deductible temporary differences. The exception applies only if, on recognition of the leased asset and the related liability (or the liability in connection with the decommissioning and decommissioning of a component of the asset), the taxable amount is not equal to the amount of the deductible temporary differences. The amendment has so far not been endorsed by the EU. The management has assessed the impact of the amendments and believes they will have no impact on the financial statements of the Company.



## 4. Segment reporting

The Company reports in terms of certain geographical segments. Revenue generated by individual segments are presented in terms of customers' geographical location. The data are calculated on the basis of revenue and expenses, assets and liabilities directly attributable to each market of the Company.

### Segment reporting

€ thousand	European Union		South-Eastern Europe	
	2021	2020	2021	2020
<b>Revenue</b>	<b>767,347</b>	<b>815,626</b>	<b>85,075</b>	<b>80,346</b>
– Revenue from contracts with customers	761,005	809,659	85,075	80,346
– Other revenue	6,342	5,967	0	0
Other operating income	6,660	5,137	0	0
Operating costs	-648,942	-667,278	-59,187	-54,534
<b>Operating profit</b>	<b>125,065</b>	<b>153,485</b>	<b>25,888</b>	<b>25,812</b>
Interest income	501	438	0	0
Interest expenses	-497	-454	-2	-2
<b>Net financial result</b>	<b>4,546</b>	<b>737</b>	<b>-61</b>	<b>-83</b>
Income tax	-18,641	-17,826	-3,859	-2,998
<b>Net profit</b>	<b>110,970</b>	<b>136,396</b>	<b>21,968</b>	<b>22,731</b>
Investments	49,493	61,311	0	0
Depreciation of property, plant and equipment	59,410	58,769	1,680	1,672
Depreciation of the right-of-use assets	721	549	20	15
Amortisation	3,113	3,218	345	317
	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
<b>Total assets</b>	<b>1,836,904</b>	<b>1,644,023</b>	<b>53,117</b>	<b>47,873</b>
<b>Total liabilities</b>	<b>372,823</b>	<b>288,890</b>	<b>22,299</b>	<b>15,112</b>

Eastern Europe		Other		Total	
2021	2020	2021	2020	2021	2020
<b>463,028</b>	<b>489,452</b>	<b>65,917</b>	<b>61,688</b>	<b>1,381,367</b>	<b>1,447,112</b>
462,982	489,401	65,703	61,524	1,374,765	1,440,930
46	51	214	164	6,602	6,182
0	0	0	0	6,660	5,137
-353,383	-343,942	-53,190	-47,613	-1,114,702	-1,113,367
<b>109,645</b>	<b>145,510</b>	<b>12,727</b>	<b>14,075</b>	<b>273,325</b>	<b>338,882</b>
0	8	0	2	501	448
-11	-11	-3	-10	-513	-477
<b>5,501</b>	<b>-40,634</b>	<b>2,645</b>	<b>-1,071</b>	<b>12,631</b>	<b>-41,051</b>
-16,343	-16,899	-1,897	-1,634	-40,740	-39,357
<b>98,803</b>	<b>87,977</b>	<b>13,475</b>	<b>11,370</b>	<b>245,216</b>	<b>258,474</b>
0	0	0	0	49,493	61,311
15,536	16,647	1,677	1,610	78,303	78,698
194	160	20	15	955	739
1,879	1,931	268	243	5,605	5,709
<b>31 Dec 2021</b>	<b>31 Dec 2020</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>	<b>31 Dec 2021</b>	<b>31 Dec 2020</b>
<b>485,242</b>	<b>470,677</b>	<b>52,677</b>	<b>45,806</b>	<b>2,427,940</b>	<b>2,208,379</b>
<b>125,083</b>	<b>95,513</b>	<b>31,593</b>	<b>17,014</b>	<b>551,798</b>	<b>416,529</b>



## 5. Revenue from contracts with customers

### Breakdown of revenue from contracts with customers

€ thousand	2021	2020
Revenue from contracts with customers (products)	1,211,494	1,222,011
Revenue from contracts with customers (materials)	163,271	218,919
<b>Total revenue from contracts with customers</b>	<b>1,374,765</b>	<b>1,440,930</b>

### Revenue from contracts with customers by region

€ thousand	2021	2020
Region Slovenia	56,421	55,385
Region South-East Europe	205,491	197,185
Region East Europe	320,973	289,471
Region Central Europe	336,699	325,793
Region West Europe	246,350	313,365
Region Overseas Markets	45,560	40,812
<b>Total</b>	<b>1,211,494</b>	<b>1,222,011</b>

### Revenue from contracts with customers by product groups

€ thousand	2021	2020
Prescription pharmaceuticals	1,017,273	1,039,105
Non-prescription products	118,527	110,562
Animal health products	75,694	72,344
<b>Total</b>	<b>1,211,494</b>	<b>1,222,011</b>

## Contract balances

Trade receivables are described in Note 19 'Trade and other receivables', while liabilities recognised from contracts with customers in Note 27 'Current liabilities from contracts with customers'. The Company recognised assets from contracts with customers in the amount of €300 thousand (2020: €501 thousand) and liabilities from contracts in the amount of €5,839 thousand (2020: €4,641 thousand). Recognised assets and liabilities arising from contracts with customers are reported in the 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 in the amount €13,638 thousand (2020: €11,940 thousand). There were no right-of-return entitlements.

## Performance obligations

The Company is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and material. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract.

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 Company incurred no costs on acquisition or fulfilment of contracts with customers.

## 6. Other operating income

€ thousand	2021	2020
Reversal of non-current provisions	3,332	2,058
Deferred revenue reversal	870	640
Gains on sale of property, plant and equipment and intangible assets	515	396
Revaluation operating revenue – leases	3	7
Other operating income	1,940	2,036
<b>Total other operating income</b>	<b>6,660</b>	<b>5,137</b>

Other operating income includes €489 thousand (2020: €1,172 thousand) of government grants aimed at curbing the COVID-19 pandemic. The government grants received were linked to the fulfilment of conditions from past operations and are therefore fully recognised in the 2021 financial statements.

## 7. Costs by nature

€ thousand	2021	2020
Cost of goods and materials	388,639	414,326
Cost of services	307,464	305,619
Employee benefits	305,192	301,908
Amortisation and depreciation	84,863	85,146
Inventory write-offs and allowances (net)	17,287	12,895
Receivable impairments and write-offs (net)	50	-1,177
Formation of provisions for lawsuits	543	0
Other operating expenses	25,053	24,220
<b>Total costs</b>	<b>1,129,091</b>	<b>1,142,937</b>
Change in the value of inventories of finished products and work in progress	-14,389	-29,570
<b>Total</b>	<b>1,114,702</b>	<b>1,113,367</b>

## 8. Employee benefits

€ thousand	2021	2020
Gross wages and salaries and continued pay	234,331	231,236
Social security contributions	16,173	16,209
Pension insurance contributions	31,079	30,349
Post-employment benefits and other non-current employee benefits	7,020	7,464
Other employee benefits	16,589	16,650
<b>Total employee benefits</b>	<b>305,192</b>	<b>301,908</b>

Post-employment benefits and other non-current employee benefits are detailed in Note 24 'Provisions'. Other employee benefits include primarily vacation bonuses and commuting allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2021 amounted to €57,825 thousand (2020: €56,422 thousand). Compulsory pension and disability insurance amounted to €57,825 thousand, and there was no exemption from compulsory pension and invalidity insurance contributions.

Supplementary pension insurance contributions amounted to €8,913 thousand in 2021 (2020: €8,448 thousand).

## 9. Other operating expenses

€ thousand	2021	2020
Grants and assistance for humanitarian and other purposes	1,409	1,286
Environmental protection expenditures	3,653	3,528
Other taxes and levies	15,040	15,819
Loss on sale and write-offs of property, plant and equipment and intangible assets	2,506	1,138
Other operating expenses	2,445	2,449
<b>Total other operating expenses</b>	<b>25,053</b>	<b>24,220</b>

Other levies include €13,100 thousand of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries for pursuing promotional activities (2020: €13,892 thousand).

## 10. Financial income and expenses

€ thousand	2021	2020
Net foreign exchange differences	15,111	0
Interest income	501	448
Derivatives income	2,968	20,319
– Realised revenue	2,002	17,212
– Fair value change	966	3,107
Income from dividends and other profit shares	6,075	7,247
– Dividends	691	650
– Profits of subsidiaries	5,384	6,597
Other financial income	59	3,772
<b>Total financial income</b>	<b>24,714</b>	<b>31,786</b>
Net foreign exchange differences	0	-56,392
Interest expenses	-513	-477
– Interest paid	-466	-428
– Interest expenses on lease liabilities	-47	-49
Derivatives expenses	-10,459	-14,443
– Incurred expenses	-10,459	-14,443
Other financial expenses	-1,111	-1,525
<b>Total financial expenses</b>	<b>-12,083</b>	<b>-72,837</b>
<b>Net financial result</b>	<b>12,631</b>	<b>-41,051</b>

The net financial result in 2021 was better mainly due to a better result of €71,503 thousand in the net foreign exchange result. In 2021, Krka continued its policy of partial hedging against rouble-related risk and the US dollar with financial instruments. The most significant impact was the exchange rate of the rouble (final exchange rate on 31 December 2021 €1 = RUB 85.3004 and on 31 December 2020 €1 = RUB 91.4671).

Detailed information on the risk of changes in foreign exchange rates can be found in Note 32 'Financial Instruments and Financial Risks' and in the chapter 'Risk Management' in the business part of the *Annual Report*.

## 11. Income tax

### Adjustment to effective tax rate

€ thousand	2021	2020
Income tax	40,905	39,436
Deferred tax	-165	-79
<b>Total income tax</b>	<b>40,740</b>	<b>39,357</b>
<b>Profit before tax</b>	<b>285,956</b>	<b>297,831</b>
Income tax calculated at the rate of 19% (the same as in 2020)	54,332	56,588
Income tax from increased expenses	728	-846
Income tax from non-exempt expenses	2,598	2,370
Income tax from tax incentives	-15,664	-17,172
Income tax from adjustment of revenue decreasing the tax base	-1,254	-1,583
<b>Total income tax</b>	<b>40,740</b>	<b>39,357</b>
<b>Effective tax rate</b>	<b>14.2%</b>	<b>13.2%</b>

Investments in R&D and investment relief represent the major share of tax incentives.

## 12. Property, plant and equipment

€ thousand	31 Dec 2021	31 Dec 2020
Land	28,065	27,758
Buildings	248,553	263,859
Equipment	255,802	280,433
Property, plant and equipment being acquired	32,960	27,242
Advances for property, plant and equipment	1,661	3,021
Right-of-use assets	3,045	2,851
<b>Total property, plant and equipment</b>	<b>570,086</b>	<b>605,164</b>

In 2021, the most significant investments in the Company included the relocation of small series production and the increase of semi-finished products production capacity in Notol 2 in the amount of €7,260 thousand (2020: €7,025 thousand), and the construction of Sinteza 2 in Krško in the amount of €5,351 thousand (2020: €1,247 thousand). A total of €3,606 thousand was spent on various projects in the area of information technology and telecommunications (2020: €4,279 thousand), for relocation and redevelopment projects. €3,470 thousand (€691 thousand in 2020) were earmarked for the reconstruction of RKC 4 and RKC 1 in the laboratory rooms, and €2,583 thousand (€4 thousand in 2020) for the reconstruction of RKC 2 and the relocation of equipment to RKC 4.

Most of the right-of-use assets relate to the right-of-use buildings in the amount of €3,026 thousand (2020: €2,839 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
<b>Cost</b>							
<b>At 1 Jan 2020</b>	<b>27,074</b>	<b>595,912</b>	<b>982,172</b>	<b>31,473</b>	<b>769</b>	<b>3,719</b>	<b>1,641,119</b>
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
<b>At 31 Dec 2020</b>	<b>27,758</b>	<b>618,794</b>	<b>1,038,056</b>	<b>27,242</b>	<b>3,021</b>	<b>4,050</b>	<b>1,718,921</b>
<b>At 1 Jan 2021</b>	<b>27,758</b>	<b>618,794</b>	<b>1,038,056</b>	<b>27,242</b>	<b>3,021</b>	<b>4,050</b>	<b>1,718,921</b>
Additions	0	0	0	46,017	-1,360	0	44,657
Capitalisation – transfer from PP&E under construction	307	6,104	33,031	-39,442	0	0	0
Capitalisation – IFRS 16 Leases	0	0	0	0	0	1,320	1,320
Disposals, impairment, deficit, surplus	0	-683	-12,167	-857	0	-259	-13,966
Transfers, reclassification	0	0	8	0	0	0	8
<b>At 31 Dec 2021</b>	<b>28,065</b>	<b>624,215</b>	<b>1,058,928</b>	<b>32,960</b>	<b>1,661</b>	<b>5,111</b>	<b>1,750,940</b>
<b>Accumulated depreciation</b>							
<b>At 1 Jan 2020</b>	<b>0</b>	<b>-330,054</b>	<b>-697,234</b>	<b>0</b>	<b>0</b>	<b>-621</b>	<b>-1,027,909</b>
Merger by acquisition	0	-3,849	-15,238	0	0	0	-19,087
Depreciation	0	-21,035	-57,663	0	0	-739	-79,437
Disposals, deficit, surplus	0	0	12,520	0	0	160	12,680
Transfers, reclassification	0	3	-8	0	0	1	-4
<b>At 31 Dec 2020</b>	<b>0</b>	<b>-354,935</b>	<b>-757,623</b>	<b>0</b>	<b>0</b>	<b>-1,199</b>	<b>-1,113,757</b>
<b>At 1 Jan 2021</b>	<b>0</b>	<b>-354,935</b>	<b>-757,623</b>	<b>0</b>	<b>0</b>	<b>-1,199</b>	<b>-1,113,757</b>
Depreciation	0	-21,115	-57,188	0	0	-955	-79,258
Disposals, deficit, surplus	0	388	11,691	0	0	88	12,167
Transfers, reclassification	0	0	-6	0	0	0	-6
<b>At 31 Dec 2021</b>	<b>0</b>	<b>-375,662</b>	<b>-803,126</b>	<b>0</b>	<b>0</b>	<b>-2,066</b>	<b>-1,180,854</b>
<b>Carrying amount</b>							
<b>At 1 Jan 2020</b>	<b>27,074</b>	<b>265,858</b>	<b>284,938</b>	<b>31,473</b>	<b>769</b>	<b>3,098</b>	<b>613,210</b>
<b>At 31 Dec 2020</b>	<b>27,758</b>	<b>263,859</b>	<b>280,433</b>	<b>27,242</b>	<b>3,021</b>	<b>2,851</b>	<b>605,164</b>
<b>At 1 Jan 2021</b>	<b>27,758</b>	<b>263,859</b>	<b>280,433</b>	<b>27,242</b>	<b>3,021</b>	<b>2,851</b>	<b>605,164</b>
<b>At 31 Dec 2021</b>	<b>28,065</b>	<b>248,553</b>	<b>255,802</b>	<b>32,960</b>	<b>1,661</b>	<b>3,045</b>	<b>570,086</b>

No borrowing costs relate to the items of property, plant and equipment in 2021.

The carrying amount of the items of property, plant and equipment, which are temporarily not used amounted to €1,348 thousand as at 31 December 2021 (2020 year-end: €1,300 thousand).

Of total property, plant and equipment in use as at 31 December 2021, 39% was fully depreciated (2020 year-end: 36%). The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

All property, plant and equipment is free of encumbrances. The status of known future commitments related to the acquisition of property, plant and equipment is disclosed in Note 29 'Contingent Liabilities and Commitments'.

The movements and lease liabilities recognised in profit or loss are presented in Notes 30 'Leases' and 32 'Financial Instruments and Risk'.



## 13. Intangible assets

€ thousand	31 Dec 2021	31 Dec 2020
Concessions, trademarks and licences	21,699	23,443
Intangible assets being acquired	3,929	4,450
<b>Total intangible assets</b>	<b>25,628</b>	<b>27,893</b>

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
<b>Cost</b>			
<b>At 1 Jan 2020</b>	<b>107,475</b>	<b>4,062</b>	<b>111,537</b>
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
<b>At 31 Dec 2020</b>	<b>112,120</b>	<b>4,450</b>	<b>116,570</b>
<b>At 1 Jan 2021</b>	<b>112,120</b>	<b>4,450</b>	<b>116,570</b>
Additions	0	4,836	4,836
Transfer from IA being acquired	4,404	-4,404	0
Disposals, deficit, surplus	-541	-953	-1,494
Transfers, reclassification	-8	0	-8
<b>At 31 Dec 2021</b>	<b>115,975</b>	<b>3,929</b>	<b>119,904</b>
<b>Accumulated depreciation</b>			
<b>At 1 Jan 2020</b>	<b>-83,127</b>	<b>0</b>	<b>-83,127</b>
Merger by acquisition	-354	0	-354
Amortisation	-5,709	0	-5,709
Disposals, deficit, surplus	509	0	509
Transfers, reclassification	4	0	4
<b>At 31 Dec 2020</b>	<b>-88,677</b>	<b>0</b>	<b>-88,677</b>
<b>At 1 Jan 2021</b>	<b>-88,677</b>	<b>0</b>	<b>-88,677</b>
Amortisation	-5,605	0	-5,605
Transfers, reclassification	6	0	6
<b>At 31 Dec 2021</b>	<b>-94,276</b>	<b>0</b>	<b>-94,276</b>
<b>Carrying amount</b>			
<b>At 1 Jan 2020</b>	<b>24,348</b>	<b>4,062</b>	<b>28,410</b>
<b>At 31 Dec 2020</b>	<b>23,443</b>	<b>4,450</b>	<b>27,893</b>
<b>At 1 Jan 2021</b>	<b>23,443</b>	<b>4,450</b>	<b>27,893</b>
<b>At 31 Dec 2021</b>	<b>21,699</b>	<b>3,929</b>	<b>25,628</b>

Of total intangible assets in use as at 31 December 2021, 58% was fully amortised (2020 year-end: 55%). 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
<b>Cost</b>	
<b>At 1 Jan 2020</b>	<b>338,326</b>
Subsequent payments	11,281
Merger by acquisition	-1,004
<b>At 31 Dec 2020</b>	<b>348,603</b>
<b>At 1 Jan 2021</b>	<b>348,603</b>
Establishment of new companies	25
Subsequent payments	7,799
Refunds of subsequent contributions	-992
<b>At 31 Dec 2021</b>	<b>355,435</b>
<b>Accumulated depreciation</b>	
<b>At 1 Jan 2020</b>	<b>-8,991</b>
<b>At 31 Dec 2020</b>	<b>-8,991</b>
<b>At 1 Jan 2021</b>	<b>-8,991</b>
<b>At 31 Dec 2021</b>	<b>-8,991</b>
<b>Carrying amount</b>	
<b>At 1 Jan 2020</b>	<b>329,335</b>
<b>At 31 Dec 2020</b>	<b>339,612</b>
<b>At 1 Jan 2021</b>	<b>339,612</b>
<b>At 31 Dec 2021</b>	<b>346,444</b>

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 November 2021.

## Investments in subsidiaries

€ thousand	Ownership share	Share capital	Value of share in subsidiaries	
	31 Dec 2021	31 Dec 2021	31 Dec 2021	31 Dec 2020
KRKA-RUS LLC, Istra, Russian Federation	100%	62,853	118,916	118,916
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753	36,416	36,416
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	48,067	26,414	18,615
KRKA-FARMA d.o.o., Zagreb, Croatia	100%	19,031	19,738	19,738
KRKA - POLSKA, Sp. z o.o., Warsaw, Poland	100%	3,805	18,697	18,697
KRKA FARMA LLC, Istra, Russian Federation	100%	8,838	15,170	15,170
KRKA France Eurl, Paris, France	100%	10	4,662	4,662
KRKA Pharma GmbH, Vienna, Austria	100%	36	2,344	2,344
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA FARMACEUTICI MILANO S.r.l., Milan, Italy	100%	10	1,350	1,350
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,042	1,042
KRKA Finland Oy, Espoo, Finland	100%	2	1,003	1,003
KRKA-FARMA DOOEL Skopje, North Macedonia	100%	797	802	802
KRKA Belgium, SA, Brussels, Belgium	100%	300	285	285
KRKA Magyarország Kft., Budapest, Hungary	100%	122	184	184
123 Acurae Pharma GmbH, Cuxhaven, Germany	100%	25	25	0
Krka Sverige AB, Stockholm, Sweden	100%	15	16	16
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	100%	12	11	11
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	10	10	10
KRKA FARMA d.o.o., Sarajevo, Bosnia and Herzegovina	100%	10	10	10
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	10	1,002
KRKA HELLAS E.P.E., Athens, Greece	100%	10	10	10
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	7	10	10
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	10	10
SIA KRKA Latvija, Riga, Latvia	100%	10	10	10
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
KRKA UKRAINE LLC, Kiev, Ukraine	100%	3	9	9
KRKA USA LLC, Wilmington, USA	100%	9	8	8
KRKA ČR, s. r. o., Prague, 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
<b>Total</b>		<b>165,432</b>	<b>346,444</b>	<b>339,612</b>

The subsidiary Terme Krka, d. o. o., had a 100% interest in Golf Grad Otočec, d. o. o., at 31 December 2021; the subsidiary KRKA France Eurl had a 100-percent interest in HCS bvba in Belgium. The Chinese company Ningbo Menovo Pharmaceutical Co., Ltd. has a 40-percent holding in the company Ningbo Krka Menovo.

## 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 due to the impact of the COVID-19 pandemic on the economic environment. In 2021, with the RVT conditions in 2021, the tourism and health resorts services are operating normally. A portion of the loss of revenue during the closure of activities was recovered by Terme Krka, 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. Terme Krka's performance in 2021 was successful.

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 7.0%, and the long-term growth rate of net cash flows (g) after the forecast period (after 2026) 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 investment in Terme Krka exceeds the carrying amount and therefore no impairment of the cash-generating unit required.

## 15. Loans

€ thousand	31 Dec 2021	31 Dec 2020
<b>Non-current loans</b>	<b>31,010</b>	<b>35,024</b>
– Loans to subsidiaries	18,850	23,650
– Loans to others	12,160	11,374
<b>Current loans</b>	<b>195,459</b>	<b>57,836</b>
– Portion of non-current loans maturing next year	4,163	4,022
– Loans to subsidiaries	1,055	707
– Loans to others	190,287	53,094
– Current interest receivable	-46	13
<b>Total loans</b>	<b>226,469</b>	<b>92,860</b>

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 2021, the interest rate ranged from 0.0086% to 0.0165%.

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 0.269% and 0.367% in 2021 (2020: between 0.294% and 0.707%). The maximum repayment period is 15 years.

Current loans to others include bank deposits in total of €190,264 thousand maturing in more than 90 days (2020 year-end: €52,988 thousand).

### Loans to subsidiaries including related current interest receivable

€ thousand	31 Dec 2021	31 Dec 2020
<b>Non-current loans to subsidiaries</b>	<b>18,850</b>	<b>23,650</b>
TERME KRKA, d. o. o., Novo mesto, Slovenia	16,800	21,500
KRKA FARMACEUTICI MILANO S.r.l., Milan, Italy	2,000	2,000
KRKA Bulgaria EOOD, Sofia, Bulgaria	50	150
<b>Current loans to subsidiaries, inclusive of the current amounts of non-current loans</b>	<b>3,559</b>	<b>3,215</b>
TERME KRKA, d. o. o., Novo mesto, Slovenia	2,500	2,705
KRKA Finland Oy, Espoo, Finland	462	12
KRKA HELLAS E.P.E., Athens, Greece	365	145
SIA KRKA Latvija, Riga, Latvia	115	175
123 Acurae Pharma GmbH, Cuxhaven, Germany	80	0
HCS bvba*, Edegem, Belgium	33	33
KRKA France Eurl, Paris, France	2	34
TAD Pharma GmbH, Cuxhaven, Germany	1	3
Krka Sverige AB, Stockholm, Sweden	1	0
KRKA Belgium, SA, Brussels, Belgium	0	106
KRKA UKRAINE LLC, Kiev, Ukraine	0	1
KRKA FARMACÉUTICA, S.L., Madrid, Spain	0	1
<b>Total loans to subsidiaries</b>	<b>22,409</b>	<b>26,865</b>

\* 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 2021 is three years.

## 16. Investments

€ thousand	31 Dec 2021	31 Dec 2020
<b>Non-current investments</b>	<b>108,882</b>	<b>10,419</b>
– Financial assets at fair value through OCI	15,860	10,419
– Financial assets at amortised cost	93,022	0
<b>Current investments including derivatives</b>	<b>155,448</b>	<b>524</b>
– Financial assets at amortised cost	113,987	0
– Derivatives	1,491	524
– Other current financial investments at fair value through profit or loss	39,970	0
<b>Total investments</b>	<b>264,330</b>	<b>10,943</b>

Financial assets at fair value through other comprehensive income (OCI) comprised €1,001 thousand of investments in shares and interests in companies in Slovenia (2020 year-end: €801 thousand), and €14,859 thousand of investments in shares of companies located abroad (2020 year-end: €9,619 thousand). Investments at amortised cost include investments in Slovenian government bonds amounted to €4,455 thousand, while investments in foreign government bonds amounted to €202,554 thousand. Other current investments at fair value through profit or loss include an investment in a foreign highly liquid money market fund of €39,970 thousand. In 2020, there were no investments in government bonds and money market funds.

### Movement in financial assets

€ thousand	Financial assets at fair value through OCI	Financial assets at amortised cost	Financial assets at fair value through profit or loss
<b>At 1 Jan 2020</b>	<b>9,680</b>	<b>0</b>	<b>0</b>
Adjustment to market value	739	0	0
<b>At 31 Dec 2020</b>	<b>10,419</b>	<b>0</b>	<b>0</b>
<b>At 1 Jan 2021</b>	<b>10,419</b>	<b>0</b>	<b>0</b>
Increase	0	205,946	40,000
Decrease	0	0	0
Exchange rate differences	0	1,063	0
Adjustment to market value	5,441	/	-30
<b>At 31 Dec 2021</b>	<b>15,860</b>	<b>207,009</b>	<b>39,970</b>

Adjustments of non-current investments at fair value through OCI were recognised in other comprehensive income in the amount of €5,441 thousand in 2020 (2020: €739 thousand). Exchange differences on investments at amortised cost of €1,063 thousand are recognised in financial income. The mark-to-market adjustment of investments at fair value through profit or loss in the amount of -€30 thousand is recognised in financial expenses.

## 17. Deferred tax assets and liabilities

€ thousand	Assets		Liabilities	
	2021	2020	2021	2020
Financial assets at fair value through OCI	1,727	1,727	2,466	1,432
Receivables	1,484	1,447	0	0
Dividends	19	14	0	0
Provisions for post-employment benefits and other non-current employee benefits	11,978	12,411	0	0
Provisions for post-employment benefits and other non-current employee benefits – effect of the merger by acquisition	0	55	0	0
<b>Total</b>	<b>15,208</b>	<b>15,654</b>	<b>2,466</b>	<b>1,432</b>
<b>Offsetting</b>	<b>-2,466</b>	<b>-1,432</b>	<b>-2,466</b>	<b>-1,432</b>
<b>Net</b>	<b>12,742</b>	<b>14,222</b>	<b>0</b>	<b>0</b>

€ thousand	At 1 Jan 2020	Recognised in P&L	Recognised in OCI	Merger by acquisition– P&L	Merger by acquisition– OCI	At 31 Dec 2020	Recognised in P&L	Recognised in OCI	At 31 Dec 2021
Financial assets at fair value through OCI	<b>436</b>	0	-141	0	0	<b>295</b>	0	-1,034	<b>-739</b>
Receivables	<b>1,535</b>	-88	0	0	0	<b>1,447</b>	37	0	<b>1,484</b>
Dividends	<b>95</b>	-81	0	0	0	<b>14</b>	5	0	<b>19</b>
Provisions for post-employment benefits and other non-current employee benefits	<b>11,121</b>	248	1,042	58	-3	<b>12,466</b>	123	-611	<b>11,978</b>
<b>Total</b>	<b>13,187</b>	<b>79</b>	<b>901</b>	<b>58</b>	<b>-3</b>	<b>14,222</b>	<b>165</b>	<b>-1,645</b>	<b>12,742</b>

The relevant amount of deferred tax assets and liabilities was calculated using the 19% income tax rate.

## 18. Inventories

€ thousand	31 Dec 2021	31 Dec 2020
Materials	183,593	182,523
Work in progress	89,744	90,196
Finished products	108,124	105,170
Merchandise	10,773	10,062
Advances for inventories	2,089	1,227
<b>Total inventories</b>	<b>394,323</b>	<b>389,178</b>

The write-downs and write-offs of inventories to their net realisable value amounted to €17,287 thousand in 2021, and €12,895 thousand in 2020.

The Company has no pledged stock as a liability guarantee.



## 19. Trade and other receivables

€ thousand	31 Dec 2021	31 Dec 2020
Current trade receivables	424,588	415,286
– Receivables due from subsidiaries	234,064	242,370
– Receivables due from customers other than Group companies	191,294	174,505
– Deferred revenue from contracts with customers	-770	-1,589
Current receivables for dividends	99	76
– Current receivables for other dividends	99	76
Other current receivables	17,282	15,591
<b>Total trade and other receivables</b>	<b>441,969</b>	<b>430,953</b>

Of the total amount, 99.1% of trade receivables due from customers other than related parties was insured with the Coface PKZ, d. d. insurance company (2020 year-end: 98.7%).

### Current trade receivables

#### Current trade receivables due from subsidiaries

€ thousand	31 Dec 2021	31 Dec 2020
KRKA-RUS LLC, Istra, Russian Federation	104,394	118,451
KRKA FARMA LLC, Istra, Russian Federation	52,541	43,434
Krka Sverige AB, Stockholm, Sweden	16,508	19,419
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	9,098	8,407
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	8,763	7,192
KRKA-FARMA DOOEL Skopje, North Macedonia	8,750	8,582
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	7,667	6,637
KRKA France Eurl, Paris, France	5,384	6,799
TAD Pharma GmbH, Cuxhaven, Germany	4,558	0
KRKA FARMACEUTICI MILANO S.r.l., Milan, Italy	3,843	5,541
KRKA Finland Oy, Espoo, Finland	3,175	3,580
KRKA-FARMA d.o.o., Zagreb, Croatia	3,091	1,392
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	1,360	2,033
KRKA Belgium, SA, Brussels, Belgium	1,301	2,726
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1,137	2,329
KRKA Pharma GmbH, Vienna, Austria	1,026	846
KRKA FARMACÉUTICA, S.L., Madrid, Spain	605	2,692
KRKA UK Ltd, London, United Kingdom	244	1,845
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	200	247
Receivables due from other Group companies	419	218
<b>Total current trade receivables due from subsidiaries</b>	<b>234,064</b>	<b>242,370</b>

## Current trade receivables due from customers other than Group companies

€ thousand	Gross value	Receivable allowances	Net value at 31 Dec 2021	Net value at 31 Dec 2020
Current trade receivables due from domestic customers other than Group companies	10,394	13	10,381	7,641
Current trade receivables due from foreign customers other than Group companies	215,465	34,552	180,913	166,864
Deferred revenue from contracts with foreign customers	-770	0	-770	-1,589
<b>Total current trade receivables due from customers other than Group companies</b>	<b>225,089</b>	<b>34,565</b>	<b>190,524</b>	<b>172,916</b>

The net amount of the receivable write-offs and impairment disclosed in operating expenses amounted to €50 thousand in 2021 (2020: -€1,177 thousand).

## Other receivables

The major proportion of other current receivables in total of €17,282 thousand (2020: €15,591 thousand) was due from the State on account of VAT amounting to €10,227 thousand (2020 year-end: €8,987 thousand).

Advances for services reached €777 thousand (2020 year-end: €764 thousand).

## 20. Cash and cash equivalents

€ thousand	31 Dec 2021	31 Dec 2020
Cash in hand	1	1
Bank balances	144,980	296,397
<b>Total cash and cash equivalents</b>	<b>144,981</b>	<b>296,398</b>

The Company concluded contracts with two banks to secure bank overdrafts in total of €5,415 thousand (in 2020, contracts in total of €5,075 thousand were concluded with two banks). No negative balances were recorded on these bank accounts as at 31 December 2021 as no overdraft facilities were used.

The Company had an undrawn credit facility of €20,000 thousand as at 31 December 2021 (2020 year-end: €20,000 thousand).

## 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 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 share class only, and the first and only issue of shares was carried out in 1995. The share capital was 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, the total amount of treasury shares should not exceed 10% of Company's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by Krka as at the date. The authorisation is valid for a period of 36 months from the date of the decision adoption.

Based on this authorisation, Krka is allowed to acquire treasury shares on the regulated market at respective market prices. The Company may also acquire treasury shares 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*, 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 2021

	No. of shares	Weighted average share price (€)	Value of treasury shares (€ thousand)
<b>At 31 Dec 2020</b>	<b>1,541,774</b>		<b>99,279</b>
Repurchases in 2021	142,134	107.38	15,262
<b>At 31 Dec 2021</b>	<b>1,683,908</b>		<b>114,541</b>

The repurchase of treasury shares in 2021 refers to repurchases that were recorded in books of accounts in 2021. A subscription fee is included in the weighted average price of shares.

The 2021 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 €114,541 thousand at the reporting date and increased by €15,262 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 2021 and consisted of the general equity revaluation adjustment (€90,659 thousand) that was included in share premium during the transfer to *IFRS*; 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 2021, 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 2021 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 increased by €12,375 thousand and amounted to -€19,004 thousand as at 31 December 2021. The cumulative change is due to a €5,441 thousand increase in the fair value of financial assets through OCI (equity instruments); an increase due to the restatement of post-employment benefits of €8,579 thousand, and a decrease for the impact of deferred taxes of €1,645 thousand.

## Retained earnings

Retained earnings grew based on the majority shareholder's profit of €245,216 thousand; on the other hand, they decreased as a result of allocation of €155,896 thousand of accumulated profit to dividend payment in accordance with the resolution adopted at the 27th Annual General Meeting held on 8 July 2021, and an additional formation of reserves for treasury shares in total of €15,262 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 €11 thousand of dividends paid in respect of previous periods (2020: €9 thousand).

## Dividends per share

In 2021, the declared gross dividend per share was €5.00 (2020: €4.25).

## 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.

€	2021	2020
<b>Compulsory appropriation of profit</b>		
<b>Net profit</b>	<b>245,216,436.23</b>	<b>258,473,731.06</b>
– 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	-15,261,862.79	-25,504,335.93
– Allocation to statutory reserves	0.00	0.00
<b>Profit after compulsory appropriation</b>	<b>229,954,573.44</b>	<b>232,969,395.13</b>
– Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0.00	0.00
– Net profit – the merger effect	0.00	1,777,841.82
<b>Surplus of profit</b>	<b>229,954,573.44</b>	<b>234,747,236.95</b>
<b>Identification of distributable profit</b>		
– Surplus of profit	229,954,573.44	234,747,236.95
– Transferred profit	88,670,552.72	67,270,600.18
– Transferred profit – the merger effect	0.00	35,501,993.87
<b>Distributable profit</b>	<b>318,625,126.16</b>	<b>337,519,831.00</b>

## 22. Earnings per share

Basic earnings per share amounted €7.86 in 2021, a decrease of 4% on the previous year, when it amounted to €8.23. The calculation took into account the net profit of €245,216 thousand (2020: €258,474 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 31,185,323 shares for 2021 and 31,400,501 shares for 2020. 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 2021	31 Dec 2020
<b>Current borrowings</b>	<b>55,092</b>	<b>46,345</b>
– Borrowings from subsidiaries	55,068	46,317
– Current interest payable	24	28
<b>Total borrowings</b>	<b>55,092</b>	<b>46,345</b>

### Borrowings from subsidiaries, including current interest payable

€ thousand	31 Dec 2021	31 Dec 2020
<b>Current borrowings from subsidiaries</b>	<b>55,092</b>	<b>46,345</b>
TAD Pharma GmbH, Cuxhaven, Germany	51,960	39,114
TERME KRKA, d. o. o., Novo mesto, Slovenia	1,575	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	1,211	2,156
KRKA Pharma GmbH, Vienna, Austria	337	484
KRKA Belgium, SA, Brussels, Belgium	8	0
KRKA France Eurl, Paris, France	1	1
Krka Sverige AB, Stockholm, Sweden	0	3,984
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	1
KRKA Finland Oy, Espoo, Finland	0	1
KRKA UK Ltd, London, United Kingdom	0	604
<b>Total borrowings from subsidiaries</b>	<b>55,092</b>	<b>46,345</b>

Current borrowings are denominated in the euro and were extended for the period of one year. These borrowings are not collateralised.

## 24. Provisions

€ thousand	At 31 Dec 2020	Formation	Utilisation	Reversal	At 31 Dec 2021
Provisions for lawsuits	2,100	543	0	-2,100	543
Provisions for post-employment benefits	98,516	318	-3,879	-992	93,963
Provisions for other non-current employee benefits	19,214	1,136	-1,480	-240	18,630
<b>Total provisions</b>	<b>119,830</b>	<b>1,997</b>	<b>-5,359</b>	<b>-3,332</b>	<b>113,136</b>

In total, 15 lawsuits referring to intellectual property were filed against the Company and its subsidiaries, 11 of which were in Portugal. In 2021, it closed 8 disputes. The Company has no provisions allocated for intellectual property disputes. In other areas of law (civil, labour, administrative, etc.), the Company was involved as a defendant in 2 disputes in 2021, with the total value of claims against the Company estimated at €730 thousand. For this purpose, the Company formed provisions in amount of €543 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 1.27% annually equals the return on 15-year corporate bonds with high credit rating in the Eurozone at the end of October 2021 (2020: 0.72 percent), source of data: 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 2020.

## Post-employment benefits

€ thousand	2021	2020
<b>At 1 Jan</b>	<b>98,516</b>	<b>85,986</b>
Employee benefit costs (CSC)	6,030	4,446
Interest expense (IC)	726	1,188
Post-employment benefits paid	-3,879	-2,628
Reversal	-992	-1,913
Merger by acquisition	0	470
Actuarial surplus/deficit, of that:	-6,438	10,966
– Change in financial assumptions	-7,562	8,050
– Experience	1,124	2,916
<b>At 31 Dec</b>	<b>93,963</b>	<b>98,516</b>

## Sensitivity analysis

	Discount rate		Salary increase	
Change in	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
<b>Impact on liabilities</b> (€ thousand)	<b>-6,412</b>	<b>7,141</b>	<b>7,052</b>	<b>-6,398</b>

## 25. Deferred revenue

€ thousand	At 31 Dec 2020	New deferred revenue received	Deferred revenue reversal	At 31 Dec 2021
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	1,317	0	-259	1,058
Subsidy for acquisition of electric drive vehicles	4	0	-1	3
Property, plant and equipment received free of charge	7	0	-4	3
Emission coupons	0	10	0	10
Subsidy for the purchase of joinery	95	0	-2	93
Subsidy for acquisition of other equipment	4	19	-20	3
Grants received from the European Regional Development Fund (Farma GRS)	2,960	0	-584	2,376
<b>Total deferred revenue</b>	<b>4,387</b>	<b>29</b>	<b>-870</b>	<b>3,546</b>

Production of pharmaceuticals in the new Notol 2 Plant and Farma GRS projects are partly funded by the European Union from the European Regional Development Fund. The Notol project is carried out within the framework of the Operational programme for strengthening regional development potentials for the period 2007–2013; Priority axis 1: Competitiveness and Research Excellence: main type of activity 1.1.: *Improvement of competitiveness and research excellence*. The Farma GRS project was eligible for co-financing of costs under R&D projects, including project management and investment in research and development and production activities.

The amounts of deferred 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 2021	31 Dec 2020
<b>Non-current trade payables</b>	<b>10,000</b>	<b>10,000</b>
<b>Current trade payables</b>	<b>178,143</b>	<b>143,294</b>
Payables to subsidiaries	79,391	66,205
Payables to domestic suppliers	43,654	36,329
Payables to foreign suppliers	55,098	40,760
<b>Total trade payables</b>	<b>188,143</b>	<b>153,294</b>

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 liabilities in that same amount until the final decision of the Court is issued.

### Payables to subsidiaries

€ thousand	31 Dec 2021	31 Dec 2020
KRKA-FARMA d.o.o., Zagreb, Croatia	21,116	16,355
KRKA FARMA LLC, Istra, Russian Federation	17,042	20,572
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	6,612	6,156
KRKA ROMANIA S.R.L., Bucharest, Romania	4,459	3,941
KRKA France Eurl, Paris, France	3,622	479
KRKA ČR, s. r. o., Prague, Czech Republic	3,190	2,287
KRKA UKRAINE LLC, Kiev, Ukraine	3,081	2,022
TAD Pharma GmbH, Cuxhaven, Germany	2,886	1,323
KRKA Magyarországi Kft., Budapest, Hungary	2,872	2,944
KRKA-RUS LLC, Istra, Russian Federation	2,403	1,600
KRKA Slovensko, s.r.o., Bratislava, Slovakia	2,124	1,987
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	1,466	55
UAB KRKA Lietuva, Vilnius, Lithuania	1,431	1,004
KRKA FARMACEUTICI MILANO S.r.l., Milan, Italy	873	662
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	866	1,010
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	767	239
KRKA Bulgaria EOOD, Sofia, Bulgaria	766	673
SIA KRKA Latvija, Riga, Latvia	681	636
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	475	489
KRKA-FARMA DOOEL Skopje, North Macedonia	461	514
KRKA FARMACÉUTICA, S.L., Madrid, Spain	455	263
KRKA Belgium, SA, Brussels, Belgium	427	137
KRKA HELLAS E.P.E., Athens, Greece	322	153
KRKA Finland Oy, Espoo, Finland	249	193
KRKA FARMA, d.o.o., Sarajevo, Bosnia and Herzegovina	213	25
Krka Sverige AB, Stockholm, Sweden	176	152
KRKA Pharma GmbH, Vienna, Austria	143	210
HCS bvba, Edegem, Belgium*	77	55
KRKA UK Ltd, London, United Kingdom	68	40
TERME KRKA, d. o. o., Novo mesto, Slovenia	43	10
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	24	18
KRKA USA LLC, Wilmington, USA	1	1
<b>Total payables to subsidiaries</b>	<b>79,391</b>	<b>66,205</b>

\* Subsidiary Krka France Eurl holds a 100% stake in HCS bvba.

## 27. Current contract liabilities

€ thousand	31 Dec 2021	31 Dec 2020
<b>Refund liabilities</b>	<b>13,638</b>	<b>11,940</b>
– Bonuses and volume rebates	13,638	11,940
<b>Contract liabilities</b>	<b>5,839</b>	<b>4,641</b>
– Contract liabilities – advances from group companies	0	2,021
– Contract liabilities – advances from other customers	5,839	2,620
<b>Total current contract liabilities</b>	<b>19,477</b>	<b>16,581</b>

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 2021	31 Dec 2020
Payables to employees – gross salaries, other receipts and charges	53,446	52,202
Liabilities under repurchase transactions (repo-type operations)	102,234	0
Other	9,025	7,714
<b>Total other current liabilities</b>	<b>164,705</b>	<b>59,916</b>

The liabilities under repurchase transactions relate to the repurchase of bonds in June 2022, maturing in July 2022.

The repurchase of bonds has legally taken place, but in terms of economics it is a financing activity. The bonds serve as collateral for a deposit made by the Company to the bank. The balance of assets held for repurchase as at 31 December 2021 amounts to €102,228 thousand and is recognised within investments at amortised cost. Liabilities under repurchase transactions were recognised in the amount of €102,234 thousand.

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €6,284 thousand (2020: €5,215 thousand).

## 29. Contingent liabilities and commitments

€ thousand	31 Dec 2021	31 Dec 2020
Guarantees issued	13,695	14,204
Other	976	0
<b>Total contingent liabilities</b>	<b>14,671</b>	<b>14,204</b>

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 2021 Krka recorded €27,787 thousand of commitments for acquisition of property, plant and equipment (2020 year-end: €27,215 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 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	
<b>At 1 Jan 2020</b>		<b>3,093</b>
Increase/Decrease		412
Accretion of interest		49
Lease payments		-732
<b>At 31 Dec 2020</b>		<b>2,822</b>
– Current lease liabilities		659
– Non-current lease liabilities		2,163
<b>At 1 Jan 2021</b>		<b>2,822</b>
Increase/Decrease		1,210
Accretion of interest		47
Lease payments		-991
<b>At 31 Dec 2021</b>		<b>3,088</b>
– Current lease liabilities		987
– Non-current lease liabilities		2,101

The maturity analysis of lease liabilities is disclosed in Note 32 'Financial instruments and risks'.

#### Amounts recognised in profit or loss

€ thousand	2021	2020
Depreciation of right-of-use assets	956	739
Interest expenses on lease liabilities	47	49
Expenses relating to current leases	39	23
Expenses relating to leases of low-value assets	6	6
<b>Total amount recognised in profit or loss</b>	<b>1,048</b>	<b>817</b>

## 31. Financial liabilities

### Movement in financial liabilities in 2021

€ thousand	At 31 Dec 2020	Monetary changes	Non-monetary changes		At 31 Dec 2021
			Addition/ Disposal	Other	
Borrowings	46,317	8,703	0	48	55,068
Accretion of interest	28	-444	440	0	24
Dividends	1,335	-155,907	155,894	0	1,322
Treasury shares	0	-15,262	15,262	0	0
Leases	2,822	-991	1,210	47	3,088
Liabilities under repurchase transactions (repo-type operations)	0	102,292	0	-58	102,234
<b>Total</b>	<b>50,502</b>	<b>-61,609</b>	<b>172,806</b>	<b>37</b>	<b>161,736</b>

Liabilities under repurchase transactions (repo-type operations) are presented in Note 28 'Other current 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
Leases	3,093	-732	412	49	2,822
<b>Total</b>	<b>77,470</b>	<b>-162,369</b>	<b>159,659</b>	<b>-24,258</b>	<b>50,502</b>

## 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 570 at the end of 2021, they accounted for more than 95% of total trade receivables. Receivables due from small customers accounted for less than 5% of total trade receivables. Control over small customers is decentralised in the sales network and under the constant supervision of the controlling company.

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

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

The second step in the credit-control process involves regular dynamic monitoring of a customer's payment discipline. The information systems of all Krka Group companies engaged in sales monitor available limits and overdue receivables. Control is exercised for each shipment of Krka products to customers. A shipment is automatically blocked if a customer is in arrears or if receivables together with the new shipment exceed the approved credit limit. Sales personnel are required to initiate a payment collection procedure or arrange hedging for the outstanding settlements.

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

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

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

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

Despite the risks arising from the COVID-19 pandemic, receivables were well managed in 2021. At the end of 2021, the value of trade receivables increased by 2% compared to the beginning of the year. However, the amount of overdue and outstanding receivables remained within limits acceptable for Krka.

## Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below:

€ thousand	Notes	31 Dec 2021	31 Dec 2020
Loans	15	226,469	92,860
Investments	16	264,330	10,943
Current trade receivables including those due from subsidiaries	19	424,687	415,362
Cash and cash equivalents	20	144,981	296,398
<b>Total</b>		<b>1,060,467</b>	<b>815,563</b>

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 2021	31 Dec 2020
Region Slovenia	121,027	90,137
Region South-East Europe	50	151
Region East Europe	41	63
Region Central Europe	115	175
Region West Europe	105,236	2,334
Region Overseas Markets	0	0
<b>Total</b>	<b>226,469</b>	<b>92,860</b>

## Trade receivables including those due from subsidiaries by geographical region

€ thousand	31 Dec 2021	31 Dec 2020
Region Slovenia	10,452	7,697
Region South-East Europe	83,873	79,248
Region East Europe	222,183	211,531
Region Central Europe	56,348	58,152
Region West Europe	46,877	54,962
Region Overseas Markets	4,855	3,696
<b>Total</b>	<b>424,588</b>	<b>415,286</b>

## Maturity analysis of loans as at reporting date

€ thousand	Gross at 31 Dec 2021	Allowance at 31 Dec 2021	Gross at 31 Dec 2020	Allowance at 31 Dec 2020
Not past due	226,456	0	92,851	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	4	0
Past due more than 180 days	9	0	4	0
<b>Total</b>	<b>226,469</b>	<b>0</b>	<b>92,860</b>	<b>0</b>

## Maturity structure of trade receivables including those due from subsidiaries as at reporting date

€ thousand	Gross at 31 Dec 2021	Allowance at 31 Dec 2021	Gross at 31 Dec 2020	Allowance at 31 Dec 2020
Not past due	409,494	187	397,995	1,071
Past due up to 20 days	7,384	14	5,229	10
Past due from 21 to 50 days	4,597	67	6,810	71
Past due from 51 to 180 days	2,361	0	5,524	40
Past due more than 180 days	35,317	34,297	34,781	33,861
<b>Total</b>	<b>459,153</b>	<b>34,565</b>	<b>450,339</b>	<b>35,053</b>

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 €404,494 thousand (2020: €387,380 thousand); past due up to 20 days €9,223 thousand (2020: €10,846 thousand); past due between 21 and 50 days €6,905 thousand (2020: €8,728 thousand); past due between 51 and 180 days €2,360 thousand (2020: €7,476 thousand); and past due more than 180 days €1,606 thousand (2020: €932 thousand).

## Movement of allowance for loans

€ thousand	2021	2020
<b>At 1 Jan</b>	<b>0</b>	<b>11</b>
Impairment reversal	0	-11
<b>At 31 Dec</b>	<b>0</b>	<b>0</b>

## Movements of trade receivable allowance including those due from subsidiaries

€ thousand	2021	2020
<b>At 1 Jan</b>	<b>35,053</b>	<b>20,783</b>
Formation of allowance	1,215	16,299
Write-off of receivables	-766	-174
Impairment reversal	-921	-1,852
Collected written-off receivables	-16	-3
<b>At 31 Dec</b>	<b>34,565</b>	<b>35,053</b>

## Liquidity risk

Business partners value Krka for its excellent financial discipline and stable cash flows. In 2021, we settled all financial liabilities regularly. Krka Group exposure to liquidity risk was low last year.

We did not use any new short-term funding from banks or draw funds from existing credit lines in 2021.



At the end of 2021, the Krka Group recorded excess liquidity, primarily as cash at bank or deposits with first-class commercial banks. The 2021 increase in excess liquidity resulted from surplus cash flow from operating activities over negative cash flows from investing and financing activities.

In the European Economic and Monetary Union (EMU) money markets, negative interest rates still apply to low-risk cash investments. 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. In this way, we reduced the cost of negative interest rates and invested another part in short-term bonds of selected European countries.

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

The Krka Group also reported favourable and stable liquidity ratios at the end of 2021. The continuing COVID-19 pandemic did not increase the Group's liquidity risk in 2021.

## Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

### Maturity of financial liabilities as at 31 Dec 2021

€ 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
<b>Financial liabilities</b>							
Lease liabilities	3,088	3,088	511	476	633	1,230	238
Trade payables excluding advances	178,143	178,143	178,143	0	0	0	0
Contract liabilities excluding advances	13,638	13,638	13,638	0	0	0	0
Liabilities under repurchase transactions (repo-type operations)	102,234	102,234	102,234	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	2,741	2,741	2,741	0	0	0	0
<b>Total financial liabilities</b>	<b>354,936</b>	<b>354,936</b>	<b>352,359</b>	<b>476</b>	<b>633</b>	<b>1,230</b>	<b>238</b>
Lease liabilities	3,088	3,088	511	476	633	1,230	238
<b>Total derivative financial liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>354,936</b>	<b>354,936</b>	<b>352,359</b>	<b>476</b>	<b>633</b>	<b>1,230</b>	<b>238</b>

### 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
<b>Financial liabilities</b>							
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
<b>Total financial liabilities</b>	<b>206,900</b>	<b>206,900</b>	<b>204,410</b>	<b>327</b>	<b>554</b>	<b>1,206</b>	<b>403</b>
<b>Total derivative financial liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>206,900</b>	<b>206,900</b>	<b>204,410</b>	<b>327</b>	<b>554</b>	<b>1,206</b>	<b>403</b>

## Foreign exchange risk

The Company operates in diverse international environments and is exposed to foreign exchange risk in certain sales and purchase markets.

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

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

Krka's key sales and purchase markets experienced imbalanced dynamics in terms of economic recovery and uncertainty with regard to rising inflation in individual countries while at the same time facing a constant risk of economies shutting down again. Uncertainty in currency markets led to high volatility of individual exchange rates.

The 2021 fluctuation in the Russian rouble was favourable for us. The value of the rouble expressed in the euro went up by 7.2% during the year. The average 2021 value of the Russian rouble was 5.1% below the 2020 level.

The Brent oil price expressed in the US dollar jumped by 50% in 2021. The value of the rouble expressed in the euro did not follow the dynamics of oil price increase. After 2020, which was heavily affected by the pandemic, the Russian economy recorded high economic growth and rising inflation in 2021. Consequently, the Central Bank of the Russian Federation increased its key interest rate by 4.25 percentage points. Owing to high interest rate growth accompanied by a significant rise in oil prices, the rouble strengthened against the euro and the US dollar. Interest rate increase in the Russian Federation led to a gradual rise in the cost of hedging Krka's position in roubles in 2021.

The Polish zloty was more stable in 2021. Its value dropped by 0.8% from the beginning to the end of the year, while the average value was 2.7% lower than in 2020. In the last quarter of 2021, the Polish central bank started to increase its key interest rate due to the rising inflation. The central bank is not in favour of strengthening the domestic currency, which impacted the market value of zloty.

Over the course of 2021, the value of the Romanian leu expressed in the euro declined by 1.7%, which was in line with the gradual depreciation of the currency against the euro in recent years.

The Croatian kuna, participating in the ERM II mechanism since 2020, remained stable against the euro. In 2021, the British pound went up 7% against the euro. Although the movement of both currencies in 2021 positively impacted the Krka Group's net financial result, the contribution was small.

The value of the US dollar expressed in the euro went up by 8.3% over the course of 2021, while the average value of the dollar expressed in the euro was 3.4% below the 2020 level. The US dollar strengthened more significantly in the second half of 2021, when it became clear that the inflation in the US and worldwide would rise over the longer term. In the second half of the year, the US Federal Reserve announced that it would gradually withdraw monetary stimulus measures and increase the key interest rate for the first time in 2022. Meanwhile, the European Central Bank decided to delay and slow down the tightening of its monetary policy, which further contributed to strengthening of the US dollar against the euro in 2021.

In 2021, the Ukrainian hryvnia strengthened again after plummeting in 2020. However, its value against the euro weakened due to the geopolitical risk at the end of the year. The macroeconomic situation in the country remains uncertain, which will continue to be reflected in currency movements.

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, only forward contracts are used for hedging.

In 2021, Krka continued its policy of partial hedging against rouble-related risk. Less than 50% of the risk exposure to the Russian rouble was hedged using forward contracts. Due to the strengthening of the rouble value in the euro, we generated net foreign exchange gains partially offset by net expenses from forward contracts used for hedging the rouble.

The increasing operational risk exposure and an interest rate difference between the euro and the US dollar that is favourable for Krka are two key reasons that contributed to partial hedging of the exposure in the US dollar with financial instruments also in 2021. Due to the short currency position, the dollar strengthening had a negative financial impact on the Krka Group result. In 2021 however, this was largely offset by income from the US dollar hedging instruments.

We generated net foreign exchange losses from other currencies in 2021. Exposure to other currencies was not hedged.

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 2021				
	EUR*	RUB	PLN	HRK	RON
Loans	226,469	0	0	0	0
Trade receivables	128,233	176,785	42,897	20,782	44,213
Cash and cash equivalents	85,394	1,217	1,295	1,677	994
Borrowings	-55,092	0	0	0	0
Non-current trade payables	-10,000	0	0	0	0
Current trade payables	-131,638	-19,493	-6,957	-15	-4,438
<b>Financial position exposure (net)</b>	<b>243,366</b>	<b>158,509</b>	<b>37,235</b>	<b>22,445</b>	<b>40,770</b>

\* EUR is the functional currency and does not represent exposure to foreign currency risk.

€ 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
<b>Financial position exposure (net)</b>	<b>331,373</b>	<b>161,432</b>	<b>38,114</b>	<b>20,471</b>	<b>39,534</b>

\* EUR is the functional currency and does not represent exposure to foreign currency risk

## Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2021	2020	2021	2020
RUB	87.15	82.72	85.30	91.47
PLN	4.57	4.44	4.60	4.56
HRK	7.53	7.54	7.52	7.55
RON	4.92	4.84	4.95	4.87

\* 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 2021 or 31 December 2020 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.

€ thousand	Effect on the profit or loss before tax			
	2021		2020	
<b>Currency fluctuation</b>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
RUB	1,585	-1,585	1,614	-1,614
PLN	372	-372	381	-381
HRK	224	-224	205	-205
RON	408	-408	395	-395

Any additional 1% increase/decrease of the euro exchange rate in respect of currencies stated above, would increase or decrease the profit or loss before tax in the above-stated amounts.

## Interest rate risk

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

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

In 2021, the Company raised non-current borrowings only from subsidiaries.

## Exposure to interest rate risk

€ thousand	31 Dec 2021	31 Dec 2020
<b>Financial instruments at fixed rate of interest</b>	<b>226,043</b>	<b>92,483</b>
Financial assets	226,043	92,483
Financial liabilities	0	0
<b>Financial instruments at variable rate of interest</b>	<b>-54,596</b>	<b>-45,953</b>
Financial assets	472	364
Financial liabilities	-55,068	-46,317

## Analysis of the cash flow's 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 2021 by €546 thousand. Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2020 by €460 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 2021	31 Dec 2020
Current borrowings inclusive of current portion of non-current borrowings	55,068	46,317
– Other borrowings	55,068	46,317
Current borrowings exclusive of current portion of non-current borrowings	55,068	46,317
Average balance of current borrowings	50,693	59,639
Interest paid in the financial year	280	423
Other costs of raising current borrowings	0	0
Average effective cost of current borrowings	0.55%	0.71%
Currency structure of current borrowings		
– EUR	100%	100%
Structure of current borrowings in terms of interest rates		
– Fixed	0%	0%
– Variable	100%	100%

## 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 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 an annual basis in line with the strategic policy adopted. The Company has no specific goals as regards the ownership share held by employees, and no share option plans.

There were no changes in Company's approach to capital management in 2021 or 2020.

The Company 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.

### Gearing (debt/equity) ratio

€ thousand	31 Dec 2021	31 Dec 2020
Borrowings	55,092	46,345
Trade payables and other current liabilities	372,325	229,791
Cash and cash equivalents	144,981	296,398
<b>Net indebtedness</b>	<b>282,436</b>	<b>-20,262</b>
Equity	1,876,142	1,791,850
<b>Equity and net indebtedness</b>	<b>2,158,578</b>	<b>1,771,588</b>
<b>Gearing (debt/equity) ratio</b>	<b>13.1%</b>	<b>-1.1%</b>

## Fair value

	31 Dec 2021		31 Dec 2020	
€ thousand	Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-current financial assets</b>				
Loans	31,010	31,010	35,024	35,024
Financial assets at fair value through OCI	15,860	15,860	10,419	10,419
Financial assets at amortised cost	93,022	92,570	0	0
<b>Current financial assets</b>				
Loans	195,459	195,459	57,836	57,836
Financial assets through profit or loss	39,970	39,970	0	0
Financial assets at amortised cost	113,987	113,912	0	0
Derivatives	1,491	1,491	524	524
Trade receivables	424,588	424,588	415,286	415,286
Cash and cash equivalents	144,981	144,981	296,398	296,398
<b>Non-current financial liabilities</b>				
Trade payables	-10,000	-10,000	-10,000	-10,000
Lease liabilities	-2,101	-2,101	-2,163	-2,163
<b>Current financial liabilities</b>				
Borrowings	-55,092	-55,092	-46,345	-46,345
Lease liabilities	-987	-987	-659	-659
Trade payables excluding advances	-178,143	-178,143	-143,294	-143,294
Contract liabilities excluding advances	-13,638	-13,638	-11,940	-11,940
Liabilities under repurchase transactions (repo-type operations)	-102,234	-102,234	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	-2,741	-2,741	-2,499	-2,499
<b>Total</b>	<b>695,432</b>	<b>694,905</b>	<b>598,587</b>	<b>598,587</b>

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.

In 2021, there were no transfers between fair value levels.



## Assets at fair value

€ thousand	31 Dec 2021				31 Dec 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets at fair value</b>								
Financial assets at fair value through OCI	14,474	0	1,386	15,860	9,033	0	1,386	10,419
Financial assets through profit or loss	39,970	0	0	39,970	0	0	0	0
Derivatives	0	0	1,491	1,491	0	0	524	524
<b>Total assets at fair value</b>	<b>54,444</b>	<b>0</b>	<b>2,877</b>	<b>57,321</b>	<b>9,033</b>	<b>0</b>	<b>1,910</b>	<b>10,943</b>
<b>Assets for which fair value is disclosed</b>								
Loans	0	0	226,469	226,469	0	0	92,860	92,860
Trade receivables	0	0	424,588	424,588	0	0	415,286	415,286
Financial assets at amortised cost	206,482	0	0	206,482	0	0	0	0
Cash and cash equivalents	0	0	144,981	144,981	0	0	296,398	296,398
<b>Liabilities for which fair value is disclosed</b>	<b>206,482</b>	<b>0</b>	<b>796,038</b>	<b>1,002,520</b>	<b>0</b>	<b>0</b>	<b>804,544</b>	<b>804,544</b>
<b>Total</b>	<b>260,926</b>	<b>0</b>	<b>798,915</b>	<b>1,059,841</b>	<b>9,033</b>	<b>0</b>	<b>806,454</b>	<b>815,487</b>

## Liabilities at fair value

€ thousand	31 Dec 2021				31 Dec 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Liabilities for which fair value is disclosed</b>								
Trade payables	0	0	10,000	10,000	0	0	10,000	10,000
Borrowings	0	0	55,092	55,092	0	0	46,345	46,345
Lease liabilities	0	0	3,088	3,088	0	0	2,822	2,822
Trade payables excluding advances	0	0	178,143	178,143	0	0	143,294	143,294
Contract liabilities excluding advances	0	0	13,638	13,638	0	0	11,940	11,940
Liabilities under repurchase transactions (repo-type operations)	0	0	102,234	102,234	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	0	0	2,741	2,741	0	0	2,499	2,499
<b>Total liabilities for which fair value is disclosed</b>	<b>0</b>	<b>0</b>	<b>364,936</b>	<b>364,936</b>	<b>0</b>	<b>0</b>	<b>216,900</b>	<b>216,900</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>364,936</b>	<b>364,936</b>	<b>0</b>	<b>0</b>	<b>216,900</b>	<b>216,900</b>

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 2021 are presented below.

€ thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto, Slovenia*	293	439	0	0
KRKA-FARMA d.o.o., Zagreb, Croatia	7,644	23,491	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	84	17,512	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	28,268	3,582	0	0
KRKA-FARMA DOOEL Skopje, North Macedonia	22,604	1,695	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	48	2,935	0	0
KRKA HELLAS E.P.E., Athens, Greece	16	1,341	0	220
KRKA FARMA d.o.o., Sarajevo, Bosnia and Herzegovina	4	619	0	0
KRKA-RUS LLC, Istra, Russian Federation	143,278	8,888	0	0
KRKA FARMA LLC, Istra, Russian Federation	94,238	51,277	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	155	15,689	0	0
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	15,267	2,522	0	0
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	25,121	25,764	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	84	10,457	0	0
KRKA Magyarország Kft., Budapest, Hungary	68	11,628	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	294	6,475	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	28	3,732	0	0
SIA KRKA Latvija, Riga, Latvia	21	2,718	0	0
KRKA Finland Oy, Espoo, Finland	11,439	1,485	0	0
TAD Pharma GmbH, Cuxhaven, Germany	57,973	9,910	0	0
Krka Sverige AB, Stockholm, Sweden	32,187	1,681	0	0
KRKA Pharma GmbH, Vienna, Austria	8,985	1,625	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	14,499	2,173	0	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	10,204	2,503	0	0
KRKA FARMACEUTICI MILANO S.r.l., Milan, Italy	15,437	7,004	0	0
KRKA France Eurl, Paris, France**	4,128	5,885	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	6,857	86	0	0
KRKA Belgium, SA, Brussels, Belgium	9,017	1,439	0	0
KRKA UK Ltd, London, United Kingdom	4,819	647	0	0
123 Acurae Pharma GmbH, Cuxhaven, Germany	0	0	0	80
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	353	11,603	0	0
KRKA USA LLC, Wilmington, USA	0	7	0	0
<b>Total</b>	<b>513,413</b>	<b>236,812</b>	<b>0</b>	<b>300</b>

\* Including the subsidiary Golf Grad Otočec, d. o. o.

\*\* Including the subsidiary HCS bvba

The transactions between the Company and the above-mentioned subsidiaries were based on sales contracts, which included rendering products and services at market prices.

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 2021, the interest rate ranged from 0.0086% to 0.0165%.

The balance of loans to subsidiaries is presented in Note 15 'Loans', the balance of borrowings from subsidiaries is presented in Note 23 'Borrowings', the balance of receivables due from subsidiaries is presented in Note 19 'Trade receivables' and the balance of current trade payables to subsidiaries is presented in Note 26 'Trade payables'.

## 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 0.1191% 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 0.0108% of voting rights.

### Equity stakes held by Management and Supervisory Boards members of the Company and their shares of voting rights

	31 Dec 2021			31 Dec 2020		
	No. of shares	Equity share (%)	Share of voting rights (%)	No. of shares	Equity share (%)	Share of voting rights (%)
<b>Members of the Management Board</b>						
Jože Colarič	22,500	0.0686	0.0723	22,500	0.0686	0.0720
Aleš Rotar	13,915	0.0424	0.0447	13,915	0.0424	0.0445
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
<b>Total Members of the Management Board</b>	<b>37,040</b>	<b>0.1129</b>	<b>0.1191</b>	<b>37,040</b>	<b>0.1129</b>	<b>0.1185</b>
<b>Members of the Supervisory Board (owner representatives)</b>						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Matej Lahovnik	600	0.0018	0.0019	600	0.0018	0.0019
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Borut Jamnik	0	0.0000	0.0000	0	0.0000	0.0000
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
<b>Members of the Supervisory Board (employee representatives)</b>						
Franc Šašek	1,400	0.0043	0.0045	1,400	0.0043	0.0045
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0016
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
<b>Total Members of the Supervisory Board</b>	<b>3,347</b>	<b>0.0102</b>	<b>0.0108</b>	<b>3,347</b>	<b>0.0102</b>	<b>0.0107</b>
<b>Total</b>	<b>40,387</b>	<b>0.1232</b>	<b>0.1298</b>	<b>40,387</b>	<b>0.1232</b>	<b>0.1292</b>

Treasury shares were eliminated from the calculation of voting rights (1,683,908 treasury shares as at 31 December 2021 and 1,541,774 as at 31 December 2020).

### Remuneration paid to groups of persons (gross)

€ thousand	31 Dec 2021	31 Dec 2020
Members of the Management Board	3,560	3,768
Members of the Supervisory Board	303	210
<b>Total gross remuneration paid to groups of persons</b>	<b>3,863</b>	<b>3,978</b>

Remuneration paid to members of the Management Board in the controlling company included wages and salaries, fringe benefits and any other earnings. For each year, they are shown on a cost basis and therefore differ from the remuneration shown in the Report on Remuneration of the Members of the Management Board and Supervisory Board of Krka for 2021, where they are shown by payments in each year.

Gross earnings paid to persons employed under individual employment contracts in 2021 amounted to €11,919 thousand (2020: €11,454 thousand).

## Remuneration paid to Management Board members in 2021

	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
€ thousand							
Jože Colarič	430	178	7	734	306	1,164	491
Aleš Rotar	342	141	11	465	194	807	346
Vinko Zupančič	289	120	13	387	161	676	294
David Bratož	283	120	11	380	159	663	290
Milena Kastelic	170	78	6	80	34	250	118
<b>Total Members of the Management Board</b>	<b>1,514</b>	<b>637</b>	<b>48</b>	<b>2,046</b>	<b>854</b>	<b>3,560</b>	<b>1,539</b>

	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
€ thousand							
Jože Colarič	0.00	2.82	0.00	1.79	0.05	1.98	6.64
Aleš Rotar	0.00	2.82	0.00	4.80	1.05	1.98	10.65
Vinko Zupančič	0.00	2.82	0.00	7.15	0.91	1.98	12.86
David Bratož	0.00	2.82	1.34	3.59	1.08	1.98	10.81
Milena Kastelic	0.00	2.82	0.00	0.44	1.08	1.98	6.32
<b>Total Members of the Management Board</b>	<b>0.00</b>	<b>14.10</b>	<b>1.34</b>	<b>17.77</b>	<b>4.17</b>	<b>9.90</b>	<b>47.28</b>

## Remuneration paid to Management Board members in 2020

	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
€ thousand							
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
<b>Total Members of the Management Board</b>	<b>1,519</b>	<b>634</b>	<b>50</b>	<b>2,249</b>	<b>881</b>	<b>3,768</b>	<b>1,565</b>

	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
€ thousand							
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
<b>Total Members of the Management Board</b>	<b>0.00</b>	<b>14.10</b>	<b>1.86</b>	<b>20.78</b>	<b>4.23</b>	<b>9.04</b>	<b>50.00</b>

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 2021

€ thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Members of the Supervisory Board (owner representatives)</b>								
Jože Mermal	33.51	24.38	1.65	1.20	0.00	0.00	35.16	25.58
Matej Lahovnik	30.82	22.41	2.97	2.16	0.23	0.17	34.02	24.74
Borut Jamnik	31.61	22.99	2.97	2.16	0.00	0.00	34.58	25.15
Julijana Kristl	29.70	21.60	2.53	1.84	0.42	0.31	32.65	23.75
Mojca Osolnik Videmšek	29.70	21.60	2.97	2.16	0.40	0.29	33.07	24.05
Boris Žnidarič	31.61	22.99	2.53	1.84	0.41	0.30	34.55	25.13
<b>Members of the Supervisory Board (employee representatives)</b>								
Franč Šašek	31.23	22.71	2.97	2.16	0.00	0.00	34.20	24.87
Tomaž Sever	29.70	21.60	2.53	1.84	0.51	0.37	32.74	23.81
Mateja Vrečer	29.70	21.60	2.53	1.84	0.00	0.00	32.23	23.44
<b>Total remuneration paid to Members of the Supervisory Board</b>	<b>277.58</b>	<b>201.88</b>	<b>23.65</b>	<b>17.20</b>	<b>1.97</b>	<b>1.44</b>	<b>303.20</b>	<b>220.52</b>

In accordance with a resolution adopted at the 27th Annual General Meeting on 8/7/2021, Members of the controlling company's Supervisory Board receive an attendance fee, which for each individual member of the amounts to €275.00 gross. Members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual 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. Notwithstanding the foregoing, and irrespective of the number of attendees at the meetings, a member of the Supervisory Board shall be entitled to the payment of attendance fees in an individual financial year until the total amount of the attendance fees reaches 50% of the basic remuneration for exercising the function of a Member of the Supervisory Board on an annual basis. Notwithstanding the foregoing, and irrespective of the number of attendances at meetings of the Supervisory Board and the Commissions in any financial year, a member of the Supervisory Board who is a member of a Commission or Commissions of the Supervisory Board shall be entitled to the payment of attendance fees until the total amount of the attendance fees for attendance at sessions of the Supervisory Board and the Commissions reaches 75% of the basic remuneration for exercising the function of a Member of the Supervisory Board on an annual basis.

In addition to attendance fees, member of the Company's Supervisory Board receives on an annual basis also a basic pay for exercising the function in the amount of €15,000.00 gross. 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 are further entitled to a bonus corresponding to 25% of the basic fee for exercising the function of a member of the Supervisory Board. The President of the Commission is entitled to a bonus corresponding to 37.5% of the extra fee for exercising the function of a member of the Supervisory Board Commission. A member of the Supervisory Board Commission is in every financial year entitled – regardless of the above-mentioned or the number of Commissions he/she 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 of the Supervisory Board member on an annual level. Notwithstanding the above, if the term of office of a member of the Supervisory Board is shorter than a financial year, and irrespective of the number of Commissions of which he/she is a member or presides over, a member of a Commission of the Supervisory Board shall be entitled to pay-outs of extra fees for the performance of his/her duties in a financial year, until the total amount of such pay-outs for exercising the function reaches 50% of the basic pay for of a member of the Supervisory Board in respect of the eligible payments for the period of his/her term of office in the financial year.

Members of the Supervisory Board are also entitled to extra fees for special tasks. Special tasks are those which involve the actual performance of unusual tasks of above-average complexity over a prolonged period of time, normally lasting at least one month. The Supervisory Board is authorised to take decisions with the agreement of the Supervisory Board member on the assignment of special tasks to that member, the duration of the special tasks and the extra fees for the special tasks in accordance with this Assembly Decision. The Supervisory Board is also authorised to take decisions on extra fees for

special tasks of the Supervisory Board members due to objective circumstances in the company. Extra fees for special tasks are only admissible for the time when the special tasks are actually carried out, which may exceptionally be decided retrospectively by the Supervisory Board (in particular in the case of special tasks due to objective circumstances in the company), but not more than for the previous financial year. The extra fees for special tasks that a member may receive in a given year may amount to a maximum of 50% of the basic pay for exercising the functions of a member of the Supervisory Board (irrespective of the number of special tasks). The amount of the additional payment shall take into account the complexity of the special task and the increased workload and responsibility involved. The extra fee rate shall be calculated according to the time actually spent on the special task.

Members of the Company's Supervisory Board receive a basic pay and an extra fee for exercising the function and a bonus for special tasks, in proportionate monthly payments which they are entitled while they are performing a function and/or a special task. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Depending on the circumstances, the bonus for special tasks may also be made in a single lump sum when the specific task is completed.

The limitation of the amount of the total amount of the attendance fees and the payment of the extra fees to a member of the Supervisory Board shall in no way affect his/her duty to actively participate in all sessions of the Supervisory Board and of the sessions of the Commissions of which he/she is a member, nor his/her statutory responsibility.

The Members of the Supervisory Board are entitled to reimbursement of transportation costs, daily allowance and overnight accommodation expenses incurred in connection with their work for the Supervisory Board, up to the amount laid down in the rules governing the reimbursement of expenses relating to work and other income not deductible for tax purposes (provisions applicable to transport on official travel and accommodation on business travel). The amount due to a member of the Supervisory Board under the above-mentioned regulation is increased by the corresponding levies, therefore the net payment represents the reimbursement of actual travel expenses. The distances between places calculated on the AMZS public website are used to determine the mileage. Overnight accommodation expenses may be reimbursed only if the permanent or temporary residence of the member of the Supervisory Board or of a member of a Supervisory Board Commission is at least 100 kilometres from the place of work of the body, if he/she was unable to return because the timetable no longer provided for any public transport or for other objective reasons.

In 2020 and 2021, the members of the Management Board and the Supervisory Board, the employee representatives, did not receive any loans from Krka.

Loans to staff employed under individual employment contracts amounted to €179 thousand at 31 December 2021 (€155 thousand as at 31 December 2020). In 2021, repayments of loans by staff employed under individual employment contracts reached €26 thousand (2020: €22 thousand). The loans to the above-mentioned persons are meant for housing purposes.

## 34. Educational structure of employees

	2021		2020	
	Average headcount	Share (%)	Average headcount	Share (%)
PhD	169	2.7	161	2.7
MSc	268	4.3	266	4.5
University education	1,947	31.4	1,875	31.2
Higher professional education	846	13.7	798	13.3
Vocational college education	257	4.1	248	4.1
Secondary school education	1,905	30.7	1,809	30.1
Skilled workers	716	11.5	728	12.1
Unskilled workers	96	1.6	120	2.0
<b>Total (average for the year)</b>	<b>6,204</b>	<b>100.0</b>	<b>6,005</b>	<b>100.0</b>



## 35. Transactions with the audit firm

The agreed fee for the audit services performed in 2021 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to €107 thousand, the same as in 2020. In total, audit costs amounted to €109 thousand (2020: €112 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 on the compliance of the report with the ESEF Regulation at a cost of €5 thousand.

## 36. Subsequent events

The events after the end of the period had no impact on the 2021 financial statements.

### Situation in Ukraine and the Russian Federation: Impact on the Company Operations

On account of rapid changes and their unpredictability, it is not possible to reliably forecast the impact of the situation in Ukraine and Russian Federation on our business operations in 2022 and any long-term consequences. Krka has a strong capital structure, generates a strong cash flow from operations and has no financial debt, so its successful business performance in the long run is not jeopardised. Our Management Board closely monitor events and implement all necessary activities to ensure business continuity in the two countries. They also take measures to manage operational risks and reduce the eventual negative impact on business results. The Management Board will prepare and publish the eventual revision of guidance for 2022, when and if tangible assessment of short and long term implication of current situation is possible.

As at 31 December 2021, Krka's investment in Ukrainian subsidiary totalled €9 thousand, while investments in two Russian subsidiaries added up to €134,086 thousand.

As at 31 December 2021, Krka's trade receivables in Ukraine due from customers and subsidiaries amounted to €39,194 thousand, of that €35 thousand from the subsidiary and €39,159 thousand from customers outside the Krka Group. As at 31 December 2021, Krka's trade receivables in the Russian Federation due from customers and subsidiaries amounted to €160,340 thousand, of that €156,935 thousand from the subsidiaries and €3,405 thousand from customers outside the Krka Group.

In 2022, there was an unfavorable change in the EUR/RUB exchange rate. The exposure at 31 December 2021 and related risks are presented in Note 32 'Financial instruments and financial risks'.

### Acquisition of Treasury Shares in 2022

From 1 January 2022 to 14 April 2022, we acquired 21,689 treasury shares. At the end of this period, Krka held 1,705,597 treasury shares, accounting for 5.201% of total shares.

# Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Company Krka, d. d., Novo mesto

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the separate financial statements of Krka, d. d., Novo mesto (the Company), which comprise the separate statement of financial position as at 31 December 2021, 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 the Krka, d. d., Novo mesto as at 31 December 2021 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 17.5 % of total assets as at 31 December 2021. 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 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 date of the statement of financial position as well as credit notes issued after the date of statement of financial position to assess whether that revenue was recognised in the correct period and whether accruals for bonuses and discounts as at 31 December 2021 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.



#### Impairment of investments in subsidiaries

Equity investments in subsidiaries amount to EUR 346.4 million, which represents 14.3 % of total assets as at 31 December 2021 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 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 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 controls;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

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

From the matters communicated with 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<sup>th</sup> July 2019, the president of the supervisory board has signed the audit agreement on 28<sup>th</sup> 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 ten 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 16 March 2022.

#### **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.

#### **AUDITOR'S REPORT ON THE COMPLIANCE OF SEPARATE FINANCIAL STATEMENTS IN ELECTRONIC FORMAT WITH THE REQUIREMENTS OF DELEGATED REGULATION NO. 2019/815 ON A SINGLE ELECTRONIC REPORTING FORMAT**

We have conducted a reasonable assurance engagement about whether the audited separate financial statements of the Krka, d. d., Novo mesto, for the financial year ended 31 December 2021 (hereinafter: the audited separate financial statements), are prepared in accordance with the requirements of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 as well as adjusted Commission Delegated Regulation (EU) 2020/815 of 11 November 2020 supplementing Directive 2004/109 / EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format applicable for 2021 (hereinafter referred to as the "Delegated Regulation").

#### **Responsibility of the management and those responsible for governance**

Management is responsible for the preparation and accurate presentation of the audited separate financial statements in electronic format in accordance with the requirements of the Delegated Regulation, and for such internal control as the management determines is necessary to enable the preparation of the audited separate financial statements in electronic format that are free from material misstatement, whether due to fraud or error.

The audit committee and the supervisory board are responsible for overseeing the preparation of audited separate financial statements in electronic format in accordance with the requirements of the Delegated Regulation.

#### **Auditor's Responsibility**

Our responsibility is to perform a reasonable assurance engagement and to express a conclusion on whether the audited separate financial statements have been prepared in accordance with the requirements of the Delegated Regulation. We conducted our reasonable assurance engagement in accordance with the revised International Standard on Assurance Engagements 3000 (revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform the engagement to obtain reasonable assurance for reaching the conclusion.

We have acted in accordance with the independence and ethical requirements of the Regulation EU no. 537/2014, and the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (including International Independence Standards) (IESBA Code), which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. We apply International Standards on Quality Control 1 (ISQC 1), and accordingly, we





maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements of applicable law and regulation.

#### Summary of Work Performed

Within the scope of work, we have performed primarily the following procedures:

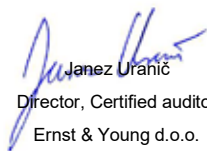
- identified and assessed the risk of material non-compliance of the audited separate financial statements with the requirements of the Delegated Regulation due to fraud or error;
- obtained an understanding of internal control relevant to the reasonable assurance engagement in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- assessed whether the audited separate financial statements meet the requirements of the Delegated Regulation applicable at the reporting date;
- obtained reasonable assurance that the audited separate financial statements, which are included in the annual report of the issuer are accurately presented in electronic XHTML format.

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

#### Conclusion

Based on the procedures performed and the evidence obtained, in our opinion the audited separate financial statements of the Krka, d. d., Novo mesto for the financial year ended 31 December 2021, which are included in the annual report, have been prepared, in all material respects, in accordance with the requirements of the Delegated Regulation.

Ljubljana, 28 March 2022

  
Janez Uranič  
Director, Certified auditor  
Ernst & Young d.o.o.  
Dunajska cesta 111, Ljubljana

  
ERNST & YOUNG  
Revizijska, poslovnna  
svetovanje d.o.o., Ljubljana 1

  
Mihael Rot  
Certified auditor

# Enclosure 1

## Repurchased treasury shares in 2021 by days

Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)
4 Jan 2021	1,909	91.23	174	18 Aug 2021	1,044	112.65	118
5 Jan 2021	2,044	92.60	189	19 Aug 2021	1,047	113.48	119
6 Jan 2021	2,218	93.44	207	20 Aug 2021	211	112.25	24
7 Jan 2021	1,877	94.62	178	23 Aug 2021	633	112.04	71
8 Jan 2021	926	95.82	89	24 Aug 2021	1,106	111.98	124
11 Jan 2021	1,764	96.92	171	25 Aug 2021	540	112.41	61
12 Jan 2021	1,727	96.90	167	26 Aug 2021	1,077	112.61	121
13 Jan 2021	1,876	96.59	181	27 Aug 2021	1,050	112.30	118
29 Jan 2021	1,578	95.50	151	30 Aug 2021	310	112.08	35
1 Feb 2021	1,613	95.15	153	31 Aug 2021	967	113.61	110
2 Feb 2021	1,610	95.00	153	1 Sep 2021	978	113.14	111
3 Feb 2021	1,706	94.78	162	2 Sep 2021	999	111.68	112
4 Feb 2021	1,666	94.55	158	3 Sep 2021	977	113.05	110
5 Feb 2021	1,637	94.29	154	6 Sep 2021	715	112.49	80
9 Feb 2021	1,630	93.92	153	7 Sep 2021	516	113.59	59
10 Feb 2021	1,561	93.35	146	8 Sep 2021	968	112.93	109
11 Feb 2021	1,425	92.99	133	9 Sep 2021	1,008	111.92	113
12 Feb 2021	1,369	92.89	127	10 Sep 2021	799	111.45	89
15 Feb 2021	307	93.08	29	13 Sep 2021	852	112.46	96
15 Apr 2021	2,041	99.00	202	14 Sep 2021	1,032	112.54	116
16 Apr 2021	843	100.58	85	15 Sep 2021	580	111.68	65
19 Apr 2021	2,390	103.18	247	16 Sep 2021	996	111.92	111
21 May 2021	1,011	107.04	108	17 Sep 2021	883	111.68	99
24 May 2021	1,188	107.33	128	20 Sep 2021	884	110.46	98
25 May 2021	1,200	107.68	129	21 Sep 2021	994	111.30	111
26 May 2021	1,023	107.17	110	22 Sep 2021	1,007	110.99	112
27 May 2021	1,399	107.10	150	23 Sep 2021	274	111.22	30
28 May 2021	1,525	106.67	163	24 Sep 2021	835	115.15	96
31 May 2021	1,059	106.48	113	27 Sep 2021	1,092	112.44	123
1 June 2021	1,440	106.37	153	28 Sep 2021	605	112.30	68
2 June 2021	1,331	107.17	143	29 Sep 2021	1,056	112.64	119
3 June 2021	1,414	107.17	152	30 Sep 2021	800	112.92	90
4 June 2021	1,480	106.68	158	1 Oct 2021	445	112.62	50
7 June 2021	1,526	106.17	162	4 Oct 2021	941	111.55	105
8 June 2021	1,587	105.05	167	5 Oct 2021	1,010	111.38	112
9 June 2021	1,645	103.74	171	6 Oct 2021	332	109.68	36
10 June 2021	1,787	104.67	187	7 Oct 2021	522	111.17	58
11 June 2021	1,814	105.41	191	8 Oct 2021	978	111.38	109
14 June 2021	1,850	105.17	195	11 Oct 2021	620	110.49	69
15 June 2021	1,885	105.17	198	12 Oct 2021	783	110.45	86
16 June 2021	1,906	105.44	201	13 Oct 2021	687	111.18	76
17 June 2021	1,911	105.26	201	14 Oct 2021	214	111.34	24
18 June 2021	1,968	104.67	206	15 Oct 2021	1,064	112.30	119
21 June 2021	1,813	104.09	189	18 Oct 2021	1,073	111.96	120
22 June 2021	1,819	104.02	189	18 Nov 2021	510	115.24	59
23 June 2021	1,250	103.29	129	19 Nov 2021	915	115.53	106
29 July 2021	1,158	108.75	126	22 Nov 2021	940	116.46	109
16 Aug 2021	1,040	110.69	115	23 Nov 2021	286	117.74	34
17 Aug 2021	270	110.68	30	24 Nov 2021	921	119.31	110

Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)
25 Nov 2021	1,015	119.92	122	14 Dec 2021	1,302	118.13	154
26 Nov 2021	1,000	119.90	120	15 Dec 2021	1,689	117.81	199
29 Nov 2021	834	119.82	100	16 Dec 2021	1,754	117.19	206
30 Nov 2021	1,155	117.19	135	17 Dec 2021	1,582	116.17	184
1 Dec 2021	1,227	116.62	143	20 Dec 2021	1,496	116.47	174
2 Dec 2021	1,122	116.68	131	21 Dec 2021	785	115.88	91
3 Dec 2021	1,572	116.19	183	22 Dec 2021	442	116.53	52
6 Dec 2021	981	115.65	113	23 Dec 2021	1,298	116.93	152
7 Dec 2021	1,323	117.76	156	27 Dec 2021	1,597	118.05	189
8 Dec 2021	1,448	117.90	171	28 Dec 2021	910	118.78	108
9 Dec 2021	773	117.19	91				
10 Dec 2021	1,263	117.92	149	<b>Total purchase in 2021</b>	<b>142,134</b>	<b>107.38</b>	<b>15,262</b>
13 Dec 2021	1,474	117.48	173				

A broker's fee is included in the weighted average price of shares.

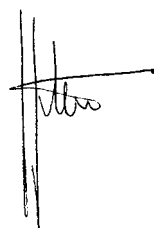
# Signing of the 2021 Annual Report and Its Constituent Parts

President and members of the Krka, d. d., Novo mesto Management Board are aware of the content of the integral parts of the 2021 Annual Report of Krka and the Krka Group, and hence of the entire 2021 Annual Report of Krka and the Krka Group. 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

## Dr Aleš Rotar

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

## Dr 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; Deputy Director of Pharmaceutical Production

## 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

## 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 Safety and Health at Work

## Boris Fakin

Head of Public Services

## Mira Rataj Siročič

Head of Internal Audit

Krka, d. d., Novo mesto  
Šmarješka cesta 6  
8501 Novo mesto  
Slovenia  
T +386 7 331 21 11  
E [info@krka.biz](mailto:info@krka.biz)  
[www.krka.biz](http://www.krka.biz)

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**[www.krka.biz](http://www.krka.biz)**



**‘Receiving a Krka Award prompted me to do further research and showed me that effort can bring rewards.’**

Enej Zamida, 4th grade

**‘To do research is to discover the unknown and find the meaning in the known. By exploring the world, you explore yourself.’**

Nina Pečnik, 2nd grade

**‘Research gives me the opportunity to understand chemical processes in depth, both at the level of microorganisms and molecules.’**

Lana Traven, 3rd grade

**‘The experience gained in the chemistry lab at our grammar school prompted me to study chemistry.’**

Nika Kadunc, 3rd grade

**‘We are not limited as far as research topics and approaches are concerned, which I like. I chose an interdisciplinary approach.’**

Amika Zoja Jelič, 3th grade

**‘I satisfy my hunger for knowledge through research and am active in the world. The laboratory work mentored by my teachers made me love science even more.’**

Val Vidmar, 3rd grade

**‘I am always excited when I learn about causes of a phenomenon through interdisciplinary work and find out why something is the way it is and everything makes sense.’**

Andraž Matoš, 1st grade

On the cover and inner pages:  
Pupils doing research in the chemical laboratory of the Gimnazija Novo mesto grammar school.