ANNUAL REPORT 2022

Krka, d. d., Novo mesto

Living a healthy life.

Kazalo

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

INTRODUCTION

Statement by the President of the Management Board[1]

Dear shareholders, business partners and employees,

The Krka Group achieved good results in 2022 despite constant changes and swift reversals on the global market. We are pleased that this dynamic year for Krka, the pharmaceutical industry and the economy in general was a year of growth and progress. We overcame various business setbacks owing to our robust business model and constant adjustments in multiple operating areas.

Continued growth of Krka Group sales in 2022

The Krka Group generated €1,717.5 million in revenue from sales of products and services, a 10% year-on-year rise. Sales in markets outside Slovenia accounted for 94% of overall Krka Group sales. Product sales volume increased by 4%. We are one of the leading providers of generic pharmaceuticals in many large markets and the leading one in several therapeutic categories.

Region East Europe remained our leading sales region in 2022. Regional sales totalled €623.4 million, up 14% on 2021. We recorded growth in all regional markets, except in Ukraine. In absolute terms, sales growth was the highest in the Russian Federation and Uzbekistan, and in relative terms, in Turkmenistan. Sales totalling €387 million, up 16% on 2021, placed us third among foreign providers of generic pharmaceuticals in the Russian Federation. Product sales in Ukraine, another of our key markets, amounted to €95.2 million, accounting for 99% of total sales in 2021. We ranked second among foreign providers of generic medicines in the pharmacy segment in Ukraine.

Region Central Europe generated product sales totalling €364.2 million, up 4%. We recorded sales growth in all regional markets except in Hungary. The Czech Republic delivered the strongest sales growth. In Poland, the largest regional market and one of our key markets, product sales reached €168.2 million, up 1% on 2021, ranking us third among foreign providers of generic medicines. In the Czech Republic, another of our key markets, year-on-year sales increased 16% to €55.8 million. We ranked fourth among foreign providers of generic medicines in the country. Hungary, another of our key markets, generated sales totalling €47.1 million, down 6% on 2021, ranking us second among primarily foreign providers of generic medicines. Sales in Slovakia grew to €40.5 million, ranking us fourth among all providers of generic medicines in the country.

Region West Europe, collectively regarded as one of our key markets, recorded product sales of €327.3 million in 2022, a 7% year-on-year increase. Germany, Scandinavia, France, and Italy led in terms of sales. We are among the leading providers of sartans and an important supplier of generic medicines from many other therapeutic categories in the markets of Region West Europe. Our sales in Germany totalled €88.6 million, a 10% year-on-year increase, ranking us eighth among foreign providers of generic medicines in the pharmacy segment.

Region South-East Europe generated product sales of €224.5 million, a year-on-year increase of more than 7%. We recorded sales growth in all regional markets and the highest absolute growth in Croatia, Romania, and Serbia. We ranked sixth among foreign providers of generic medicines in Romania, one of our key markets. Product sales totalled €63.2 million, an 8% year-on-year increase. We ranked third among foreign providers of generic medicines in Croatia, where sales amounted to €41 million, up 14% on 2021.

Region Overseas Markets generated sales of €66.1 million, a 23% year-on-year rise. We have been increasing sales through our Chinese subsidiary Ningbo Krka Menovo, where our product sales reached €12.8 million, more than doubling the 2021 sales figure. We also recorded growth in the markets of the Middle East, Far East, Africa, and Central America.

Product and service sales in Slovenia, our domestic and another key market, amounted to €103 million. Product sales were valued at €60.5 million, up 7% on 2021. Health resorts and tourist services generated €42.6 million, up 17% on the year before, significantly contributing to 11%-sales growth in the domestic market.

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[1] GRI 2-22

Profitable business operations

Companies encountered many complex situations in sales and purchase markets in 2022. The labour market situation was equally demanding. We surmounted all difficulties owing to our robust business model and constant adjustments in various operating areas. We generated record net profit totalling €363.7 million, up 18% on 2021. ROE reached 17.9%.

We intend to further strengthen and optimise our vertically integrated business model, which once again proved to be our greatest competitive advantage. It allows us to manage most business processes ourselves, from development, API and finished product manufacture to marketing and sales. We can quickly respond to market demand while providing high product quality, safety, and efficacy standards.

Innovation-driven product development

We obtained marketing authorisations for 11 new products in 2022: nine prescription pharmaceuticals and two non-prescription products. We place a considerable emphasis on managing the life cycle of products best established among users of our medicines. We constantly monitor the quality of our medicines, launch them on new markets, and add new strengths, pharmaceutical forms, and fixed-dose combinations. We upgrade them in line with the latest scientific findings and guidelines and align them with regulatory and market requirements. Last year, we received approvals for more than 28,000 regulatory variations.

In 2022, we filed 14 patent applications for new technological solutions evaluated as inventions at the global ranking level. Based on priority applications from 2021, we submitted nine international patent applications. We were granted three patents in different countries. Over 200 patents protect Krka's technological solutions.

We intend to continue focusing on medicines for treating the most common contemporary chronic diseases. Cardiovascular agents currently account for more than 50% of our prescription pharmaceuticals, followed by central nervous system agents and gastrointestinal tract medicines. We also focus on other medicines, primarily on antidiabetic and oncology agents, medicines for pain relief, etc. We also plan to add new products to our non-prescription and animal health portfolios.

We are aware that long-term growth primarily depends on managing the life cycle of products and the continuous increase of supply, so we intend to supplement our portfolio with in-house innovative R&D solutions in the future. We allocate 10% of our annual revenue to research and development. We have more than 170 products in the pipeline.

16.8 billion tablets and capsules made

Setting a record in 2022, the volume of our finished products saw a 4% year-on-year increase. We are good at fusing research and development with production and quality management, which speeds up the transfer of new products to production.

Last year, we further optimised technological processes and introduced many alternative sources of materials. This enabled uninterrupted production and ensured long-term product volume growth, further reducing risks posed by the situation in purchasing markets.

Value-added production and research infrastructure

The value of investments increased on 2021 and 2020, amounting to €106 million.

We closed out two essential investments. We installed additional highly automated and robotised packaging lines in our largest solid dosage production plant, Notol 2 (Novo mesto, Slovenia), equipping it completely. This investment was worth €39.2 million. We have invested €259 million in the Notol 2 plant to date. We completed several investments to upgrade research, development and analysis capacities in our development-and-control laboratories. They totalled €8.3 million.
Other planned major investments include the chemical synthesis plant Sinteza 2 and laboratories for chemical analyses Kemijsko-analitski center – two facilities for API development and production in Krško, Slovenia, that will significantly increase API development and production capacities. The total investment value is estimated at €163 million.

Over 47,000 shareholders

Krka shares remained the most actively traded security on the Ljubljana Stock Exchange in 2022, with an average daily trading volume of €0.76 million. The share also reached one of the highest dividend yields in the industry.

The shareholders received €5.63 gross dividend per share, up 12.6% on the previous year. Gross dividend yield was 6.1%. We allocate at least 50% of the net profit of the majority holders for dividends each year. The Krka Group's financial requirements for investments and potential acquisitions are also taken into account.

To share our successful business story with investors, we participated in 16 investment conferences with investors from over 15 countries and held conference calls with over 100 shareholders.

Know-how as our competitive advantage

We know we can deliver on the set strategy only through effective organisation combined with dedicated work in all business segments and our prowess. Of all Krka employees, 51% hold at least a university degree. We constantly educate and motivate our employees. We were awarded the silver TOP Education Management certificate in 2022, placing us among the Slovenian companies that invest the most in employee education and development. Krka received the 2022 MEGA Acceleration (MEGA pospešek 2022) award, the highest recognition for remarkable achievements in intergenerational activities, cooperation and integration at the workplace.

We are a varied but tightly-knit team. Our employees come from 49 countries. Employees on open-ended contracts account for 88.1%, and women occupy 50.8% of all managerial posts.

Upgrading sustainability commitments

Sustainability has been the foundation for our stable growth for decades, outmatching the exclusively environmental responsibility. Our social impact is significant and encompasses integrated quality management and ensuring high-quality, safe, effective, and affordable medicines. To enhance sustainable development, we put a lot of effort into talent attraction and retention, follow good management and governance practices, mitigate our impact on the environment and climate change, and ensure compliance, integrity, and transparency of business operations.

We recently upgraded Krka Group ESG governance to further improve the management of our material sustainability areas, reduce sustainability-related risk, and increase the positive impacts of sustainable development. We formally introduced sustainable development guidelines and strategic goals in November 2022, when the Management and Supervisory Boards adopted two documents: the *ESG Policy of the Krka Group;* and the *ESG Strategy of the Krka Group,* that set down all measurable goals we plan to deliver on by 2026. This will help us achieve stable long-term business results and increase our competitive advantage.

We fully embrace our responsibility of providing our medicines to more than 50 million patients, primarily those with chronic diseases. One of our strategic goals is to increase the number of patients treated with our cardiovascular agents and hence directly help attain one of the goals from the United Nations *2030 Agenda*: to reduce deaths caused by noncommunicable diseases by one-third by 2030.

We included many additional disclosures in this regard in this annual report. We intend to obtain an independent ESG rating by the end of 2023.

Growth set to continue in 2023

Despite many market changes, the situation has been favourable, and our products have been in reasonably high demand. We have one of the most robust marketing and sales networks of all pharmaceutical companies in countries, where our presence is long standing. We manage sales in most western European markets through our network. We successfully navigate challenges related to the situation in Ukraine and the Russian Federation, meaning our activities run relatively smoothly. We also benefit from our 60-year business experience in those countries.

Governments and healthcare institutions in many countries worldwide are cutting back on healthcare spending and encouraging the use of generic medicines. The demand for generic medicines is rising, and certain markets are only beginning to emerge.

The Krka Group forecasts 2023 product and service sales at €1,755 million. The plan is in synch with our 2022–2026 development strategy. It is based on assumptions, estimations, forecasts, and other data available during plan preparation in November 2022. We plan to achieve at least 5% average annual sales growth and EBITDA margin of at least 25% by 2026.

The Krka Group is an innovative generic company whose long-term orientation is to continue supplying high-quality medicines to improve the quality of life for patients from all corners of the world. We have many reasons to be confident, as our competitive advantage lies in: innovative generic medicines; ranking among global best-sellers; a flexible and resilient business model; highly qualified and motivated employees; digitalisation and innovative approaches to all business segments; being sustainability-centric; and the ease and speed at which we adapt to changes.

I am convinced that they guarantee the Krka Group's fitness, increase owners' assets, and provide new professional challenges for employees while meeting the expectations of the wider community.

Jože Colarič
President of the Management Board and CEO

Krka Group financial highlights[2]

€ thousand	2022	2021	2020	2019	2018
Revenue	1,717,453	1,565,802	1,534,941	1,493,409	1,331,858
– Of that revenue from contracts with customers (products and services)	1,708,542	1,560,288	1,529,959	1,489,080	1,326,747
Earnings before interest, tax, depreciation and amortisation (EBITDA)[1]	488,895	463,625	502,432	385,437	343,280
Operating profit (EBIT)[2]	381,211	354,788	390,744	274,195	232,686
Profit before tax (EBT)	433,073	362,417	338,992	284,368	202,573
Net profit	363,662	308,150	288,949	244,272	174,008
Non-current assets (year-end)	1,125,025	1,075,052	990,998	1,041,833	1,010,811
Current assets (year-end)	1,562,475	1,461,936	1,244,544	1,142,785	974,258
Equity (year-end)	2,138,509	1,919,085	1,751,812	1,667,516	1,540,270
Non-current liabilities (year-end)	132,130	162,674	172,796	160,905	123,058
Current liabilities (year-end)	416,861	455,229	310,934	356,197	321,741
R&D expenses	162,580	154,559	153,447	152,421	130,700
Investments	105,974	66,386	76,613	112,568	96,293

RATIOS	2022	2021	2020	2019	2018
EBITDA margin	28.5%	29.6%	32.7%	25.8%	25.8%
EBIT margin	22.2%	22.7%	25.5%	18.4%	17.5%
EBT margin	25.2%	23.1%	22.1%	19.0%	15.2%
Net profit margin (ROS)	21.2%	19.7%	18.8%	16.4%	13.1%
Return on equity (ROE)[3]	17.9%	16.8%	16.9%	15.2%	11.5%
Return on assets (ROA)[4]	13.9%	12.9%	13.1%	11.7%	8.9%
Liabilities/Equity	0.257	0.322	0.276	0.310	0.289
R&D expenses/Revenue	9.5%	9.9%	10.0%	10.2%	9.8%

NUMBER OF EMPLOYEES	2022	2021	2020	2019	2018
Year-end	11,598	11,511	11,677	11,696	11,390
Average	11,569	11,581	11,631	11,484	11,129

SHARE INFORMATION	2022	2021	2020	2019	2018
Total number of shares issued	32,793,448	32,793,448	32,793,448	32,793,448	32,793,448
Earnings per share (EPS) in €[5]	11.69	9.92	9.27	7.73	5.46
Gross dividend per share in €	5.63	5.00	4.25	3.20	2.90
Closing price on LJSE at the end of the period in €	92.00	118.00	91.40	73.20	57.80
Price/Earnings ratio (P/E)	7.87	11.90	9.86	9.47	10.59
Book value in €[6]	65.21	58.52	53.42	50.85	46.97
Price/Book value (P/B)	1.41	2.02	1.71	1.44	1.23
Market capitalisation in € thousand (31 Dec)	3,016,997	3,869,627	2,997,321	2,400,480	1,895,461

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

[2] GRI 2-6, 201-1

Krka's sustainable development indicators

	Unit of measure	2022	2021	2020	2019	2018
ENVIRONMENTAL DATA						
Water consumption (total)	**m^3**	**1,461,617**	**1,461,024**	**1,623,046**	**1,399,303**	**1,341,333**
Drinking water	m^3	676,482	643,965	684,950	613,919	655,837
River water	m^3	785,135	817,059	938,096	785,384	685,496
Energy (total)[1, 3]	**GJ**[1]	**1,010,667**	**953,366**	**969,833**	**956,577**	**961,319**
Electric power	GJ	361,190	330,453	344,957	356,610	344,983
Natural gas	GJ	584,480	601,041	604,287	580,048	595,739
Liquid petroleum gas	GJ	0	17,750	20,564	19,409	20,214
Fuel oil (extra light)	GJ	64,997	4122	26	510	383
Generated electric power – alternative sources (total)	**GJ**	**29,315**	**53,337**	**48,294**	**39,482**	**46,909**
Solar power plant	GJ	275	266	280	252	223
Cogeneration	GJ	29,040	53,071	48,014	39,230	46,686
Energy intensity						
Specific use of energy[3]	MJ/€	1.52	1.62	1.62	1.66	1.88
Specific use of energy[3]	TJ/billion units	77.4	78.1	78.1	82.6	86.6
Wastewater (total)[4]	**m^3**	**1.305.619**	**1.266.494**	**1.388.829**	**1.225.003**	**1.150.578**
Cooling water	m^3	424,261	407,807	517,090	392,490	298,137
Industrial wastewater	m^3	881,358	858,687	871,739	832,513	852,441
– Suspended solids load	t	7.0	11.8	10.3	23.9	16.1
– Biochemical oxygen demand	t	3.6	3.1	7.0	6.9	5.0
– Chemical oxygen demand	t	48.0	41.4	42.1	57.5	38.4
– Nitrogen	t	6.2	5.1	2.9	4.9	4.8
– Phosphorus	t	0.7	0.7	0.6	0.7	0.6
Environmental load units (ELU)[2]	ELU	1,584	1,371	1,241	1,737	1,286
Waste (total)	**t**	**11,932**	**11,369**	**12,512**	**11,091**	**10,312**
Hazardous waste (total)	**t**	**6,786**	**6,480**	**7,329**	**6,047**	**5,491**
Solid waste	t	871	808	889	789	670
Liquid waste	t	5,915	5,672	6,440	5,258	4,821
Non-hazardous waste (total)	**t**	**5,146**	**4,889**	**5,183**	**5,044**	**4,821**
Disposal at landfills (total)	t	665	763	791	802	824
Composites (energy use and processing)	t	502	495	427	489	371
Biomass (composting)	t	1,447	1,231	1,618	1,308	1,187
Recycling waste (total)	t	2,532	2,381	2,327	2,422	2,422
– Paper	t	1,303	1,243	1,273	1,221	1,191
– Plastics	t	513	421	380	401	432
– Glass	t	113	110	135	136	125
– Metal	t	188	186	150	239	201
– Wood	t	398	421	389	425	473
Electric and electronic equipment	t	17	19	20	23	17

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

	Unit of measure	2022	2021	2020	2019	2018
ENVIRONMENTAL DATA						
Air emissions[5]						
Energy related CO_2 – direct	t CO_2-eq[3]	33,475	35,046	34,709	33,332	34,242
Energy related CO_2 – indirect[4]	t CO_2-eq[3]	0	0	45,707	47,251	45,710
Energy related SO_2	t	3.7	1	1	1	1
Energy related NO_x	t	35.9	28.0	27.9	26.8	27.6
Ozone-depleting substances and fluorinated greenhouse gases	t CO_2-eq	1,174	1,277	2,501	1,744	1,954
Compliance						
Extraordinary events related to environment		0	0	0	0	3
Environmental protection (total)	**€ thousand**	**11,968**	**11,599**	**10,056**	**7,672**	**6,738**
Environmental protection costs	€ thousand	7,701	6,258	6,357	5,517	5,107
Investments in environmental programmes	€ thousand	4,267	5,301	3,699	2,155	1,631
SOCIETY						
Number of employees		**6,320**	**6,228**	**6,191**	**5,907**	**5,496**
Slovenia		5,763	5,690	5,679	5,386	4,995
Representative offices abroad		557	538	512	521	501
Health and safety[4]						
Number of accidents		32	22	21	27	19
Lost time injury frequency rate (LTIFR)		3.3	2.4	2.3	2.8	1.9
Proportion of disabled employees	%	5.0	5.0	4.9	5.3	5.4
Education and training						
Number of education and training hours	hour/employee	44	27	32	41	42
Education and training costs	€/employee	754	603	667	897	881

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

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

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

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

[5] GRI 305-6, 305-7

At a glance[6]

The Krka Group consists of the controlling company, Krka, d. d., Novo mesto, a subsidiary in Slovenia, Terme Krka, d. o. o., Novo mesto, and 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 resort and tourist services.

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

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

In 2022, we established a wholly-owned subsidiary in the United Arab Emirates, Krka GCC L.L.C.

ID card

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

[6] GRI 2-1

Krka Group business model

Key risks and opportunities

- 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
- Supply chain and business continuity
- 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
- Legal and regulatory compliance
- Digitalisation and information security
- Climate change and environmental impact management
- Energy security and efficiency
- Growing competition
- International political and trade challenges
- Other business, economic, social and governance risks and opportunities

Resources

Human potential

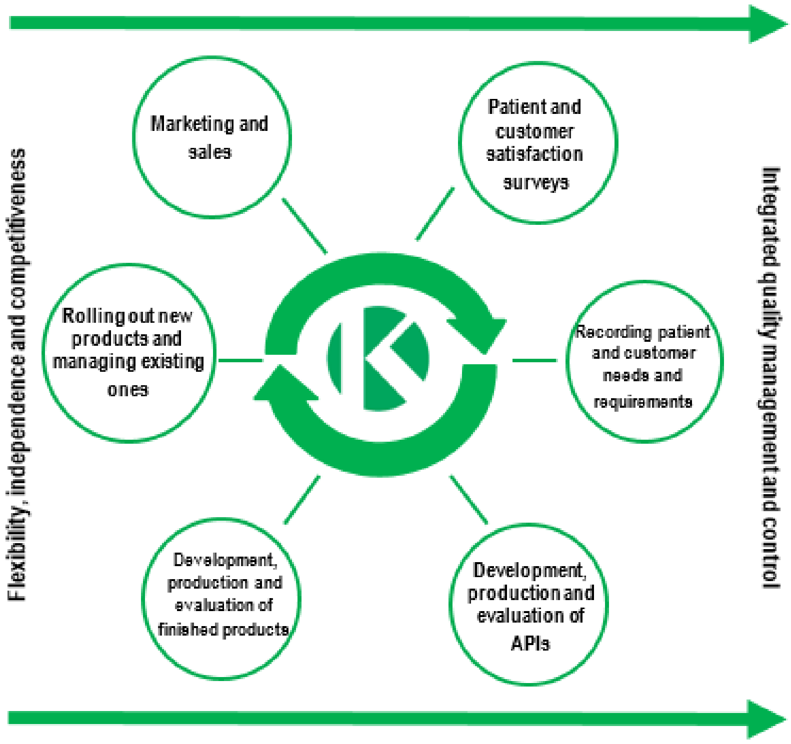
Research and technological capacities

Intellectual capital

Financial resources

Incoming materials

Environment and natural resources



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 Overseas Markets

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

Region South-East Europe

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

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 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 a capital variable
- **Belgium** KRKA Belgium, SA
- **United Kingdom** KRKA UK LTD
- **Finland** KRKA Finland Oy
- **Germany** 123 Acurae Pharma GmbH

The chart includes companies operating as at 31 December 2022.

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

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

Krka in global markets[7]

[7] GRI 2-1

2022 highlights

Business operations

- Krka Group revenue grew by 10% year on year to €1,717.5 million, and net profit by 18% year on year to €363.7 million.

- The proposed dividend per share of €5.63 gross, up 12.6% on the previous year, was approved at the 28th Annual General Meeting.

- We participated in 16 investment conferences and held four webcasts to present our business operations to investors and analysts. We regularly informed the financial and general public about our business achievements in compliance with applicable regulations and stock exchange reporting rules.

- The Krka Group weathered the challenging operating climate well and reached new sales milestones. We have doubled sales of perindopril-containing products over the past five years, and sales of our analgesics topped €100 million in 2022.

- We upgraded our sustainability governance by adopting the Krka Group ESG Policy and ESG Strategy defining strategic environmental, social and corporate governance objectives. The Management Board and the Supervisory Board approved both documents.

Visibility

- In 2022, Krka once again scored highly in the long-running Slovenian Business Excellence survey, conducted by specialist service providers, winning the top place among 54 surveyed companies.

- At the 23rd best annual report contest held by the Slovenian business daily *Finance*, Krka received the highest award in the category of large companies for the eighth time.

- Krka maintained its position among top employers in the Slovenian reputation poll (Ugled delodajalca). We have received the award for the most reputable employer in Slovenia seven times since the poll began in 2007.

- Krka was awarded the silver TOP Education Management certificate, placing it among the Slovenian companies that invest the most in employee education and development.

- Our long-standing successful collaboration and good relations with the University of Maribor made us a worthy recipient of the University's special award for collaboration in research and development.

- The Slovenian Chemical Society awarded Krka an honorary title at their Annual Meeting.

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

- Krka researchers received two silver awards for innovation at the Slovenian Chamber of Commerce and Industry (GZS) Innovation Day, winning the award for an innovative lenalidomide hard capsule in cancer treatment and the award for innovative approaches in ensuring the safety of Krka's medicines containing sartans.

- At the GZS Innovation Day, Krka received special recognition as the company that has received the Chamber's gold award for the best innovation most frequently over the award's 20 years.

- Krka received the 2022 MEGA Acceleration (MEGA pospešek 2022) award, the highest recognition for remarkable achievements in intergenerational activities, cooperation and integration at the workplace.

Sustainability

- The 2021 Talent-of-the-Year Awards were announced at the 16th traditional meeting with Krka's sponsorship recipients. Three outstanding young people were awarded for their sports and culture accomplishments.
- Our social responsibility project Krka's Week of Charity and Volunteering united our employees from 16 countries in fostering the values of volunteering and mutual help and building bridges between generations.
- On Krka Car-Free Day, our employees from 11 countries reaffirmed our shared commitment to sustainable mobility, a healthy environment, and improved quality of life.
- We continued our unique and long-standing tradition of Krka Prizes by conferring the secondary school, undergraduate and graduate-level prizes for the 52nd consecutive time. The recipients presented their research work at the scientific symposium.
- We donated 50 portable bedside ultrasound machines featuring a tablet computer to various Slovenian institutions and provided training support to the users. Our donation will help physicians to manage patients even better.
- We presented the 11th consecutive Volunteer of the Year Award and thanked Krka employees who donate blood regularly.
- We marked the 50th anniversary of Krka's Culture and Arts Society, which has become an inseparable part of our company and its culture.

Employees

- The 19th International Regulatory and Pharmacovigilance Conference was organised as a hybrid event. More than 300 colleagues from 36 countries joined the event remotely, while our colleagues from 29 countries attended in person. The best regulatory affairs employees received awards, recognitions, and commendations.
- 148 colleagues from 40 markets attended the 24th Marketing and Sales Conference. The event focused on Krka's strategy up to 2026 and its marketing and sales objectives.
- The 13th HR Conference, held remotely, examined global human resources challenges.
- We organised the 6th Quality Conference for Krka subsidiaries with a marketing authorisation holder status.
- Nearly 12,600 employees contribute to Krka's development and progress. We acknowledged their commitment and professional achievements by presenting the 2022 Krka Awards.
- In April, we held 18 worker assemblies at Krka in Slovenia. The President and members of the Management Board briefed more than 3,570 employees on performance results, plans for the current year, the strategy, and other current issues.
- The best employees in marketing were presented with Marketing Awards for the 24th consecutive time. The recipients came from 30 countries.
- In July, 20 colleagues from nine countries completed the 18th Krka International Leadership School.
- We thanked our colleagues and organisational units that submitted the best useful proposals and improvements for their innovation efforts, contributing to our company's progress.
- We continued with our tradition of organising an annual event for our newly retired colleagues to recognise the contribution to the company's success by many generations of our employees.

Subsequent event

The event after the end of the period had no impact on the 2022 financial statements.

Acquisition of treasury shares

From 1 January 2023 to 20 March 2023, we acquired 25,852 of treasury shares. At the end of this period, Krka held 1,811,701 treasury shares (5.525% of total shares).

BUSINESS REPORT

Corporate governance statement[8]

Krka employs a two-tier corporate governance system. The Management Board runs the Company and is 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 materials for each AGM can be viewed at the Company's registered office from the day of the notice.

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

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

In the 2022 AGM notice, per Item 8.2 of the *Corporate Governance Code for Listed Companies* in force, the Company requested all major shareholders to publicly disclose their investment policies in respect of their shareholdings in the Company, in particular their voting policy, the type and frequency of their engagement in the Company's governance, and the flow of their communication with the Company's managerial and supervisory bodies.

At the **28th AGM** of **7 July 2022**, shareholders:

- Received the Management Board 2021 activity report, including the auditor's report, the Supervisory Board report verifying and endorsing the 2021 annual report, and the 2021 Management and Supervisory Board remuneration report.
- Adopted the resolution on the appropriation of accumulated profit for 2021;
- Discharged the Management and Supervisory Boards of liability for 2021;
- Discussed in compliance with ZGD-1 the remuneration policy for management and supervisory bodies, and did not approve it at consultative voting;
- Elected Borut Jamnik, a member–shareholder representative, to the Supervisory Board for a five-year term commencing on 8 July 2022;
- Appointed as the auditor for financial years 2022, 2023, and 2024 the audit firm KPMG SLOVENIJA, podjetje za revidiranje, d. o. o., Železna cesta 8a, 1000 Ljubljana.

According to the 2023 financial calendar, the regular AGM is set for 6 July. The Company must give a clear 30 days' notice before the AGM is held and publish it on the AJPES website, in the Company's printed or online publication if it is due for publication at the time of the notice and on the Company's website. The notice must also comply with the *Financial Instruments Market Act*.

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

[8] GRI 2-9, 2-10

Supervisory Board

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

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

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 new five-year terms of office. Another two shareholder representatives sit on the Supervisory Board: Borut Jamnik elected by the AGM on 6 July 2017 and again on 7 July 2022, and Mojca Osolnik Videmšek elected by the AGM on 4 July 2019.

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

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

Supervisory Board members' remuneration, reimbursement, and other benefits are not directly linked to the Company's performance and are disclosed in the financial report under the Note entitled 'Related party transactions' and in the report to the AGM on Management and Supervisory Board remuneration. In addition to attendance fees, members receive fixed amounts for exercising their functions and additional payments, i.e. for membership on committees, chairing the Supervisory Board or acting as a deputy to its president, presiding committees, and for special undertakings. All remuneration amounts were fixed by resolutions passed at the 27th regular AGM in 2021.

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

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

The work of the Supervisory Board and related committees in 2022 is detailed in '2022 Supervisory Board report', published on SEOnet (http://seonet.ljse.si) of the Ljubljana Stock Exchange, ESPI of the Warsaw Stock Exchange, and Krka's webpages.

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 senior managerial positions since 1978.

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

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

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

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

He has received several awards for his work, including Manager of the Year in 1997 and the Primus award for excellence in communication in 2001 by the Slovenian Public Relations Society. He is a keen advocate of culture and was named Cultural Patron of the Year in 2011. His visionary management and creativity at BTC earned him the Vision Manager Award in 2012, which is conferred by public relations experts from South-Eastern Europe. In 2013, the Municipality of Ljubljana conferred the Marjan Rožanc Award on Mermal for sporting achievements. The Chamber of Commerce and Industry of Slovenia awarded him for exceptional business and entrepreneurial achievements in the category of large companies in 2013. Under Mermal's management, BTC has become the first – and, to this date, the only – Slovenian company listed on the London Stock Exchange. In 2015, he received a gold plaque from the Managers' Association of Slovenia for more than two decades of support. 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 holds a PhD in economics. He is a full professor at the Faculty of Economics in Ljubljana and has worked there since 1995. As a researcher, teacher and mentor, he deals with strategic management, mergers and acquisitions, organisation and business skills. Lahovnik has served twice as Minister of Economic Development and Technology to the Government of the Republic of Slovenia. He led the corporate governance and investment negotiation teams during Slovenia's OECD membership talks.

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

Dr Boris Žnidarič

President of the Human Resource Committee

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

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 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 the establishment of the First Pension Fund in Slovenia. In 2000, he began his term on the management board of Kapitalska družba in charge of finance, analyses, IT, 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 responsible 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 consultancy Posebna družba za podjetniško svetovanje (PDP) until its dissolution following the merger with Slovenski državni holding (SDH, Slovenian Sovereign Holding). The process involved a series of financial and business restructurings, culminating in the sale of the companies. In 2011 he was appointed chairperson of 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 been a member of or chaired many governing bodies of major Slovenian companies, including Telekom Slovenije, Pivovarna Laško, Zavarovalnica Triglav, NLB, Luka Koper, Comet, Swaty, Lesnina, Žito, Krka, etc. Until 2018, he was a management board member of the European Association of Public Sector Pension Institutions (EAPSPI). He was a supervisory board and audit committee member at Nova KBM bank until 4 January 2023.

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 continues his committee board member tenure.

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 sits on the management board of Gorenjska banka, a bank, and is responsible for risk management. A bank employee since 2014, she sat on the management board from 2014 until 2019, and acted as the director of the bank's subsidiary GB Leasing, d. o. o. (2019–2022). Her other duties included financial management, back office, compliance management, human resource management, organisation, and legal affairs.

Before taking up employment with Gorenjska banka, she was responsible for various challenging areas of work at another Slovenian bank, NLB, d. d., primarily concerning corporate governance at the NLB Group. As director of Capital Investments Management and Control, she sat on several supervisory boards and audit committees of subsidiaries in Slovenia and abroad. She was also director of the office of the management board and secretary general at NLB.

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

Prof. Dr Julijana Kristl

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

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

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

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

Employee representatives

Franc Šašek

Deputy President of the Supervisory Board

Franc Šašek (born 1967) has a degree in organisational sciences. He joined Krka in 1984 and heads up Technical Services. From the outset, he has worked in engineering and technical services ranging from technologist, Head of the Technical and Technological Preparations Department, and later senior specialist in maintenance and project management.

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

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

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

Dr Mateja Vrečer

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

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

Tomaž Sever

Tomaž Sever was born in 1967. After graduating as a mechanical engineer, he acquired 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; establishing and expanding Krka's presence in individual markets; specifying the product range; recommending pricing strategies for individual markets; taking part in the preparation of sales campaigns; designing, developing, and managing distribution channels; and participating in the sales network creation abroad. Before joining Krka, he worked for IBM Slovenia from 1992 to 1995, first as an information systems sales representative and later managing information system installation projects.

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

Independent expert, member of the Audit Committee

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

Borut Šterbenc

Independent Accounting and 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. Up to 2011, he was a project manager at KPMG, where he planned, led, and conducted complex audits in many Slovenian companies, including Krka, Intereuropa, Sava, NEK, and Lama. Šterbenc is also a supervisory board member at Pokojninska družba A, d. d. and an experienced rapporteur to governance and supervisory bodies. He is a certified auditor registered with the Agencija za nadzor nad revidiranjem (Agency for Public Oversight of Auditing). He also holds a certificate of professional competence for supervisory board membership issued by Slovenian Directors' Association. He is fluent in English, Croatian, and Russian.

Management Board

The Management Board's primary duties are to:

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

The Management Board has five members:

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

The President and other members of the Management Board of Krka were not members of any governance or supervisory bodies outside the Krka Group in 2022.

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

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

The following bodies assist the Management Board:

- Directors' Committee;
- Sales Committee;
- Development Committee;
- Quality Committee;
- Investment Committee;
- Human Resource Committee;
- Information Technology Committee;
- Economics and Finance Committee;
- Corporate Identity Committee; and
- Sustainability Board.

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 for implementing annual plans. Certain committees also have a risk management remit. The Sustainability Board has been active since 1 January 2023.

Remuneration, reimbursements, and other benefits for Management Board members are fixed in work contracts between the Supervisory Board and individual Management Board members. In compliance with the *Companies Act*, the remuneration policy for management and supervisory bodies is decided on by a consultative resolution. This provision has been applied to AGMs since 24 August 2021.

In 2022, payments to Management Board members were made in cash. The data are disclosed in the financial report under the Note entitled 'Related Party Transactions', and in the report on remuneration for the members of the Management and Supervisory Boards of Krka, reviewed at the AGM of 7 July 2022.

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 anti-competitive practices throughout their term of office. Under the *Rules of Procedure*, they can accept seats on supervisory bodies of companies outside the Krka Group only after notifying and obtaining approval from the Supervisory Board of Krka. In 2022, no member of the Management Board of Krka was a member of a supervisory body of any company outside the Krka Group. The existence of any conflict of interest is assessed prior to their nomination.

As regards the Management Board's powers, the shareholders adopted a resolution at the 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, Slovenia) completed his secondary education at Gimnazija Novo mesto, then continued his studies at the Faculty of Economics in Ljubljana, graduating in 1979.

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

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

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

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

Dr Aleš Rotar

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

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

He started working at Krka in the Stability Department in 1984. In 1991, he was appointed Head of Pharmaceutical Technology and two years later Head of Pharmaceutical Development within Research and Development. In 1998, he was appointed Deputy Director and in 1999, 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 31 July 2007 to 31 December 2009. Rotar has been Director of Research and Development since 2002. At their meeting of 29 July 2009, the Supervisory Board reappointed him to the Management Board for a further six-year term of office, starting on 1 January 2010. Rotar has notably contributed to know-how and establishment of business functions for in-house research and development at Krka. Owing to his strong performance, in November 2015, the Supervisory Board unanimously appointed Rotar to the Management Board for a new term of office from 2016 to 2021 following a nomination by Colarič. Within that term, he successfully united development and production processes into Pharmaceutical R&D and Production, one of Krka's largest organisational units. Synergies between the experts from development and production helped enhance technology transfer and product life cycle management, leading to higher production output. During his terms of office, Krka almost doubled product launches.

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

Dr Vinko Zupančič

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

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

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

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

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

David Bratož

Member of the Management Board

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

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

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

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

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

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

Milena Kastelic

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

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

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

As Krka's internal auditor of 15 years, she has contributed to enhancing business processes in the Company. This function allowed her to learn about the workings of other organisational units, the importance of close cooperation between them, and the results of mutual cooperation.

In 2015, the Works Council proposed her as the Worker Director. 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 in 2021.

The Supervisory Board, therefore, unanimously appointed her to 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 line with good practice, we hereby declare that Management Board member David Bratož acts under the board resolution as the expert team leader for enhancing sustainable management.

2022 diversity policy for Management and Supervisory Boards

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

The bodies closely followed recommendations by the Slovenian Directors' Association for the voluntary pursuit of gender diversity in management and supervisory bodies. By 2026, they aim to gradually implement the 40-33-2026 model (i.e. 40% of women on the Supervisory Board, and 33% on the Management and Supervisory Boards together). In 2022, women accounted for 33% of the Supervisory Board structure, constituting 29% of the Management and Supervisory Boards.

Key areas of the *Diversity Policy* are gender, age, and qualification profile diversity. The policy pursues a balanced gender structure, suitable interdisciplinarity and age structure, allowing for the transfer of experiences and knowledge. The policy addresses the diversity of the Management and Supervisory Boards. However, the Company also intends to apply it rationally 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 standing, sexual orientation, or other personal particulars.

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

Governance of the Krka Group

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

Uniform governance, organisation, and operation rules are applied to all companies in the Krka Group, unless otherwise required by national legislation. The controlling company sets the strategies and objectives of all individual subsidiaries in the Krka Group and monitors the implementation of their plans. To ensure cohesive management and supervision across the Group, the controlling company's Management Board also acts as the 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[9]

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

[9] GRI 2-23, SDG 16

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 adopted the document in 2018 at the Group level. It was updated in 2020 and is to be reviewed and, if necessary, updated biennially. It was last reviewed in January 2023. It is available in 29 languages on our corporate website or websites of our subsidiaries. Subsidiaries must take national legislation and transparent business practices into account.

The *Code* is binding on all employees.

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

Education and training on corporate compliance and integrity[10]

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.

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

Addressing purported irregularities[11]

Any 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, with the *Rules on Fraud Prevention, Detection and Investigation*.

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

Krka's Code of Conduct entered into force on 1 May 2018. Since then, the compliance officer has received 72 reports for consideration, 8 in 2022; 15 in 2021; 25 in 2020; 10 in 2019; and 14 in 2018. On the back of those reports, we adopted relevant corrective measures to further strengthen our internal controls.

Chief Compliance Officer[12]

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 advise on managing compliance in their respective areas, and a secretary assists him. The Chief Compliance Officer briefs the Supervisory Board on his activities through the *Integrity Plan* discussed by the body biennially, which happened last in 2022. He reports to the Management Board on all activities once a year.

Our subsidiaries with 250 or more employees employ their own compliance officers. In 2022, subsidiaries in the Russian Federation, Poland, Ukraine, Germany, and Terme Krka (Slovenia) had their own compliance officers. They report to Krka's Chief Compliance Officer every quarter.

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

Integrity Plan[13]

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

The *2022–2023 Integrity Plan* includes as follows:
- Investments, acquisition of fixed assets, and execution of major maintenance works;
- Purchase of raw materials;
- Insider trading, shareholder relations;
- Recruitment and human resource management;
- Personal data processing;
- Documentary-and-financial control, accounting processes, independence of internal and external auditors;
- Fraud risk or non-compliance with corporate instructions in subsidiaries;
- Marketing of prescription pharmaceuticals, non-prescription products, and animal health products;
- Product sales;
- Sponsorships and donations;
- Gift receiving and giving;
- Environmental management;
- Use of information technologies;
- Product quality;
- Risk of health-and-safety at work non-compliance;
- Systemic risk related to integrity and compliance.

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

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

In 2022, no high risk was detected in connection with any area listed above.[14]

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

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

We regularly update all these rulebooks. They have been translated into the national languages of the countries where our marketing network operates. Marketing employees receive information through eCampus, at internal cyclic meetings, and training courses for marketing employees. They learn about the rules mentioned above and sign a relevant declaration.

Management approach to non-discrimination[15]

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

[13] GRI 2-23, 2-24
[14] GRI 205-1
[15] GRI 3-3, 406-1

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

Contributions and other spending[16]

In 2022 and over the past five years, Krka did not fund any political campaigns, political organisations, lobbyists, or lobbying organisations.

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

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

We manage sponsorships and donations in the context of Krka Group's sustainable business operations. Activities are carried out in accordance with *The Krka Group Sponsorship Manual* governing sponsorships and donations. In line with our primary mission, 'Living a healthy life.', we allocate most of our sponsorships and donations to projects related to health and quality of life. We allocate the majority of funds to sports, culture, healthcare, science, education and humanitarian actions. Please refer to the 'Sustainable Development' section for further information.

Human rights in business operations[18]

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

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

Human resources are referred to by the Integrity Plan, updated yearly; the latest update was made in June 2022.

Internal audit

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

In line with the 2022 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 compliance with the regulations of each audit area.

Internal auditors reviewed processes in: API R&D; Analytics Development; QA Incoming Materials and APIs; Sales; Digital Marketing; Promotional Material Preparation; Environmental Protection; Hazardous Materials Warehouse, and IT management. 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 aforementioned standards. Internal Audit primarily participated in the preparation of the *ESG Policy* and strategy.

Internal auditors provided assurances that the applied systems of internal controls in the audited areas and processes had been established, operational, and effective in achieving set objectives. However, improvements could be made, so they made recommendations, categorised them by individual risk levels, and regularly verified their implementation.

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

Internal auditors work with the Krka Supervisory Board, 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[19]

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

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

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

The basic guidelines and principles that the Krka Group follows in the tax field are to: comply with the legislation in the country in which we operate; settle tax liabilities voluntarily and on time; avoid risky tax decisions; consider 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, serve to restrict and supervise access to networks, data and applications and the completeness and accuracy of data capture and processing. Authorised external agents also verify the compliance of operations and the existence of the requisite controls within information systems annually.

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

External audit

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

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

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

Composition of Supervisory Board of Krka as at 31 December 2022[20]

Name and surname	Jože Mermal	Borut Jamnik	Matej Lahovnik	Julijana Kristl	Boris Žnidarič	Mojca Osolnik Videmšek	Franc Šašek	Mateja Vrečer	Tomaž Sever
Function	President	Member	Deputy President	Member	Member	Member	Deputy President	Member	Member
First appointed	2015	2017	2020	2010	2016	2019	2009	2005	2005
Duration of current term of office	2025	2022	2025	2025	2025	2024	2024	2024	2024
Representing	Shareholders	Shareholders	Shareholders	Shareholders	Shareholders	Shareholders	Employees	Employees	Employees
Meeting attendance record	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6
Gender	Male	Male	Male	Female	Male	Female	Male	Female	Male
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1954	1970	1971	1953	1948	1966	1967	1966	1967
Education and qualifications	University degree in economics	University degree in mathematics	PhD in economics	PhD in pharmaceutical sciences	PhD in social sciences and master's degree in law	University degree in economics	University degree in organisational sciences	PhD in pharmaceutical sciences	University degree in mechanical engineering and master's degree in management and organisational sciences
Independent according to *Corporate Governance Code for Listed Companies*	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Conflict of interest in the financial year	In 2022, no permanent or relevant conflicts of interest were identified in respect of any Supervisory Board member. Statements of independence are published on the Company's website.								
Committee membership	No	President of the Audit Committee	Member of the Audit Committee	Member of the Human Resource Committee	President of the Human Resource Committee	Member of the Audit Committee	Member of the Audit Committee	Member of the Human Resource Committee	Member of the Human Resource Committee
Attendance record at regular committee meetings	No	6/6	6/6	4/4	4/4	6/6	6/6	4/4	4/4
Membership of supervisory bodies of other companies	Supervisory Board members, especially shareholder representatives, have seats on supervisory or management boards of other companies, but not to the extent that would influence their work on the Supervisory Board of Krka. They comply with the provisions of the *Companies Act* (ZGD-1).								
ESG competencies	Received several awards for his visionary work in the economy and 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; 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	University lecturer in social sciences with many years of leadership experience in an international insurance company, primarily in human resource management and talent attraction and retention	Leadership experience in banking, risk management, compliance, and corporate governance support	Long-standing work on employee inclusion and participation in management; elected employee representative on the Supervisory Board	Experience in the field of quality (head of quality management at Krka); elected to the Supervisory Board as an employee representative	Leadership and organisational experience in the field of responsible sales (Deputy Director of Sales at Krka); elected to the Supervisory Board as an employee representative

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

External members of Committees as at 31 December 2022

Audit Committee

Name and surname	Borut Šterbenc
Function	Independent external expert of the Audit Committee in accordance with Article 280 of the *Companies Act*
Meeting attendance record	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 registered with the Agency for Public Oversight of Auditing
Independent according to the *Corporate Governance Code for Listed Companies*	Yes
Membership of supervisory bodies of other companies	Member of the hedge fund committee of Pokojninska družba A, d. d
Competence in sustainability management	Transparency in terms of reporting and business operations; is a certified auditor

Composition of Management Board as at 31 December 2022[21]

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

Management Board remuneration details are disclosed in the 'Related Party Transactions' section.

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

Corporate governance code compliance statement

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

We, the Management and Supervisory Boards of Krka, tovarna zdravil, d. d., Novo mesto hereby declare that in 2022 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* 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 2022, no proposal for additional training was put forward, so the plan was not adopted (Item 15.1 of the *Code*).

Supervisory Board members evaluated the board's performance by thoroughly following the methods and *Supervisory Board Assessment Manual* prepared by the Slovenian Directors' Association. The evaluation process was carried out professionally and objectively. As there was no need for external professional support in 2022, an external audit of the Supervisory Board's performance in collaboration with a specialised institution or other experts was not conducted (Items 16.2 and 16.4 of the *Code*). The Internal Audit of Krka monitors the procedures related to corporate governance to the extent required by *International Standards for the Professional Practice of Internal Auditing*.

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

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

In 2022, Krka's 'Corporate governance statement' was reviewed by an external auditor as part of the regular audit. An additional external assessment of the statement's adequacy was not performed (Item 5.6 of the *Code*).

We do not list any association of the Management and Supervisory Board members with any governance or supervisory bodies of non-related companies in the uniform tables (Attachments C1 and C2 to the *Code* in force) in the 'Corporate governance statement' section of the 2022 Annual Report of Krka. The Management Board members do not engage in corporate governance and supervisory functions outside the Krka Group, while information about Supervisory Board members' engagements is included in their CVs (Item 5.5 of the *Code*). Variable remuneration for the Management Board is always paid in two parts: as an advance payment based on semi-annual results; and as back pay after the Supervisory Board confirms the annual report at their meeting, always together with the monthly salary for the following month (Item 23.2 of the *Code*).

The Supervisory Board updated the Management Board variable remuneration criteria in 2012, 2014, 2016, and 2018 in consideration of additional Management Board duties related to business strategy, changes to the business environment, or remuneration trends. The Supervisory Board also made considerable adjustments to the remuneration policy in 2022 and submitted them for AGM approval.

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

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

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

We also made public the *Rules of Procedure of the Supervisory Board*. In the 2022 'Corporate governance statement', we disclosed the composition, remits, and other aspects concerning the operation of our bodies, and hence all essential information on corporate governance. We did not publish any other operational documents regarding the performance of the bodies in 2022 (Item 32.7 of the *Code*).

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

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

Novo mesto, 28 March 2023

Jože Colarič
President of the Management Board and CEO

Jože Mermal
President of the Supervisory Board

Signatories to the ‘Governance statement’ and its constituent parts

Jože Colarič
President of the Management Board and CEO

Dr Aleš Rotar
Member of the Management Board

Dr Vinko Zupančič
Member of the Management Board

David Bratož
Member of the Management Board

Milena Kastelic
Member of the Management Board – Worker Director

Non-financial statement[22]

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

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

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

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

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

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

The diversity policy of the Company and the Krka Group applies the principle of integration and equal opportunities, which also applies to the composition of the supervisory and management bodies. In 2021, the Management and Supervisory Boards adopted, in line with the recommendations of the Slovenian Directors' Association, the *Diversity Policy* and made the document available to the public. Please see also the 'Corporate governance statement' section, subsection '2022 Management and Supervisory Board diversity policy'.

[22] GRI 2-14

The document *Rules on Fraud Prevention, Detection and Investigation* is available to the public and applies to the Company and the Krka Group. It governs the prevention of fraud and corruption, measures to combat it, and the responsibility of employees in its detection. We apply the principle of zero tolerance regarding fraud, 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 the Company's business opportunities, its assets, and information for personal, commercial, or third-party gain. We do not promise any benefits or give gifts to influence the decisions of national authorities, public officials, business partners, or other entities, nor do we accept gifts or any other benefits that may influence our decisions concerning our work. We ensure that persons with access to inside information are aware of such information's confidentiality levels and sensitivity. Our bye-laws govern trading in the Company's financial instruments, and we have oversight mechanisms in place for employees and third parties handling such information. This gives us a platform to prevent potential abuses and insider trading. Periodic restrictions are in place for all persons with access to inside information. During this time they are prohibited from trading in the Company's financial instruments. You can find more on this topic in the *Krka's Code of Conduct* and the 'Corporate governance statement' section, subsection 'Corporate compliance and integrity'. In 2022, no cases of corruption were detected or confirmed.

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

As a public limited company with more than 500 employees, the Company is subject to the EU Taxonomy Regulation (EU) 2021/852 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 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, i.e. we believe they do not 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 consider its impact and the reporting obligations it imposes.

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

In 2022, we made an important step forward in integrating a sustainability perspective in our strategic planning and business operations in line with the 'Krka Group key strategic objectives up to 2026'. We updated policies in our key areas and adopted strategic objectives in ESG-relevant domains per materiality assessment findings. We outlined guidelines for sustainable business operations in the *ESG Policy of the Krka Group*, the master document for strategic sustainability governance in relation to the environmental (E), social (S), and corporate governance (G) dimensions of the group. The *Policy* specifies management approaches to material sustainability areas. It sets down the fundamental principles and efforts for sustainable business followed by the Krka Group in its operations throughout value chain creation and in relations with various groups of stakeholders, from suppliers to customers and subsidiaries within the group. The fundamental objective of integrating the Krka Group sustainability principles and sustainable governance approaches into management processes and business decisions is to heighten awareness of sustainability-related risks and opportunities that can impact the success of our business operations and help improve their management going forward.

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

EU Taxonomy

Regulation (EU) 2020/852 (hereinafter *Taxonomy*) sets the classification system for environmentally sustainable economic activities and is an important step towards achieving a climate-neutral Union in line with the EU climate objectives by 2050.

'Taxonomy-aligned economic activity' means an economic activity that complies with the requirements laid down in delegated acts supplementing the *Taxonomy*, whether or not a specified economic activity meets any or all technical screening criteria laid down in those delegated acts. The EU adopted Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 (hereinafter *Delegated Regulation*). An economic activity is taxonomy-aligned if it meets technical screening criteria for review specified in the delegated act on climate and is implemented in compliance with the minimal safeguards for human and consumer rights, fight against corruption and bribery, tax provisions, and fair competition.

To review and monitor economic activities of Krka and the Krka Group, we established a Krka Group interdisciplinary sustainability project team composed of experts from various organisational units, i.e. Environmental Protection; Engineering and Technical Services; Energy Supply; Transport; Corporate Performance Management; and Finance.

We based our disclosures on examination of the said taxonomy documents, our current understanding of the matter, and available data. As the *Delegated Regulation* is to be upgraded, we intend to promptly examine all further explanations and requirements and consider their impact on upcoming disclosures of Krka and Krka Group data. We intend to improve our reporting systems in the transitional reporting period (2022 and 2023) in line with the recommendations of various regulators to ensure comprehensive disclosures in compliance with the *Delegated Regulation*.

The taxonomy from the start prioritises sectors that qualify as contributing substantially to climate change mitigation, so pharmaceutical industry for now does not fall under Annexes I and II to the *Delegated Regulation*. Also, a technical screening has not been done to identify other economic activities for additional inclusion in the currently valid *Taxonomy*. The technical screening has not been done yet to identify those economic activities that will probably not significantly contribute to climate change mitigation, but are unlikely to cause significant harm.

In compliance with Article 8 of the *Taxonomy*, the Krka Group discloses information and key performance indicators showing to what extent Krka's and the Krka Group's activities are related to economic activities that qualify as environmentally sustainable. Information disclosure is in line with technical screening criteria for determination of conditions under which an economic activity significantly contributes to climate change mitigation or adaptation, and for verification that the economic activity does not significantly harm any other environmental objective.

As regards the currently applicable *Taxonomy*, most activities performed by Krka and the Krka Group are for now excluded from reporting within the context of the Regulation (EU). They represent a minor part of Krka and the Krka Group exclusively supporting activities.

Krka's activities that currently fall under the *Taxonomy*, include:

- Electricity generation using solar photovoltaic technology (*Taxonomy* item 4.1);
- Transmission and distribution of electricity (*Taxonomy* item 4.9);
- District heating/cooling distribution (*Taxonomy* item 4.15);
- Production of heat/cool using waste heat (*Taxonomy* item 4.25);
- Construction, extension and operation of waste water collection and treatment (*Taxonomy* item 5.3);
- Collection and transport of non-hazardous waste in source segregated fractions (*Taxonomy* item 5.5);
- Renovation of existing buildings (*Taxonomy* item 7.2);
- Freight transport services by road (*Taxonomy* item 6.6);
- Transport by motorbikes, passenger cars and light commercial vehicles (*Taxonomy* item 6.5).

We calculated key performance indicators (KPIs) related to turnover, capital expenditure (CapEx), and operating expenditure (OpEx) in accordance with our understanding of the screening criteria set out in Annex I to *Commission Delegated Regulation (EU) 2021/2178.*

In the economic activity screening, we identified all three categories of key performance indicators for taxonomy-eligible economic activities of the controlling company Krka (hereinafter Krka) and the Krka Group.

The Krka Group's business strategy is sustainability oriented. Corporate governance is one of key Krka Group strategic guidelines and is detailed in the Krka Group's *2023–2026 ESG Strategy* and *ESG Policy*. The Management and Supervisory Boards adopted them in 2022. We understand sustainable operations as responsible management of our impacts on the environment, society and economy. We integrate sustainability principles into our business operations, products and services as much as possible. We follow the sustainable development goals (SDG) of the United Nations specified in the 2030 Agenda and in compliance with the ESG guidelines provide for adequate identification and management of sustainability related risks and opportunities.

One of Krka Group's important strategic commitments and goals is reduction of our carbon footprint. We intend to implement our action plan for reduction of greenhouse gas emissions and hence pursue effective green transition. We therefore expect that a large part of our revenue, capital expenditure (CapEx), and operating expenditure (OpEx) will be included in the updated list of activities eligible or aligned with the taxonomy. Please see the 'Sustainable development' section and the 'Krka's sustainable development indicators' chart on pages 8 and 9 for details on sustainability of operations.

Please find below key performance indicators of Krka and the Krka Group in compliance with Annex I to the Commission Delegated Regulation (EU) 2021/2178.

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

Krka Group operating income totalled €1,726,650 thousand in 2022, and included sales revenue and other operating income. The items are posted in the income statement and disclosed in 'Notes to consolidated financial statements of the Krka Group', Note 4 – 'Revenue from contracts with customers' and in Note 5 – 'Other operating income'. Operating income associated with taxonomy-aligned economic activities totalled €435 thousand, or 0.03% of total operating income. Operating income derived from taxonomy non-eligible economic activities of €1,726,215 thousand accounted for 99.97% of total operating income. We generated the major proportion of revenue from taxonomy-eligible economic activities by separate collection and transport of hazardous waste (NACE E38.11) totalling €336,000 or 0.02% of total Krka Group operating income. Technological water treatment (NACE E37.00) yielded €80 thousand or 0.005% of operating income, while generation of electricity (NACE D35.11) yielded €19 thousand or 0.001% of total Krka Group operating income.

Krka operating income totalled €1,558,213 thousand in 2022, and included sales revenue and other operating income. They are posted in the income statement and disclosed in 'Notes to financial statements of Krka', Note 3 – 'Revenue from contracts with customers' and Note 4 – 'Other operating income'. Operating income associated with taxonomy-aligned economic activities totalled €435 thousand, or 0.03% of total operating income. Revenue derived from taxonomy non-eligible economic activities in total of €1,557,778 thousand accounted for 99.97% of total operating income. We generated the major proportion of operating income from taxonomy-eligible economic activities by separate collection and transport of non-hazardous waste (NACE E38.11), totalling €336,000 or 0.02% of total Krka operating income. Technological water treatment (NACE E37.00) yielded €80 thousand or 0.005% of operating income, while production of electricity (NACE D35.1.1) yielded €19 thousand or 0.001% of Krka operating income.

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

Krka Group investments are the basis for calculation of capital expenditure key performance indicator and amounted to €109,622 thousand in 2022. The total included acquisition of property, plant and equipment (PP&E), right-of-use assets, and acquisition of other intangible assets. They are disclosed in 'Changes in equity', Note 11 – 'Property, plant and equipment', and Note 12 – 'Intangible assets' in 'Notes to consolidated financial statements of the Krka Group'. Taxonomy-aligned investments totalled €1,289 thousand or 1.18% of Krka Group total CapEx in 2022. Investments in taxonomy non-eligible assets totalled €108,333 thousand or 98.82% of total Krka Group CapEx. Most taxonomy-aligned investments were associated with technological water treatment (NACE E37.00) totalling €550 thousand or 0.50% of total Krka Group

CapEx. Investment in existing buildings (NACE F41, F43) amounted to €389 thousand or 0.35% of total CapEx, while investment in transmission and distribution or electricity (NACE D35.12, D35.13) totalled €350 thousand or 0.32%.

Krka investments are the basis for calculation of capital expenditure key performance indicator and amounted to €81,458 thousand in 2022. The total includes acquisition of property, plant and equipment (PP&E), right-of-use assets, and acquisition of other intangible assets. They are disclosed in 'Changes in equity' and 'Notes to financial statements of Krka', Note 10 – 'Property, plant and equipment' and Note 11 – 'Intangible assets'. Taxonomy-aligned investments totalled €830 thousand or 1.01% of total Krka CapEx in 2022. Taxonomy non-eligible investments totalled €80,633 thousand or 98.99% of total Krka CapEx. Most taxonomy-aligned investments were associated with reconstruction of the existing buildings (NACE F41, F43) and totalled €389 thousand or 0.48% of total Krka CapEx. Krka investments in transmission and distribution or electricity (NACE D35.12, D35.13) totalled €350 thousand or 0.43%, while investments in technological water treatment (NACE E37.00) totalled €90 thousand or 0.11% of total Krka CapEx.

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

Operating expenses of the Krka Group comprised of total operating expenses decreased by depreciation and amortisation totalled €1,237,755 thousand. Operating expenses are disclosed in 'Notes to consolidated financial statements of the Krka Group', Note 6 – Costs by nature. Taxonomy-aligned operating expenses totalled €8,410 thousand or 0.68% of Krka Group operating expenses. Taxonomy non-eligible operating expenses totalled €108,333 thousand or 99.32% of Krka Group operating expenses. Major taxonomy-aligned operating expenses were associated with technological water treatment (NACE E37.00), totalling €2,350 thousand or 0.19% of Krka Group operating expenses. Transmission and distribution of electricity (NACE D35.12, D35.13) followed at €1,943 thousand or 0.16% and steam and air-conditioning supply (NACE D35.30) at €1,818 thousand or 0.15% of operating expenses of the Krka Group.

Operating expenses of Krka comprised total operating expenses decreased by depreciation and amortisation totalled €1,118,127 thousand. Operating expenses are disclosed in 'Notes to financial statements of Krka', Note 5 – Costs by nature. Taxonomy-aligned operating expenses totalled €8,002 thousand or 0.72% of Krka operating expenses. Taxonomy non-eligible operating expenses totalled €1,110,125 thousand or 99.28% of Krka operating expenses. Major taxonomy-aligned operating expenses were associated with technological water treatment (NACE E37.00), totalling €2,246 thousand or 0.20% of Krka operating expenses. Transmission and distribution of electricity (NACE D35.12, D35.13) followed at €1,943 thousand or 0.17% and steam and air-conditioning supply (NACE D35.30) at €1,818 thousand or 0.16% of operating expenses of Krka.

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

				Substantial contribution criteria						DNSH criteria							Taxonomy-aligned proportion of turnover, year N	Taxonomy-aligned proportion of turnover, year N-1		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Economic activities	**Codes**	**Absolute turnover**	**Proportion of turnover**	**Climate change mitigation**	**Climate change adaptation**	**Water and marine resources**	**Circular economy**	**Pollution**	**Biodiversity and ecosystems**	**Climate change mitigation**	**Climate change adaptation**	**Water and marine resources**	**Circular economy**	**Pollution**	**Biodiversity and ecosystems**	**Minimum safeguards**	**2022**	**2021**	**Category (enabling activity)**	**Category (transitional activity)**
		€ million	%	%	%	%	%	%	%	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	%	O	P
A. TAXONOMY ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (taxonomy-aligned)																				
Electricity generation using solar photovoltaic technology	D35.11	0.02	0.00	100						YES	YES						0.00	0.00		
Sewerage	E37.00	0.08	0.01		100					YES	YES						0.01	0.00		
Collection and transport of non-hazardous waste in source segregated fractions	E38.11	0.34	0.02	100						YES	YES						0.02	0.00		
Turnover of environmentally sustainable activities (taxonomy-aligned) (A.1)		**0.44**	**0.03**														**0.03**	**0.00**		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																				
/																				
Turnover of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**-**	**0.00**														**0.00**	**0.00**		
Total (A.1 + A.2)		**0.44**	**0.03**														**0.03**	**0.00**		
B.Taxonomy-non-eligible activities																				
Turnover of taxonomy-non-eligible activities (B)		1,726.22	99.97																	
Total (A + B)		**1,726.65**	**100.00**																	

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

				Substantial contribution criteria						DNSH criteria							Taxonomy-aligned proportion of CapEx, year N	Taxonomy-aligned proportion of CapEx, year N-1		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Economic activities	Codes	Absolute CapEx	Proportion of CapEx	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguardes	2022	2021	Category (enabling activity)	Category (transitional activity)
		€ million	%	%	%	%	%	%	%	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	%	E	T
A. TAXONOMY ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (taxonomy-aligned)																				
Transmission and distribution of electricity	D35.12, D35.13	0.35	0.32		100					YES	YES						0.32	0.00		
Sewerage	E37.00	0.55	0.50	100						YES	YES						0.50	0.00		
Reconstruction of the existing buildings	F41, F43	0.39	0.35	100						YES	YES						0.35	0.00		
CapEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**1.29**	**1.18**														**1.18**	**0.00**		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		-	0.00																	
/																				
CapEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**-**	**0.00**														**0,00**	**0,00**		
Total (A.1 + A.2)		**1.29**	**1.18**														**1.18**	**0.00**		
B.Taxonomy-non-eligible activities																				
CapEx of taxonomy-non-eligible activities (B)		108.33	**98.82**																	
Total (A + B)		**109.62**	**100.00**																	

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

				Substantial contribution criteria						DNSH criteria							Taxonomy-aligned proportion of OpEx, year N	Taxonomy-aligned proportion of OpEx, year N-1		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Economic activities	Codes	Absolute OpEx	Proportion of OpEx	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	2022	2021	Category (enabling activity)	Category (transitional activity)
		€ million	%	%	%	%	%	%	%	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	%	E	T
A. TAXONOMY ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (taxonomy-aligned)																				
Electricity generation using solar photovoltaic technology	D35.11	0.01	0.00	100						YES	YES						0.00	0.00		
Transmission and distribution of electricity	D35.12, D35.13	1.94	0.16		100					YES	YES						0.16	0.00		
District heating/cooling distribution	D35.30	1.82	0.15		100					YES	YES						0.15	0.00		
Heat/cooling production using waste heat	D35.30	0.59	0.05	100						YES	YES						0.05	0.00		
Sewerage	E37.00	2.35	0.19	50	50					YES	YES						0.19	0.00		
Collection and transport of non-hazardous waste in source segregated fractions	E38.11	1.70	0.14	100						YES	YES						0.14	0.00		
Transport by motorbikes, passenger cars and light commercial vehicles	H34.32, H49.39	0.01	0.00	100						YES	YES						0.00	0.00		
OpEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**8.41**	**0.68**														**0.68**	**0.00**		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		**-**	**0.00**																	
/																				
/		**-**	**0.00**														**0.00**	**0.00**		
OpEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**8.41**	**0.68**														**0.68**	**0.00**		
Total (A.1 + A.2)																				
B.Taxonomy-non-eligible activities																				
OpEx of taxonomy-non-eligible activities (B)		**1,229.35**	**99.32**																	
Total (A + B)		**1,237.76**	**100.00**																	

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

				Substantial contribution criteria						DNSH criteria							Taxonomy-aligned proportion of turnover, year N	Taxonomy-aligned proportion of turnover, year N-1		Substantial contribution criteria
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Economic activities	Codes	Absolute turnover	Proportion of turnover	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguardes	2022	2021	Category (enabling activity)	Category (transitional activity)
		€ million	%	%	%	%	%	%	%	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	%	O	P
A. TAXONOMY ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (taxonomy-aligned)																				
Electricity generation using solar photovoltaic technology	D35.11	0.02	0.00	100						YES	YES						0.00	0.00		
Sewerage	E37.00	0.08	0.01		100					YES	YES						0.01	0.00		
Collection and transport of non-hazardous waste in source segregated fractions	E38.11	0.34	0.02	100						YES	YES						0.02	0.00		
Turnover of environmentally sustainable activities (taxonomy-aligned) (A.1)		**0.44**	**0.03**														**0.03**	**0.00**		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																				
/																				
Turnover of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**-**	**0.00**														**0.00**	**0.00**		
Total (A.1 + A.2)		**0.44**	**0.03**														**0.03**	**0.00**		
B.Taxonomy-non-eligible activities																				
Turnover of taxonomy-non-eligible activities (B)		**1,557.78**	**99.97**																	
Total (A + B)		**1,558.21**	**100.00**																	

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

				Substantial contribution criteria						DNSH criteria							Taxonomy-aligned proportion of CapEx, year N	Taxonomy-aligned proportion of CapEx, year N-1		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Economic activities	Codes	Absolute CapExr	Proportion of CapEx	Climate change mitigation	Climate echange adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	2022	2021	Category (enabling activity)	Category (transitional activity)
		€ million	%	%	%	%	%	%	%	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	%	O	P
A. TAXONOMY ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (taxonomy-aligned)																				
Transmission and distribution of electricity	D35.12, D35.13	0.35	0.43		100					YES	YES						0.43	0.00		
Sewerage	E37.00	0.09	0.11	100						YES	YES						0.11	0.00		
Reconstruction of the existing buildings	F41, F43	0.39	0.48	100						YES	YES						0.48	0.00		
CapEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**0.83**	**1.01**														**1.01**	**0.00**		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		-	0.00																	
/																				
CapEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**-**	**0.00**														**0.00**	**0.00**		
Total (A.1 + A.2)		**0.83**	**1.01**														**1.01**	**0.00**		
B.Taxonomy-non-eligible activities																				
CapEx of taxonomy-non-eligible activities (B)		**80.63**	**98.99**																	
Total (A + B)		**81.46**	**100.00**																	

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

				Substantial contribution criteria						DNSH criteria							Taxonomy-aligned proportion of CapEx, year N	Taxonomy-aligned proportion of CapEx, year N-1		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Economic activities	Codes	Absolute OpEx	Proportion of OpEx	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	2022	2021	Category (enabling activity)	Category (transitional activity)
		€ million	%	%	%	%	%	%	%	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	%	E	T
A. TAXONOMY ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (taxonomy-aligned)																				
Electricity generation using solar photovoltaic technology	D35.11	0.01	0.00	100						YES	YES						0.00	0.00		
Transmission and distribution of electricity	D35.12, D35.13	1.94	0.17		100					YES	YES						0.17	0.00		
District heating/cooling distribution	D35.30	1.82	0.16		100					YES	YES						0.16	0.00		
Heat/cooling production using waste heat	D35.30	0.59	0.05	100						YES	YES						0.05	0.00		
Sewerage	E37.00	2.25	0.20	50	50					YES	YES						0.20	0.00		
Collection and transport of non-hazardous waste in source segregated fractions	E38.11	1.40	0.12	100						YES	YES						0.12	0.00		
Transport by motorbikes, passenger cars and light commercial vehicles	H49.32, H49.39	0.01	0.00	100						YES	YES						0.00	0.00		
OpEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**8.00**	**0.72**														**0.72**	**0.00**		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)		-	0.00																	
/																				
/		**-**	**0.00**														**0.00**	**0.00**		
OpEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**8.00**	**0.72**														**0.72**	**0.00**		
Total (A.1 + A.2)																				
B.Taxonomy-non-eligible activities																				
OpEx of taxonomy-non-eligible activities (B)		**1,110.13**	**99.28**																	
Total (A + B)		**1,118.13**	**100.00**																	

Jože Colarič
President of the Management Board and CEO

Dr Aleš Rotar
Member of the Management Board

Dr Vinko Zupančič
Member of the Management Board

David Bratož
Member of the Management Board

Milena Kastelic
Member of the Management Board – Worker Director

Krka Group development strategy[23]

The current Krka Group development strategy covering the five years from 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. It covers all areas of operation within the Krka Group, especially its core pharmaceutical and chemical activities. The strategy views the Krka Group as an international 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.[24]

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

The development strategy is based on an in-depth analysis of Krka's position in the global generic pharmaceutical industry. The strategy outlines the originator and generic pharmaceutical industry characteristics, growth projections for the generic market, and Krka's position in the international generic pharmaceutical industry. These aspects were 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: 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 integral to all Krka Group business processes. Risk management is based on the *Risk Register.* The *Risk Register* provides a comprehensive overview of risks at the Group level, designed to promptly identify and manage factors that could derail the objectives defined in the development strategy. Every time the strategy is updated, the *Risk Register* is also updated. Further information on risks is available in the 'Risk Management' section.

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

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

In order to maintain and improve the Krka Group position in an international context, we avail of all external opportunities and, as much as possible, all internal advantages, especially the coordinated and synergistic functioning of organisational units within the Krka Group and efficient management of all partnerships in the value-added chain.

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

Key strategic objectives of the Krka Group up to 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 marketing and sales, including all other functions within the Krka Group, and to achieve an average EBITDA margin of at least 25%.
To ensure that new 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 provide products from new therapeutic classes, 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 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 cancer).
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 production and sales 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 our business model, strategic guidelines and financial results to enhance the appeal of Krka share to shareholders and investors.
Digitalisation of operations
To further pursue digitalisation of business operations, manage information technology efficiently and in compliance with regulatory standards, and ensure high availability and information security of the implemented IT solutions.
International group accountable to its business environment
To strengthen professional and cost synergies within the Krka Group and maximise the utilisation of competitive advantages in the business environments of our subsidiaries abroad.
To ensure 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 our 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 by introducing our new medicines for the treatment of multiple sclerosis. To 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 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 2022
In 2022, the Krka Group sales revenue amounted to €1,717.5 million, up 10% on 2021 and 6% more than planned. Of that, revenue from contracts with customers on sales of products and services amounted to €1,708.5 million, and revenue from contracts with customers on sales of materials and other sales revenue constituted the difference.
Regional dispersion of sales among Regions Slovenia, East Europe, West Europe, Central Europe, South-East Europe, and Overseas Markets is good. The largest sales region was Region East Europe. The Russian Federation remained the largest individual market.
The proportion of sales in markets outside Slovenia amounted to 94% as planned.
Prescription pharmaceuticals were the most important product group in terms of sales, accounting for 82% of total sales, which is in line with our plans.
Net profit of €361.1 million was higher than planned.
The number of the Krka Group employees was 0.8% higher than at the end of 2021.

Krka Group business objectives for 2023
Product and service sales are expected to reach €1.755 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 82% of overall sales.
Profit is planned at approximately €300 million.
The total number of employees in Slovenia and abroad is expected 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[25]

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 2022, 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. An interdisciplinary sustainability project team has also started on its work. Its tasks will be transferred to a new body, the Sustainability Board, which will address ESG aspects at the Group level and operate under the umbrella ESG policy. 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[26]

The interdisciplinary sustainability project team conducted a comprehensive process of updating the list of our key 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

Material ESG topics

We identified material ESG topics and divided them into six 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.

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

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

Macroeconomic forecast for 2023

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

The European economy adjusted to the situation caused by the COVID-19 pandemic and the situation in Ukraine. After momentum created by the post-pandemic reopening of the economy in 2021 and buoyant economic activity in the first half of 2022, economic expansion slowed in the summer. Inflationary pressures were ubiquitous in the economy. Generally, when prices rise, consumers cut back on spending, and companies shelve planned investments, increasing the probability of a recession. Macroeconomic development, including energy markets, will greatly depend on the European winter and the impact of sanctions against the Russian Federation. Economic and energy security anxiety will lead to short-term government relief measures, increasing fiscal, social and political challenges, primarily in countries with elections on the horizon.

Tightening financial conditions will deepen the expected recession in Europe. According to projections, the combination of slower economic growth, rising unemployment, and improving supply chain conditions will slow inflation over the next two years.

The situation at present puts macroeconomic policy decision-makers in a difficult position.

2023 macroeconomic forecasts

Country	Pharmaceutical market growth (%)	Projected value of pharmaceutical market at wholesale prices (€ million)	FX rate (currency/€)	Annual change in GDP (%)	Annual inflation rate (%)
Slovenia	7	920	Euro area	1.0	6.1
Croatia	9	1,700	Euro area	1.2	6.5
Romania	9	5,600	5.0	2.5	9.7
Russian Federation	5	RUB1,975 billion	75	-1.0	5.0
Ukraine	from 5 to 0	from 2,500 to 3,000	38	4.1	20.4
Poland	9	8,080	4.7	0.4	11.7
Hungary	3	2,370	400	0.6	16.4
Czech Republic	4	3,130	24.8	0.1	9.3
Slovakia	6	1,750	Euro area	1.5	9.7
Western Europe	3	270,250	Primarily Euro area	0.6	5.4

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

Slovenia

Notwithstanding a year-end contraction, Slovenia recorded high economic growth throughout the year on the back of robust growth in the first half of 2022 and a strong carry-over from 2021. Growth in 2023 is expected to slow down due to a weak external environment, high uncertainty, and tighter financing conditions. Eroded real income could result in modest household consumption growth. Labour force shortages are expected to persist. However, real wages are expected to rise significantly. Although softened by the fuel prices cap and other measures implemented by the government, inflation peaked in the third quarter of 2022, but slightly diminished in the last quarter of the year. The budget deficit in 2022 decreased due to rising tax revenues but is projected to increase again in 2023 due to new discretionary measures mitigating the impact of high energy prices. Public debt dropped below 70% of GDP in 2022, and is expected to further gradually decrease over the forecast horizon. The forecast assumes gradual consolidation of public finances when government support to mitigate the impact of high energy prices gradually phases out and growth picks up. The macroeconomic situation could be better than projected, depending on the announced revision of the public sector pay system and tax reform in 2023.

We estimate the sales value of pharmaceuticals in 2023 at €920 million, up 7% on 2022.

Croatia

Croatia recorded high economic growth in 2022 on the back of booming exports, investments, and household consumption, benefiting from the recovery of tourism and other services. However, rising inflation and waning confidence amidst geopolitical tensions are expected to deteriorate the economic outlook and public finances in 2023 and 2024. Joining the Schengen Area and adopting the euro should have positive impacts on the economic activity. A mild recovery of GDP growth is projected in 2024. The labour market is projected to remain resilient despite weaker employment growth and persisting labour shortages. Inflation rates are expected to remain above average in 2023 and moderate in 2024. The government has already introduced measures to cap high energy prices, and is expected to continue in 2023. Further budget deficits are projected in 2023 and 2024, driven by expected extra increases in public wages and social transfers. Public debt significantly declined in 2022 due to strong GDP growth. However, the decrease is expected to moderate due to subdued economic growth.

We expect the value of the Croatian pharmaceutical market to grow by 9% in 2023 compared to the previous year, to approximately €1.7 billion.

Romania

Following strong economic expansion in 2022, the Romanian economy is expected to grow between 2% and 3% in the coming years. High inflation, tighter financing conditions, the negative impact of the situation in Ukraine and deccelerating of other economies in the EU will slow growth. The unemployment rate levelled off in 2022 and should remain stable because of economic growth. Inflation is expected to persist before it subdues in 2024. The budget deficit is forecast to decrease gradually over the years on the back of high tax revenues, reduced current expenditure, and high economic growth. However, with elections approaching in 2024, it could be higher than expected. Public debt is expected to remain stable. Macroeconomic risks ahead lie in potential delays in rolling out Romania’s Recovery and Resilience Plan (RRP), which could decrease investments and economic growth.

We expect the value of the Romanian pharmaceutical market to grow by 9% year on year, reaching €5.6 billion.

Russian Federation

The economic contraction in 2022 was significantly milder than expected. However, contraction is set to continue in 2023. The situation in Ukraine is projected to cause a milder, but longer recession than previously forecast. A shallow rebound in the economy is forecast in 2024, which will not be sufficient for the economic activity to reach levels before 2022. A gradual economic recovery is expected in the years ahead, similar to the recovery after the 2008 financial crisis. Economic activity is projected to rebound to the pre-2022 level only at the beginning of 2025. At the end of 2022, the price increases subdued due to a decline in economic activity. In 2023, inflation is forecast to ease gradually because households and companies have stocked up. The Russian economy prospered in the past because of oil and gas exports and integration in the global economy, which will be curtailed in the near future. Restrictions on oil exports and lower oil prices might place additional pressures on fiscal policy, leading to budget deficits and draw-downs from the National Welfare Fund.

We expect the value of the Russian pharmaceutical to reach RUB1,975 billion in 2023, and grow by 5% in national currency year on year.

Ukraine

Economic activity slumped in 2022 because of the military operations, especially in the east of Ukraine, with several million people displaced due to the unrest. The budget deficit saw a sharp increase. In 2022, primarily internal sources were used to finance the budget. In 2023, however, the government plans to secure external financing from the International Monetary Fund, US and EU. In 2022, monthly inflation rates spiked significantly as many commodities were in short supply. According to projections, inflation will rise in 2023 and start to level off towards the end of the year. High degrees of uncertainty and the unavailability of current macroeconomic data render forecasting difficult. Policymakers have limited options for managing the crisis; however, international donors provide support.

We expect the value of the Ukrainian pharmaceutical market to change by -5 to 0% and total between €2.5 billion and €3 billion in 2023.

Poland

After strong GDP growth in 2022, economic activity in Poland is set to weaken due to uncertainty, tightening financing conditions, and economic adjustment to higher commodity prices. A deceleration in wage growth is expected due to acute labour shortages and weakening economic activity. Increased inflation rates are also expected in 2023 because increased costs of services and rising production costs are being passed on to retail prices. In the coming year, inflationary pressures are expected to wane. Budget deficit is set to deepen due to expenditure pressures arising from social welfare granted to people fleeing Ukraine, increased expenditure on national defence, and government energy crisis supports. Most of the economic supports are set to cease in 2024. Rising public debt is tempered by high GDP growth. Public debt is expected to increase in the coming years.

Given the anticipated 9% growth in 2023, the value of the Polish pharmaceutical market is estimated at approximately €8 billion.

Hungary

After strong economic growth in the first half of 2022, the economy had to deal with increasing commodity prices and tighter financing conditions in the second half of the year. A sharp economic downturn and a fall-off in private consumption and investments are projected in 2023. Energy supply disruptions could have an enormous negative economic impact as Hungary has limited possibilities to substitute oil and gas imports from Russia in the short term. Government measures partly shield households from the impact of rising energy prices and mortgage interest rates. With economic growth slowing, unemployment growth is set to be limited. However, real wages are expected to drop due to high inflation. Inflation is expected to remain high in 2023 due to depreciation of the national currency but should ease in the coming year. Fiscal policy uses expansive measures to mitigate the impact of high energy prices. The budget deficit is expected to narrow in 2023 on the back of additional windfall tax revenue, which is expected to phase out in 2024 mostly. Public debt is expected to decrease in the coming years gradually. Potentially tightening conditions for public debt financing and limited access to the Recovery and Resilience Fund pose a risk to fiscal policy.

We expect the Hungarian pharmaceutical market to record 3% growth, reaching €2.4 billion in 2023.

Czech Republic

High economic growth recorded in 2021 slowed in 2022. It is forecast to slow further in 2023 due to the spillover effects from the situation in Ukraine, high energy costs, and tightening financial conditions. Private consumption started to contract at the end of 2022 and is expected to continue in 2023. The unemployment rate is forecast to remain low. However, it could slightly increase in the coming years because displaced persons from Ukraine will start joining the labour force. Inflation peaked at the end of 2022 and inflationary pressures started subsiding. Inflation is forecast to subdue due to government measures in 2023. Relief measure expenditure is expected to increase the budget deficit; however, revenue from windfall taxes is set to stem it in 2023 and 2024 gradually. While public debt is still low compared to other EU Member States, growth over the past few years has outpaced the EU average. Public debt is forecast to continue rising in the years ahead.

The Czech pharmaceutical market is expected to grow by 4%, and its value to reach approximately €3.1 billion.

Slovakia

Economic growth is expected to be comparable to that in 2022. Subsidised energy prices are expected to stimulate economic growth, albeit a global demand slowdown affects economic activity. Successful absorption of the EU structural and recovery-and-resilience funds will be crucial for achieving economic growth. The unemployment level is expected to remain relatively stable due to qualified labour force shortages. Inflation is set to increase significantly in 2023 because increasing energy prices are being passed on to prices of consumables, especially food prices. Inflation is projected to wane in 2024. In 2023, despite increased tax revenues, the budget deficit is expected to increase due to the cost of energy and other cost-of-living measures. The deficit is projected to narrow in the coming year as inflationary pressures ease. Having hit an all-time high, public debt is set to gradually decline due to strong nominal economic growth, despite growing budget deficit and public debt.

We expect the value of the Slovakian pharmaceutical market to grow by 6% in 2023, reaching €1.75 billion.

Western Europe

Economic activity did not slow as much in 2022 as expected. Monetary policy tightening is expected to continue in 2023, reducing the demand just as supply bottlenecks are set to ease. A mild upturn is forecast for 2023 due to temporary buoyancy. Wage growth, relatively subdued so far, is set to gain momentum in 2023 but is expected to remain below inflation rates. Inflation peaked at the end of 2022 and is expected to subdue in the second half of 2023. Inflation is set to moderate and fall below the target rate in the following years. Neutral fiscal policy is expected in 2023. Rising budget deficit financing costs and reactivation of fiscal rules could restrict support to demand and economic activity.

We expect the value of the western European pharmaceutical market to grow by 3%, reaching €270 billion in 2023.

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. The '2022 Supervisory Board Report' describes their risk management work. The Krka Group monitors its exposure to various forms of risk daily and adopts measures to manage those risks.

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

- Quality Committee;
- Information Technology Committee;
- Development Committee;
- Sales Committee;
- Human Resource Committee;
- Sustainability Board;
- 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 2,700 standard operating procedures relating to quality systems, other bye-laws, and instructions that determine the activities and responsibilities that allow uninterrupted operations and mitigate risks.

We use the following risk management support tools:

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

ESG (Environment, Social, Governance) risks are managed as part of various risks and are included in their risk management processes. Management approaches for specific material ESG topics are defined in the *Krka Group Environment, Social and Governance (ESG) Policy*, adopted by the Management Board and Supervisory Board of Krka. The Sustainability Board was established at the end of 2022. The responsibility for ESG issues is shared by the Sustainability Board and the Supervisory Board, Management Board, the ESG coordinator, and ESG managers responsible for specific sustainability-relevant organisational areas.

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*.

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

BUSINESS RISKS				
Risk area	**Risk description**	**Control activities**	**Preliminary risk assessment**	**Latest risk assessment**
Research and development	Ineffectiveness of development processes; inadequacy of regulatory procedures and supply of new products	Detailed planning of development projects and management of regulatory processes	Moderate	Moderate
Marketing and sales	Regulation of the business environment and sales markets and inadequacy of marketing activities	Responding to changing geopolitical situations and statutory requirements related to business operations in markets, establishing standardised, compliant, and transparent sales and marketing activities, continuously educating and testing employees' knowledge, using modern communication tools and channels	Moderate	Moderate
Intellectual property	Infringement of third-party intellectual property rights or unjustified use of Krka's intellectual property	Monitoring patent processes, consistent respect for the intellectual property rights of others, and forming provisions for potential damages when reasonable	Moderate	Moderate
	Delays in hearings and decisions in cases where we have to seek the revocation of secondary patents of third parties in order to enter the market	Additional risk assessment and formation of provisions for potential damages where possible		
Quality management	Substandard quality of development and production process, substandard quality of products, and failure to maintain the validity of manufacturing authorisations and GMP certificates	Compliance with legal and regulatory requirements, planning of control procedures and quality assurance, regular evaluation and assessment of quality risks, supervision of product and process quality assurance, implementation of improvements and new statutory requirements in routine work processes, business continuity plan	Moderate	Moderate
Environmental protection	Climate change, waste removal issues, environmental pollution due to hazardous substance spills and emissions during emergencies; deviations from statutory requirements, and loss of reputation due to excessive environmental pollution	Effective control of the environmental management process, 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 sales 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. We prepare business continuity plans for each critical process or service based on the *Business Continuity Management Strategy*. In agreement with the Business Continuity Officer, we appoint persons responsible for critical processes to prepare and maintain these plans. Critical process or critical service managers and the Business Continuity Officer approve the plans.

The adequacy of plans is reviewed at least once a year and harmonised with the business continuity policy and strategy. Exercises and training are key to testing the implementation of individual business continuity measures. The Quality Committee discusses the adequacy of the implementation of these plans annually. In 2021, Krka's Management Board also included pandemic-event measures in the *Business Continuity Management Strategy.* A pandemic could pose risks in various areas, resulting in, e.g. supply chain disruption, increased employee absences, and outsourcing-related issues.

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

Risks related to supply of APIs and finished products

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

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

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

We carefully plan 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 that key products are manufactured on different production lines in several production plants at Krka sites and at our contract manufacturers.

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

Technical service risks

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

We have two separate supply lines to provide uninterrupted electricity at the Ločna production site in Novo mesto, Slovenia. If the Ločna substation fails, the Bršljin substation can supply 3 MW of power to prevent possible damage to the infrastructure and buildings in winter. We use a diesel-powered generator for critical processes. We continuously monitor the situation on the electric power market and make partial purchases. We use natural gas to generate thermal power and extra-light fuel oil as a back-up fuel, of which we keep extra stocks.

As part of the *Business Continuity Management Strategy* and the *Business Continuity Plan* in terms of risks and opportunities due to climate change, we identified drinking water supply shortages for production purposes as a potential risk. At the main production site in Novo mesto, Slovenia, where most of Krka Group's products are manufactured, the short-term, medium-term, and long-term water supply is adequate and the risk low thanks to public infrastructure upgrades in 2021. In the case of loss of water supply from the primary 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 manage operational and maintenance issues. The team uses a central computerised control system to issue alerts rapidly and detect faults. It also keeps inventories of spare parts. Non-critical equipment is dispersed to ensure that a single breakdown does not significantly impact production capacities. Critical equipment is duplicated. All air-conditioning and power supply systems in server rooms are duplicated, have technical security systems in place, and are regularly tested for potential breakdowns.

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

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

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

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

Information technology risks

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

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

We have identified threats and risks regarding resource availability, confidentiality, and integrity for all critical information resources (information systems, equipment, premises, and employees using the information systems). Risk assessments by individual processes are reviewed and approved by directors or heads of organisational units in which the processes are carried out. Based on the assessments, organisational units take steps to eliminate unacceptable risks. Another method of threat detection involves independent security audits of our information resources. 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 at two separate locations: back-up server rooms at the Krka headquarters (i.e. the Disaster Recovery Centre – DRC) and an adequate off-site location, where critical data is backed up daily.

We also mitigate information security risks using modern tools such as advanced threat protection (ATP) system, security information and event management (SIEM) system, vulnerability management system, user and entity behaviour analytics (UEBA) system, and periodic software updates.

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

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, authorised professionals for health and safety at work and responsible technologists assess the risks related to individual technological procedures. Risk assessments are conducted for all new technological procedures in research and development and if any changes are made to these procedures. This process results in the consent to the technological procedure including a risk assessment. 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 hazard level, we determine the safety measures strategy to prevent employees from being exposed to a specific technological procedure. We continually verify the suitability and appropriateness of technical and organisational measures and personal protective equipment in practice by conducting relevant measurements during technological operations.

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

Protection of property

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

Business risks

Research and development risks

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

We appoint a project team with a leader to manage, monitor, and document all crucial activities for each project. The Development Committee approves proposals for new product development based on feasibility studies, in which the proposed project is considered from regulatory, developmental, safety, cost, and other aspects. In addition to key development milestones, the Development Committee also monitors all development projects to be able to respond appropriately to any market, development, or regulatory changes that require a change or adjustment in the development scenario. The Committee meets several times a year. In between the Committee meetings, we monitor projects at several organisational levels (project, product meetings, project meetings) and thus ensure that activities are appropriately controlled and directed. Key organisational units with precisely defined individual responsibility in the product development phase are New Products, Pharmaceutical R&D, API R&D, Quality Management, 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 the successful work of highly educated professionals, constant broadening of knowledge, and state-of-the-art equipment. The vertically integrated development and production model is important, as it allows us to control the entire process, from raw materials to the finished products.

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

- Medicines 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: we introduce the most advanced development and technological processes, and invest in research and development capacities.

Regulatory risk management, associated with legislation changes and interpretation, starts at the early stages of developing a new product and continues throughout its life cycle. We monitor regulatory legislation, implement new requirements relating to active ingredients and finished products already in the development phase, and consider them when preparing registration documentation and registration strategies to mitigate risks. 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 statutory amendments in this field.

Sales and marketing risks

The Krka Group has a broad marketing and sales network, as it sells its products in 73 countries worldwide. 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, especially concerning the recent events in eastern Europe, and prompt adjustment of sales and marketing activities in individual markets. We continuously monitor market conditions (especially competing generic producers and national pharmaceutical industry), the legal frameworks related to the movement of goods and services and marketing pharmaceuticals, systemic pricing arrangements, and government reimbursements for pharmaceuticals (in some countries based on statutory partial co-funding of healthcare budgets by medicine suppliers, i.e. clawback) through Krka's in-house departments and independent data sources.

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

We monitor the risks in existing markets and the risks related to entering new markets and new therapeutic areas, lowering prices of medicines in compliance with national regulations, cross-border reference country impacts, and risks associated with 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. Before concluding sales agreements, the customer must present evidence that their business establishment is duly registered. We pay special attention to risks related to individual market environments and economies, risks associated with each customer, particularly the risk of 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 euro-denominated sales revenue in markets where sales are conducted in national currencies (especially in the Russian Federation) remain among the most significant 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 customers. Krka's Quality Committee discusses the report for each year. We monitor sales at the primary level (sales to direct customers, primarily wholesalers) and if possible, also at the secondary level (wholesalers' sales to their customers, mainly pharmacies) and the tertiary level (sales to end-users in pharmacies). We ensure that inventories are optimised and sufficient throughout the distribution chain. We duly monitor pharmacy networks and any changes by individual market, and adjust our actions accordingly. Sales Committee meetings discuss all of the above regularly.

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

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

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

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 and safety and Group operations. We apply well-known risk assessment methods and implement them in line with good manufacturing practice requirements (ICH Q9 Quality Risk Management).

Product quality is defined during the development stage of a product and specified in the marketing authorisation documents. We adhere to standard procedures and requirements throughout the production process. From 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 a product is already on the market, the pharmacovigilance system is used to establish, evaluate, and respond to new findings on adverse effects and other safety aspects of a medicine. We employ a special system to process customer feedback and pursue constant internal improvements according to the PDCA (plan, do, check, act) principle to upgrade and improve processes and products.

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

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

We place a strong emphasis on ensuring data integrity in quality management, thereby mitigating 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 national legislation and GMP principles in the EU and other countries where we market our products.

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

Concerning quality risk management, we separately 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.

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.

Environmental protection risks

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

We reduced waste removal risk by adding waste solvent warehousing facilities, dividing our waste streams, and engaging several contractual waste collection and removal partners. We reduced the risks associated with hazardous chemical and firewater spillage by extending spill containment and firewater retention systems. We also improved the system for supervising hazardous substance management.

In 2022, we recorded no extraordinary events or incidents with a negative impact on the environment.

Investment project risks

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

Human resource risks

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

We manage risks 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

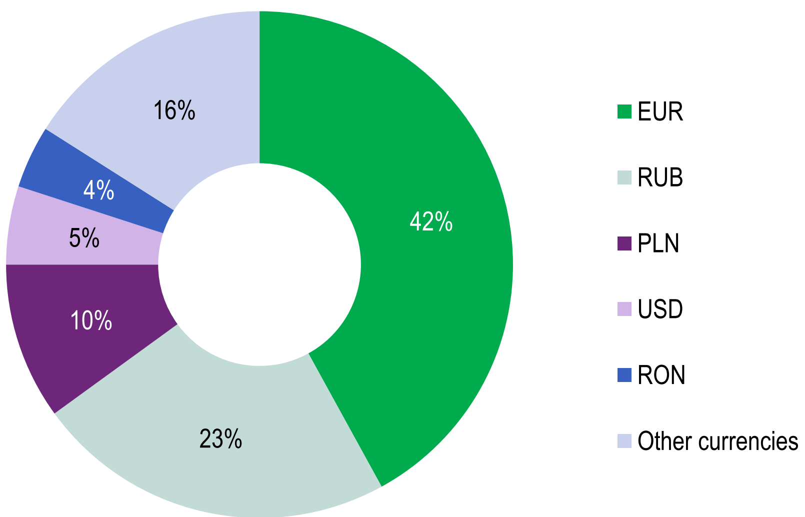
The Krka Group manages financial risk centrally in the Finance division of the controlling company in Slovenia. Financial departments of subsidiaries and representative offices abroad perform risk management operational tasks in accordance with the guidelines set out by the controlling company. Key financial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

The Krka Group's primary market risk is foreign exchange risk. We monitor interest rate risk; however, in 2022, we did not take any measures due to low interest rate exposure. The risk of market value changes in raw materials and the risk of market value changes in shares and bonds do not significantly impact the Krka Group's net financial result. This is why we monitor changes in exposure to these risks but do not implement any risk management measures.

Foreign exchange risk

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

Structure of revenue by currency (%)



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

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

Currency position structure of the Krka Group

The Russian rouble accounted for the major, 39%, share in the currency position of the Krka Group at the end of 2022. The rouble's currency position strengthened compared to the beginning of the year. Hedging the rouble with derivative financial instruments was no longer possible from April 2022, which was the primary reason for the strengthening of the rouble position. It arises from trade receivables in the Russian market and partly from subsidiary funding in the Russian Federation by the controlling company.

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

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 arose primarily from purchasing raw and other materials. Considering liquid financial assets in US dollars and dollar forward contracts that together offset the short financial position from operations, the 2022 year-end exposure to US dollars accounted for approximately 5% in total currency exposure of the Krka Group.

The exposure to the Romanian leu, accounting for 15% of the currency position at the end of 2022, arose from trade receivables accrued due to extended payment terms in Romania. Exposure to the Polish złoty resulted from trade receivables and manufacturing facilities held by the Group in Poland and accounted for 13% of the currency position.

Other currencies, among them the Swedish krona, North Macedonian denar, Kazakh tenge, Serbian dinar, British pound, Czech koruna, Ukrainian hryvnia, and Hungarian forint, accounted for 28% of the Krka Group currency position.

2022 currency markets

Soaring energy prices, growing inflation, the risk of subdued global economic growth and tightening monetary policies of the major world central banks increased the volatility of foreign exchange rates in 2022.

The European Central Bank (ECB) raised key interest rates for the first time in 11 years in the third quarter of 2022. The US Federal Reserve was increasing the key interest rate even faster. Interest rates increased in our other important sales markets, for example, Poland, Hungary, Romania, and the Czech Republic. Uneven growth of interest rates added to the volatility of exchange rates in those countries.

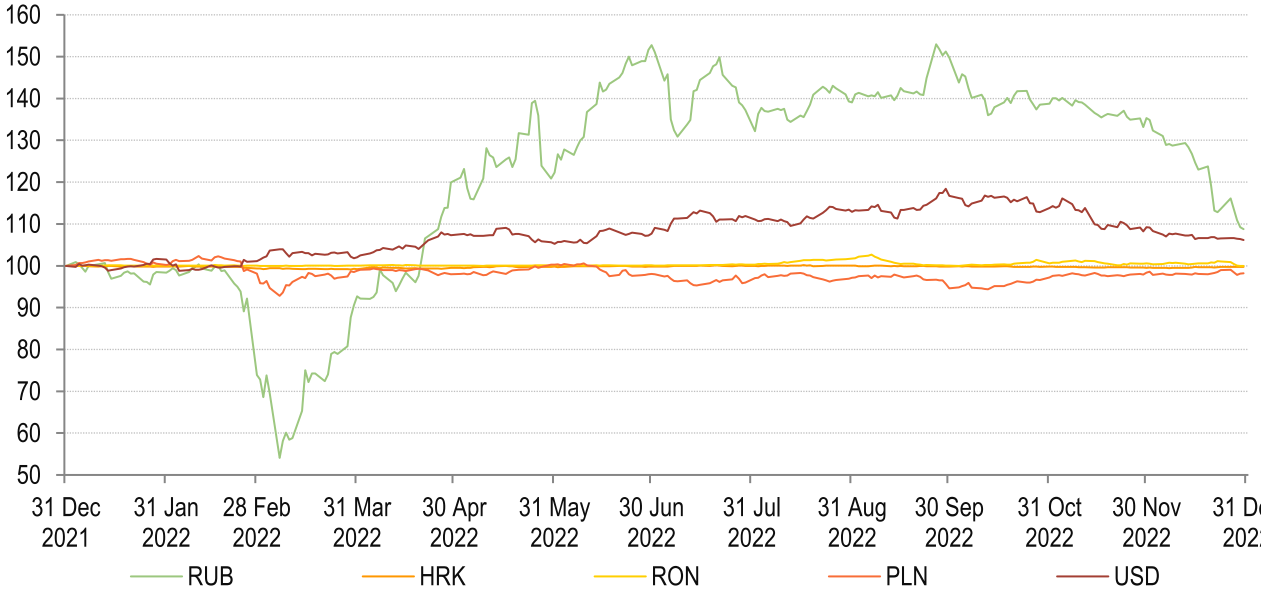
The Central Bank of the Russian Federation intervened by increasing the interest rate in the first quarter of 2022. However, by the end of the year, it fell to 7.5%. The rouble's value dropped in the first quarter of the year but then stabilised and increased despite strict international sanctions imposed on the Russian Federation. Its value dropped again in the last quarter of the year. The value of the Russian rouble denominated in the euro increased by 8.8% from the beginning to the end of the year and was, on average, 18.7% higher than in 2021.

The value of the US dollar denominated in the euro increased by 6.2% during 2022 and was, on average, 12.3% higher than the previous year. The US dollar strengthened primarily on the back of aggressive raises in interest rates by US Federal Reserves. The impact of the US dollar fluctuations on the net financial result of the Krka Group was offset using financial instruments.

The Ukrainian hryvnia lost approximately 20% of its value on the euro since the start of the Russian invasion. The macroeconomic situation in the country remains uncertain, which will continue to be reflected in currency movements.

The Polish złoty was relatively stable, and its value dropped by 1.8% from the beginning to the end of the year, while the average value was 2.6% lower than in 2021. The Romanian leu and Croatian kuna were very stable, and Croatia employed the ERM mechanism. From the beginning to the end of 2022, the value of the British pound dropped by 5.3%. The contribution of these currencies to the net financial result was negligible.

2022 movement of currencies expressed in euro (index 31 Dec 2021 = 100)



Currency risk management results

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

In 2022, we continued our policy of partially hedging the Russian rouble and US dollar with financial instruments. The risk exposure to the Russian rouble was partially hedged using forward contracts in the first quarter of the year, but this was no longer possible from April. As the value of the Russian rouble denominated in the euro strengthened, we generated net foreign exchange gains.

The increasing US dollar exposure from operations and the interest rate difference between the euro and the US dollar that is favourable for Krka are two key reasons that contributed to partial hedging of the exposure in the US dollar with financial instruments also in 2022. Due to the short currency position, the dollar strengthening had a negative financial impact on the Krka Group result. In 2022 however, income from the US dollar hedging instruments offset this.

We generated net foreign exchange losses from other currencies in 2022. 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 2022 was positive, totalling €52.7 million. The Krka Group's net financial result, including currency risk result, interest income and expenses, and other financial income and expenses, totalled €51.9 million.

2023 objectives

We intend to remain focused on activities for offsetting currency exposure by natural hedging methods. We plan to use financial instruments for partial hedging against risks entailed by volatile currencies accounting for a significant portion of Krka's currency exposure.

2022 foreign exchange rates

	31 Dec 2021	31 Dec 2022	Low	High	Average	Standard deviation	Coefficient of variation*
RUB	85.30	78.43	55.77	157.72	73.43	18.93	25.7%
HRK	7.53	7.54	7.50	7.58	7.53	0.02	0.2%
RON	4.95	4.95	4.82	4.95	4.93	0.02	0.5%
PLN	4.60	4.68	4.49	4.95	4.69	0.09	1.8%
CZK	24.86	24.12	24.12	25.87	24.57	0.26	1.1%
HUF	369.19	400.87	352.92	430.65	391.15	19.84	5.1%
UAH	30.87	37.93	29.30	39.49	34.18	2.94	8.6%
RSD	117.44	117.29	116.84	117.73	117.30	0.17	0.1%
USD	1.13	1.07	0.96	1.15	1.05	0.05	4.8%
GBP	0.84	0.89	0.82	0.90	0.85	0.02	1.9%

* 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 2022.

2023 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

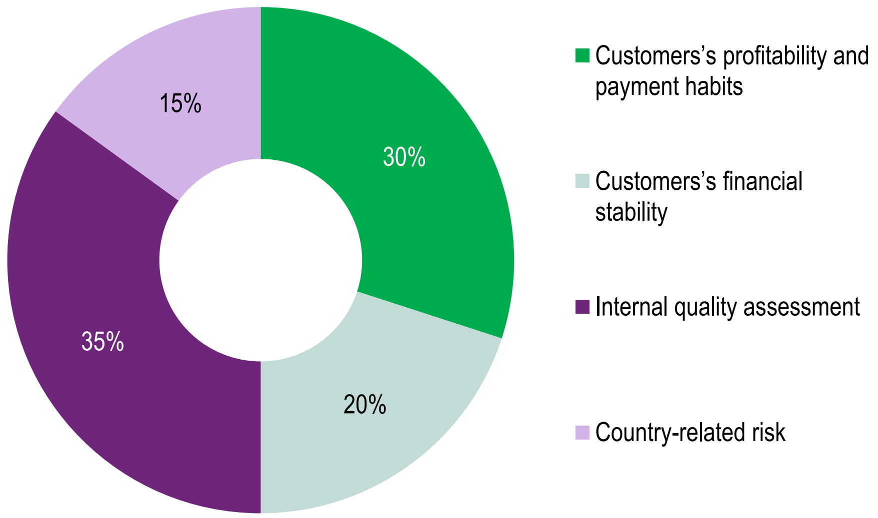
The key credit risk of the Krka Group arises from trade receivables. This is the risk of customers failing to settle their liabilities by maturity dates.

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 670 at the end of 2022, they accounted for more than 95% of total trade receivables. Receivables due from small customers accounted for less than 5% of total trade receivables. Control over small customers is decentralised in the sales network and under the constant supervision of the controlling company.

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

Credit risk assessment indicator categories



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

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

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

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

Credit risk management results

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

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

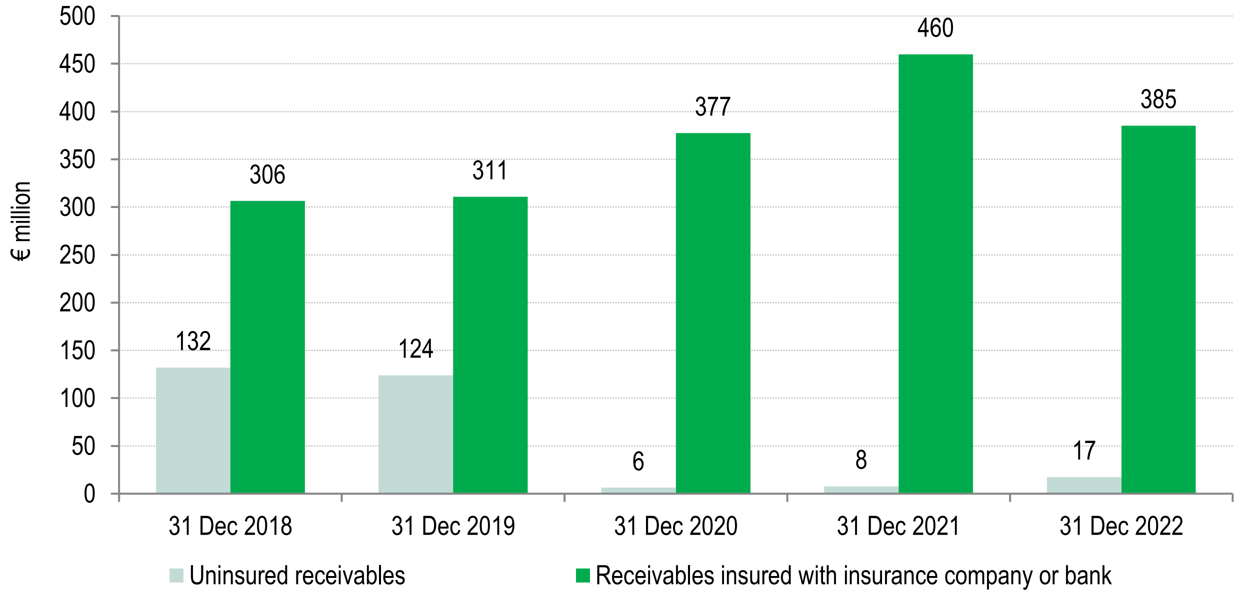
A very complex credit risk situation in 2022 derived from COVID-19 pandemic-related challenges and the tense situation in Ukraine, the Russian Federation, and Belarus. These markets, where we further strengthened trade receivable management activities, were at our focal point. The credit risk management balance was favourable in 2022 as well. At the end of 2022, the value of trade receivables decreased by 14% compared to the beginning of the year. The amount of overdue and outstanding receivables remained within limits acceptable for Krka.

The amount of the newly established valuation allowance for receivables exceeded the amount of the reversed allowance. The impact of net impairments and write-offs on the Krka Group's bottom line in 2022 was less than 0.11% of sales.

Trade receivable insurance

Since 2009, the Krka Group has insured part of its trade receivables with a credit insurance company. In the second quarter of 2020, we extended and supplemented trade receivable insurance. At the end of 2022, 96.1% of trade receivables were insured with a credit insurer. After deductibles, 86.7% of trade receivables were insured. Bank guarantees and letters of credit are used only exceptionally to secure payments.

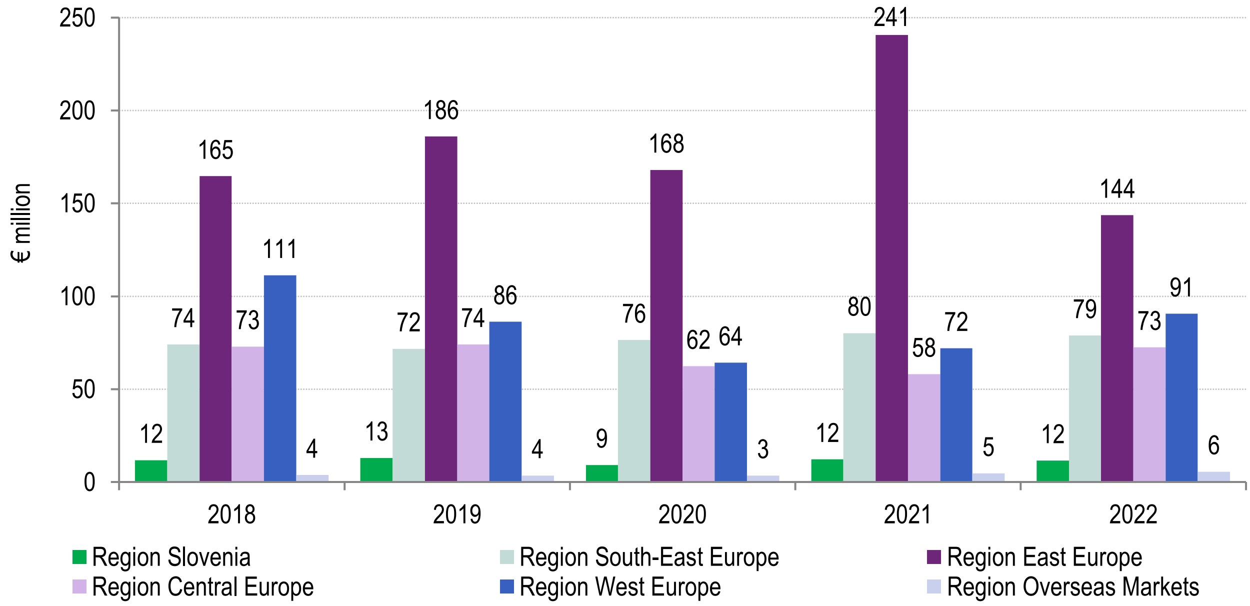
Insured and uninsured receivables



Trade receivables by region

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

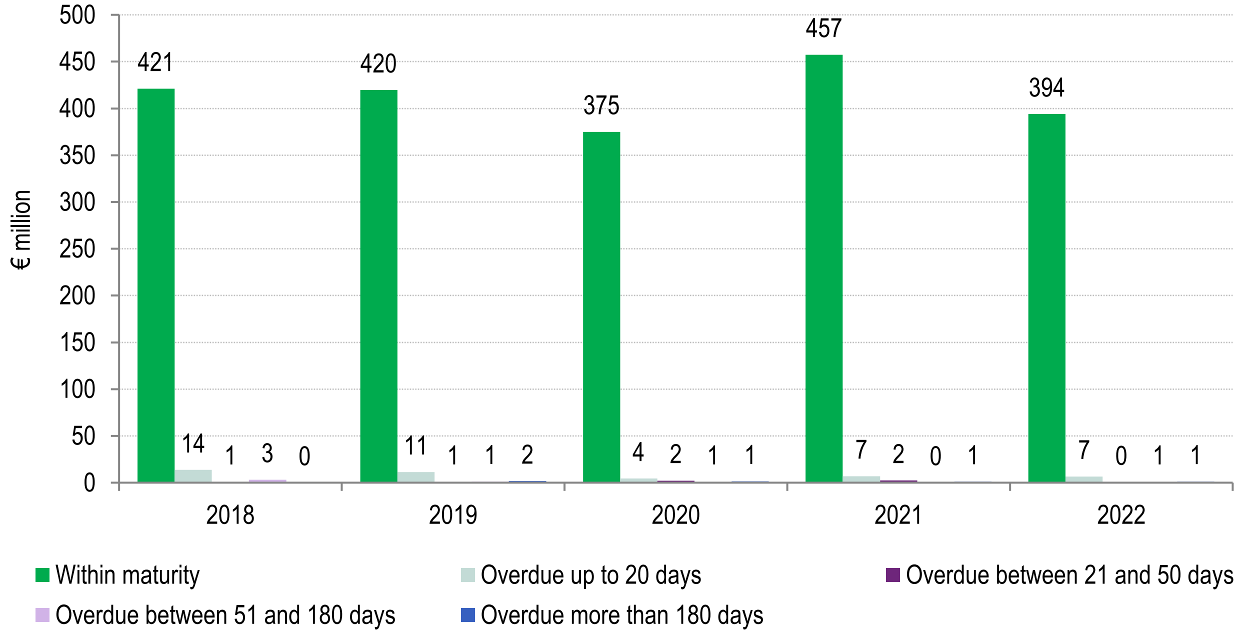
Trade receivables by region



Maturity structure of trade receivables

The maturity structure of receivables remained stable. The percentage of overdue receivables compared to total trade receivables remained low at the end of 2022.

Receivables by maturity



2023 objectives

We intend to continue standard credit risk management activities in 2023. The insurance contract for our trade receivables expires in the middle of 2023. Before contract renewal, we intend to examine options for further optimisation of receivable insurance. As before, we plan to redouble our monitoring of customers from markets with less favourable macroeconomic environments and markets where we have identified increased risks in the wholesale distribution of medicines. Where individual customer exposure above acceptable levels is established, we will introduce individual measures to reduce the exposure gradually.

We aim at low receivable impairment and write-off total at the Krka Group level.

Liquidity risk

Business partners value Krka for its excellent financial discipline and stable cash flows. In 2022, 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 2022.

At the end of 2022, the Krka Group recorded excess liquidity, primarily as cash at bank or deposits with first-class commercial banks. The 2022 increase in excess liquidity resulted from surplus cash flow from operating activities over negative cash flows from investing and financing activities.

The European Central Bank started raising key interest rates gradually in the second half of 2022. Low-risk cash investments started providing positive returns. We deposited most of the cash surplus with commercial banks in accordance with internal investment diversification rules and in consideration of interest rate, liquidity, credit, and currency risks.

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

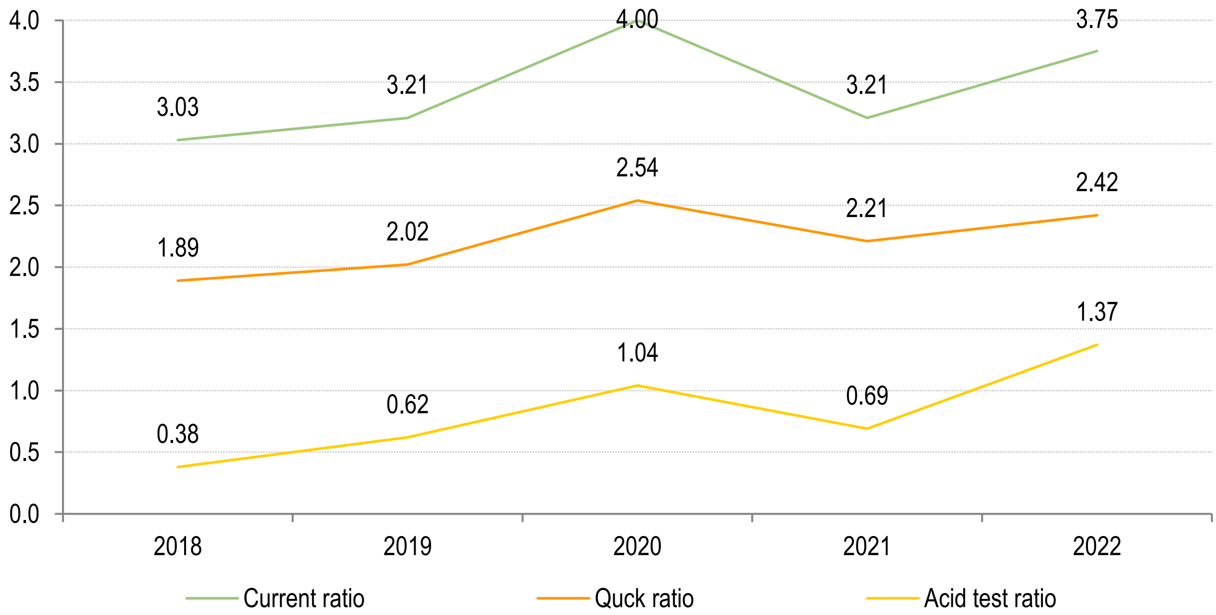
The Krka Group also reported favourable and stable liquidity ratios at the end of 2022.

Krka Group liquidity ratios

	2022	2021	2020	2019	2018	5-year average
Current ratio	3.75	3.21	4.00	3.21	3.03	3.44
Quick ratio	2.42	2.21	2.54	2.02	1.89	2.22
Acid test ratio	1.37	0.69	1.04	0.62	0.38	0.82
Receivables turnover ratio	3.70	3.45	3.50	3.21	2.68	3.31

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



2023 objectives

We plan to carefully manage cash flows and surplus liquidity within the Krka Group to ensure proper liquidity of all group companies in 2023.

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.

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

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

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

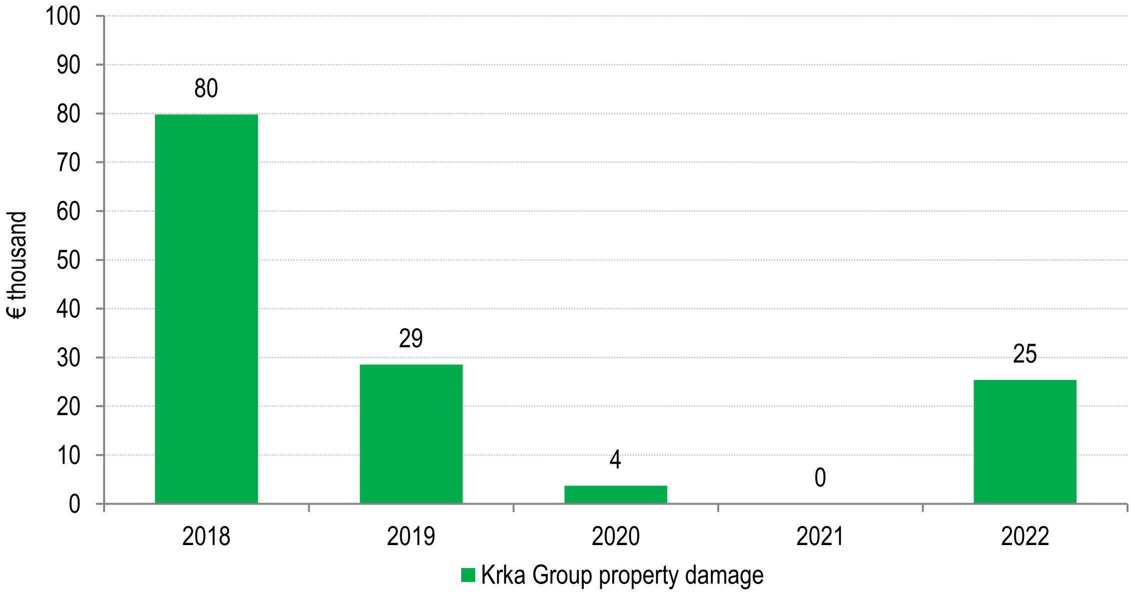
The controlling company manages the insurance policies of all Krka Group companies, except local car insurance policies, but still provides guidelines and monitors car insurance. The entire Krka Group is insured in compliance with uniform principles. The competitiveness and safety of individual insurance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

We continued the analysis of the international insurance market in 2022 to improve our insurance programme. Krka makes gradual improvements every year and simultaneously assumes part of the risk, either through insurance deductibles or by cancelling low-risk insurance policies. Four insurance audits were conducted at the Krka Group last year, with no critical recommendations made.

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 emergency 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.

Extent of property damage



Note: This chart does not include car or personal insurance

All our insurance processes are digitalised. We use certain documents in paper form only as backup copies.

Investor and share information

Shareholder return

Krka share price on the Ljubljana Stock Exchange

€	2022	2021	2020	2019	2018
Year high	120.00	120.00	92.60	74.60	59.80
Year low	80.80	91.20	54.00	56.80	53.60
31 December	92.00	118.00	91.40	73.20	57.80
Annual change (%)	-22.0	29.1	24.9	26.6	0.5

In 2021, the Krka share price on the Ljubljana Stock Exchange increased by more than 29% but fell by 22% last year.

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

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

Dividend policy

The AGM decides on the proposed dividend amount. In 2022, we allocated 54.9% of the consolidated net profit attributable to equity holders of the controlling company generated in 2021 for the dividend payout. Gross dividend per share increased by 12.6%. The Company's long-term dividend policy is respected when determining the net profit share for dividend payout each year. At least 50% of the net profit of the controlling company's equity holders is allocated for dividends. The Group’s financial requirements for investments and potential acquisitions are also considered.

Dividends and dividend yield

	2022	2021	2020	2019	2018
Earnings per share[1] (€)	11.69	9.92	9.27	7.73	5.46
Gross dividend per share[2] (€)	5.63	5.00	4.25	3.20	2.90
Dividend payout ratio[3] (%)	56.6	53.6	54.3	58.2	60.8
Dividend yield[4] (%)	6.1	4.2	4.6	4.4	5.0

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

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

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

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

Share trading and shareholding[27]

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

Krka share trading

Reference: The Ljubljana Stock Exchange and the Warsaw Stock Exchange

Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2022, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.76 million or 7,600 shares, including blocks.

[27] GRI 2-1, 2-6

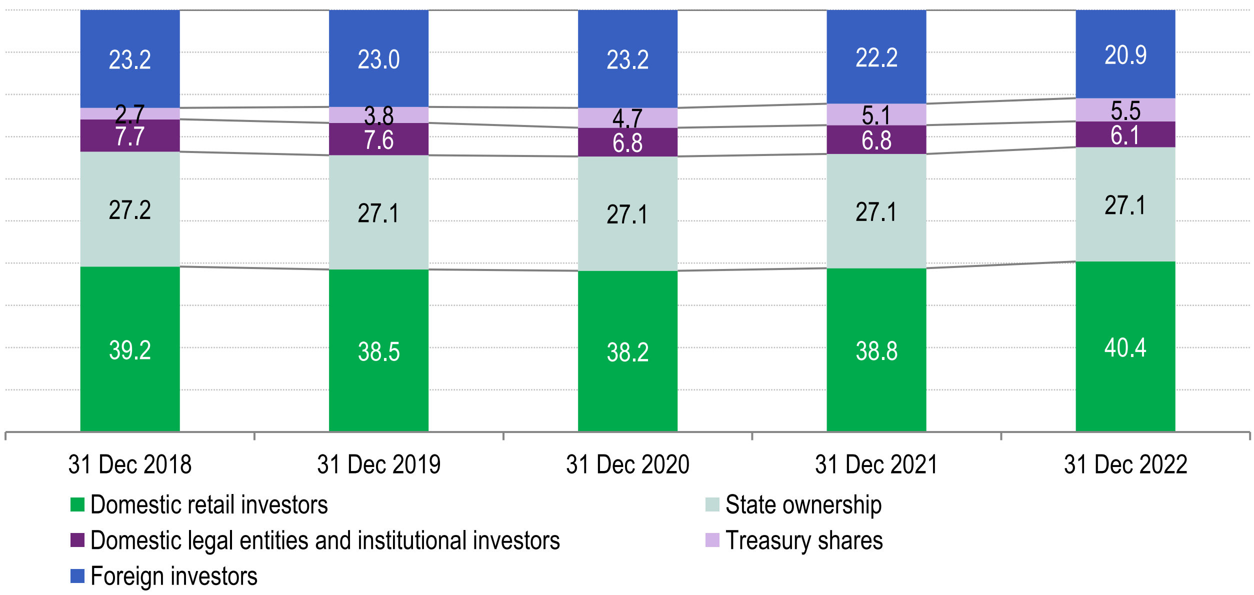
Ten largest shareholders as at 31 December 2022

	Shares owned	Stake (%)
Kapitalska družba, d. d.	3,493,030	10.65
Slovenski državni holding, d. d. (SDH)	2,949,876	9.00
Republic of Slovenia	2,366,121	7.22
OTP banka, d.d.[1]	1,547,420	4.72
Erste Group Bank AG - PBZ Croatia Osiguranje[1]	1,331,938	4.06
Clearstream Banking SA[1]	1,086,939	3.31
Luka Koper, d. d.	433,970	1.32
State Street Bank and Trust[1]	377,959	1.15
KDPW[1]	345,055	1.05
Privredna banka Zagreb d. d.[1]	318,434	0.97
Total	**14,250,742**	**43.46**

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

At the end of 2022, Krka had 47,170 shareholders, up almost 1% on the end of 2021.

Shareholder structure (%)



Reference: KDD

In 2022, the Company acquired 101,941 treasury shares valued at €10,009 thousand on the regulated market and held 1,785,849 treasury shares as at 31 December 2022.

Communication with investors[28]

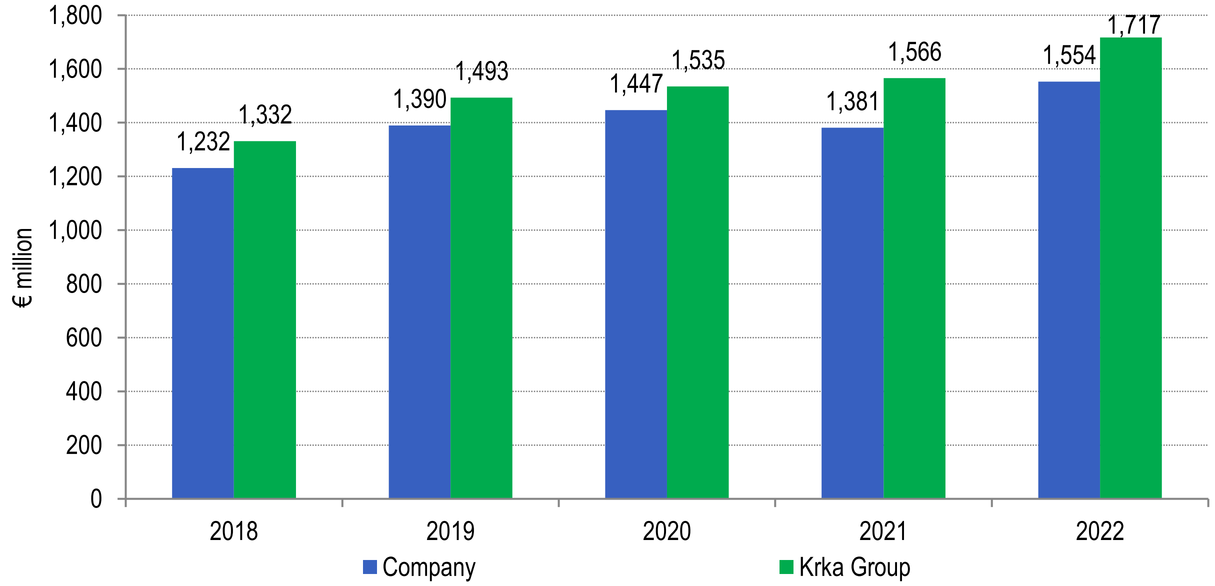
We adhere to the highest standards in conducting our business, which also applies to investor relations. We pursue corporate integrity, high levels of transparency in reporting, and engagement of shareholders, analysts, and financial professionals. We regularly informed the financial and general public about our business achievements throughout the year in compliance with valid regulations and stock exchange reporting rules. We provided them with information mainly related to our business results and the Krka Group's strategy, complying with the information disclosure policy. Investors and financial analysts gave us feedback, which we always carefully examined and presented to our Management Board. In 2022, we participated in 16 investment conferences with investors from more than 15 countries. We organised four webcasts to present our quarterly business reports. We also held conference calls with more than 100 investors. 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.

[28] GRI 2-29

Performance analysis

Operating income

Revenue



In 2022, the Krka Group generated revenue of €1,717.5 million, a €151.7 million or 10% increase on 2021, of which revenue from contracts with customers on sales of products and services reached €1,708.5 million, and revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Over the past five years, average annual revenue grew by 4.4% in volume and 6.3% in value. Other operating income of the Krka Group amounted to €9.2 million.

In 2022, Krka (in this section referred to as ‘the Company’ for clarity reasons) generated revenue of €1,553.5 million, a €172.1 million or 12% increase on 2021, of which revenue from contracts with customers on sales of products and services amounted to €1,356.1 million; revenue from contracts with customers on sales of materials totalled €188.3 million; and other sales revenue reached €9.1 million. Other operating income amounted to €4.7 million.

Operating expenses

The Krka Group posted operating expenses totalling €1,345.4 million, up €123.0 million or 10% on 2021. The Company incurred operating expenses totalling €1,200.3 million, up 8% on 2021.

Krka Group operating expenses comprised: costs of goods sold totalling €743.1 million; selling and distribution expenses totalling €349.1 million; R&D expenses totalling €162.6 million; and general and administrative expenses totalling €90.7 million. Operating expenses accounted for 78% of revenue and, over the past five years, ranged between 75% in 2020 and 83% in 2018 and 2019.

Costs of goods sold, up 10% on 2021, represented the largest item in the Krka Group operating expense structure. They accounted for 43.3% of total revenue in 2022, and 43.1% in 2021. Selling and distribution expenses increased by 14% and accounted for 20.3% of total revenue, up 0.8 percentage points on 2021. R&D expenses constituted 9.5% of total revenue (down 0.4 percentage points on 2021) and increased by 5%. General and administrative expenses amounted to 5.3% of total revenue, a 4% increase, while their proportion in revenue dropped by 0.3 percentage points.

Company operating expenses comprised: costs of goods sold totalling €663.3 million; selling and distribution expenses totalling €301.3 million; R&D expenses totalling €158.3 million; and general and administrative expenses totalling €77.4 million. Costs of goods sold represented the largest item in the Company operating expense structure and increased by 8%. They accounted for 42.7% of total revenue, up 1.8 percentage points on 2021. Selling and distribution expenses increased by 11% and accounted for 19.4% of total revenue, down 0.2 percentage points on 2021. R&D expenses constituted 10.2% of total revenue (down 0.7 percentage points on 2021) and increased by 5%. General and administrative expenses accounted for 5.0% of total revenue, a 1% drop, while their proportion in total revenue decreased by 0.7 percentage point on 2021.

Financial income and expenses

	Krka Group					Company				
€ thousand	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
Financial income	57,668	19,711	23,259	24,987	5,935	57,744	24,714	31,786	34,410	17,382
Financial expenses	-5,806	-12,082	-75,011	-14,814	-36,048	-3,356	-12,083	-72,837	-14,751	-33,891
Net financial result	**51,862**	**7,629**	**-51,752**	**10,173**	**-30,113**	**54,388**	**12,631**	**-41,051**	**19,659**	**-16,509**

In 2022, Krka Group net financial result amounted to €51.9 million and €54.4 million for the Company.

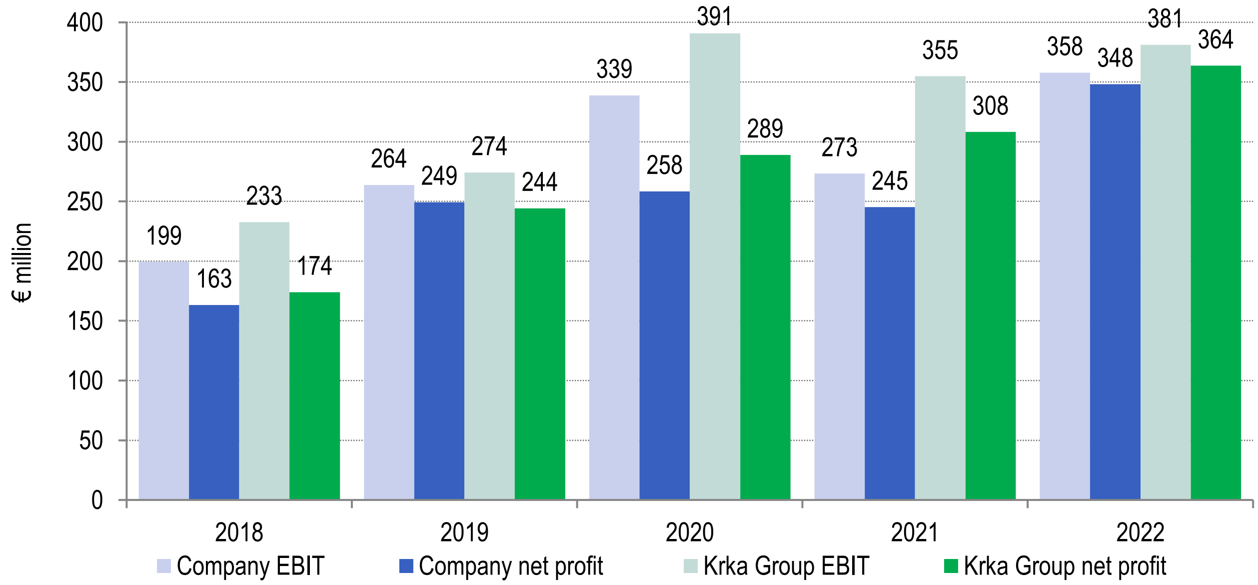
The Krka Group operates in diverse international environments and is exposed to foreign exchange risks in certain sales and purchase markets. Krka Group currency risk gain reached €52.7 million in 2022. Please see pages 70–73 for details about foreign exchange risks.

Krka Group financial income comprised: net foreign exchange gains totalling €43.6 million; derivatives income of €9.1 million; interest income totalling €3.8 million; income from dividends and other profit shares totalling €0.7 million; and other financial income of €0.5 million. Financial expenses consisted of interest expenses of €1.3 million and other financial expenses of €4.5 million.

Company financial income comprised: net foreign exchange gains totalling €45.1 million; derivatives income of €9.1 million; interest income totalling €2.4 million; income from dividends and other profit shares worth €0.7 million; and other financial income of €0.5 million. Financial expenses consisted of interest expenses of €1.7 million, and other financial expenses of €1.6 million.

Operating results

Operating profit and net profit for the year



The Krka Group recorded EBIT totalling €381.2 million, up €26.4 million or 7% on 2021. Its EBITDA amounted to €488.9 million, up €25.3 million or 5%.

The Company created EBIT totalling €357.9 million, while its EBITDA reached €440.1 million.

In 2022, profit before tax of the Krka Group increased by €70.7 million or 19% to €433.1 million. Its effective tax rate was 16.0%. Profit before tax of the Company amounted to €412.3 million.[29]

The Krka Group recorded net profit totalling €363.7 million, up €55.5 million or 18% on 2021, while Company net profit totalled €348.2 million.

Assets

	Krka Group					Company				
€ thousand	2022	%	2021	%	Index 2022/21	2022	%	2021	%	Index 2022/21
Non-current assets	**1,125,025**	**41.9**	**1,075,052**	**42.4**	**105**	**1,123,594**	**44.6**	**1,094,724**	**45.1**	**103**
Property, plant and equipment	779,336	29.0	773,657	30.5	101	566,780	22.5	569,391	23.5	100
Intangible assets	102,550	3.8	104,301	4.1	98	24,960	1.0	25,628	1.1	97
Investments and loans	188,309	7.0	149,183	5.9	126	522,545	20.7	486,336	20.0	107
Other	54,830	2.1	47,911	1.9	114	9,309	0.4	13,369	0.5	70
Current assets	**1,562,475**	**58.1**	**1,461,936**	**57.6**	**107**	**1,392,950**	**55.4**	**1,332,521**	**54.9**	**105**
Inventories	553,332	20.6	455,707	18.0	121	492,978	19.6	394,323	16.2	125
Trade receivables	402,730	15.0	467,764	18.4	86	357,889	14.2	424,588	17.5	84
Other	606,413	22.5	538,465	21.2	113	542,083	21.6	513,610	21.2	106
Total assets	**2,687,500**	**100.0**	**2,536,988**	**100.0**	**106**	**2,516,544**	**100.0**	**2,427,245**	**100.0**	**104**

At the end of 2022, Krka Group assets were valued at €2,687.5 million, a €150.5 million or 6% increase on year-end 2021. The ratio of non-current to current assets in the overall asset structure differed from that recorded at year-end 2021, as non-current assets decreased by 0.5 percentage points and totalled 41.9%.

At the end of 2022, Company assets were valued at €2,516.5 million, an €89.3 million or 4% increase on year-end 2021. The ratio of non-current to current assets in the overall asset structure differed from that recorded at year-end 2021, as non-current assets decreased by 0.5 percentage points and totalled 44.6%.

Krka Group non-current assets were valued at €1,125.0 million, a €50.0 million or 5% increase on year-end 2021. The most important item in the Krka Group asset structure was property, plant and equipment (PP&E). It was valued at €779.3 million and accounted for 29.0% of total Krka Group assets (of which the Company's PP&E accounted for €566.8 million or 73% of Krka Group PP&E). Intangible assets were worth €102.6 million and accounted for 3.8% of total assets (of which Company assets accounted for €25.0 million or 24% of total Krka Group intangible assets). Krka Group non-current loans totalled €77.5 million or 2.9% of its total assets.

Krka Group current assets were valued at €1,562.5 million and increased by €100.5 million or 7% on year-end 2021. Trade receivables due from customers outside the Krka Group totalled €402.7 million, accounting for 15% of total Krka Group assets. Inventories amounted to €553.3 million or 21% of total Krka Group assets. Trade receivables decreased by €65.0 million or 14%, while inventories saw a rise of €97.6 million or 21%. Krka Group current loans totalled €6.3 million or 0.2% of its total assets. Cash and cash equivalents were valued at €518.9 million, up €359.1 million on year-end 2021, accounting for 19.3% of its total assets.

[29] GRI 207-4

Company non-current assets were valued at €1,123.6 million and increased by €28.9 million, up 3% on year-end 2021. The most important item worth €566.8 million or 23% of its total assets was PP&E. Investments in subsidiaries totalled €355.8 million or 14% of its total assets. Intangible assets of €25.0 million accounted for 1% of total assets. The Company recorded non-current loans totalling €56.0 million or 2% of its total assets.

Company current assets were valued at €1,393.0 million and increased by €60.4 million or 5% on year-end 2021. Trade receivables totalled €357.9 million or 14% of its total assets (of which trade receivables due from customers outside the Krka Group totalled €164.2 million), while inventories amounted to €493.0 million or 20% of its total assets. Inventories increased by 25%, but trade receivables decreased by 16%. The Company posted current loans totalling €6.7 million or 0.3% of its total assets. Cash and cash equivalents were valued at €470.3 million, up €325.3 million on year-end 2021, accounting for 18.7% of total Company assets.

Equity and liabilities

	Krka Group					Company				
€ thousand	2022	%	2021	%	Index 2022/21	2022	%	2021	%	Index 2022/21
Equity	2,138,509	79.6	1,919,085	75.6	111	2,060,792	81.9	1,876,142	77.3	110
Non-current liabilities	132,130	4.9	162,674	6.4	81	102,333	4.1	128,783	5.3	79
Current liabilities	416,861	15.5	455,229	18.0	92	353,419	14.0	422,320	17.4	84
Total equity and liabilities	**2,687,500**	**100.0**	**2,536,988**	**100.0**	**106**	**2,516,544**	**100.0**	**2,427,245**	**100.0**	**104**

As at 31 December 2022, the Krka Group posted €219.4 million or 11% higher equity than at year-end 2021. The rise was attributable to Krka Group net profit totalling €363.7 million, other comprehensive income net of tax totalling €34.7 million, and acquisition of non-controlling interests totalling €6.2 million. Equity declined due to dividends paid totalling €175.0 million and redemptions of treasury shares totalling €10.0 million.

The Krka Group recorded provisions totalling €107.2 million (of which post-employment and other non-current employee benefits accounted for €96.0 million; provisions for lawsuits €10.6 million; and other provisions €0.7 million), an €18.9 million or 15% decrease on year-end 2021. Provisions for post-employment and other non-current employee benefits decreased by €28.3 million, other provisions declined by €0.6 million, while provisions for lawsuits increased by €10.0 million.

Of Krka Group current liability items, trade payables increased by €10.8 million (of which payables to suppliers abroad increased by €1.8 million and payables to domestic suppliers by €9.0 million). Current liabilities from contracts with customers increased by €33.0 million (of which bonuses and volume rebates increased by €31.1 million and contract liabilities by €3.1 million, while right of return decreased by €1.2 million). Other current liabilities declined by €103.7 million, of which liabilities from repurchase agreements (repo) dropped by €102.2 million and other liabilities by €3.3 million, while payables to employees increased by €1.8 million.

As at 31 December 2022, Company equity was up €184.7 million or 10% higher than at year-end 2021. The increase was attributable to Company net profit of €348.2 million and other comprehensive income net of tax totalling €21.5 million, while the decrease resulted from dividends paid totalling €175.0 million and redemptions of treasury shares totalling €10.0 million.

Company provisions amounted to €96.6 million (of which post-employment and other non-current employee benefits totalled €86.1 million and provisions for lawsuits €10.5 million). Compared to year-end 2021, provisions declined by €16.5 million or 15% following a €26.5 million drop in provisions for post-employment and other non-current employment benefits and a €10.0 million increase in provisions for lawsuits.

Of Company current liability items, trade payables increased by €16.0 million. Current liabilities from contracts with customers increased by €2.2 million, while other current liabilities decreased by €106.6 million, of which liabilities from repurchase agreements (repo) dropped by €102.2 million. At the end of 2022, Company current borrowings from subsidiaries amounted to €53.4 million.

Cash flow statement

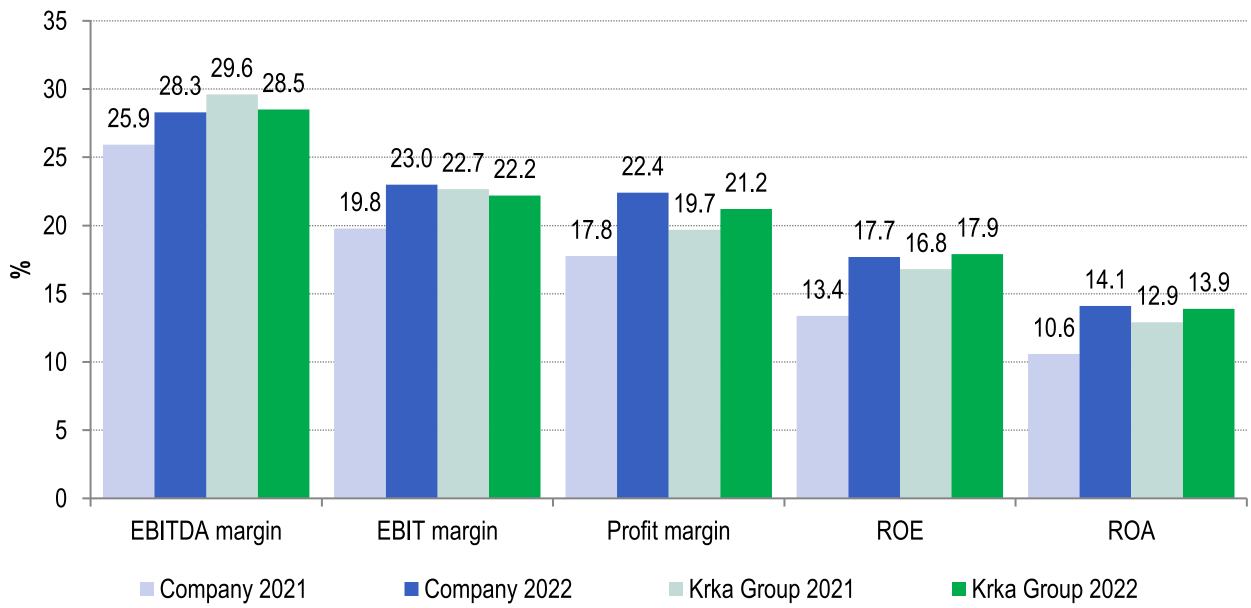
	Krka Group		Company	
€ thousand	2022	2021	2022	2021
Net cash from operating activities	467,651	386,097	407,733	348,239
Net cash from investing activities	76,414	-372,637	105,073	-338,401
Net cash from financing activities	-187,022	-169,850	-189,807	-163,901
Net change in cash and cash equivalents	**357,043**	**-156,390**	**322,999**	**-154,063**

Net change in Krka Group cash and cash equivalents (exclusive of exchange rate fluctuations) totalled €357.0 million in 2022, because positive cash from operating and investing activities was higher than negative cash used in financing activities.

The Krka Group generated profit from operating activities before changes in net current assets totalling €552.3 million. Changes in current assets that had a positive impact on cash flow included changes in trade receivables and trade payables, while changes in inventories, provisions, deferred revenue and other current liabilities had a negative impact.

Positive cash flows from investing activities totalling €76.4 million were primarily accrued from net payments for current loans totalling €189.6 million and payments for current investments of €153.8 million. Negative cash flows from financing activities totalling €187.0 million primarily resulted from dividends paid and other profit shares of €175.0 million and redeemed treasury shares of €10.0 million.

Performance ratios



Krka Group and Company operating figures for the past five years

	Krka Group					Company				
€ thousand	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
Revenue	1,717,453	1,565,802	1,534,941	1,493,409	1,331,858	1,553,514	1,381,367	1,447,112	1,390,248	1,231,784
EBITDA[1]	488,895	463,625	502,432	385,437	343,280	440,086	358,188	424,028	345,929	282,493
– EBITDA margin	28.5%	29.6%	32.7%	25.8%	25.8%	28.3%	25.9%	29.3%	24.9%	22.9%
EBIT[2]	381,211	354,788	390,744	274,195	232,686	357,870	273,325	338,882	263,852	199,305
– EBIT margin	22.2%	22.7%	25.5%	18.4%	17.5%	23.0%	19.8%	23.4%	19.0%	16.2%
Net profit	363,662	308,150	288,949	244,272	174,008	348,215	245,216	258,474	249,411	163,329
– Net profit margin	21.2%	19.7%	18.8%	16.4%	13.1%	22.4%	17.8%	17.9%	17.9%	13.3%
Assets	2,687,500	2,536,988	2,235,542	2,184,618	1,985,069	2,516,544	2,427,245	2,208,379	2,129,960	1,916,065
ROA[3]	13.9%	12.9%	13.1%	11.7%	8.9%	14.1%	10.6%	11.9%	12.3%	8.7%
Equity	2,138,509	1,919,085	1,751,812	1,667,516	1,540,270	2,060,792	1,876,142	1,791,850	1,664,178	1,552,300
ROE[4]	17.9%	16.8%	16.9%	15.2%	11.5%	17.7%	13.4%	15.0%	15.5%	10.7%

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

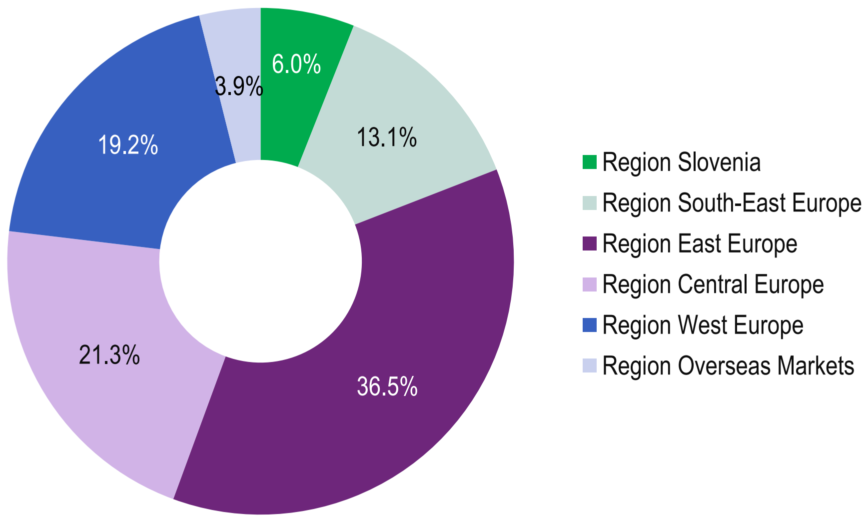
Marketing and sales

In 2022, the Krka Group generated €1,717.5 million from sales of products and services, a 10% year-on-year rise. Of that, revenue from contracts with customers on sales of products and services amounted to €1,708.5 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 €1,605.5 million and accounted for 94% of overall Krka Group sales. Product sales volume increased by 4%.

Sales by region[30]

Region East Europe recorded the highest sales, €623.4 million, or 36.5% of total Krka Group sales. Region Central Europe achieved the second highest sales, €364.2 million, or 21.3% of total Krka Group sales. Region West Europe ranked third in terms of sales with €327.3 million, or 19.2% of total Krka Group sales. Sales in Region South-East Europe totalled €224.5 million, accounting for 13.1% of total sales, and in Overseas Markets €66.1 million or 3.9% of total sales. Region Slovenia generated sales of €103 million, accounting for 6% of total Krka Group sales.

2022 Krka Group sales by region



Krka Group and Krka sales by region

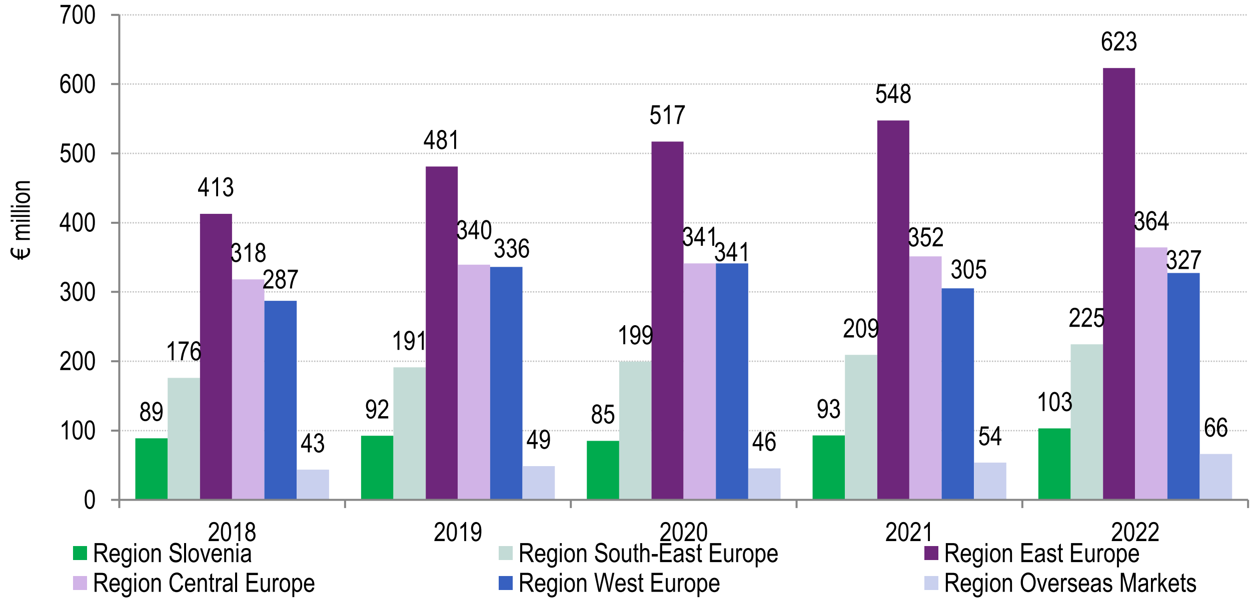
€ thousand	Krka Group 2022	Krka Group 2021	Krka Group Index 2022/21	Krka 2022	Krka 2021	Krka Index 2022/21
Region Slovenia	103,047	92,880	111	60,503	56,421	107
Region South-East Europe	224,523	209,166	107	220,624	205,491	107
Region East Europe	623,377	547,778	114	387,489	320,973	121
Region Central Europe	364,154	351,501	104	351,191	336,699	104
Region West Europe	327,343	305,246	107	284,593	246,350	116
Region Overseas Markets	66,098	53,717	123	51,675	45,560	113
Total	**1,708,542**	**1,560,288**	**110**	**1,356,075**	**1,211,494**	**112**

[30] GRI 2-6

Krka Group quarterly sales by region

€ thousand	2022				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Region Slovenia	23,432	25,988	27,780	25,847	18,270	23,502	27,033	24,075
Region South-East Europe	60,310	58,951	53,575	51,687	53,276	58,990	51,900	45,000
Region East Europe	146,700	140,983	126,464	209,230	132,122	144,401	121,226	150,029
Region Central Europe	99,620	96,443	84,824	83,267	97,805	91,098	82,955	79,643
Region West Europe	84,595	83,941	73,837	84,970	80,535	79,087	69,334	76,290
Region Overseas Markets	15,991	16,486	16,611	17,010	12,515	14,945	14,298	11,959
Total	**430,648**	**422,792**	**383,091**	**472,011**	**394,523**	**412,023**	**366,746**	**386,996**

Krka Group sales by region in the past five years



Region Slovenia

Sales of products and services in Slovenia, one of our key markets, amounted to €103 million in 2022. Product sales reached €60.5 million, accounting for 7% growth in value. Prescription pharmaceuticals constituted the major proportion or 74%. Non-prescription products accounted for 22%, and sales of animal health products represented the remaining 3%. 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 €42.6 million, up 17% on the year before, contributing 11% to sales growth in the domestic market.

Medicines for treating 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.

Medicines for treating cardiovascular diseases recorded the highest sales volume, most notably: Prenewel (perindopril/indapamide), Prenessa (perindopril), Amlessa (perindopril/amlodipine), and Amlewel (perindopril/amlodipine/indapamide). Of our cholesterol-lowering agents, sales of Sorvasta (rosuvastatin) were most substantial, and we also raised the profile of Sorvitimb (rosuvastatin/ezetimibe). We raised the profile of Roxiper, a single-pill combination of perindopril, indapamide, and rosuvastatin; and Roxampex, a single-pill combination of rosuvastatin, amlodipine, and perindopril.

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 market our non-opioid analgesic

Algominal (metamizole). Nolpaza (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 portfolio an immunomodulatory agent Lenalidomide Krka (lenalidomide); two oncology agents, Sunitinib Krka (sunitinib) and Abiraterone Krka (abiraterone); an antidiabetic agent Maysiglu (sitagliptin).

Sales of non-prescription products were driven by Magnezij Krka, followed by Nalgesin S (naproxen), and Septabene (benzydamine/cetylpyridinium chloride). Sales of animal health products were driven by vitamins and minerals Grovit, and Floron (florfenicol).

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.
We were the leading provider of: • Non-steroidal anti-inflammatory and antirheumatic medicines, accounting for approximately a 65% market share; • Proton pump inhibitors, accounting for more than a 60% market share; • Statins, accounting for more than a 55% market share; • Products with effect on pharynx, accounting for more than a 40% market share; • Agents acting on the renin-angiotensin system, accounting for approximately a 45% market share; • Antipsychotics, anxiolytics, antidementia medicines, and antidepressants, accounting for approximately a 35% market share.
We were the leading provider of medicines containing alprazolam; atorvastatin; ciprofloxacin; 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, including valsartan in combination with hydrochlorothiazide; and venlafaxine. We were the leading provider of generic medicines containing aripiprazole; duloxetine; etoricoxib; olanzapine; and tamsulosin. 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.
Nalgesin (naproxen), Nolpaza (pantoprazole), Sorvasta (rosuvastatin), Prenewel (perindopril/indapamide), Prenessa (perindopril), and Doreta (tramadol/paracetamol) were among medicines that achieved highest sales.

Region South-East Europe

Region South-East Europe made product sales of €224.5 million, a year-on-year increase or more than 7%. We recorded growth on all regional markets. Absolute growth, however, was the highest in Croatia, where our sales totalled almost €5 million more than a year before. In terms of absolute year-on-year sales growth, it was followed by Romania, where sales increased by €4.5 million, and Serbia, where sales grew by €2 million.

Prescription pharmaceuticals accounted for over 85%, and non-prescription products for over 11% of regional sales. Animal health products constituted slightly more than 3% of total regional sales. Our leading product group of prescription pharmaceuticals achieved 6% year-on-year growth. Non-prescription product sales advanced by 27%, while animal health products lagged behind the 2021 sales figure by over 3%.

In **Romania**, one of our key markets and the largest regional one, year-on-year sales increased by 8% to €63.2 million. Our market share reached 1.6% and market share volume more than 4.6% respectively, ranking us the sixth largest foreign provider of generic pharmaceuticals in the country. The most important medicines in terms of sales were Atoris (atorvastatin), Co-Prenessa (perindopril/indapamide), Doreta (tramadol/paracetamol), Roswera (rosuvastatin), and Nolpaza (pantoprazole). Our best-selling non-prescription products were Bilobil (ginkgo leaf extract), Herbion brand products, and Nalgesin (naproxen). Companion animal products constituted the major part of animal health product sales, notably Fypryst brand products, Milprazon (milbemycin/praziquantel), and Selehold (selamectin).

Krka Group market position in Romania
We ranked sixth among foreign providers of generic medicines, holding a 1.6% market share.
We were among the leading providers of: • SNRI antidepressants, accounting for more than a 55% market share; • Statins, accounting for more than a 25% market share; • Antimicrobials (fluoroquinolones), accounting for more than a 20% market share; • Prescription analgesics and antipyretics, accounting for more than a 15% 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; duloxetine; enalapril; lansoprazole; losartan; mirtazapine; naproxen; norfloxacin; perindopril in combination with amlodipine; pramipexole; ropinirole; sulfasalazine; telmisartan; tramadol, including tramadol in combination with paracetamol; and venlafaxine. We were the leading provider of generic medicines containing aripiprazole; ivabradine; ginkgo leaf extract; combination of perindopril and indapamide; and combination of perindopril, indapamide, and amlodipine.

Croatia, another of our key markets, ranked second regional market in terms of sales. Croatian sales totalled €41 million, up 14% on 2021. We ranked fifth among all providers of generic medicines and second among manufacturers of animal health products in the country. We recorded double-digit growth in sales of prescription pharmaceuticals and non-prescription products, while sales of animal health products declined.

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

Krka Group market position in Croatia
We placed third among foreign providers of generic medicines, holding a 3.3% market share.
In 2022, we outperformed the entire market with respect to sales growth.
We were the leading provider of: • Angiotensin II receptor antagonists, also in combination with diuretics, accounting for approximately a 65% market share; • Antimicrobials (fluoroquinolones), accounting for approximately a 55% market share; • Antitussives, accounting for approximately a 40% market share; • Statins, accounting for more than a 30% market share; • ACE inhibitors, also in combination with diuretics, accounting for a 30% market share. We were among the leading providers of: • Mono-component corticosteroids for systemic treatment, accounting for more than a 35% market share; • Typical antipsychotics, accounting for more than a 30% market share; • Sulphonamide antidiabetics, accounting for more than a 25% market share; • Proton pump inhibitors, accounting for more than a 25% market share; • ACE inhibitors and ACE-based combinations with calcium channel blockers, accounting for more than a 20% market share; • Antidepressants, accounting for more than a 15% market share; • Anxiolytics, 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; ciprofloxacin; dexamethasone; diosmin; escitalopram; esomeprazole; clarithromycin; lansoprazole; losartan in combination with hydrochlorothiazide; norfloxacin; perindopril, including perindopril in combination with indapamide; rosuvastatin, including rosuvastatin in combination with ezetimibe; theophylline; tramadol in combination with paracetamol; 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 €32.2 million in sales and recorded 7% 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 5% and accounted for 86% of total sales. Nolpaza (pantoprazole), Co-Amlessa (perindopril/amlodipine/indapamide), Roxera (rosuvastatin), Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), and Valsacor (valsartan) were key medicines from this group. Nolpaza (pantoprazole) with 6 million packs sold remained one of five medicines presenting strongest sales in Serbia. Our non-prescription product sales rose 30% on 2021 and were driven by: Nalgesin (naproxen), Bilobil (ginkgo leaf extract), and Septolete Total (benzydamine/cetylpyridinium chloride). Sales of animal health products edged down on 2021. Fypryst and Dehinel brand products, Enroxil (enrofloxacin), and Calfoset were at the forefront.

In **Bulgaria**, sales totalled €25.6 million, the same as in 2021. Prescription pharmaceuticals contributed the most to overall sales. Co-Valsacor (valsartan/hydrochlorothiazide), Valsacor (valsartan), Roswera (rosuvastatin), Co-Amlessa (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), and Wamlox (valsartan/amlodipine) generated strongest sales. Non-prescription product sales climbed by 24% on 2021, while animal health products advanced by 13%.

We have recorded sales growth in **North Macedonia** for eighteen successive years. Sales totalled €25.7 million, up a sound 5% on 2021. Krka remained the leading foreign provider of generic medicines in the country. Prescription pharmaceuticals were pivotal to overall sales, in particular: Roswera (rosuvastatin), Nolpaza (pantoprazole), Enap (enalapril), Co-Prenessa (perindopril/indapamide), Tanyz (tamsulosin), Atoris (atorvastatin), and Lorista (losartan). Our non-prescription product sales recorded a 4% year-on-year increase and were driven by: Septanazal (xylometazoline/dexpanthenol), Daleron (paracetamol), Bilobil (ginkgo leaf extract), Septolete Total (benzydamine/cetylpyridinium chloride), and Herbion brand products. Floron (florfenicol) and Fypryst brand products contributed to the 13% sales increase the most. In 2022, we started marketing several products in North Macedonia, most notably our prescription pharmaceuticals Maysiglu (sitagliptin) and Maymetsi (sitagliptin/metformin).

We recorded sales totalling €20.7 million, up 2%, in **Bosnia and Herzegovina**, again winning us the leadership among the foreign providers of generic medicines. Sales were driven, in particular, by prescription pharmaceuticals. Enap H and Enap HL (enalapril/hydrochlorothiazide), Roswera (rosuvastatin), Lexaurin (bromazepam), Amlewel (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), Atoris (atorvastatin), and Enap (enalapril) recorded strongest sales. At the end of the year, we launched two new prescription pharmaceuticals: Maysiglu (sitagliptin) and Maymetsi (sitagliptin/metformin). Non-prescription product sales were driven by: Nalgesin (naproxen), Septolete Total (benzydamine/cetylpyridinium chloride), Panatus (butamirate), B-Complex, and Bilobil (ginkgo leaf extract). Fypryst brand products and Rycarfa (carprofen) were key animal health products. Despite restrictions that applied to foreign manufacturers on certain reimbursement lists, we maintained a stable position and market share.

In **Kosovo**, we recorded a sales increase just shy of 8%, placing us among the leading providers of medicines in the country. Sales value reached €8.5 million. Prescription pharmaceuticals drove overall sales, with Lorista H (losartan/hydrochlorothiazide), Atoris (atorvastatin), and Roswera (rosuvastatin) generating the strongest sales. Year-on-year sales went up by 6% to €3.8 million in **Albania**. As we expected, prescription pharmaceuticals constituted the mass of sales total. Ultop (omeprazole), Atoris (atorvastatin), and Nolpaza (pantoprazole) generated the strongest prescription pharmaceutical sales. In **Montenegro**, we recorded sales total of €2.3 million, up 13%. Sales were driven in particular by prescription pharmaceuticals: Nolpaza (pantoprazole), Roswera (rosuvastatin), Lorista H and Lorista HD (losartan/hydrochlorothiazide). Our non-prescription product sales went up by 54% on 2021, driven by Septolete Total (benzydamine/cetylpyridinium chloride) and Nalgesin (naproxen). In 2022, we started marketing several products in Montenegro, most notably our prescription pharmaceutical Xerdoxo (rivaroxaban). This was our second year since we started marketing products ourselves in **Greece**. We extended our portfolio with antidiabetic agents and in 2022 recorded product sales totalling €1.5 million. Sales were driven by prescription pharmaceuticals, most notably by Pitavador (pitavastatin), Zalasta (olanzapine), Marixino (memantine), Rosuvador (rosuvastatin), Esolib (esomeprazole), and Co-Valsareta (valsartan/hydrochlorothiazide).

Region East Europe

Region East Europe remained our leading sales region in 2022, with €623.4 million in sales, up 14% year on year. We recorded growth in all other regional markets, except in Ukraine. We recorded the highest absolute year-on-year sales growth in the Russian Federation, reaching over €54 million, and in Uzbekistan, up more than 8 million. We recorded the highest sales growth in relative terms in Turkmenistan.

The **Russian Federation** remained our key and largest individual market. Sales totalled €387 million, presenting 16% or €54.1 million year-on-year growth.

Prescription pharmaceuticals were the leading product group and accounted for 78% of total sales, up 9% or €23.7 million on 2021. Medicines that recorded strongest sales were: Lorista H and Lorista HD (losartan/hydrochlorothiazide), Lorista (losartan), Valsacor (valsartan), Nolpaza (pantoprazole), Co-Perineva (perindopril/indapamide), Co-Dalneva (perindopril/amlodipine/indapamide), Vamloset (valsartan/amlodipine), Roxera (rosuvastatin), Valsacor H and Valsacor HD (valsartan/hydrochlorothiazide), and Atoris (atorvastatin). We recorded the highest absolute growth with Co-Dalneva (perindopril/amlodipine/indapamide) and Lorista H and Lorista HD (losartan/hydrochlorothiazide). We successfully launched Roxera Plus (rosuvastatin/ezetimibe), Roxatenz-Amlo (rosuvastatin/perindopril/amlodipine), and the first two antidiabetic agents, Asiglia (sitagliptin) and Asiglia Met (sitagliptin/metformin). We were the leading provider of prescription pharmaceuticals for treating cardiovascular diseases in the Russian Federation.

Non-prescription products generated sales totalling €60 million, up 56% or €21.6 million on 2021. Septolete Total (benzydamine/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 €27 million, up 48%. Selafort (selamectin), Milprazon (milbemycin/praziquantel), and Enroxil (enrofloxacin) generated the strongest sales. We successfully launched Cladaxxa (amoxicillin/clavulanic acid).

We have been increasing the production capacity of our subsidiary Krka-Rus, which in 2022 manufactured more than 70% of Krka products on demand in the Russian Federation.

Krka Group market position in the Russian Federation
We ranked third among foreign providers of generic medicines, holding a 1.8% market share. In 2022, we outperformed the entire market with respect to sales growth.
We were the leading provider of prescription pharmaceuticals for treating 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 approximately 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: aripiprazole; atorvastatin; enalapril, including enalapril in combination with hydrochlorothiazide; losartan, including the losartan-based combinations with amlodipine and hydrochlorothiazide; naproxen; norfloxacin; olanzapine; pantoprazole; and valsartan, including all valsartan-based combinations with amlodipine and hydrochlorothiazide. We were the leading provider of generic medicines containing escitalopram; esomeprazole; duloxetine; ivabradine; clopidogrel; perindopril, including all perindopril-based combinations with amlodipine and indapamide; ramipril; rosuvastatin; and telmisartan.

In **Ukraine**, also our key market, sales of pharmaceuticals stagnated over the past few years. In 2022, sales decreased due to the extraordinary circumstances in the country. Sales amounted to €95.2, or 99% of 2021 sales total. We strengthened our market position and ranked second among foreign providers of generic pharmaceuticals in the pharmacy segment, holding a 3.4% market share. Prescription pharmaceuticals were the leading product group, recording the same sales figure as in 2021, most notably: Co-Prenessa (perindopril/indapamide), Co-Amlessa (perindopril/amlodipine/indapamide), Valsacor (valsartan), and Nolpaza (pantoprazole). Sales of non-prescription products decreased by 16%. Herbion brand products, Nalgesin (naproxen), and Septolete Total (benzydamine/cetylpyridinium chloride) achieved the highest sales. Sales of animal health products increased by 38% compared to 2021. Enroxil (enrofloxacin), Milprazon (milbemycin/praziquantel), and Ecocid S generated the strongest sales.

Krka Group market position in Ukraine (pharmacy segment)
We ranked second among foreign providers of generic medicines in the pharmacy segment, holding a 3.4% market share.
In 2022, we outperformed the entire market with respect to sales growth.
We were the leading provider of: • Parenteral corticosteroids, accounting for approximately a 45% market share; • Angiotensin II receptor antagonists, also in combinations, accounting for more than a 35% market share; • Statins, accounting for more than a 35% market share; • ACE inhibitors and ACE-based combinations with diuretics, accounting for approximately a 25% market share. We were among the leading providers of: • Proton pump inhibitors, accounting for more than a 15% market share; • Antimicrobials (oral fluoroquinolones), accounting for more than a 10% market share.
We were the leading provider of medicines containing: atorvastatin; dexamethasone; enalapril in combination with hydrochlorothiazide; ginkgo leaf extract; carvedilol; clarithromycin; losartan in combination with hydrochlorothiazide; naproxen; pantoprazole; perindopril in combination with indapamide; rosuvastatin; simvastatin; and valsartan. We were the leading provider of generic medicines containing betamethasone; enalapril; perindopril; perindopril in combination with amlodipine; and perindopril in combination with amlodipine and indapamide.

Subregion East Europe B

In Subregion East Europe B, which includes Belarus, Mongolia, Armenia, and Azerbaijan, our product sales reached €49.1 million, up 12%. Our product sales saw two-digit growth in Mongolia, Azerbaijan, and Armenia.

Sales in **Belarus** totalled €21.1 million, a 5% year-on-year increase. We increased our market share by above-average growth dynamics in terms of value and volume, retaining second place among foreign providers of generic medicines. Co-Amlessa (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), and Co-Prenessa (perindopril/indapamide) accounted for the mass of prescription pharmaceuticals, our key product group. Of non-prescription products, Septolete Total (benzydamine/cetylpyridinium chloride) and products marketed under the Herbion brand sold best. Sales of our animal health products generated €0.9 million, with Trisulfon (sulfamonomethoxine/trimethoprim) recording the strongest sales.

In **Mongolia**, we recorded sales totalling €14.7 million and 17% year-on-year growth, maintaining our position as the leading foreign provider of medicines in the country. Growth of prescription pharmaceuticals was driven essentially by a sharp rise in sales of cardiovascular agents and antibiotics. Nolpaza (pantoprazole), Zyllt (clopidogrel), Lorista (losartan), Amlessa (perindopril/amlodipine), and Fromilid (clarithromycin) each recorded sales exceeding €1 million. Vamloset (valsartan/amlodipine) and Emanera (esomeprazole) are our two new medicines, which recorded the most notable increases in sales. Sales of non-prescription products were driven above all by Septolete Total (benzydamine/cetylpyridinium chloride), products sold under the Herbion brand, and Nalgesin (naproxen).

In **Azerbaijan**, our product sales reached €7.5 million or 15% growth on 2021. By holding a 3% market share, we were the leading generic manufacturer in the country. Sales of prescription pharmaceuticals, our leading product group, climbed by 14%. Following several years of contraction, non-prescription products grew by 61%, accounting for 5% of overall sales. Sales of animal health products totalled €0.2 million, similar to the year before.

Sales in **Armenia** totalled €5.8 million, a 32% year-on-year increase. Despite a high sales increase, the market share declined to 3.5%, and we ranked second among providers of generic medicines. Prescription pharmaceuticals accounted for 85% of sales, generated primarily by Co-Amlessa (perindopril/amlodipine/indapamide), Atoris (atorvastatin), and Kaptopril (captopril). We recorded a 57% increase in sales of non-prescription products. Septolete Total (benzydamine/cetylpyridinium chloride) and products marketed under the Herbion brand sold best.

Subregion East Europe K

Product sales in Kazakhstan, Moldova, and Kyrgyzstan were valued at €38.7 million, up 19% on 2021. We recorded growth in all markets of the subregion.

Product sales in **Kazakhstan** totalled €20.2 million, up 27% on 2021. Prescription pharmaceuticals accounted for 66% of sales. Nolpaza (pantoprazole), Ulcavis (bismuth), Valodip (valsartan/amlodipine), and Atoris (atorvastatin) generated the major part of total sales. Sales of non-prescription products amounted to €5.9 million, up 42%. Products sold under the Herbion, Septolete, and Pikovit brands recorded the strongest sales. Animal health products generated €1 million in sales, up 14%. Trisulfon (sulfamonomethoxine/trimethoprim) and Enroxil (enrofloxacin) sold best.

Product sales in **Moldova** generated €13.2 million, up 15% on 2021. We maintained a high market share and remained the leading provider of prescription pharmaceuticals, accounting for 73% of overall country sales, up 9%. Valsacor (valsartan), Lorista (losartan), and Roswera (rosuvastatin) generated the major proportion of sales total. Sales of non-prescription products amounted to €3.3 million, up 38%. Septanazal (xylometazoline/dexpanthenol), Herbion brand products, and Septolete Total (benzydamine/cetylpyridinium chloride) were sales leaders in the product group. Animal health product sales generated €0.4 million, or 33% more than in 2021. We started marketing new products Dekenor (dexketoprofen) tablets, Dulsevia (duloxetine), KontrDiar (nifuroxazide), and Rivaroxia (rivaroxaban).

We generated €5.3 million in product sales and recorded a 4% increase, winning us a 3.2% market share in **Kyrgyzstan**, and placing us third among generic pharmaceutical providers. Prescription pharmaceuticals accounted for a major (72%) share of total sales. Lorista (losartan), Atoris (atorvastatin), and Nolpaza (pantoprazole) generated the strongest sales. Sales of our non-prescription products were driven by Septolete Total (benzydamine/cetylpyridinium chloride), and products sold under the Herbion and Pikovit brands.

Subregion East Europe U

Our Subregion East Europe U, composed of Uzbekistan, Georgia, Tajikistan and Turkmenistan, generated €53.3 million in product sales, up 26%. We recorded growth in all markets of the subregion.

Product sales in **Uzbekistan** totalled €39.5 million, up 27% on 2021. We ranked first among all providers of medicines in the country and were the leading provider of medicines for treating cardiovascular diseases. Of our prescription pharmaceuticals, Lorista (losartan), Amlessa (perindopril/amlodipine), Co-Amlessa (perindopril/amlodipine/indapamide), and Valodip (valsartan/amlodipine) generated strongest sales. Of non-prescription products, Septolete Total (benzydamine/cetylpyridinium chloride) and products marketed under the Pikovit brand sold best.

Our product sales totalled €8 million in **Georgia**, a 14% year-on-year increase. Our 4.5% market share ranked us fifth of all providers of medicines in the country. Prescription pharmaceuticals were key in terms of sales; above all Lorista H and Lorista HD (losartan/hydrochlorothiazide), Amlessa (perindopril/amlodipine), Co-Amlessa (perindopril/amlodipine/indapamide), and Atoris (atorvastatin). Key non-prescription products were Herbion brand products.

In **Turkmenistan**, product sales totalled €2.9 million, almost a 60% year-on-year increase. Nolpaza (pantoprazole) and Amlessa (perindopril/amlodipine) from our leading product group of prescription pharmaceuticals, and non-prescription products sold under the Pikovit and Herbion brands generated strongest sales.

In **Tajikistan**, sales totalled €2.9 million, a 30% year-on-year increase. 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.

Region Central Europe

Region Central Europe product sales totalled €364.2 million, up 4%. We recorded sales growth on all regional markets except in Hungary. We recorded the highest, 16%, sales growth in terms of value and in relative terms in the Czech Republic, amounting to €7.9 million.

In **Poland**, the largest regional market and our key market, product sales totalled €168.2 million, up 1% on 2021. We attained a 2.1% market share and ranked third among foreign providers of generic medicines in the country.

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

We focused on medicines for treating cardiovascular diseases. We managed to retain sales at the same level as in 2021 despite colossal market pressures, remaining the leading provider of this product group. Valtricom (valsartan/amlodipine/hydrochlorothiazide) was one of our most notable new medicines launched in recent years, and our first generic medicine put on the reimbursement list in 2020. Sales increased by 59% compared to 2021. Another notable agent was Co-Roswera (rosuvastatin/ezetimibe), whose sales more than doubled from 2021. Through sales of our lipid lowering agents, notably Atoris (atorvastatin) and Roswera (rosuvastatin), we maintained the position of the leading provider of medicines despite intense competition and price pressure. Owing to Doreta (tramadol/paracetamol), which accounted for over a 55% market share, we were the leading provider of this combination for pain relief. We should also mention more than a 15% increase in sales of central nervous system agents, where Dulsevia (duloxetine) was a significant contributor, whose sales increased by 34%. 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.

Year-on-year sales of non-prescription medicines rose by 63%. Septolete brand products were our leading non-prescription products. Septanazal (xylometazoline/dexpanthenol) followed by more than double year-on-year sales.

Animal health products generated €6.1 million in sales, up 2%. Sales of Milprazon (milbemycin/praziquantel), up 33%, and Floron (florfenicol), down 18%, remained best-selling products.

Krka Group market position in Poland
We ranked third among foreign providers of generic medicines, holding a 2.1% market share.
We were the leading provider of: • Angiotensin II receptor antagonists, also in combinations, accounting for approximately a 40% market share; • Statins, including statin-based combinations with ezetimibe, accounting for approximately a 35% market share; • SSRI and SNRI antidepressants, accounting for approximately a 15% market share. We were among the leading providers of: • Oral corticosteroids, accounting for more than a 20% market share; • Sulphonamide antidiabetics, accounting for approximately a 20% market share; • Antimicrobials (fluoroquinolones), accounting for more than a 15% market share; • Aminosalicylates for bowel disease, accounting for approximately a 15% market share; • Proton pump inhibitors, accounting for approximately a 15% market share; • ACE inhibitors and ACE-based combinations, accounting for more than 10% market share; • Antiparkinsonians, accounting for approximately a 10% market share.
We were the leading provider of medicines containing atorvastatin; celecoxib; duloxetine; esomeprazole; etoricoxib; candesartan, including candesartan in combination with hydrochlorothiazide; lansoprazole; losartan, including losartan in combination with hydrochlorothiazide; norfloxacin; rabeprazole; rosuvastatin; sulfasalazine; tramadol in combination with paracetamol; telmisartan in combination with amlodipine; and valsartan, including valsartan in combination with hydrochlorothiazide; and valsartan in combination with amlodipine and hydrochlorothiazide. We were the leading provider of generic medicines containing gliclazide; ivabradine; and perindopril, including all perindopril-based combinations with amlodipine and indapamide.

In the **Czech Republic**, one of our key markets, year-on-year sales increased by 16% to €55.8 million. We ranked fourth among foreign providers of generic medicines, holding a 1.4% market share. Prescription pharmaceuticals remained the leading product group, with Atoris (atorvastatin), Sorvasta (rosuvastatin), Lexaurin (bromazepam), Doreta (tramadol/paracetamol), Asentra (sertraline), Tonanda (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), Elicea (escitalopram), Pragiola (pregabalin), Tonarssa (perindopril/amlodipine), and Kventiax (quetiapine) recording strongest sales.

Sales of non-prescription products jumped by 53%. In addition to Nalgesin S (naproxen), Septolete brand products and Bisacodyl (bisacodyl) sold best. Sales of animal health products increased by 14%, with products sold under the Dehinel and Fypryst brands at the forefront.

Krka Group market position in the Czech Republic
We ranked fourth among foreign providers of generic medicines, holding a 1.4% market share.
In 2022, we outperformed the entire market with respect to sales growth.
We were among the leading providers of: • Sulphonamide antidiabetics, accounting for more than a 30% market share; • Anxiolytics, accounting for approximately a 30% market share; • Angiotensin II receptor antagonists, also in 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 approximately a 20% market share; • Mono-component products indicated for the treatment of benign hypertrophy of the prostate, accounting for approximately 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; atorvastatin; escitalopram; levocetirizine; olanzapine, pantoprazole; perindopril, including all perindopril-based combinations with amlodipine and indapamide.

Hungary, another of our key markets, generated sales of €47.1 million, down 6% year on year, placing the country third among our regional markets. We ranked second among primarily foreign providers of generic medicines in the country, holding a 1.8% market share. Prescription pharmaceuticals contributed most to sales, in particular: Co-Prenessa (perindopril/indapamide), Roxera (rosuvastatin), Emanera (esomeprazole), Valsacor (valsartan), Atoris (atorvastatin), and Zyllt (clopidogrel).

Sales of non-prescription products generated €3.6 million, 5% growth compared to 2021. Bilobil (ginkgo leaf extract), Septolete Extra (benzydamine/cetylpyridinium chloride), and Flebaven (diosmin) were the most important non-prescription products. Our animal health product sales saw a decrease. Milprazon (milbemycin/praziquantel) and Fypryst brand products generated the strongest sales.

Krka Group market position in Hungary
We ranked second among primarily foreign providers of generic medicines, holding a 1.8% market share.
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 more than 25%; • Antiparkinsonians, accounting for more than a 15% market share. We were among the leading providers of: • Antimicrobials (oral fluoroquinolones), accounting for approximately a 25% market share; • ACE inhibitors and ACE-based combinations with diuretics, accounting for approximately a 20% market share; • Statins, accounting for more than a 15% market share; • Proton pump inhibitors, accounting for more than a 15% market share; • Cerebral and peripheral vasotherapeutics, accounting for approximately a 15% market share; • Macrolide and pyranoside antibiotics, accounting for approximately a 15% market share; • Sulphonamide antidiabetics, accounting for more than a 10% market share;
We were the leading provider of medicines containing amlodipine in combination with telmisartan; indapamide; ginkgo leaf extract; clarithromycin; clopidogrel; losartan, including losartan in combination with hydrochlorothiazide; mirtazapine; pramipexole; rasagiline; and valsartan, including valsartan in combination with hydrochlorothiazide. We were the leading generic provider of medicines containing aripiprazole and gliclazide.

Slovakia, another key market, the fourth regional market in size, generated product sales of €40.5 million. Prescription pharmaceuticals constituted the leading product group in terms of sales, most notably Nolpaza (pantoprazole), Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), Co-Amlessa (perindopril/amlodipine/indapamide), Prenessa (perindopril), and Amlessa (perindopril/amlodipine). Year on year, sales of non-prescription products went up by 32%. Best-selling products were Nalgesin S (naproxen) and the Septolete brand products. Animal health products recorded 4% growth, and Enroxil (enrofloxacin) and Fypryst brand products recorded the strongest sales.

Krka Group market position in Slovakia
We ranked fourth among all providers of generic pharmaceuticals, holding a 2.5% market share.
We were the leading provider of: • Proton pump inhibitors, accounting for more than a 40% market share; • Angiotensin II receptor antagonists, also in combination with diuretics, accounting for approximately a 40% market share; • Antimicrobials (fluoroquinolones), accounting for approximately a 35% market share; • Statins, accounting for more than a 30% market share; • Antidementives, accounting for approximately a 30% market share. We were among the leading providers of: • ACE inhibitors and ACE-based combinations with diuretics, accounting for approximately a 25% market share; • Anxiolytics, accounting for more than a 20% market share; • Sulphonamide antidiabetics, accounting for more than a 20% 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 gliclazide and perindopril, including all perindopril-based combinations with amlodipine and indapamide.

Sales in **Lithuania** totalled €25 million, up 16% on 2021. Prescription pharmaceuticals constituted the major part of overall sales, above all Atoris (atorvastatin), Nolpaza (pantoprazole), Kaptopril Krka (captopril), Roswera (rosuvastatin), Escadra (esomeprazole), and Ravalsyo (rosuvastatin/valsartan). Sales of non-prescription products jumped by 59%. Key products were Septabene (benzydamine/cetylpyridinium chloride) and Nalgesin S (naproxen). Animal health product sales totalled €1.5 million, the same as in 2021.

In **Latvia**, sales totalled €17 million in 2022, a 14% year-on-year increase. This strengthened our leading position among providers of generic medicines in the country. As expected, prescription pharmaceuticals constituted the major part of sales, above all Sorvasta (rosuvastatin), Nolpaza (pantoprazole), Prenewel (perindopril/indapamide), Atoris (atorvastatin), and Co-Amlessa (perindopril/amlodipine/indapamide). Sales of non-prescription products generated €2.7 million, a 98% year-on-year leap. Septanazal (xylometazoline/dexpanthenol) and Septabene (benzydamine/cetylpyridinium chloride) were leading products in the segment. Animal health product sales decreased by 16%.

In **Estonia**, sales totalled €10.6 million, up 8% on 2021. Prescription pharmaceuticals again contributed most to total sales, above all: Roswera (rosuvastatin), Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), Co-Dalnessa (perindopril/amlodipine/indapamide), and Prenessa (perindopril). Sales of non-prescription products increased by 53% compared to 2021. Septolete Omni (benzydamine/cetylpyridinium chloride) and products sold under the Herbion brand remained the leading medicines of this product group. Animal health product sales went up by 4%.

Region West Europe

The markets of Region West Europe are collectively regarded as one of our key markets. Regional sales amounted to €327.3 million in 2022, a 7% year-on-year increase. Germany, Scandinavia, France, and Italy led in terms of sales. Sales through subsidiaries totalled €259.8 million, an 11% year-on-year increase. We generated 21% of regional sales through unrelated parties.

The leading product group were prescription pharmaceuticals, recording sales of €280 million, up 6% on 2021, and 86% of total regional sales. Medicines containing esomeprazole, valsartan, candesartan, losartan and pantoprazole were at the forefront. We remained one of the leading sartan providers on the markets of Region West Europe.

Animal health products recorded a 7% increase, accounting for 11% of overall regional sales. Sales through related parties grew by 23% in 2022, accounting for 58% of total sales of animal health products in Region West Europe. Of animal health products, sales were driven by antiparasitic products, most notably a single-pill combination of milbemycin and praziquantel in flavoured tablets. Medicines containing flubendazole and toltrazuril sold best of our products for farm animals.

Non-prescription products grew by 64%, composing 3% of total sales. Paracetamol-based products, Septolete brand products, and diosmin-based products were best-selling non-prescription products.

We follow the activities in the region by our key market, Germany, and four subregional units: Europe – South; Europe – Continental West; Scandinavia; Europe – West. We sell our products to **other European countries** that do not fall into any of our categories through unrelated parties. Our sales in these markets increased by 37% to €11.5 million.

Germany remained our most important regional and key individual market. Country sales reached €88.6 million, up 10% on 2021. Sales through our subsidiaries TAD Pharma and 123 Acurae amounted to €83.7 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 treating the central nervous system. We remained one of the leading sartan providers in Germany. In 2022, we successfully launched antidiabetic agents from the gliptin product family, while medicines containing candesartan, valsartan, ramipril, and pantoprazole recorded the highest sales.

Krka Group market position in Germany (pharmacy segment)
We ranked eighth among foreign providers of generic medicines in the pharmacy segment, holding a 1.6% market share.
In 2022, we outperformed the entire market with respect to sales growth.
We were among the leading providers of: • Calcium channel blockers in combinations with adrenergic receptor beta blockers, accounting for approximately a 30% market share; • Angiotensin II receptor antagonists, also in combination with diuretics, accounting for approximately a 20% market share; • Angiotensin II receptor antagonists, also in combination with calcium channel blockers, accounting for an approximately 20% market share; • ACE inhibitors and ACE-based combinations with calcium channel blockers, accounting for more than a 10% market share; • Platelet aggregation inhibitors (ADP receptor antagonists), accounting for approximately a 10% market share; • Proton pump inhibitors, accounting for approximately a 10% market share.
After the originator's patent expired, we were the leading generic provider of gliptin-based products in the last quarter of the year, holding a 10% market in terms of volume.
We were the leading provider of medicines containing enalapril; candesartan in combination with hydrochlorothiazide; losartan in combination with hydrochlorothiazide; prasugrel; valsartan in combination with amlodipine and hydrochlorothiazide; and tramadol in combination with paracetamol. We were among the leading providers of medicines containing bisoprolol in combination with amlodipine; esomeprazole; ivabradine; candesartan; carvedilol; losartan; olmesartan in combination with amlodipine and hydrochlorothiazide; pramipexole; ramipril in combination with amlodipine; valsartan in combination with hydrochlorothiazide; and ziprasidone.

Subregion Europe – South

Subregion Europe – South comprises Italy, Portugal, and Spain. Subregional product sales totalled €79.8 million, a 4% year-on-year increase. Products marketed under our own brand names accounted for 72% of total subregional sales.

In **Italy**, year-on-year sales value increased by 1% to €31.1 million. Products marketed under our own brand names accounted for 70% of sales. We primarily increased sales of non-prescription products. The leading prescription pharmaceuticals were products containing pantoprazole, clopidogrel, atorvastatin, gliclazide, and quetiapine.

In **Portugal**, sales totalled €27.7 million, a 20% year-on-year increase. Sales of products under our own brand names went up by 16% and accounted for 75% of sales in the country. All product groups contributed to the rise. Prescription pharmaceuticals recorded the highest absolute growth maintaining more than a 6% generic market share. Of leading prescription pharmaceuticals, we should mention the single-pill combination of rosuvastatin and ezetimibe; esomeprazole; olanzapine; and the single-pill combination of perindopril and indapamide.

In **Spain**, year-on-year sales in terms of value decreased by 7% to €21 million. Sales through our subsidiary decreased by 2%. However, despite the drop, it accounted for a 4 percentage points increase in market share in the country compared to the previous year. We increased sales of non-prescription products. Medicines containing donepezil, pramipexole, galantamine, memantine, and dexamethasone generated the strongest sales.

Subregion Europe – Continental West

France and the Benelux countries constitute our Subregion Europe – Continental West. The subregion recorded €55.5 million in sales, a 1% year-on-year increase. The proportion of sales through our subsidiaries increased by 6%, accounting for 49%.

Sales in **France** totalled €34.5 million, an 8% decrease on 2021. Sales through unrelated parties accounted for 66%. The best-selling medicines contained esomeprazole, gliclazide, and a combination of milbemycin and praziquantel – an animal health product. Sales through our subsidiary Krka France declined by 11% on 2021, primarily because of a medical representative shortage resulting in inadequate presence in the field. The majority of sales was generated by prescription pharmaceuticals, most notably those containing tadalafil; sildenafil; and emtricitabine in combination with tenofovir. In the non-prescription product group, medicines containing paracetamol stood out and were the best-selling product of the subsidiary also in 2022. We should also mention strong sales of antiparasitic agents from our animal health product range for companion animals, in particular, the combination of milbemycin and praziquantel.

In the **Benelux**, sales amounted to €21 million, a 21% year-on-year rise. We should point out increased sales under our product brands, which advanced by 24% compared to the year before. Agents containing valsartan; losartan; emtricitabine in combination with tenofovir; and milbemycin in combination with praziquantel generated the strongest sales.

Subregion Scandinavia

In Scandinavia, sales climbed to €53.7 million. Our product sales were strongest in **Sweden**, followed by **Finland**, **Norway**, **Denmark**, and **Iceland**. Sales through our subsidiaries Krka Sverige and Krka Finland increased by 6% and 19%, respectively. Overall sales through subsidiaries reached 98%. Sales were driven by medicines containing esomeprazole, losartan, venlafaxine, sertraline, and candesartan. In Norway, we retained the leading position of many medicines, above all those containing esomeprazole, pantoprazole, and losartan. We were one of the leading generic manufacturers of medicines containing venlafaxine, etoricoxib, and duloxetine in Finland; paracetamol and sertraline in Sweden; and losartan and losartan in combination with hydrochlorothiazide in Denmark. Our product sales for the first time exceeded €2 million in Iceland.

Subregion Europe – West

The United Kingdom, Ireland, and Austria constitute our Subregion Europe – West. The subregion recorded €38.2 million in sales, a 6% year-on-year increase. The proportion of sales through our subsidiaries increased by 36%, accounting for 95%.

Sales in the **United Kingdom** grew by 5% year on year, totalling €14.8 million. Best-selling products were the animal health combination of milbemycin and praziquantel, and losartan. Sales through our subsidiary Krka UK saw a 123% year-on-year increase.

In **Ireland**, we generated €12.7 million in product sales, outperforming 2021 sales by 9%. Sales through our subsidiary Krka Pharma Dublin were up by 10%, accounting for 87% of total sales in-country. We were one of the leading providers of generic medicines containing esomeprazole, tadalafil, venlafaxine, candesartan, valsartan, indapamide, and duloxetine.

In **Austria**, our sales grew by 3% to €10.8 million. Sales were driven by pharmaceuticals containing pregabalin, valsartan, and duloxetine. The proportion of sales through our subsidiary Krka Pharma Wien grew by 3% and accounted for 95%.

Region Overseas Markets

Region Overseas Markets generated sales of €66.1 million, a 23% year-on-year rise. All four sales offices recorded sales growth. Prescription pharmaceuticals were the key driver of the increase. We primarily marketed them under our own brands, accounting for over 90% of total regional sales.

Year-on-year sales in the **Middle East** increased by 12% to €27 million, primarily due to increased sales to Iran, which remained our largest regional market. We recorded the highest relative growth in **Saudi Arabia**, where we expect high sales growth rates also in the future. We started marketing our products in **Kuwait** and successfully continued our sales from the launch in **Bahrain** at the end of 2020. In the Middle East, our best-selling products included: Asentra (sertraline), Nolpaza (pantoprazole), Valsacor (valsartan), Zyllt (clopidogrel), and Yasnal (donepezil).

Product sales in the Far East and Africa markets totalled €24.6 million, up 13% on 2021. Best-selling pharmaceuticals contained gliclazide; lansoprazole; tramadol in combination with paracetamol; doxazosin; and esomeprazole. In **Vietnam**, which remained our largest individual market in the area and the third-largest regional market, sales increased by 22%. We recorded the highest relative sales growth in the **Philippines** and **Malaysia**. We also started marketing our products in Australia.

Our subsidiary in **China** generated product sales totalling €12.8 million, more than doubling the 2021 sales figure. Strong sales of Palprostes (saw palmetto extract), the medicine made by our subsidiary TAD Pharma, continued. We also boosted sales through our joint venture, Ningbo Krka Menovo, which successfully marketed our pregabalin-based product. We launched pharmaceuticals containing losartan, atorvastatin, and rosuvastatin.

Our sales office in the **Americas** remained focused on the countries of Central America, where overall product sales totalled €1.6 million, a 15% year-on-year increase. Valsaden (valsartan/hydrochlorothiazide), Valsacor (valsartan), Rawel (indapamide), and Yasnal (donepezil) were our top-selling medicines.

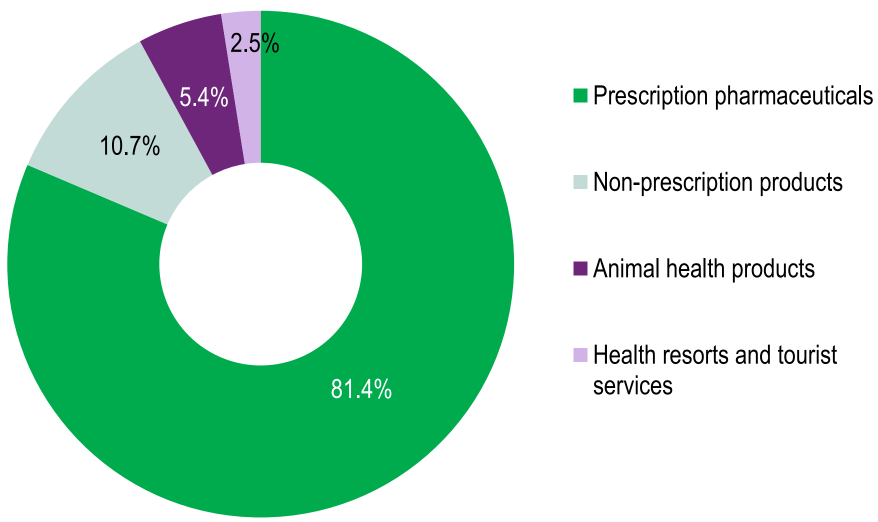
Product* and service groups[31]

* 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.

In 2022, sales of prescription pharmaceuticals accounted for 81.4% of total sales, followed by non-prescription products at 10.7%, animal health products at 5.4%, and health resort and tourist services at 2.5%.

Krka Group sales revenue increased by 10% in 2022. Sales of prescription pharmaceuticals increased by 6.6%, non-prescription products by 32.6%, animal health products by 14.5%, and health resort and tourist services by 16.7%.

2022 Krka Group sales by product group



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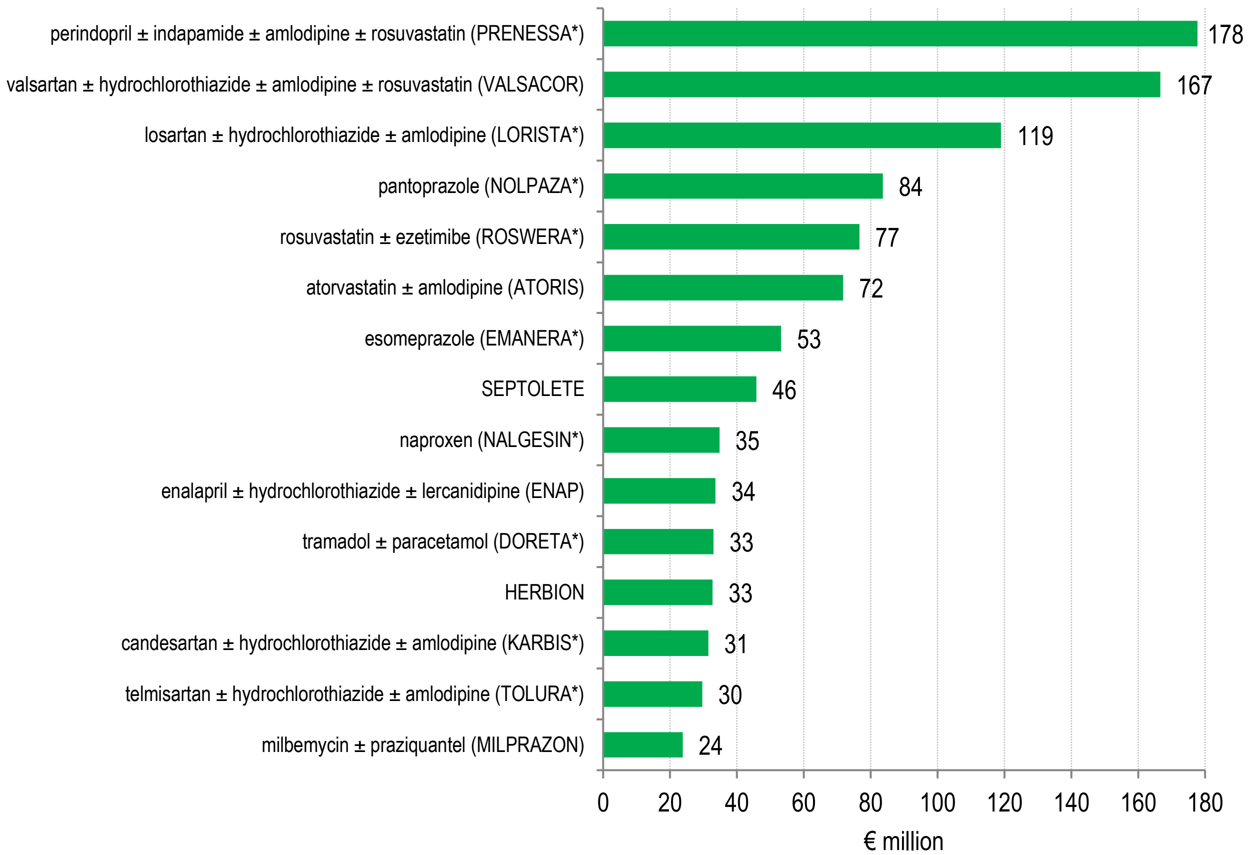
Krka Group and Krka sales by product and service group

€ thousand	Krka Group			Company		
	2022	2021	Index 2022/21	2022	2021	Index 2022/21
Human health products	1,572,949	1,442,566	109	1,267,805	1,135,800	112
– Prescription pharmaceuticals	1,390,972	1,305,316	107	1,104,323	1,017,273	109
– Non-prescription products	181,977	137,250	133	163,482	118,527	138
Animal health products	93,041	81,257	115	88,270	75,694	117
Health resorts and tourist services	42,552	36,465	117			
Total	**1,708,542**	**1,560,288**	**110**	**1,356,075**	**1,211,494**	**112**

Quarterly sales by product and service group (Krka Group)

€ thousand	2022				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Human health products	400,342	386,472	348,348	437,787	368,010	380,236	334,098	360,222
– Prescription pharmaceuticals	353,099	356,073	303,471	378,329	340,921	348,208	298,556	317,631
– Non-prescription products	47,243	30,399	44,877	59,458	27,089	32,028	35,542	42,591
Animal health products	21,930	25,278	22,174	23,659	21,656	23,304	19,619	16,678
Health resorts and tourist services	8,376	11,042	12,569	10,565	4,857	8,483	13,029	10,096
Total	**430,648**	**422,792**	**383,091**	**472,011**	**394,523**	**412,023**	**366,746**	**386,996**

2022 sales of leading products*



* Sales of leading products are presented by the leading active ingredient. Also included are combination medicines that incorporate this active ingredient.

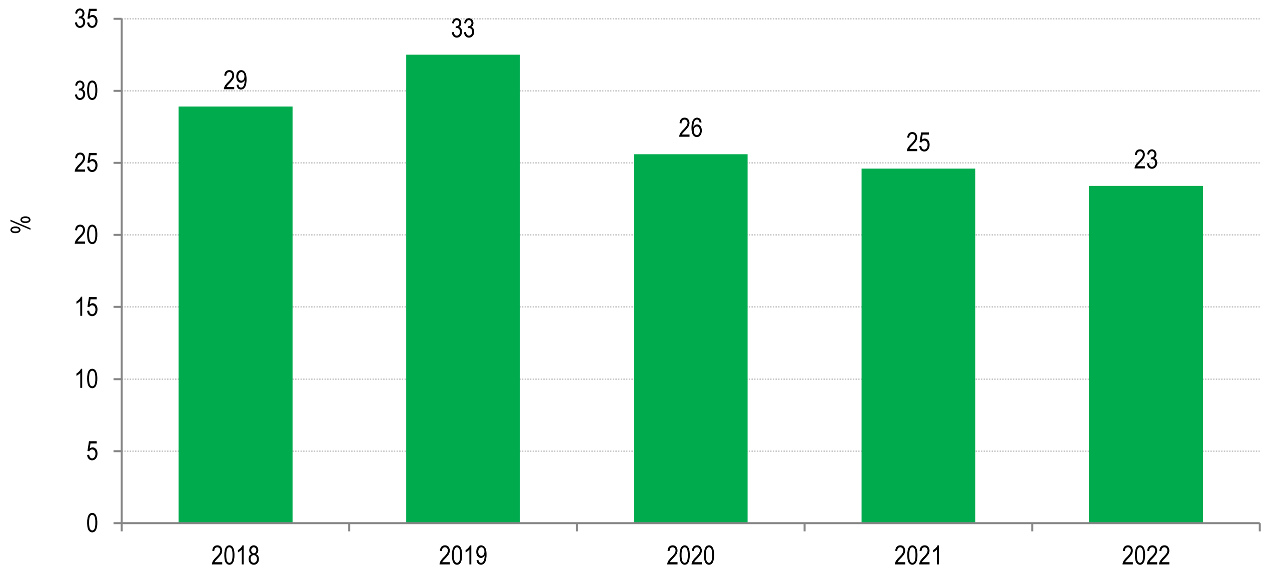
New products

In 2022, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 23% of Krka Group overall sales, or 1 percentage point down on the year before.

In 2022, the following new products were key in terms of absolute sales growth: Co-Roswera* (rosuvastatin/ezetimibe), first marketed in 2019; Maymetsi (sitagliptin/metformin) and Lenabdor* (lenalidomide), two medicines first marketed in 2022; and Valtricom* (valsartan/amlodipine/hydrochlorothiazide), first marketed in 2018. One of the new products that recorded the highest sales increase in 2022 was the animal health product Selehold* (selamectin), first marketed in 2019.

In 2022, 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 2022

Prescription pharmaceuticals	
Antidiabetics	Maysiglu* (sitagliptin) Maymetsi* (sitagliptin/metformin) Vimetso* (vildagliptin/metformin)
Central nervous system	Lacosabil* (lacosamide)
Oncology	Lenabdor* (lenalidomide) Abiratel* (abiraterone) Sunitad* (sunitinib) Bortezomib Krka (bortezomib)
Animal health products	
Antimicrobials for companion animals	Cladaxxa (amoxicillin/clavulanic acid)

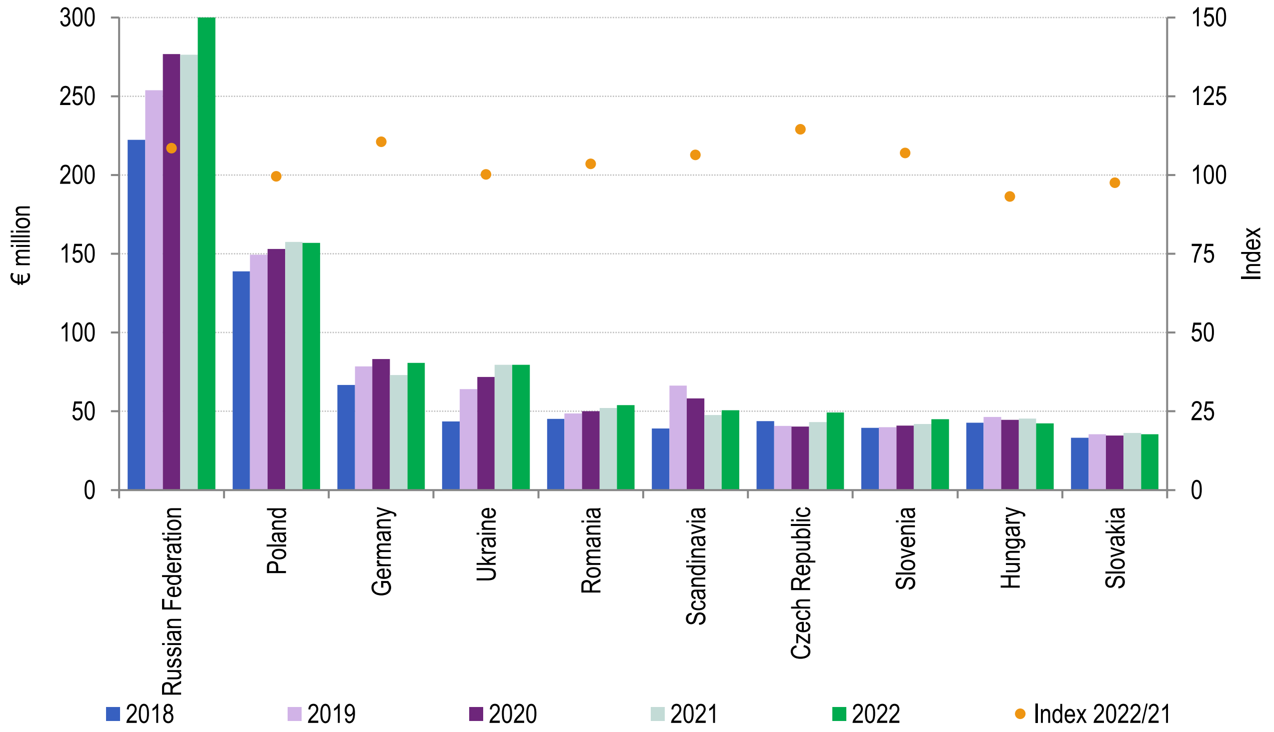
Prescription pharmaceuticals

In 2022, Krka Group sales of prescription pharmaceuticals amounted to €1,391.0 million, up 6.6% year on year. The Russian Federation, Germany and Uzbekistan contributed the most to growth. Our established prescription pharmaceuticals from key therapeutic areas generated healthy sales, achieving considerable market shares.

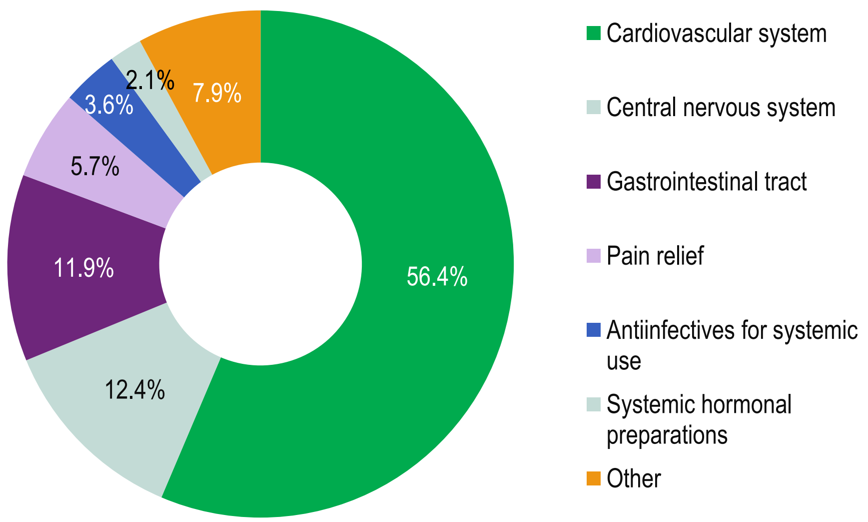
Top-ranking 2022 therapeutic classes of prescription pharmaceuticals included medicines for the treatment of cardiovascular diseases, the central nervous system, and the gastrointestinal tract.

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 we have a long-standing presence. We have been managing sales in most markets of Region West Europe through our network. We use it for communicating with the expert community, especially physicians and pharmacists.

Prescription pharmaceuticals sales by 10 major markets



2022 prescription pharmaceuticals sales by therapeutic class



Cardiovascular system

Sartans (angiotensin II receptor antagonists)

2022 highlights
• For several consecutive years, we have been the leading producer of sartans in Regions Slovenia, Central, East, and South-East Europe. We held more than a 30% market share there last year. • Krka made almost one in three sartans prescribed in that region. • We sold almost 4 billion sartan and sartan-based combination tablets.

Sartans and sartan-based 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 (Karbis*)	candesartan/ hydrochlorothiazide (Karbicombi*)	candesartan/amlodipine (Camlocor*)		
olmesartan (Olimestra*)	olmesartan/ hydrochlorothiazide (Co-Olimestra)	olmesartan/amlodipine (Olssa*)	olmesartan/amlodipine/ hydrochlorothiazide (Olsitri*)	
irbesartan (Ifirmasta*)	irbesartan/ hydrochlorothiazide (Ifirmacombi*)			

Valsartan is our most important sartan. Valsartan-based products placed second in terms of 2022 sales of all our products. We sold more than 1.3 billion valsartan-based tablets. This product group consists of five medicines: **Valsacor*** (valsartan); **Valsacombi*** (valsartan/hydrochlorothiazide); **Wamlox*** (valsartan/amlodipine); **Valtricom*** (valsartan/amlodipine/hydrochlorothiazide); and **Valarox*** (valsartan/rosuvastatin). We are the leading generic producer of valsartan-based varieties in Regions Slovenia, Central, East, and South-East Europe, holding more than a 40% market share. Nearly two out of three patients on valsartan therapy in the said area are treated by a medicine made by Krka, adding up to 4 million patients. We are the leading producer of all valsartan products in Poland, the Russian Federation, and several other countries. Wamlox* and Valtricom* are the leading single-pill combinations of that kind in Regions Slovenia, Central, East, and South-East Europe, accounting for more than a 40% market share. We are one of the leading generic producers of the two single-pill combinations in Germany and the only provider of the triple combination in certain other countries. We started marketing Valtricom* in Bosnia and Herzegovina in 2022, and as the first generic manufacturer in Azerbaijan and Kazakhstan. Valarox* is indicated for treating lipitension, and was the only single-pill combination of a sartan and a statin in Europe in 2022.

Losartan is our second most important sartan. Losartan-based products placed third in terms of 2022 sales of all our products. We sold more than 1.6 billion losartan-based tablets. This product group is composed of **Lorista*** (losartan); **Lorista H*** (losartan/hydrochlorothiazide); and **Tenloris*** (losartan/amlodipine). Year-on-year sales of said products increased by more than 15%, placing them among our leading products in terms of absolute sales growth. We remained the leading producer of losartan-based medicines in Regions Slovenia, Central, East, and South-East Europe, holding more than a 55% market share. Lorista* and losartan-based combinations were the leaders among all sartans in the

Russian Federation, Uzbekistan, and certain other markets of Region East Europe. We successfully market losartan in Region West Europe. We are the leading generic manufacturer of losartan-based varieties in Germany, and the only provider of losartan/amlodipine single-pill combination. We were among the leading generic producers of losartan in Europe in 2022. We also started marketing it through our subsidiary in China.

Candesartan ranked third among our sartans as regards sales. We market **Karbis*** (candesartan), **Karbicombi*** (candesartan/hydrochlorothiazide), and **Camlocor*** (candesartan/amlodipine). We recorded the strongest sales of candesartan in Region West Europe. We were among the leading generic producers of candesartan and candesartan-based varieties in Germany. We surpassed all competitors in Poland and Lithuania.

Telmisartan-based products, which include **Tolura*** (telmisartan); **Tolucombi*** (telmisartan/hydrochlorothiazide); and **Teldipin*** (telmisartan/amlodipine), recorded highest sales increase of all our sartans. Our market share in Regions Slovenia, Central, East, and South-East Europe increased, reaching almost 20%, and we were the leading producer of all telmisartan-based products in the area. Our market share in Croatia, Slovenia, and Latvia exceeds 40%. We started marketing all three medicines in Uzbekistan in 2022.

We recorded the strongest sales of olmesartan and olmesartan-based combinations in Region West Europe. We remained one of the leading generic producers of olmesartan in Germany. We started marketing it in Saudi Arabia and made olmesartan/amlodipine and olmesartan/amlodipine/hydrochlorothiazide single-pill combinations available in Greece.

Angiotensin-converting enzyme (ACE) inhibitors

2022 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 tablets containing perindopril.

Angiotensin-converting enzyme inhibitors and ACE combinations
• We market 14 medicines from the ACE-inhibitor class based on five different angiotensin-converting enzyme inhibitors. • Our marketing portfolio comprises three 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. We are the only producer in Europe that markets triple combinations of perindopril/amlodipine/rosuvastatin and perindopril/indapamide/rosuvastatin.

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 (Ampril*)	ramipril/ hydrochlorothiazide (Ampril HL*)	ramipril/amlodipine (Rameam*)		
cilazapril (Cazaprol)				
captopril (Blocordil*)				

In 2022, medicines containing perindopril were among our leading products in terms of sales. They ranked first in terms of absolute sales growth. We sold more than 1.5 billion medicines. We are a generic pharmaceutical company with the most comprehensive perindopril-based product range in Europe. 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, coexisting hypertension and hyperlipidemia. They combine three active ingredients in a single pill: two antihypertensives and a statin. We started marketing Roxiper* and Roxampex* in new markets in 2022: the perindopril/indapamide/rosuvastatin single-pill combination in North Macedonia, Belarus, and Croatia, and the perindopril/indapamide/rosuvastatin single-pill combination in the Russian Federation. We remained the only provider of the two triple combinations in Europe. Our perindopril-based products accounted for an almost 15% market share, making us the leading generic producer of angiotensin-converting enzyme (ACE) inhibitors in Regions Slovenia, Central, East, and South-East Europe. Also, in 2022, we were the leading generic producer of perindopril in Europe.

Even though promotion focused primarily on our new angiotensin-converting enzyme inhibitors, **Enap** (enalapril) and enalapril-based combinations remained among our top ten products in terms of sales. In Regions Slovenia, Central, East, and South-East Europe, we held more than a 30% market share and were the leading producer of enalapril-based medicines. We ranked among the leading manufacturers of those products in Germany.

Other antihypertensives

Angiotensin-converting enzyme inhibitors and sartans were our two most important groups of antihypertensives also in 2022. Our product portfolio also included **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 a single-pill combination **Sobycombi*** (bisoprolol/amlodipine). Altogether, we supplied more than 40 antihypertensives in more than 150 strengths. In 2022, we started marketing metoprolol in Greece.

Statins and other hypolipemics

2022 highlights
• As in previous years, we remained the leading generic producer of hypolipemics in Regions Slovenia, Central, East, and South-East Europe.
• We recorded the highest sales increase of all competitors in the area in 2022.
• The leading statins in the area were Atoris* (atorvastatin) and Roswera* (rosuvastatin).

Hypolipemics and single-pill combinations

- We market 11 medicines based on four different statins and ezetimibe.
- The portfolio consists of single-pill combinations of statins and ezetimibe and single-pill combinations of a statin and an antihypertensive.
- We market the broadest range of atorvastatin strengths and remain the only producer 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 (Vasilip)	ezetimibe/simvastatin (Ezesimin*)		
pitavastatin (Pitavador*)			
ezetimibe (Ezoleta*)	rosuvastatin/ezetimibe (Co-Roswera*)		
	ezetimibe/simvastatin (Ezesimin*)		

Roswera* (rosuvastatin) was our most important statin in 2022 and also one of our top five products in terms of sales. Its sales increased by more than 15% in 2022, ranking it also in terms of absolute growth among our leading products. In Regions Slovenia, Central, East, and South-East Europe, it accounted for more than a 20% market share and remained the leading generic rosuvastatin in terms of sales value. Only our Atoris* of all statins placed higher. Roswera* recorded the highest absolute sales growth of all competitors in the area. We also started promoting rosuvastatin through our subsidiary in China. Our rosuvastatin range also comprises **Co-Roswera*** (rosuvastatin/ezetimibe), which we started marketing in five new markets, including, among others, the Russian Federation, Serbia, and Azerbaijan.

Our second most important statin is **Atoris*** (atorvastatin), one of our top ten leading products in terms of 2022 sales. It is one of our five products that in 2022 surpassed the milestone of 1 billion tablets sold. Like the year before, Atoris* remained the leading statin in Regions Slovenia, Central, East, and South-East Europe. Its market share accounted for more than 20% of all statins in Slovakia, Lithuania, Latvia, and certain other markets. We market six atorvastatin strengths and are the only provider of 30 mg and 60 mg tablets in many countries. We also started marketing atorvastatin through our subsidiary in China.

In addition to statins, we also market a hypolipemic agent **Ezoleta*** (ezetimibe), which has a different mechanism of action. In Slovenia, Serbia, and the Baltic states, it remained the leading ezetimibe-based product in 2022. We also started marketing it in Vietnam and the United Arab Emirates then.

Statins are also incorporated in our single-pill combination medicines. This product group included two single-pill combinations of hypolipemics and ezetimibe, Co-Roswera* and **Ezesimin*** (ezetimibe/simvastatin), and several single-pill combinations for the treatment of lipitension containing agents for the treatment of hyperlipidemia and hypertension. Our lipitension medicines included: **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

In addition to antihypertensives and hypolipemics, we also market **Bravadin*** (ivabradine) indicated for treating stable angina pectoris and chronic heart failure and **Apleria*** (eplerenone) classified as a diuretic, which is also indicated for treating chronic heart failure. Bravadin* held more than a 20% market share and was the leading generic variety of ivabradine in Regions Slovenia, Central, East, and South-East Europe, and one of the leading generic ivabradine-based medicines in Germany. We were the only provider of eplerenone in Lithuania and Estonia.

Central nervous system

Antidepressants

2022 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. • We were the leading producer of antidepressants in Slovenia and Estonia, and one of the leading generic producers in the Czech Republic, Slovakia, Croatia, and the Russian Federation.

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) was among our most important antidepressants. It is indicated for the treatment of depression and is available in 30 mg and 60 mg capsules. We are the only producer in Croatia, the Czech Republic, and several other countries that makes duloxetine available also in 90 mg strength. Dulsevia* reached more than a 60% share in Romania, Lithuania, and Slovakia in 2022. We record strong sales in the markets of Region West Europe. We were one of the leading generic producers of duloxetine in Germany and surpassed all competitors in Ireland and Austria. In 2022, we started marketing it in Moldova. Dulsevia* was the leading medicine containing duloxetine in Regions Slovenia, Central, East, and South-East Europe. Its market share increased to more than 35% in 2022, further strengthening its position.

Elicea* (escitalopram) recorded the highest, almost 50%, sales growth of all our antidepressants in 2022. In Regions Slovenia, Central, East, and South-East Europe, its market share increased, strengthening its position as the leading generic escitalopram variety. In the said area, our antidepressants **Asentra*** (sertraline) and **Lamegom*** (agomelatine) were the leading generic varieties, while **Mirzaten** (mirtazapine) surpassed all competing products. We record strong sales also in Germany, where we are one of the leading generic producers of mirtazapine. Our antidepressant range is supplemented by **Alventa*** (venlafaxine). In Romania, Kazakhstan, Ireland, and several other markets, it was the leading venlafaxine-containing antidepressant.

Antipsychotics

2022 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 top-selling medicines from this class.	
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. In Regions Slovenia, Central, East, and South-East Europe, it held nearly a 15% market share and was the leading quetiapine. The product accounted for more than a 45% market share in Latvia, Slovenia, and Slovakia. We are the leading producer of all quetiapine prolonged-release tablets in the Russian Federation. In 2022, we started marketing Kventiax* in Belarus.

Aryzalera* (aripiprazole), our second most important antipsychotic, was the leading generic variety in that area, whereas our **Zalasta*** (olanzapine) also placed among the leading generic varieties. Aryzalera* and Zalasta* accounted for more than a 40% market share and surpassed all competing products in the Russian Federation. We were the leading producer of all olanzapine products in Portugal. Sales of Aryzalera* increased by more than 30% in 2022, contributing the most in absolute terms to the increase in our antipsychotic sales.

Parnido* (paliperidone), one of our new antipsychotics, was the only generic variety of paliperidone in tablets in Region West Europe and certain other markets. In 2022, we remained the leading generic producer of paliperidone in that pharmaceutical form in Europe. **Zypsilan*** (ziprasidone) is also one of the leading generic varieties in Europe.

Anti-Parkinson agents

Our portfolio comprises three medicines for the treatment of Parkinson's disease: **Oprymea** (pramipexole); **Rolpryna SR*** (ropinirole); and **Rasagea*** (rasagiline). We were one of the leading generic producers of this product group in Regions Slovenia, Central, East, and South-East Europe. We achieved more than a 15% market share in Hungary, surpassing all competitors. Our products were the leading generic varieties in Poland and Lithuania.

We recorded the highest sales of anti-Parkinson agents in Region West Europe, where we were one of the leading pramipexole producers in Germany, and the leading producer of generic varieties of pramipexole and ropinirole in Spain. Our products from this group are the leading generic varieties in Regions Slovenia, Central, East, and South-East Europe. We are the leading producer of all rasagiline products in Hungary. Rolpryna SR* was the leading ropinirole in Poland, Slovakia, Romania, and several other markets.

Anti-Alzheimer agents

Four oral agents are used to treat Alzheimer's disease; all four are also part of our product portfolio. We market **Yasnal*** (donepezil), **Marixino*** (memantine), **Galsyo*** (galantamine), and **Nimvastid** (rivastigmine). They are available as tablets and capsules. Yasnal* and Nimvastid are also available as orodispersible tablets. We were the only producer of rivastigmine in that pharmaceutical form in Regions Slovenia, Central, East, and South-East Europe. In 2022, we were among the leading generic producers of medicines for the treatment of Alzheimer's disease in the region. We record robust sales in Slovenia, where we are the leading generic producer, and in Slovakia, where we outperformed all manufacturers. We increased our market shares in the two markets in 2022 and were the top supplier of donepezil and galantamine. We were the leading producer of memantine in Slovenia and Lithuania.

Other central nervous system agents

In 2022, we started marketing **Lacosabil*** (lacosamide) indicated for various types of epilepsy. We started marketing it in Germany, Spain, Italy, Ireland, and the Scandinavian countries. We were among the leading generic manufacturers of lacosamide in Germany, and the only generic producer in Ireland. Pragiola* (pregabalin), also from the antiepileptic group, is indicated primarily for neuropathic pain therapy.

Gastrointestinal tract

Proton pump inhibitors

2022 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. • We increased our sales most notably of all competitors, reaching an almost 18% market share. • Nolpaza (pantoprazole) was the leading proton pump inhibitor in the area. • We ranked among the leading generic producers of esomeprazole in Europe.

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

Nolpaza* (pantoprazole) was the leading proton pump inhibitor, accounting for more than a 12% market share in Regions Slovenia, Central, East, and South-East Europe. It was our most important proton pump inhibitor and ranked among our top five products in terms of sales. In 2022, we sold more than 1 billion tablets of Nolpaza*, almost 100 million more than the year before. The medicine accounted for more than 70% of pantoprazole-based products in the Russian Federation, Lithuania, and Uzbekistan. Nolpaza was the leading pantoprazole-based product in those and many other countries. It accounted for more than one-third of all proton pump inhibitors in Slovenia, Serbia, and Slovakia, and was the leading medicine of that group in more than ten countries. Our pantoprazole was available as a non-prescription product in a few markets.

Emanera* (esomeprazole), our second most important proton pump inhibitor, ranked among our top ten products in terms of sales. It was the leading esomeprazole-based medicine in Poland, Czech Republic, Ireland, and many other countries, holding more than a 50% market share in seven markets. We record strong sales in the Region West Europe. It is the leading proton pump inhibitor in Ireland, and one of the leading generic esomeprazole varieties in Germany. Like the year before, we were among the leading generic producers of esomeprazole in Europe also in 2022. Our esomeprazole was available as a non-prescription product in a few markets.

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 indicated for the removal of *Helicobacter pylori* bacteria. It was the leading generic variety in Regions Slovenia, Central, East, and South-East Europe, and the only bismuth-based medicine in many markets of Regions Central and South-East Europe. It is also marketed as a non-prescription product.

Pain relief

2022 highlights
• We were among the leading generic producers of the tramadol/paracetamol combination in Europe.
• Nalgesin* (naproxen) was the leading naproxen-based analgesic in Regions Slovenia, Central, East, and South-East Europe.

Pain relief

- We have a broad range of medications for relieving various types and intensities of pain.
- In 2022, we started marketing Doreta* (tramadol/paracetamol) dispersible tablets.
- 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*)			

Doreta* (tramadol/paracetamol) is our most important analgesic. We market two strengths of Doreta*. In Hungary and Bulgaria, we are the only provider of the tramadol/paracetamol 75 mg/650 mg combination. We were the only producer in Europe that put prolonged-release tablets on the market in 2021, and we added to our range dispersible tablets in 2022. We were the only producer that made them available in Poland and Slovakia. We further strengthened the position of Doreta* as the leading tramadol/paracetamol combination in 2022 in Regions Slovenia, Central, East, and South-East Europe. Year-on-year market share further increased, exceeding 50%. We also record strong sales in the Region West Europe, and are the leading producer of tramadol/paracetamol combination in Germany. We put Doreta* on a new market, Lithuania, as the only provider of that single-pill combination.

Nalgesin* (naproxen) is our second most important analgesic. It is a non-steroidal anti-inflammatory and antirheumatic medicine (NSAID). In Regions Slovenia, Central, East, and South-East Europe, Nalgesin* was the leading naproxen-based medicine, accounting for over a 60% market share, which we further increased in 2022. This was the leading non-steroidal anti-inflammatory and antirheumatic medicine in Slovenia, and ranked among the leading ones in Croatia and Slovakia. We increased Nalgesin* sales by more than 35% in 2022, and the medicine ranked among our top ten products. It is also marketed as a non-prescription product.

Naklofen Duo* (diclofenac) and **Dekenor** (dexketoprofen), and two analgesics from the coxib sub-class, **Roticox*** (etoricoxib) and **Aclexa*** (celecoxib), are also our non-steroidal anti-inflammatory and antirheumatic medicines. Our two coxibs are the leading generic varieties in their respective product groups in Regions Slovenia, Central, East, and South-East Europe. The market share of Roticox* further increased in 2022. It ranked first among all competing products in Poland, Hungary and several other countries and was one of the leading generic varieties in Germany. In 2022, we started marketing it in Azerbaijan.

Our two agents, an antidepressant Dulsevia* (duloxetine) and an antiepileptic agent Pragiola* (pregabalin), are often used in neuropathic pain therapy. Pragiola* was the leading generic pregabalin variety in Slovenia, Austria, Moldova, and Slovakia, while in Estonia it was the foremost of all pregabalin products, capturing a more than 50% market share. We started marketing Pragiola* in new strengths in Poland and Estonia in 2022.

Algominal (metamizole) and **Adolax*** (oxycodone/naloxone) supplement our analgesic range.

Antidiabetics

We started marketing two new modern antidiabetic agents, **Maysiglu*** (sitagliptin) and a single-pill combination **Maymetsi*** (sitagliptin/metformin). Sitagliptin is a dipeptidyl peptidase-4 (DPP-4) inhibitor. These state-of-the-art agents can be used in the earliest stages of diabetes either independently or in combination with other agents. Their safety profile is excellent; they do not cause hypoglycemia, impact body weight, or increase the risk of urinary tract infections like agents from certain other product groups. We started marketing the two agents as one of the first generic producers in Europe in more than 20 countries, including Germany, the Russian Federation, Poland, and Romania.

This product group also comprises **Glypvilo*** (vildagliptin), and **Vimetso*** (vildagliptin/metformin), a single-pill combination added to the portfolio in 2022. We were among the first generic manufacturers to launch it in Hungary, Poland, Slovakia, Germany, Spain and several other markets. We also extended the marketing of Glypvilo* to Poland, the Czech Republic, Germany, etc.

Gliclada* (gliclazide), an antidiabetic agent from the group of sulphonylureas, retained the position of the leading generic variety of gliclazide. It was the only agent of its kind available in three strengths in 2022 in Regions Slovenia, Central, East, and South-East, where we are the leading generic producer of sulphonylureas. We also started marketing gliclazide in the United Kingdom in 2022.

Blood and blood-forming organs

Zyllt* (clopidogrel), an antiaggregant, is our most important medicine from the product group for treating diseases of blood and blood-forming organs. We marketed it in more than 40 countries in 2022. It was the leading generic variety of clopidogrel in several markets, and the top-performer of all clopidogrel products in Hungary and Kyrgyzstan, holding an over 40% market share. It also placed first in Uzbekistan. Zyllt* was the leading generic variety of clopidogrel in Regions Slovenia, Central, East, and South-East Europe, and its market share saw a further increase in 2022.

Eliskardia* (prasugrel), which we started marketing in 2019, and **Atixarso** (ticagrelor), which we started marketing in 2021, are our new antiaggregant agents. Eliskardia* was the leading generic variety of prasugrel in Slovenia. It ranked first among all prasugrel products in Germany and Slovakia.

Xerdoxo (rivaroxaban) is one of the most advanced anticoagulants, which we started marketing in 2020 as one of the first generic producers in Europe. In 2022, we put it on the markets of Moldova, Montenegro, and Kosovo.

Antiinfectives for systemic use

Our portfolio of antibiotics comprises medicines from various classes: macrolides, β-lactam antibiotics, fluoroquinolones, and other antibiotics. Also, in 2022, like many years before, we remained the leading producer of fluoroquinolones and were one of the leading producers of macrolide antibiotics in Regions Slovenia, Central, East, and South-East Europe. **Fromilid** (clarithromycin) is our most important macrolide antibiotic. It has been the leading generic variety of clarithromycin in the area. A fluoroquinolone **Moloxin*** (moxifloxacin) has been the leading generic variety of moxifloxacin for years. **Ciprinol** (ciprofloxacin) and **Nolicin** (norfloxacin) are from the same product group and outperformed all competing products. We also market a fluoroquinolone **Levalox*** (levofloxacin) and **Azibiot** (azithromycin) from the macrolide class. Our range of β-lactam antibiotics comprises **Furocef*** (cefuroxime) and **Betaklav*** (amoxicillin/clavulanic acid).

We market four medicines for the treatment of HIV infection: **Emtenovo*** (emtricitabine/tenofovir); **Efavemten*** (efavirenz/emtricitabine/tenofovir); **Darunasta*** (darunavir); and **Atazam*** (atazanavir). We were one of the leading generic producers of the emtricitabine/tenofovir and efavirenz/emtricitabine/tenofovir combinations in Germany in 2022.

Urologicals

Our range of medicines indicated for benign prostatic hyperplasia includes **Tanyz*** and **Tanyz* ERAS** (tamsulosin), **Dutrys*** (dutasteride), and **Finpros*** (finasteride), **Sidarso*** (silodosin), and **Tadusta*** (dutasteride/tamsulosin). The latter two are our newest products. **Vizarsin*** (sildenafil), **Tadilecto*** (tadalafil), and **Viavardis*** (vardenafil) compose our range of medicines for erectile dysfunction. **Asolfena*** (solifenacin) and **Loxentia*** (duloxetine) are indicated for treating urinary incontinence. We were one of the leading generic producers of the dutasteride/tamsulosin single-pill combination in Regions Slovenia, Central, East, and South-East Europe, and the leading generic producer of vardenafil. We were one of the leading generic producers of silodosin and dutasteride in Germany, while in Ireland and Austria we outperformed all producers of duloxetine. We ranked among the leading generic producers in individual markets also with other medicines for the treatment of diseases of the urinary tract.

Oncology

Over the past several years, we started marketing 12 oncology agents, adding another four to the range in 2022: **Lenabdor*** (lenalidomide), **Abiratel*** (abiraterone), **Sunitad*** (sunitinib), and **Bortezomib Krka** (bortezomib).

Lenabdor* is indicated for multiple myeloma in cancer patients. In 2022, we launched it as the first generic producer in Germany, Italy, Poland and other countries, altogether 13. It was one of the leading lenalidomide products in Germany, the Russian Federation, Poland and several other countries.

Abiratel* is indicated for treating metastatic prostate cancer. We started marketing it among the first generic producers in Germany, France, Spain and ten other markets. In Germany, Finland, and Slovakia, we ranked among the leading generic providers of abiraterone.

We started marketing Sunitad* in eight countries, including Germany, France, and Slovenia. It is primarily indicated for treating metastatic renal cell carcinoma and gastrointestinal stromal tumours. It ranked among the leading generic varieties of sunitinib in Germany, Finland, and Slovenia.

Bortezomib Krka powder for solution for injection is indicated for treating patients with multiple myeloma. We made it available in Ireland, Scandinavia and the Benelux.

In 2022, we extended the marketing of oncology agents as well. We started marketing **Everofin*** (everolimus) in Austria, France, the Czech Republic, Slovakia, and Hungary, and **Dasatinib Krka*** (dasatinib) in Romania. We were one of the leading generic producers of dasatinib in Germany and Finland, and the only generic provider of dasatinib in Slovenia and Slovakia. Everofin* was among the leading everolimus products in the Czech Republic, Sweden, and certain other markets. **Meaxin*** (imatinib), was one of the leading generic varieties in Poland, Bulgaria, etc., the leading generic variety in Slovenia, while it was the leading of all imatinib products in Bosnia and Herzegovina.

Our oncology portfolio was supplemented by **Gefitinib Krka** (gefitinib), **Ecansya*** (capecitabine), **Lortanda*** (letrozole); **Escepran*** (exemestane), etc.

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 is available in tablets and as a solution for injection. We were the only provider of 20 mg and 40 mg dexamethasone tablets in Germany, Spain, Austria, and many other markets. In these markets and throughout in Regions Slovenia, Central, East, and South-East Europe, we remained the leading producer of dexamethasone in 2022.

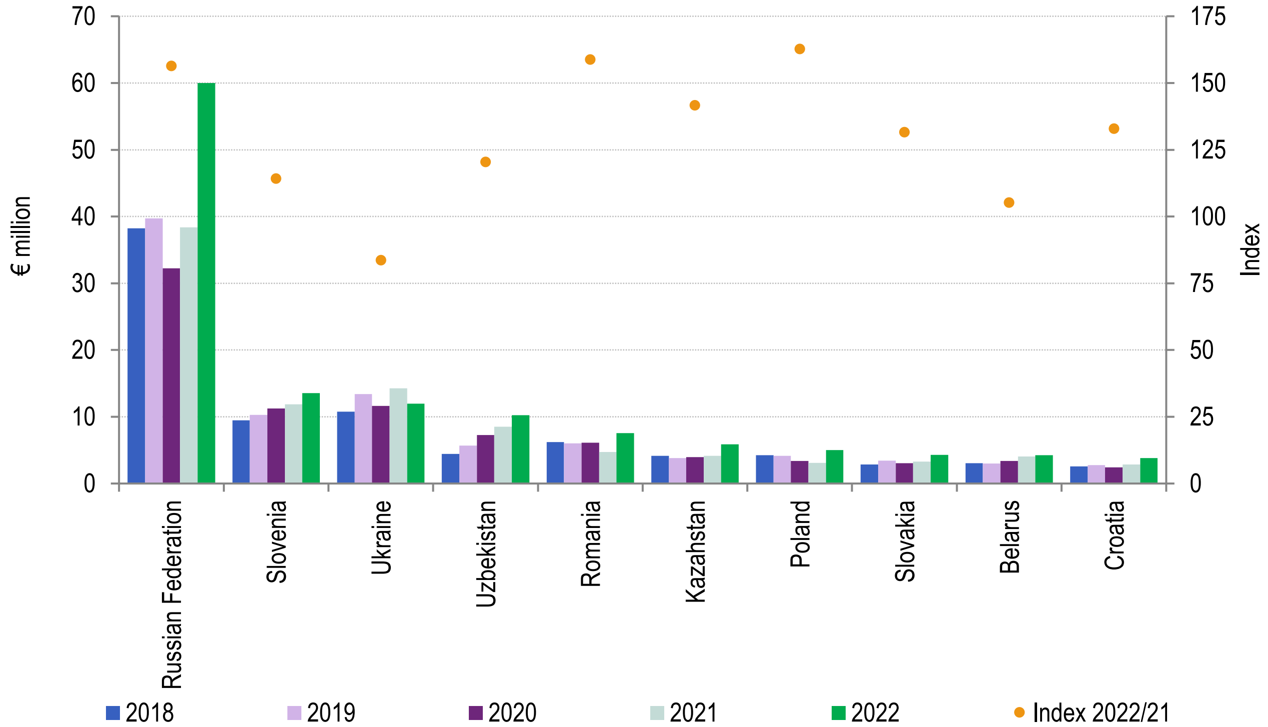
Non-prescription products

In 2022, Krka Group sales of non-prescription products totalled €182.0 million, a 32.6% year-on-year increase. The Russian Federation, Romania, and Poland recorded the strongest sales growth. Common cold and flu incidence increased because COVID-19 pandemic restrictions were lifted, driving demand for cough and cold products, our most important group of non-prescription products.

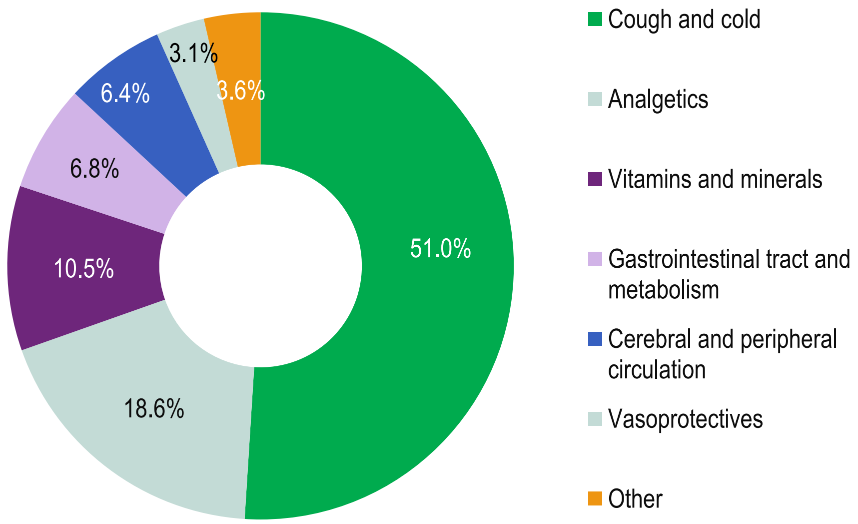
We market non-prescription products through our marketing-and-sales network in most countries of Regions Central, East, and South-East Europe.

Septolete*, Herbion*, Nalgesin*, and Bilobil* are our most important non-prescription product brands in terms of sales.

Non-prescription product sales by 10 major markets



2022 non-prescription product sales by therapeutic class



Sales of cough and cold products rose sharply in 2022 because COVID-19 pandemic restrictions were lifted. This product group also comprises Septolete, our leading non-prescription product brand in 2022. Septolete is one of our top ten products in terms of sales. In terms of absolute sales growth, the product ranked second of all our products, and its sales increased by over 60% in 2022. **Septolete Total*** (benzydamine/cetylpyridinium chloride) spray and lozenges accounted for the most substantial part of the Septolete brand. We market eucalyptus, elder-and-lemon, and honey-and-lemon flavoured lozenges. It was the best-selling non-prescription product with effect on pharynx in Slovenia, Lithuania, Belarus, and Uzbekistan in 2022. We started marketing it in Iceland and made the spray available in Germany.

Herbion*, our second most important non-prescription product brand, also belongs to the cough-and-cold product group. It is one of our top 15 products in terms of sales. Its sales climbed by more than 50% year on year. Herbion was one of our leading products in terms of absolute sales growth. The brand includes herbal cough syrups for various types of cough. **Herbion Cowslip Syrup** and **Herbion Ivy Syrup** facilitate expectoration, while **Herbion Plantain Syrup** relieves dry, irritating coughs. **Herbion* Iceland Moss Syrup** also relieves sore throat and hoarseness and relieves dry, irritating cough. **Herbion Ivy Lozenges** acts much like the syrup and helps expectoration. This pharmaceutical form is especially suitable for adults. The brand remained one of the three leading cough-and-cold product brands in Regions Slovenia, Central, East, and South-East Europe. It remained the leading natural syrup in 2022.

Septanazal* (xylometazoline/dexpanthenol) is a nasal decongestant. It is available as spray for adults and spray for children. In Slovenia, Lithuania, and Latvia, it was one of the leading sprays in its category, and ranked first of all competing products in Moldova, holding an almost 20% market share. We started marketing Septanazal* in the United Arab Emirates and Bahrain in 2022.

The naproxen-based analgesic **Nalgesin*** is our third most important non-prescription product brand. In 2022, it was a non-prescription brand that presented the highest absolute growth, recording an almost 50% sales increase. Like several consecutive years before, it remained the principal naproxen in Regions Slovenia, Central, East, and South-East Europe also in 2022. In Croatia and Slovenia, Nalgesin was one of the leading non-steroidal anti-inflammatory drugs available as a non-prescription product and was the leader in that product group in Slovenia. It is also marketed as a non-prescription product.

Bilobil* contains the ginkgo leaf extract, belongs to the peripheral vasodilators product group, and is indicated for slowing the progression of cognitive decline. The product ranked fourth among all our non-prescription products in terms of 2022 sales. It was one of the leading product brands containing ginkgo in Romania, Poland, and several other markets and was the leading product in Slovenia, Hungary, and certain other markets.

Pikovit and **Duovit** are our brands of vitamins and minerals. Duovit products are intended for adults, while Pikovit products are for children. We recorded strong sales of Pikovit, primarily in Region East Europe, where it was one of the leading brands of vitamins and minerals for children. Accounting for an over 50% market share, it placed first of all competing products in Uzbekistan and Kyrgyzstan.

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. It recorded the highest sales growth in absolute terms in the Russian Federation and Portugal. Flebaven* was one of the leading diosmin-based products in Slovenia, Estonia, and Slovakia.

Our food supplement **Magnezij Krka** (magnesium) is available in water-soluble granules. We supplemented the brand with a new 400 mg strength, which we started marketing in Slovenia. We made 300 mg magnesium available in Italy and Poland. In Slovene pharmacies, our brand was the foremost of all magnesium-based products, accounting for an over 40% market share.

Vitamin D3 Krka (cholecalciferol) is indicated for treating and preventing vitamin D deficiency and as adjunctive therapy in the specific treatment of osteoporosis. In 2022, we started marketing it in Armenia and Uzbekistan. Vitamin D3 Krka was the only vitamin D_3 in tablets available on prescription or as a non-prescription product in Slovenia. It constituted a more than 40% market share and retained the principal position among vitamin D3-containing products in pharmacies.

Nolpaza Control* (pantoprazole) and **Emozul Control*** (esomeprazole) are two proton pump inhibitors from the product group for the gastrointestinal tract and metabolism. The two products are also marketed as prescription pharmaceuticals. We started marketing them in new markets in 2022: Nolpaza Control* in Latvia, and Emozul Control* in Finland, Lithuania, and Estonia, and as the first non-prescription esomeprazole in Hungary, Slovakia, and Spain. Nolpaza Control was the second highest-ranking heartburn agent in Slovenia, while in Slovakia, it had a more than 25% market share, ranking it first.

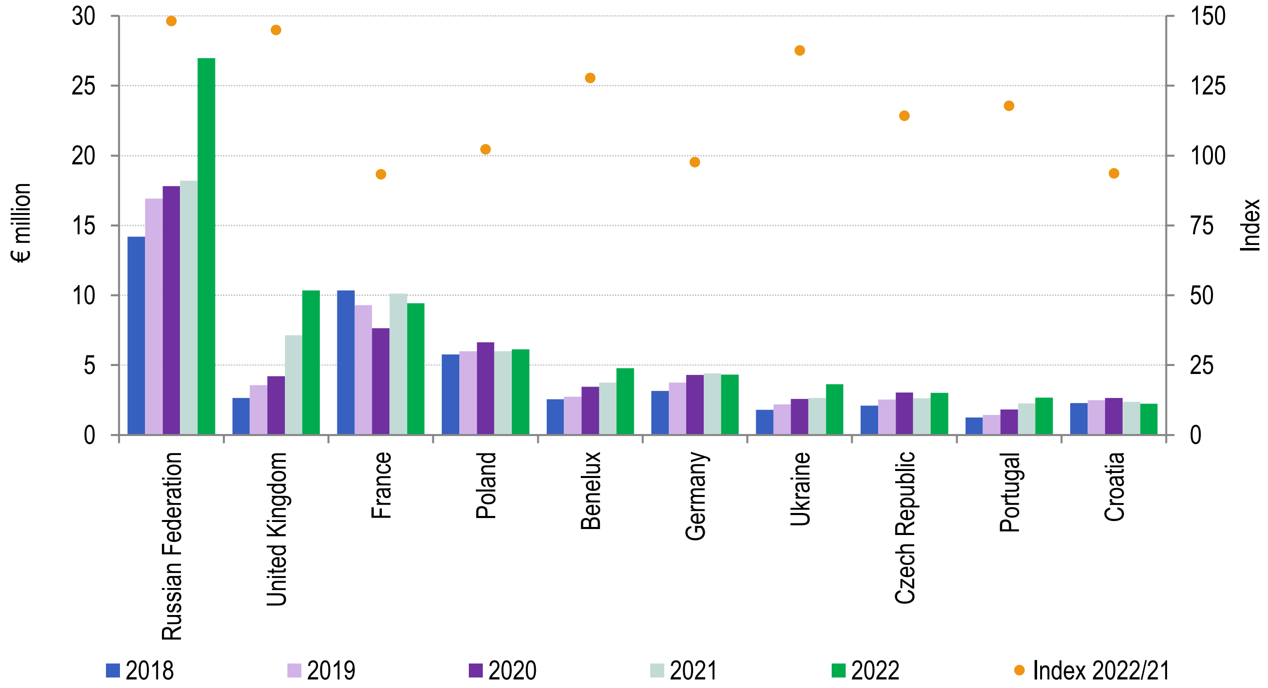
Animal health products

In 2022, the Krka Group sales of animal health products amounted to €93.0 million, a 14.5% year-on-year climb. Sales generated in the Russian Federation, the United Kingdom, and the Benelux contributed most to sales growth.

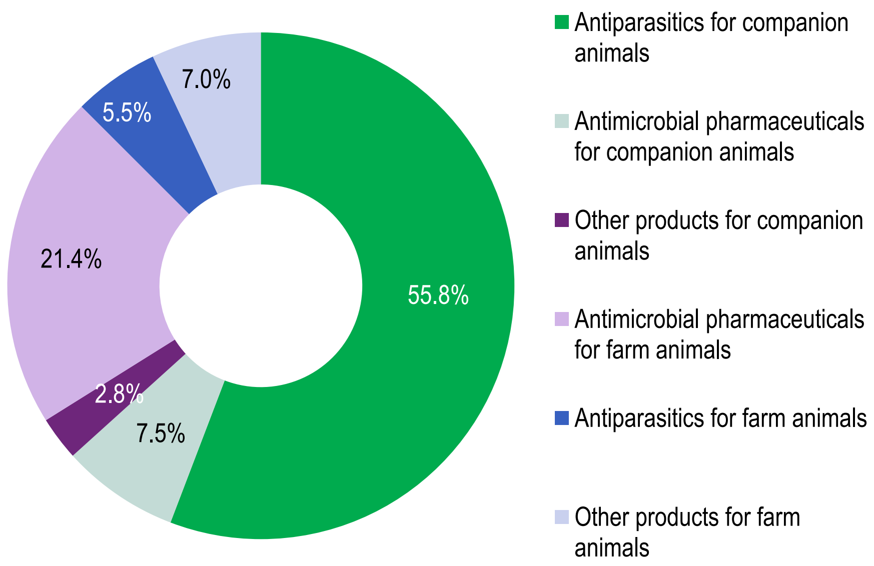
We use our marketing and sales network to sell our animal health products in Regions Slovenia, Central, East, and South-East Europe and most markets of Region West Europe. On other markets of Regions West Europe and Overseas Markets, we market them through our partners.

The combination of milbemycin and praziquantel (Milprazon*) was our best-selling animal health product in 2022. It was followed by products containing fipronil (Fypryst*, Fypryst* Combo), selamectin (Selehold*), enrofloxacin (Enroxil*), and products combining pyrantel and praziquantel (Dehinel*, Dehinel* Plus).

Animal health products sales by 10 major markets



2022 animal health products sales by therapeutic class



We produce animal health products for farm animals and companion animals. Sales growth relies primarily on companion animal products, which account for over 60% of animal health products.

Our most flagship companion animal product is the antiparasitic **Milprazon*** (milbemycin/praziquantel), which is also our leading animal health product in terms of sales. In 2022, we launched a new pharmaceutical form, Milprazon Chewable* film-coated flavoured tablets for dogs and cats. The new natural liver flavour increases palatability, making administration easier. We started marketing the new product in Slovenia, Germany, the United Kingdom, Romania, and other markets, 15 in all. Total Milprazon* sales increased by more than 30% in 2022. In 2022, we placed it on the market in Switzerland.

Spot-on solutions account for a significant proportion of the companion animal product range. **Fypryst*** is the most important spot-on brand and our second most important animal health product. The brand comprises Fypryst* (fipronil) and Fypryst* Combo (fipronil/S-methoprene). Fypryst* is available in spot-on solution and cutaneous spray. We recorded the strongest sales in Region West Europe, above all in the United Kingdom.

Selehold* (selamectin) spot-on solution is another antiparasitic agent for treating companion animals. It is used to treat and prevent infestations with endo- and ectoparasites. We put it on the market in 2019, and in 2022 it was one of our top three animal health products. Its sales more than doubled and it was one of our leading animal health products in terms of absolute sales growth.

Another of our endectocides is **Prinocate*** (imidacloprid/moxidectin) spot-on solution. We launched it in 2020, and in 2022 its sales increased by almost 50%. It generated the strongest sales in the United Kingdom and other markets of our Region West Europe. We made it available in Portugal in 2022.

Another spot-on solution is the antiparasitic agent, **Ataxxa** (imidacloprid/permethrin). This combination is used to treat infestations with ectoparasites in dogs. We started marketing it in Greece and Finland in 2022, and on many markets registered a new indication, i.e. the repellent activity against ticks, mosquitoes, and sand flies. As a result, we recorded a high sales increase in 2022, up almost 70%.

Our portfolio of antiparasitic agents for companion animals includes the **Dehinel*** brand products. This is one of our five leading animal health brands in terms of sales. We market **Dehinel Plus*** (febantel/pyrantel/praziquantel) for small dogs and **Dehinel Plus* XL** (febantel/pyrantel/praziquantel) for large dogs. Our range also included flavoured tablets **Dehinel Plus* Flavour** (febantel/pyrantel/praziquantel) for dogs and **Dehinel*** (pyrantel/praziquantel) for cats.

An analgesic **Rycarfa** (carprofen), available in tablets and solution for injection, and an antimicrobial agent **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone) ear drops also belong to our companion animal product range. **Marfloxin*** (marbofloxacin) is also an antimicrobial agent. Tablets are used for treating companion animals, whereas a solution for injection is used for farm animals.

We added to our companion animal portfolio a fixed-dose combination **Cladaxxa** (amoxicillin/clavulanic acid) from our antibiotic range in 2022. Chewable tablets in three strengths are indicated for treating bacterial infections of the skin, gums, respiratory tract, urinary tract, and intestines in cats and dogs. We made it available in the United Kingdom, the Russian Federation, Portugal, and elsewhere, in 15 countries in all. It is one of our animal health products that contributed the most to absolute sales growth in 2022.

Our leading antibiotic and one of our leading animal health products in terms of sales is **Enroxil*** (enrofloxacin). Antibiotics **Floron*** (florfenicol), **Doxatib** (doxycycline) also ranked among our ten best-selling animal health products. Our antimicrobials also included **Trisulfon** (sulfamonomethoxine/trimethoprim), **Amatib** (amoxicillin), and **Tuloxxin** (tulathromycin), which we also made available in the Russian Federation in 2022.

Our most important antiparasitic products for farm animals were **Toltarox*** (toltrazuril) and **Flimabend*** (flubendazole). The two products are among our top ten animal health products in terms of sales.

Ecocid* S ranks among our top ten animal health products. In 2022, we successfully marketed it for prevention against African swine fever.

Health resorts and tourist services

Terme Krka generated sales revenue totalling €42.6 million in 2022, a 17% year-on-year increase. 2022 was a year of gradual economic recovery after the COVID-19 pandemic, and we recorded 321,996 overnight stays. Guests from abroad returned, accounting for a 13% share in overall sales of services. Guests from Italy and other neighbouring countries prevailed. The hotel annual occupancy rate reached 67%, a 7 percentage point year-on-year improvement. The three most notable segments in the service sales structure included diverse medical wellness programmes for individual guests, medical wellness programmes for groups of guests, and group business meetings. Sales of healthcare services generated one-third of total revenue.

We at Terme Krka systematically develop entertainment and sports activities, medical rehabilitation, medical wellness, and catering services, always bearing in mind the health and well-being of guests. One of the major upgrades in 2022 was the complete refurbishment of Laguna, the boutique accommodation complex, emphasising its perfect position within the Landscape Park Strunjan (Slovenia). Modern, elegantly redecorated rooms, apartments, suites, and a Mediterranean-style restaurant offers guests privacy and relaxation. A new development at the complex now also offers high-rank accommodation in a villa with three bedrooms, a kitchen, a sauna, and an extensive private patio, complete with a pool and garden with a magnificent sea view. The boutique style of the refurbished Laguna meets the needs of demanding guests who seek privacy and a connection with nature.

Products marketed under different brands in individual markets

Prescription pharmaceuticals	
APIs	**Brands**
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	Apleria, 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, Galnora
gliclazide	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
lacosamide	Lacosabil, Lydraso
lansoprazole	Lanzul, Lansoptol
letrozole	Lortanda, Likarda
levofloxacin	Levalox, Levnibiot, Leviaben, Levaxela
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
pantoprazole	Nolpaza, Appryo
perindopril	Prenessa, Perineva
perindopril/amlodipine	Amlessa, Dalnessa, Tonarssa, Dalneva
perindopril/amlodipine/indapamide	Co-Amlessa, Co-Dalnessa, Co-Dalneva, Amlewel, 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, Zulbex
ramipril	Ampril, Amprilan
ramipril/amlodipine	Rameam, Ramidipin
ramipril/hydrochlorothiazide	Ampril HL, Amprilan HL, Ampril HD, Amprilan HD
rasagiline	Rasagea, Ralago, Raglysa
risperidone	Torendo, Rorendo
rivaroxaban	Xerdoxo, Rivaroxia, Rivarolto
ropinirole	Rolpryna SR, Ralnea SR
rosuvastatin	Roswera, Rosuvador, Roxera, Sorvasta
rosuvastatin/ezetimibe	Co-Roswera, Coroswera, Sorvasta Plus
sertraline	Asentra, Sertrone, Sertra TAD
sildenafil	Vizarsin, Sildegra
silodosin	Sidarso, Silbesan
sitagliptin	Asiglia, Maysiglu, Sitagavia
sitagliptin/metformin	Asiglia-Met, Maymetsi, Sitagavia-Met
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
vardenafil	Viavardis, Vardegin
venlafaxine	Alventa, Olwexya
vildagliptin	Glypvilo, Vildabetes
vildagliptin/metformin	Vildakombi, Vimetso
ziprasidone	Zypsilan, Zypsila, Ypsila

Non-prescription products	
APIs	**Brands**
benzydamine/cetylpyridinium chloride	Septolete, Septabene, Septafar
diosmin; diosmin/hesperidin	Flebaven, Fladios, Flebazol, Flabien
esomeprazole	Emanera, Escadra, Emozul, Esozoll
ginkgo leaf extract	Bilobil, Gingonin
Iceland moss extract	Herbion Iceland Moss, Herbisland
ivy leaf extract	Herbion Ivy Syrup, Herbihelix
magnesium citrate	Magnezij Krka, Magnesol
naproxen	Nalgesin, Analgesin, Nalgedol, Ilgesin
pantoprazole	Nolpaza Control, Sedipanto, Panto TAD
xylometazoline/dexpanthenol	Septanazal, Septanasal

Animal health products	
APIs	**Brands**
enrofloxacin	Enroxil, Enrox, Enroxal
febantel/pyrantel/praziquantel	Dehinel Plus, Anthelmin Plus, Wormscreen
fipronil	Fypryst, Amflee, Fyperix, Fleascreen
fipronil/S-methoprene	Fypryst Combo, Amflee Combo, Fyperix Combo, Fleascreen combo
florfenicol	Floron, Fenflor
flubendazole	Flimabend, Flimabo
imidacloprid/moxidectin	Prinocate, Imoxicate
marbofloxacin	Marfloxin, Quiflox
milbemycin/praziquantel	Milprazon, Milquantel
pyrantel/praziquantel	Dehinel, Anthelmin, Wormscreen
selamectin	Selehold, Selafort
toltrazuril	Toltarox, Tolzesya
biocide	Ecocid, Oxicid

Research and development[32]

Research and development is part of our vertically integrated business model and a key element in designing and maintaining a competitive portfolio of products. Vertical integration and connectivity of development and production know-how are essential advantages of our development strategy. As we manage the entire process, we can introduce high-quality, safe, and effective medicines in more than 70 markets on time.

We have adopted a development strategy and project approach to manage products in all life-cycle phases and for all our markets. Research-and-development results and a hands-on understanding of regional and local legislative requirements enable us to draft and manage complex registration documentation and processes efficiently and thus obtain timely product marketing authorisations. We anticipate the necessary market-specific characteristic of a product and adapt our development work and studies in the earliest phases of its development. By doing so, we can put our social responsibility first and ensure a contemporary portfolio of medicines in all Krka's markets, including the financially disadvantaged regions or countries (low- or medium-income), in the shortest possible time. We currently market more than 40 medicines from the WHO Essential medicine list 2021 in middle- and low-income countries.

By monitoring trends and scientific advancements in various areas of expertise, particularly medicine, the pharmaceutical industry, and chemistry, we can respond quickly and appropriately to development challenges, marketing requirements, potentials, and opportunities. Increasingly complex regulatory requirements push us to introduce new, additional and improved approaches and methods in development, and conduct new studies. We also cooperate with external partners, including specialised companies, educational and R&D institutions in Slovenia and abroad, and in this way constantly enhance know-how and improve development results.

Research-and-development processes involve comprehensive and complex technological, analytical, preclinical, and clinical studies that enable us to develop complex products in innovative pharmaceutical forms. We focus on medicines comprising a combination of two or more active substances that provide double or triple therapy to our patients in a single pill. In addition to generics, we also develop novel innovative fixed-dose combinations of established active substances. The surge in new combination products led us to expand our portfolio of bilayer tablets, given their ability to combine two or more otherwise incompatible active substances.

Studies, mostly bioequivalence studies, demonstrate the safety and efficacy of all new products. All clinical trials are conducted in line with the applicable legal requirements, good practice guidelines, the *Helsinki Declaration*, and *European Regulation 2016/679* (*General Data Protection Regulation*). This ensures safety for the subjects, transparency, ethics, and quality research, which is also approved by regulatory and inspection bodies.

Quality is imperative for our products from early development stages onward and is therefore an integral part of each our product from the start. We also ensure compliance of all development activities with established quality systems. We continuously enhance and upgrade all those systems, and improve standard procedures and good practices. Regulatory bodies conduct periodic audits and inspections to review compliance with the relevant standards.

We use simple and energy-efficient technological procedures that contribute to making our new products affordable. We develop our products in compliance with our environmental policy and the ISO 14001 standard. We ensure that technological procedures have a minimal environmental impact through measures to reduce our carbon footprint, water consumption and organic solvent volumes, and by doing so, approach circular economy objectives.

Investments and accomplishments

Rapid scientific and technological progress and increasing market complexity require constant investments in know-how and the latest equipment. They are essential for innovative approaches and the timely rollout of new products while maintaining high quality and competitiveness in all markets. To that end, Krka allocates 10% of its annual revenue to research and development.

[32] SDG 3, SDG 12

By the end of 2022, our portfolio comprised 450 authorised products in a variety of pharmaceutical forms. We now have approximately 170 projects at different development stages in the pipeline. They will add to our range of medicines for the most common lifestyle diseases and include innovative combination medicines for high blood pressure, blood clotting disorders, diabetes and cancer. This will further contribute to attaining the most important United Nations' sustainable development goals (SDG).[33]

Krka respects the intellectual property of its competitors; therefore, innovative R&D solutions drive the development of new products. Our innovative approaches helped us to circumvent many patents and made it possible to develop new products. In addition to innovative technological approaches, we develop innovative complex dosage forms with added value for patients. In 2022, we filed 14 patent applications for new product solutions.

Also, in 2022, we invested in laboratory equipment, physico-chemical analytics know-how, and cell tests to develop in-house analytical methods related to complex products, including peptides. We expanded our know-how and competences by collaborating with various partners and verified our key development stages during expert consultations with regulatory agencies.

We continued to digitalise data collection, processing and reporting in the R&D segment. We also continued with the digitalisation of information and data obtained in project and regulatory processes. This ensures our compliance with production processes, while we can actively adapt to changes in regulatory guidelines and other requirements set by external stakeholders.

We continued with the robotisation of individual analytical and finishing 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 regulatory approval for five analytical procedures supported by automated sample preparation.

Continuing our entry into the new strategic market of China and with a view to obtaining approvals for two new products in 2022, we employed extensive development studies on established products, properly adjusted development activities, linked our development and manufacturing operations, all based on know-how about regulatory and marketing requirements.

Protecting our know-how and industrial property

In 2022, we filed 14 patent applications for new technological solutions we had developed and evaluated as inventions at the global ranking level. Based on priority applications from 2021, we submitted nine international patent applications. We were granted three patents in different countries. Over 200 valid patents protect Krka's technological solutions.

We filed 79 applications for Krka trademarks in Slovenia. We also filed 43 international and 10 national trademark applications. In total, we have registered more than 1,100 trademarks in various countries.

New products and marketing authorisations of the Krka Group

In 2022, marketing authorisations were granted for **11 new products**, including for products containing new active substances teriflunomide and ranolazine approved in EU markets, and dabigatran etexilate and dapagliflozin in the Russian market. In the cardiovascular therapeutic area, the single-pill combination of perindopril arginine and amlodipine was granted marketing authorisation in the EU, and a combination of perindopril tert-butylamine and indapamide in China. In China, we also received approval for a medicine containing valsartan. We also added new products to the range of self-medication products.

Additional products were added to our portfolio in all regions. New marketing authorisations were obtained for our key products for important indication areas, such as medicines for treating diabetes, antithrombotics, and pain relief medicines.

In 2022, we finalised **490** marketing authorisation procedures in different markets; out of which **358** were for prescription pharmaceuticals, **22** for non-prescription products and food supplements, and **110** for veterinary products.

[33] GRI 2-6

As for APIs, we obtained a new Certificate of Suitability to the monograph of the European Pharmacopoeia (CEP) for our losartan and rivaroxaban.

In 2022, we again devoted special attention to our well-established products and their evaluation, complementing and adjusting them with the latest scientific findings and with regulatory and marketing requirements. We submitted registration documentation and received marketing authorisations for more than **28,000** regulatory variations, ensuring quality and aiding the uninterrupted supply of our products for all markets.

Prescription pharmaceuticals

We obtained marketing authorisations for nine new prescription pharmaceuticals.

Aregalu/Teriflago (teriflunomide) film-coated tablets, the drug of choice for most patients with relapsing-remitting multiple sclerosis, were granted marketing authorisation via a decentralised procedure (DCP).

We added **Dapaforse** (dapagliflozin) film-coated tablets to our range of medicines for diabetes available on the Russian market. Dapagliflozin is a sodium-glucose cotransporter-2 inhibitor (SGLT-2) and belongs to a group of most advanced medicines indicated for treating type 2 diabetes. In addition to treating diabetes, dapagliflozin has a beneficial effect on the kidneys and the cardiovascular system.

We developed a new synthesis process for the API tapentadol that is integrated in **Apeneta**/**Adoben**/**Tapendolor** (tapentadol) prolonged-release tablets, all supported with new scientific studies in the field of synthesis and analytical methods. The medicine is used to relieve moderate to severe chronic pain in adults.

We added a new product, **Tezulix** (ranolazine) prolonged-release tablets to our portfolio of cardiovascular agents. Atherosclerosis remains a leading cause of cardiovascular morbidity and mortality. Ranolazine is used with other medications to treat patients with chronic stable angina and progressed atherosclerosis.

A marketing authorisation was granted for **Dabixom** (dabigatran etexilate) hard capsules. This antithrombotic agent is used for the treatment and prevention of atherothrombotic and thromboembolic events in adults with cardiovascular diseases. Dabixom was granted approval in the Russian Federation. The vertical integration model was used in this product's manufacture. API synthesis and formulation development were the results of our know-how.

A new perindopril arginine-based product was granted a marketing authorisation. Last year, we obtained the first marketing authorisations for products based on this new perindopril salt. This year, we added to the product group a combination of perindopril arginine and amlodipine in a single pill, available on markets as **Neoamlessini**/**Amlessa**/ **Amlessa NEO**/**Aramlessa**/**Tonarssa NEO**/**Dalnessaneo**/**Dalnessa AS**/**Aperneva**. The perindopril arginine product is developed and produced using our vertical integration model. It results from our know-how and is manufactured in our own facilities. The new form of active ingredient allows for adjustments to the needs of each market.

We continued obtaining new marketing authorisations for our products in China. Based on the results of additional research and bioequivalence studies consistent with the requirements of Chinese regulators, we obtained approvals to market our **valsartan** film-coated tablets and our **perindopril tert-butylamine/indapamide** fixed-dose combination tablets. Both are used to treat cardiovascular diseases.

We developed and obtained marketing authorisations for **Vitamin D3 Krka** (cholecalciferol) tablets in the new strength of 7,000 IU that allows the vitamin to be taken once a week.

Our medicines from important established and promising areas, particularly for antidiabetics, antithrombotics and cardiovascular agents were granted new marketing authorisations in additional markets.

We received approval to extend marketing authorisations in European markets for the medicine for the treatment of resistant hyperlipidemias, the fixed-dose combination **Rosazimib**/**Co-Rosuvador** (rosuvastatin/ezetimibe) film-coated tablets.

We obtained additional marketing authorisations via the decentralised procedure for **Asigefort** film-coated tablets, a fixed-dose combination of sitagliptin and metformin.

The oncology agent **Imatinib Krka** (imatinib) in film-coated tablets was granted additional marketing authorisations. Additional marketing authorisations were granted for the antipsychotic **Arisppa** (aripiprazole) tablets. We also concluded registration procedures for: **Amlodipine Krka** (amlodipine) tablets for lowering high blood pressure; **Fromilid UNO** (clarithromycin) prolonged-release tablets for the treatment of systemic infections; **Fluconazole Krka** (fluconazole) hard capsules for the treatment of fungal infections; and **Monkasta** (montelukast) film-coated tablets for the prevention and treatment of chronic bronchial asthma and seasonal allergic rhinitis symptoms.

In eastern Europe, the most important approvals were those for agents from key therapeutic areas, particularly antithrombotics, antidiabetics, cardiovascular and oncology agents, and agents from other established therapeutic classes. We obtained a new marketing authorisation for the antithrombotic agent **Rivaroxia** (rivaroxaban) film-coated tablets.

We extended our range of antidiabetics by marketing authorisations granted for **Asiglia** (sitagliptin) film-coated tablets; the single-pill combination **Asiglia-Met** (sitagliptin/metformin) film-coated tablets; and **Glipvilo** (vildagliptin) tablets.

We added new single-pill combinations to our cardiovascular portfolio. Our rosuvastatin-based product group was extended after new marketing authorisations were granted for **Roxatenz-Amlo** (rosuvastatin/perindopril/amlodipine), **Roxera Plus**/**Sorvitimb** (rosuvastatin/ezetimibe) film-coated tablets, and **Ravalsyo** (valsartan, rosuvastatin) film-coated tablets. In eastern European countries, we received marketing authorisation for **Teldipin** (telmisartan/amlodipine) tablets, extending our telmisartan product range. Marketing authorisations were granted for the single-pill combination **Ramladio** (ramipril/amlodipine) capsules. We also obtained marketing authorisation for **Bisoprolol Krka** (bisoprolol) film-coated tablets.

We added to our oncology range **Lenalidomide Krka** (lenalidomide) hard capsules indicated for treating the rare condition of multiple myeloma in cancer patients, and **Erlotinib Krka** (erlotinib) and **Ecansya** (capecitabine) film-coated tablets.

In the analgesics group, we received marketing authorisations for **Dexiax** (dexketoprofen), **Etoriax** (etoricoxib) and **Doreta** (tramadol/paracetamol) film-coated tablets.

Medicines for the treatment of central nervous system diseases, **Pregabio** (pregabalin) hard capsules and **Dulsevia** (duloxetine) gastro-resistant capsules, were granted new marketing authorisations.

We extended our range of antibiotics by obtaining approvals for **Linezolid Krka** (linezolid) film-coated tablets and solutions for infusion.

We added products containing new APIs from several important therapeutic categories to expand our portfolio in south-eastern Europe. Marketing authorisations were granted for **Maysiglu** (sitagliptin) and **Maymetsi** (sitagliptin/metformin), both film-coated tablets, and **Gliclada** (gliclazide) prolonged-release tablets, all medicines to treat diabetes.
By receiving marketing authorisation for **Aryzalera** (aripiprazole) tablets, we expanded our range of central nervous system agents.

Marketing authorisations for single-pill combinations **Valtricom** (amlodipine/valsartan/hydrochlorothiazide), **Roxampex** (perindopril/amlodipine/rosuvastatin) and **Co-Roswera**/**Roswera combi** (rosuvastatin/ezetimibe), all film-coated tablets, extended the group of fixed-dose combinations for the treatment of cardiovascular diseases.

We received marketing authorisations for advanced antithrombotics **Aboxoma** (apixaban), **Xerdoxo** (rivaroxaban) and **Atixarso** (ticagrelor) film-coated tablets.

Additionally, we obtained a marketing authorisation for our analgesic **Apeneta** (tapentadol) prolonged-release tablets.

Marketing authorisations were also granted for the two oncological agents **Bortezomib Krka** (bortezomib) powder for solution for injection and **Abiraterone Krka** (abiraterone) film-coated tablets.

Marketing authorisation for **dexamethasone** solution for injection in Australia made it possible to enter this overseas market for the first time. Dexamethasone is a well-established medicine, now becoming increasingly important in the treatment of various autoimmune diseases. It alleviates cancer symptoms, has an antiemetic action, and has, in recent years, been included as part of COVID-19 therapies.

In the group of medicines for treating cardiovascular diseases, we received marketing authorisations for **Olimestra** (olmesartan) and **Ifirmasta** (irbesartan), both film-coated tablets. Single-pill combinations **Amaloris** (amlodipine/atorvastatin) film-coated tablets, **Vasitimib** (ezetimibe/simvastatin) tablets, **Tolucombi** (telmisartan/hydrochlorothiazide) tablets, **Telassmo** (telmisartan/amlodipine) tablets, **Wamlox** (amlodipine/valsartan) film-coated tablets, **Ifirmacombi** (irbesartan/hydrochlorothiazide) film-coated tablets, and **Tenloris** (losartan/amlodipine) film-coated tablets. New marketing authorisations were granted for **Ezoleta** (ezetimibe) tablets, **Roswera** (rosuvastatin) film-coated tablets, **Nolpaza** (pantoprazole) gastro-resistant tablets and powder for solution for injection, **Emanera** (esomeprazole) gastro-resistant capsules, **Monkasta**/**Montelukast TAD** (montelukast) film-coated tablets and chewable tablets, **Mirzaten** (mirtazapine) and **Torendo Q-Tab** (risperidone) orodispersible tablets, and **Oprymea** (pramipexole) prolonged-release tablets.

We obtained new marketing authorisations for **Linezolid Krka** (linezolid) film-coated tablets, **Tadilas** (tadalafil) film-coated tablets, and **Doreta** (tramadol/paracetamol) film-coated tablets.

We obtained new Certificates of Suitability to the monographs of the European Pharmacopoeia (CEP) for our **losartan** and **rivaroxaban** APIs that comply with the strictest quality criteria.

Non-prescription products

We added two new products to the group of self-medication products and extended marketing authorisations for our established products to additional markets.

Marketing approval was granted for **Magnezij Krka 400** water-soluble granules. The new product is a food supplement containing magnesium citrate and vitamin B_2. Both active substances help reduce fatigue and exhaustion, and support normal functioning of the nervous system. Magnesium citrate is also vital for proper muscle function. Our product does not contain preservatives, artificial colouring agents, flavours, sweeteners, gluten, or lactose.

The first marketing authorisation was granted for **sildenafil**, available without prescription. By obtaining the new legal status for this erectile dysfunction medicine, we make it more available to users.

We increased the availability of our well-established brands in the EU. The non-prescription product **Dasselta control** (desloratadine) film-coated tablets was granted a marketing authorisation in Slovenia. In selected markets we received marketing authorisations for **Esozoll** (esomeprazole) hard gastro-resistant capsules and **Dekenor** (dexketoprofen) film-coated tablets. We introduced **Magnesol 300** water-soluble granules on a new market.

Relevant studies confirmed the antiviral activity of **Septabene**/**Septolete total** (benzydamine hydrochloride/cetylpyridinium chloride) lozenges against various viruses, including Coronaviruses.

An important approval in eastern European countries was that of **Herbion Iceland moss** syrup in the Russian Federation. It is our first marketing authorisation obtained via the Mutual Recognition Procedure (MRP) in the Eurasian Economic Union (EAEU).

We obtained marketing authorisations in new markets of eastern Europe for **Vitamin D3 Krka** (cholecalciferol) tablets and **Pikovit** syrup. Marketing authorisations were also granted for **Desloratadine Krka** (desloratadine) and **Sleepzone** (doxylamine) film-coated tablets, and two analgesics: **Dexiax** (dexketoprofen) film-coated tablets and **Nalgesin** (naproxen) 220 mg film-coated tablets.

Our herbal syrup **Herbion Iceland Moss** was granted marketing authorisations in new markets in south-eastern Europe.

New approvals for **Septanazal** (xylometazoline/dexpanthenol) nasal spray and **Septolete total** (benzydamine hydrochloride/cetylpyridinium chloride) oral spray and lozenges were granted in Region Overseas Markets.

Animal health products

In 2022, we expanded the range of our key animal health product brands and introduced them to new markets.

We extended our portfolio of products for farm animals by obtaining new marketing authorisations for **Tuloxxin** (tulathromycin) solution for injection for cattle and pigs indicated for treating bovine respiratory disease and **Catobevit** (butafosfan/cyanocobalamin) solution for injection, vitamin and minerals indicated for the supportive treatment of metabolic or reproductive disorders in cattle, pigs, horses and sheep, and goats. We expanded marketing opportunities for the **Doxatib** (doxycycline) powder for the preparation of medicated drinking water, indicated for treating infections in pigs and broilers, and for the **Floron** (florfenicol) solution for injection, indicated for the treatment of respiratory tract infections in cattle and pigs.

We obtained new marketing authorisations for companion animal products in additional markets. The fixed-dose combination **Cladaxxa** (amoxicillin/clavulanic acid) chewable tablets in three strengths was added to our product range marketed in the EU and Region East Europe. The product is used to treat bacterial infections of the skin, gums, respiratory tract, urinary tract, and intestines in cats and dogs.

Additional marketing authorisations for **Ataxxa/Damtix/Daclotrix** (imidacloprid/permethrin) spot-on solution in four filling volumes were granted in the EU. The product is indicated for the preventing and treating flea, tick and sand fly infestations in dogs.

The marketing authorisation procedure was completed in Region East Europe for **Enroxil** (enrofloxacin) tablets for treating infections in dogs; **Dehinel Plus** (febantel/pyrantel/praziquantel) tablets in two strengths indicated for deworming dogs; **Dehinel** (pyrantel/praziquantel) film-coated tablets, a cat dewormer; **Selafort** (selamectin) spot-on solution for preventing and treating of infestations of certain species of inner and outer parasites in dogs and cats; and **Fypryst Combo** (fipronil/S-metophrene) spot-on solution for preventing and treating infestations of outer parasites in dogs and cats.

Amflee Combo (fipronil/S-methoprene) spot-on solution for preventing and treating infestations of outer parasites in dogs and **Enroxil** (enrofloxacin) tablets for treating infections in dogs were added to our product portfolio in Region Overseas Markets. A marketing authorisation was also granted for **Floron Minidose** (florfenicol) solution for injection, to treat bacterial respiratory tract infections in cattle and pigs.

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 producing active pharmaceutical ingredients and finished products. We have been increasing production capacities and improving the cost-effectiveness of processes in Slovenia and at our subsidiaries abroad. By controlling all product life cycle stages, we can adapt to market challenges more readily 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 introduced many alternative sources of materials to ensure uninterrupted production and long-term volume growth.

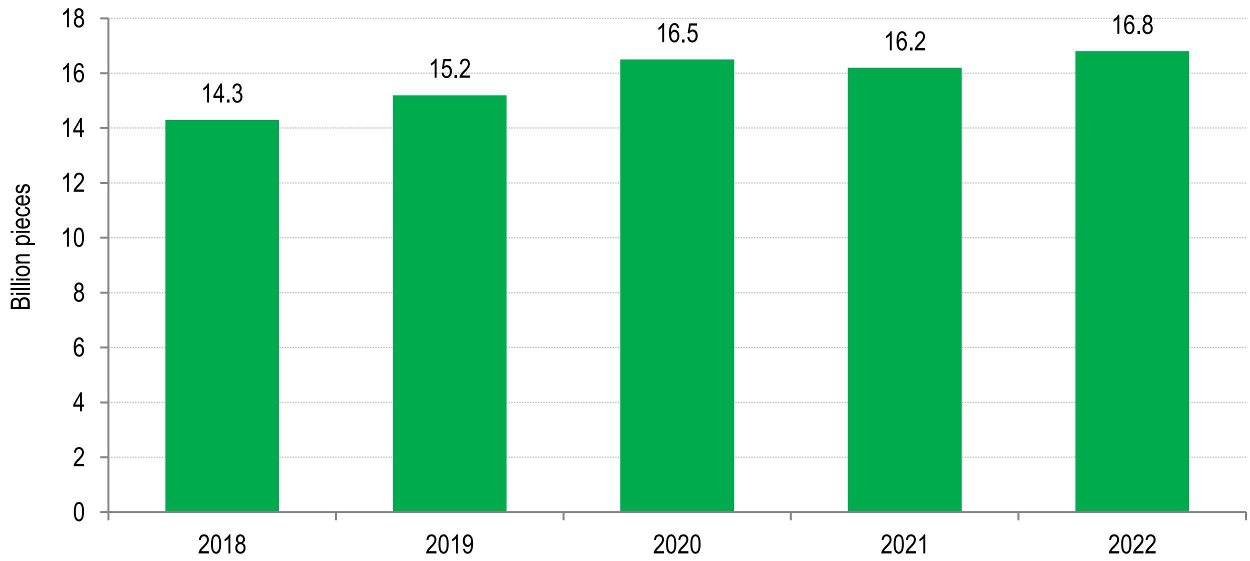
The COVID-19 pandemic continued to pose major challenges. However, effective work organisation, the prompt rollout of numerous preventive measures and our focus on key tasks and products helped us keep our capacities at pre-pandemic levels.

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.

Through the optimal use of available resources in the controlling company and subsidiaries and through cooperation with contractors, we manufactured and packed 16.8 billion tablets and other pharmaceutical forms in 2022. By achieving 4% annual growth on 2021, we continued our long-term trend and pursued our strategic objective of volume growth. Actual product manufacturing was in line with planned market needs.

Finished product manufacturing



Bulk and finished product numbers rose on the back of: the increasing number of products and production sites; changing market requirements; requirements for package labelling in national languages; and other demands. Careful planning and efficient production allowed us to meet diverse customer demands.

We continuously improved post-registration procedures for preparing packaging materials and technological documents for production in Slovenia, at our subsidiaries abroad and contract manufacturers to ensure the timely provision of products and 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 2022, we increased the use of production documentation in e-format and improved process digitalisation.

Supply process[34]

We mainly use self-produced raw materials for our products but also buy some in the market. In 2022, 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 shortages of incoming materials, lower manufacturing output at our partners due to soaring energy prices, and transport issues, we provided enough raw materials for uninterrupted manufacturing of finished products 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.

Despite price hikes in the market for purchasing raw materials, we managed to maintain price increases below those announced by the 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 the integration of our subsidiaries and optimised purchasing processes. We also strengthened established supplier partnerships.

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 148 audits a year.

Production of active pharmaceutical ingredients

A high level of vertical integration in the production process generates high added value. Vertical integration means that we produce and technologically control a large proportion of the active ingredients that we incorporate into our products at various production sites in Slovenia and abroad. Doing so reduces our dependency on external suppliers in this key supply chain segment.

We improve the cost-effectiveness of producing key intermediates and raw materials by optimising production processes at all production sites. We transferred additional technologies (products) to increase capacity at our Sinteza 1 plant in Krško in Slovenia. In turn, we considerably expanded active ingredients production capacity for our vertically integrated products. We plan to expand our capacities even further. Intensive production of active ingredients and intermediates continued at our production sites in Novo mesto and Krško in Slovenia. Production plans for 2022 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 accounts for a significant share of production capacities. The plant utilises cutting-edge technology, a high level of automation and robotisation supported by advanced computerised systems. In 2022, upgrades to the plant included: several packaging lines; a 1,200-litre granulation line; a tablet press; a coating pan and a crusher; rendering the plant fully operational. This approach helps us reinforce our competitive edge in demanding global markets. In 2022, over 35% of total Krka Group products were manufactured at the Notol 2 plant.

We increased production at our production sites abroad. This further consolidated our position as a local manufacturer and allowed us to supply all necessary products to local markets to benefit local stakeholders.

[34] GRI 2-6, 3-3, 308-1, 414-1, SDG 3

In addition to significant investments in new equipment and technology, which provide additional production capacities, we upgraded existing machines and production lines. Upgrades and refurbishments resulted in adequate production process cost-effectiveness and augmented digitalisation. In 2022, many production sites were heavily involved in introducing production documentation in e-format, adding to automation and paperless operation.

To respond faster to rising product demand, strengthen our presence in international markets, and reduce production process risks, we continued activities related to transfers of production technologies to contractual partners and expanded the contract manufacturer network.

To raise awareness and work quality, we upgraded the Pharmaceutical Production training centre, where our employees receive training on equipment used in all key production processes. Participants learn through the experience and expertise of their mentors, selected from the best performing 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. At the same time, the quality of regular work improves.

Warehousing and transport

We improved warehouse capacity utilisation through process optimisation, new computer system options, and inventory optimisation in conjunction with other organisational units. The new multipurpose warehouse served its purpose well.

We increased the number of environmentally friendly cargo vehicles to distribute our products and reduced average fuel consumption. We augmented temperature-controlled sea transport. Due to the challenging operating climate in 2022, we looked for new transport options and efficiently transported products by road. Road transport is an alternative to established transport routes. We effectively arranged all necessary means of transport to accommodate increasing sales volumes.

We are approved as an authorised economic operator (AEO) in customs clearance procedures. This allows for a faster flow of goods and facilitates simplified declaration authorisation procedures.

In line with legislative changes, our transit guarantee now also applies to transit operations with Ukraine.

Suppliers[35]

Our long-standing relations with business partners, including suppliers of equipment, raw and base materials, contractors, and partners, are forged through mutual respect, trust, honesty, integrity, and fairness.

At all stages of the purchasing process, employees must comply with the procedures defined in internal guidelines, international agreements, and local regulations. Purchasing roles and responsibilities are precisely specified, from identifying user needs, preparing tenders, and selecting suppliers, to contracting and placing orders.

In line with our long-term objectives, sustainability goals, and main principles, we select potential suppliers by considering their:

- 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 consider suppliers' prices, quality, delivery terms, reliability, regulatory compliance, compliance with our guidelines, and their social responsibility. We pursue a policy and practice of engaging local suppliers and contractors especially when – besides acceptable prices – responsiveness, flexibility and the frequent or constant involvement of suppliers and contractors in investment and service processes also matter. In 2022, spending on suppliers of goods and services in Slovenia accounted for 15% of the total Krka procurement budget.[36]

[35] GRI 2-6, 3-3
[36] GRI 204-1, SDG 8

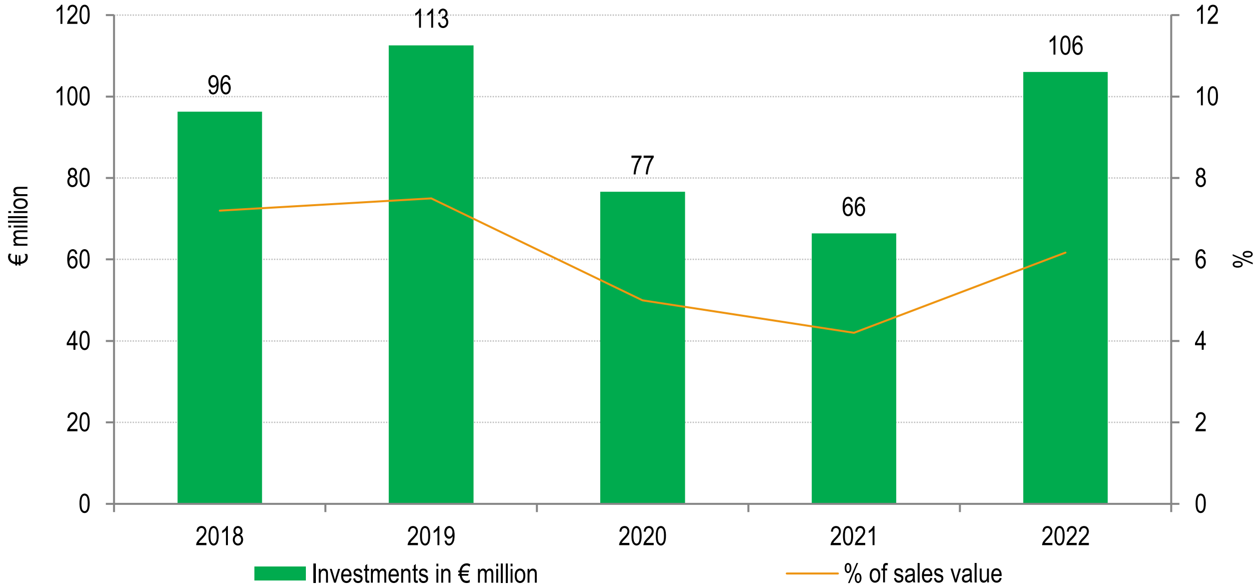
Investments[37]

In 2022, the Krka Group allocated €106.0 million to investments, of that €79.5 million to the controlling company and €26.5 million to subsidiaries We primarily invested in our production and development plants to extend facilities and upgrade technologies, quality management, and our production and distribution centres worldwide.

In Slovenia and abroad, we made multiple investments in new production equipment and upgraded systems and instruments, increasing our production capacities and enhancing product quality. Lengthy permit procedures stalled funding; hence 2022 investments were lower than planned. The slow-down in investments was partly caused by a shortage of electronic components on the global markets, extending delivery terms for certain machines and equipment.

We place a strong emphasis on the values of sustainable development and factor in environmental standards, and indirect and direct environmental impacts, as part of all investment projects. The approved equipment complies with the best available technology for environmental protection and energy efficiency, and guarantees safe and efficient operations.

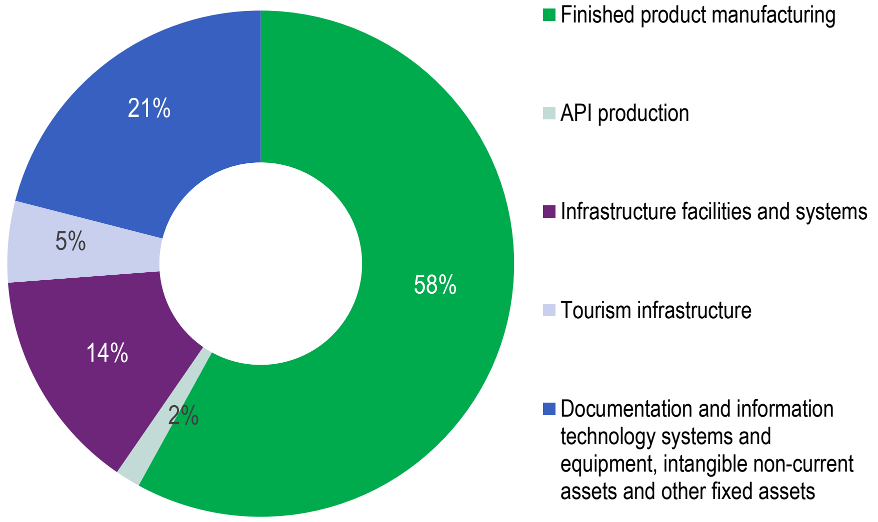
2018–2022 Krka Group investments



In 2022, we invested primarily in finished product manufacturing, information and documentation management systems, intangible assets, and infrastructure. The investments contribute to the coordinated functioning of our research and development, production and control, which embody the essential advantages of our vertically integrated business model. Investments accounted for 6.2% of sales revenue generated in 2022.

[37] GRI 2-6, SDG 9

Structure of 2022 Krka Group investments



Production and capacity upgrades

After more than 20 years of continued operations, we upgraded water supply systems and automated washing systems in the oldest section of the Notol plant in compliance with cGMP guidelines. We renovated the format tool washing room, where we plan to replace two worn-out washers in 2023. We invested €2.4 million in installing a thermal oxidiser for waste gas treatment. In line with our strategy, we allocated €38.2 million to replace and overhaul worn-out packaging lines over the next two years. We plan to invest €6.1 million in increasing production line capacity and €11.3 million in upgrading and increasing granulation capacity at the plant. We also plan to upgrade the logistics system. The two-year investment is estimated at €12 million.

In the Solid Dosage 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 spent €17 million on room refurbishment and procurement of technological equipment.

We finished several investments to upgrade the capacities for research, development and analyses in our development-and-control laboratories. They totalled €8.3 million.

We increased production capacities for granulation and packaging at the Ljutomer plant (Slovenia). We have started installing personnel and material airlocks at the old section of the plant. The investment is estimated at €16.4 million.

At our Slovenian Beta Šentjernej plant, we upgraded the systems and equipment in compliance with ATEX standards and increased the production capacity for the preparation of dry granules. The investment totalled €2.4 million.

Preparation works started in April for the construction of Paviljon 3 in Novo mesto (Slovenia). The multi-purpose building will house an extension for our microbiology laboratory and additional rooms for Supply Chain Management and other organisational units. Construction of the six-storey building is estimated at €19.3 million.

Increasing API development and production capacities

We plan to build new facilities for developing and producing active pharmaceutical ingredients (APIs) in Krško, Slovenia. Based on project documentation and an IED OVD environmental impact assessment, we obtained the integral building permit for the Sinteza 2 plant and laboratories for chemical analyses (Slovene: Kemijsko-analitski center). The environmental permit has also been granted, and construction works are scheduled to start after the permit becomes final. 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 from product development to their production.

Investments outside Slovenia

The installation of the secondary packaging line in the production and distribution centre in Jastrebarsko (Croatia) is set to increase production capacities for solid forms of animal health products. The investment into modernising the facilities and systems will allow us to set up additional facilities for Quality Management and Information Technology. The investment is estimated at €3.5 million.

At TAD Pharma (Germany), we plan to refurbish the old section of the office building to increase its energy efficiency, and revamp the conference hall and the reception room. We apportioned €1.7 million to the investment.

New projects

Project design is being drafted for a €29 million investment in a new production line for sterile solutions. We plan to extend the Sterile Products plant. The extension will house a new line, doubling production capacity for animal health products.

At the Ločna site in Novo mesto, an access control system will be set up to regulate access to car parks in front of the office building, at the northern gate, and behind the Notol plant. A fire-water retention basin (ZD4) and a bicycle shelter in front of the office building will be constructed as part of the project.

Terme Krka

We completed a full-scale renovation of the accommodation block at the Laguna Hotel in Strunjan, including reconstruction of the building, refurbishment of the restaurant and reception area, and conversion of six rooms above the restaurant into apartments and the conference hall into a premium-rate accommodation block. The investment totalled €3.2 million.

At Hotel Svoboda, we are completely renovating the indoor aquatic therapy pool, the outdoor pool, and the terrace, with further plans to modernise and expand the hotel restaurant. The investment was estimated at €2.1 million.

There are plans for a €2.5 million reconstruction of the 4th and 5th floor of Hotel Vital at the Dolenjske Toplice health resort, and a €6 million renovation of the new Vitarium hotel and refurbishment of pools at the Šmarješke Toplice health resort.

In 2022, the subsidiary Terme Krka earmarked €5.2 million for investments.

Quality[38]

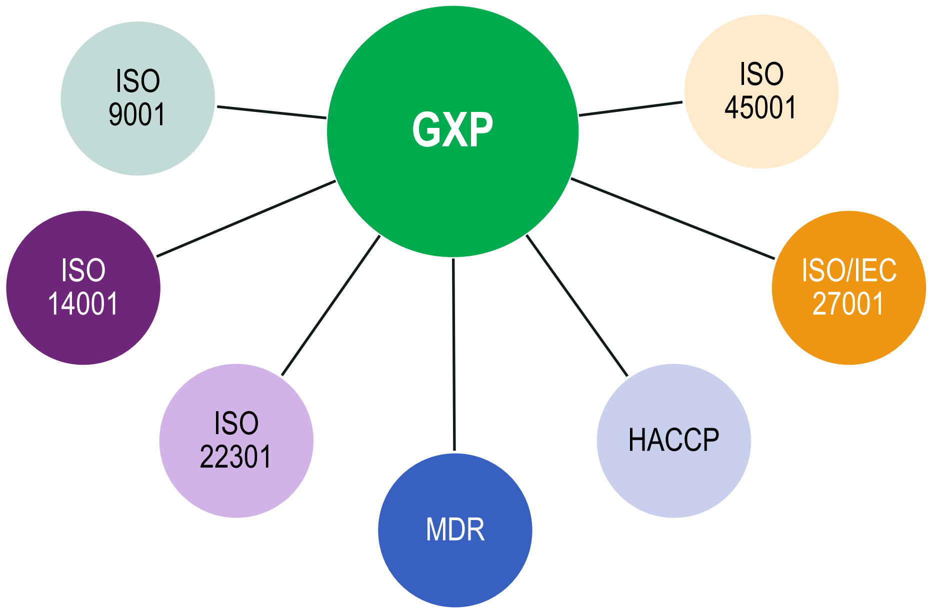
Our fundamental strategic orientation in terms of quality is to ensure quality by continuously improving our products, processes and services. To this end, we pursue effective quality system performance, which requires responsible management of safety, health, the environment, information security and personal data protection, data integrity, and business continuity. We maintain flexibility, react quickly to new developments, market needs and legal requirements, make investments, and roll out advanced work systems and suitable control methods to meet various client requirements. In addition, we demonstrate the continued suitability of products, processes, and services. We systematically address quality-related risks and opportunities to achieve sustainable development. Meticulous planning, employee quality culture and continuous development pave the way for further improvements.

Various aspects of our operations are managed uniformly to achieve optimal business targets and implement services effectively. This demonstrates our attitude to quality, environment, safety and health, information security, personal data protection, and business continuity. The quality system complies with the principles of good pharmaceutical practices (GxP), requirements of ISO 9001, ISO 14001, ISO 45001, ISO/IEC 27001 and ISO 22301 standards, HACCP principles, and MDR (Medical Device Regulation). The system is implemented to ensure product quality, safety and efficacy.

Regulatory inspections, partner audits and regular certification of our systems by SIQ (Slovenian Institute of Quality and Metrology) enhance corporate credibility and strengthen customer trust. In 2022, we again upgraded the system in line with the relevant legislation and guidelines. Testament to the system's compliance is the renewal of relevant certificates.

A centralised information and document management system supports the quality system. The system is regularly upgraded through digitalisation and other measures, ensuring data in documents and electronic records are credible, easily accessible and protected, lending transparency to our processes and products. We use this approach to conduct analyses and observe trends to ensure sound support for improving process and service efficiency and product quality. Our data management system embodies the ethical principles of personal integrity and staff responsibility to perform their work diligently and on framework quality guidelines, operating procedures and controls integrated into IT systems and organisational processes.

Integrated management sistem



Continuous improvements dictated by principles, standards, quality guidelines, and the PDCA (Plan-Do-Check-Act) approach drive progress and upgrades in all areas of the company's operations. We systematically manage processes from purchasing, research and development, production of active ingredients and finished products, distribution, marketing

[38] GRI 3-3, 416-2

and sales to monitoring customer satisfaction by employing the vertical integration business model. Customer satisfaction and sustained business success remain our key objectives going forward. Quality is a cornerstone of all our products and services throughout their life cycles and all Krka employees' work attitude. This is our key advantage and the foundation for ensuring product quality, safety and efficacy.

Quality management

The baselines for establishing and developing the quality system are defined in *Krka Group's Quality Policy*, our framework document on quality, and Krka Group's guidelines and instructions in line with legislation, good practices and standards. We monitor all related developments and systematically roll them out across our processes. We are committed to continuously upgrading the quality system to enhance process and service efficiency.

The established key processes with suitable resources help us deliver on our quality objectives. Our most important resources are our employees, who understand the importance of quality. They undergo continuous training and constantly upgrade their qualifications in quality management. This fosters a strong awareness of the importance of quality in all processes. We cooperate with experts from various fields to identify improvement opportunities, develop innovative approaches, and introduce new developments.

Processes can only be implemented correctly in buildings and facilities fit for purpose. Before a new investment project is launched or a reconstructed building is made operational, the new or reconstructed building is checked for compliance with all applicable good practice requirements. The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) must verify new investment projects, some major reconstructions and similar projects before being green-lighted. The vast number of projects demonstrates large-scale investment in new plants and departments, new or reconstructed rooms, new production and laboratory equipment, etc. Major projects in 2022 included establishing the packaging room in the Notol 2 plant, moving the small-scale production and increasing production capacity for bulk products in the Notol 2 plant, and setting up new laboratories for GC/TLC analysis.

We ensure suitable conditions in all processes by qualifications and validations of investment and computer projects, technological and laboratory equipment, utilities, air-conditioning systems, technological procedures, cleaning procedures, and transport conditions and by equipment calibrations and maintenance.

We maintain data integrity, especially regarding completeness, persistence, availability, legibility, accuracy, origin and descriptiveness, and ensure regulatory compliance. There is considerable emphasis on developing and deploying information systems and installing and managing laboratory and production equipment. We ensure source data integrity through validations and qualifications of equipment, change control and deviation management.

Quality is integrated at the earliest stages of research and development to produce a quality, safe and effective product. We promptly incorporate legislative amendments in our work processes to follow good practices from the product development phase onwards. When producing medicines for clinical studies, we use new tools and apply 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 users and their adherence.

We set up a system for ensuring the quality of clinical studies and the safety of patients and volunteers participating in studies. We ensure quality through: highly qualified personnel, use of adequate equipment and computer systems, risk management, careful screening of contractual partners, clinical study performance monitoring, reporting on patient safety and safety of all other participants in clinical studies, and the deviation investigation system.

The pharmacovigilance system ensures the safety of medicinal products for use in human and veterinary medicine by complying with the requirements of the EU and third countries, and the internal quality system requirements. We carefully record and medically review all adverse events claimed to be related to our medicines in all countries where we hold marketing authorisations and where our investigational medicinal products are used. We 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.

Our quality system for active ingredients and other incoming materials complies with good practice standards. We ensure compliance of incoming materials through registration documents, internal regulations, and chemical production procedures. Our systematic approach to quality management at our suppliers contributes to the marginal number of incoming material batches with complaints. Despite the volatile situation around the supply of incoming materials, supply reliability remained unchanged.

Product and process quality control[39]

Our finished product and API production builds on in-house technology. We control the critical stages of the production process, and examine and assess documents for every product batch separately to confirm our medicines are manufactured in compliance with the marketing authorisation requirements, prescribed procedures, and good manufacturing practice guidelines. Organisational units involved in research and development, procurement, production, control, product distribution and quality assurance cooperate in quality assurance processes. Process, packaging and cleaning validations ensure the compliance of technological procedures applied in bulk product manufacturing, finished product packaging, and production equipment cleaning. We develop product control strategies that include quality attributes to ensure the adequate and reproducible quality of our products. We closely follow and assess the quality attributes to identify any risks. Assessments of production processes and quality attributes are the basis for preparing annual Product Quality Reviews (PQR) and reports on continuous process verification. We prepare them in compliance with the latest standards and guidelines on pharmaceutical production using advanced statistical tools and report systems.

Safety of medicinal products is a key feature, which we deliver by ensuring quality of active pharmaceutical ingredients and finished products. Regulatory bodies, particularly those in the EU, closely examine safety issues. They have recently been focusing on impurities with carcenogenic potential. They also issue guidelines and adopt measures related to certain active pharmaceutical ingredients and products. We apply all their guidelines and measures to ensure compliance of our products.

By February 2019, we had implemented measures to prevent falsified medicinal products from entering the legal supply chain. Our medicines have safety features placed on their packaging. They consist of a unique identifier (serialisation), which prevents a falsified medicinal product from being dispensed, and an anti-tampering device, which allows the verification of whether the product's packaging has been tampered with. In addition to serialisation, products intended for certain countries must be shipped in labelled transport boxes and pallets (aggregation) for improved medicinal product traceability and control from the producer to the user.

In 2022, we introduced a safety feature system for medicinal products for the markets of Uzbekistan, Bahrain, and the United Arab Emirates. Kazakhstan, Kyrgyzstan, Kuwait, the Russian Federation (for animal health products and food supplements), and India (for APIs) have also announced requirements to introduce the system in the year ahead. In 2022, there were no reports about falsification or safety the feature non-compliance. In 2023, we plan to start manufacturing medicinal products for the Chinese market, which also requires safety features on medicinal products, product serialisation, and aggregation.

Before a material or finished product batch can be certified and/or released, a batch sample undergoes laboratory quality control. Our qualified personnel analyses samples in regular quality control using calibrated or qualified laboratory equipment and validated or verified analytical methods. This ensures the integrity and completeness of results, which we confirm through internal verification procedures. The number of samples analysed annually corresponds to the production plans, which depend on market demand. In 2022, the number of samples increased year over year.

Regarding sales and production requirements, we carefully plan and coordinate activities for the timely certification of materials and finished products. The person responsible for releasing medicinal products authorised by JAZMP certifies each batch before its market release. We also continually monitor the stability of APIs and marketed products and guarantee their compliance with the specifications throughout their shelf lives.

We measure our work performance by regularly monitoring quality indicators. Feedback from our customers and users is a critical indicator. We track and thoroughly investigate their complaints, opinions and suggestions and respond to them

[39] GRI 2-27, SDG 16

as soon as possible. The ratio of batches with complaints lodged over the last five years as a total of all released finished product batches is marginal, with no upward trend despite rising production volumes.

There has been no upward trend in recalls over the past five years. In 2022, we made three recalls. Even where the impact of defects on product quality, safety, and efficacy was minimal, we implemented the recalls in line with our responsibility to always deliver high-quality medicinal products to our users. Recalls are made in collaboration with marketing authorisation holders (MAHs) and competent authorities for medicinal products in individual countries. We test the effectiveness of the recall procedure in mock recalls.

We constantly monitor the quality of our products on the market, collecting and evaluating data on a medicine's safety throughout its life cycle, before and after obtaining marketing authorisation, and during its daily use. We continuously manage risks and provide the correct information to healthcare providers and users of our medicines.

Competent regulatory bodies and our partners supervise the quality system. We also conduct internal audits of the system.

We manufacture and market products in various countries, meaning we are subject to inspections by different regulatory authorities and inspection bodies. In Slovenia, JAZMP supervises medicinal products and medical devices intended for the EU, whereas the Health Inspectorate of the Republic of Slovenia (ZIRS) monitors cosmetic products, foodstuffs, and food supplements. The Chemicals Office of the Republic of Slovenia controls biocidal products and compliance with good laboratory practice principles, while the Administration of the Republic of Slovenia for Food Safety, Veterinary Sector and Plant Protection (UVHVVR) controls feed additives and distribution of veterinary medicinal products. The Metrology Institute of the Republic of Slovenia (MIRS) conducts inspections of measuring devices in use and available on the market and prepacked products.

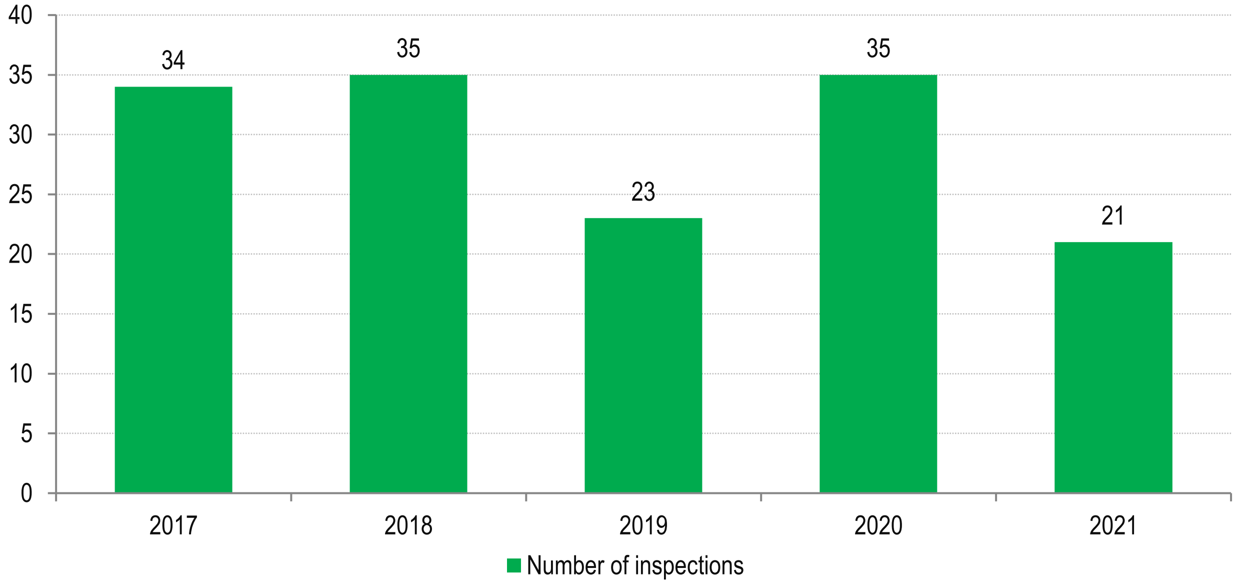
In 2022, the number of inspections and audits on the Krka Group level remained roughly the same as the year before. JAZMP, which regularly inspects medicinal product and API manufacturing processes, medicinal product distribution, clinical trials, and pharmacovigilance, conducted two verifications of new API manufacturing processes, one verification of new rooms for physico-chemical laboratories, and regular inspections of the production of sterile, semi-liquid, solid, and liquid dosage forms, and laboratories for quality control and development of analytical procedures. Regular inspections facilitate renewals of good manufacturing practice (GMP) and good distribution practice (GDP) certificates, which confirm that the manufacture and distribution of medicines and APIs comply with good practice principles and guidelines. Regular supervision by the Chemicals Office of the Republic of Slovenia confirms our compliance with good laboratory practice (GLP) principles.

Our medicines are also marketed in non-EU states where national requirements apply. Certain countries do not recognise European GMP certificates, meaning competent national regulatory bodies conduct national inspections. In 2022, we passed inspections by regulatory bodies of the Republic of Yemen and the Russian Federation. Following inspections by the Russian State Institute of Drugs and Good Practices (SID&GP), we were granted new GMP certificates applicable to the entire Eurasian Economic Union (EAEU). The certificates issued by the EAEU apply to manufacture of medicinal products and APIs and allow us to apply for marketing authorisations and market medicinal products in the EAEU member states.

Our experts took part in European, EAEU, and Chinese inspections conducted at our subsidiaries and main contractual partners. The control over operations and quality management in product manufacture, testing, and distribution, clinical trial monitoring, and pharmacovigilance inspections contribute significantly to integrated quality management, product safety and efficacy, and risk management in all areas.

Our partners conduct audits in the Krka Group companies every year to verify good practice compliance, pharmacovigilance system suitability, and contract compliance.

Inspections in the Krka Group



In 2022, the Krka Group passed all inspections and audits and was granted all relevant authorisations and certificates.

Competent authorities for medicinal products also conduct quality control of marketed products. Every year, a certain number of products is subject to their control procedures to verify product quality. The results of all controls in 2022 were compliant and confirmed the efficiency of internal controls within the quality system.

Information security and personal data protection

Our information security management system (ISMS) is ISO/IEC 27001 certified and regularly reviewed by way of self-inspections, audits, and inspections. In 2022, we passed the system recertification audit, with the certificate now valid until 2025. We regularly assess risks related to information sources and employ state-of-the-art technologies to protect our systems from external attacks. Krka subsidiaries actively pursue the guidelines of the controlling company set out in the *Information Security Policy* and *Rules on Personal Data Protection*. This ensures a uniform ISMS across all Krka Group companies.

We regularly monitor certain personal data processing procedures and align them 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 using 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 employee training and awareness campaigns. In 2022, we focused on raising awareness among all Krka Group employees about phishing attacks through demonstrations 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, and control systems. The expected minimum availability of critical (production, documentation, business, and e-mail) 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.

Business continuity

The business continuity management system (BCMS) complies with the ISO 22301 standard. Its purpose is to prepare and implement measures and procedures for uninterrupted production and sales of our flagship products in the event of major incidents and disasters. The BCMS operates according to the adopted strategy and policy and is regularly updated. Essential parts of the BCMS include procedures for optimising our resilience to damaging incidents, incident management procedures, and business continuity plans for crisis management. The BCMS forms an integral part of comprehensive risk management at the Company. In 2022, we rolled out the system at our production subsidiaries. We regularly control it through internal audits and inspections.

In 2022, we checked the implementation of the BCMS strategy, focusing 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 the nine critical processes identified in the Business Impact Analysis. This honed the skills of employees tasked with managing emergencies, directing damage limitation activities, and rapidly getting processes back online. We made the requisite improvements to business continuity plans or confirmed the suitability of planned measures following training.

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.

Materiality assessment process

We build the trust of stakeholders by engaging them, understanding their viewpoints and addressing their expectations, and acting on their feedback and initiatives. We consider these in our strategic directions and day-to-day business operations, geared towards creating lasting value for our stakeholders.

Management approach

We determine materiality by applying an integrated approach to Krka Group risk management and strategic planning. Many experts in finance, investor relations, compliance, quality management, health and safety at work, environmental protection, public relations, human resources, marketing, sales, pharmaceutical R&D, corporate performance management, purchasing, information technology, internal audit, and electric power supply are involved in the process.

In 2021, we conducted a thorough materiality assessment for the first time to identify topics particularly relevant for Krka, its stakeholders and the wider community. An interdisciplinary sustainability project team led the process of updating the list of our main stakeholders and identifying material ESG topics relevant for the Krka Group. Their boundaries and stakeholders' expectations were verified in in-depth discussions with 17 experts representing our stakeholder groups. This added a new dimension to the systematic consideration of their interests and allowed us to anticipate future trends and topics from the perspective of external stakeholders. We conducted analyses and identified seven groups of 33 material ESG topics. The Management Board of Krka considered and approved all the aspects mentioned above. The results are presented in the Krka Group materiality matrix below.

Policy, strategic objective and indicator compliance

In 2022, we made an important step forward in integrating ESG perspectives in our strategic planning and business operations in line with the Krka Group key strategic objectives up to 2026. We used the materiality assessment findings to update policies in key areas and adopt strategic objectives in sustainability-relevant domains. The fundamental objective of integrating the Krka Group sustainability principles and sustainable governance approaches into management processes and business decisions is to heighten awareness of sustainability-related risks and opportunities that could help improve their management and the success of our business operations going forward.

The adopted *ESG Policy* of the Krka Group refers to the controlling company and all our subsidiaries and identifies our priority areas and management approaches. It demonstrates our commitment to applying sustainability principles and encouraging their integration in business processes across Krka's value chain. The *Policy* was discussed and adopted by Krka's Supervisory Board and Management Board and published on SEOnet of the Ljubljana Stock Exchange, ESPI of the Warsaw Stock Exchange, and Krka's website.

Updated materiality assessment[40]

Dynamics in our environment and our effort to promote sustainability culture saw us update the assessment of key environmental, social and governance impacts that Krka has on its stakeholders and the assessment of external impacts on Krka business operations. We conducted a qualitative survey among financial analysts and a quantitative survey within the Krka Group, which involved more than 1,200 employees. The assessment also considered the results of regular satisfaction surveys among end users and interactions with key stakeholders. Our sustainability project team conducted an internal assessment of external impacts in collaboration with 20 experts in our key business areas. On the initiative of the Management Board member responsible for sustainability issues, the Management Board discussed and adopted the process and the revised materiality assessment in terms of external impacts on our business operations and our impacts on key stakeholders after obtaining consent from the interdisciplinary sustainability project team.

We identified two new material topics and repositioned certain ESG perspectives due to changes in the environment. The materiality matrix presents impact assessments in terms of double materiality and the position of material ESG topics. We also considered material topics in aligning the scope and content of disclosures.

Disclosures in the Annual Report fully apply indicators of GRI (Global Reporting Initiative) Standards and certain indicators of SASB (Sustainability Accounting Standards Board) Standards for the pharmaceutical industry. They are disclosed in relevant sections of the Annual Report, as indicated in the footnotes and the GRI content index. We also identified the 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 because our core business can contribute to it significantly.

Main sustainable development goals from the Krka Group perspective

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 Krka Group subsidiaries, reference to the Group is made in the text. The indicators will be upgraded and further applied to other Group subsidiaries. The reporting period covers one calendar year. There have been no significant changes in data from the previous reports, and any specific changes and deviations are clarified in relevant sections of the Annual Report.[41]

Any queries regarding the Annual Report can be sent to letno.porocilo@krka.biz.[42]

[40] GRI 3-1, 3-2
[41] GRI 2-2, 2-3, 2-4, 3-2
[42] GRI 2-3

Key stakeholder groups and approach to stakeholder engagement[43]

Stakeholder group	Engagement modality
Patients	• Responsible, professional communication about products through various media, including social networks and digital channels
Health professionals, healthcare providers and direct customers	• Long-term partnerships • Annual online survey on satisfaction with core aspects of business operations (general satisfaction, satisfaction with products, sales personnel, order processing and fulfilment, and complaint procedures) • Suggestions for improvement • Regular information on products provided in print and electronic forms • Direct contacts through medical representatives in 40 countries • Organisation and support for professional and educational meetings • Advanced digital content for the professional community • Feedback and opinion obtained through daily contact and market research
Employees, prospective employees, and trade union organisations	• International conferences for employees (on various topics) • Measuring organisational climate • Works Council • Worker assemblies
Regulatory agencies/bodies and government organisations	• Long-term cooperation and provision of reliable documents
Educational and scientific research institutions	• Cooperation with secondary schools, universities and scientific institutes • Cooperation under the Krka Prizes Fund for young researchers
Shareholders, financial institutions and other capital market stakeholders	• Meetings with investors at the Krka headquarters • Meetings between financial analysts and Krka management • Participation in investor conferences • Roadshows in financial centres around the world • Conference calls with financial analysts after releasing business results • Regular annual general meetings • Communication with financial media
Strategic partners and suppliers	• Participation in tenders and competitions • Working meetings • Auditing
Local communities and non-governmental organisations	• Identification of needs of local and social environments through various activities related to donations and sponsorships, annual meeting for clubs and associations, and Krka's Week of Charity and Volunteering • Open dialogue and exchange of views with residents (inclusion of environmental goal planning and sustainable environmental protection) • Cooperation with environmental organisations
Media	• Transparent information on business operations and events in press releases and responses to media inquiries • Press conferences and meetings with media representatives • Information on websites
Professional associations and interest groups	• Work with specialised development institutions and companies • Involvement in the development of professional, scientific and regulatory environments by participating in various professional and industry associations in Slovenia, the European Union, and other markets

[43] GRI 2-29

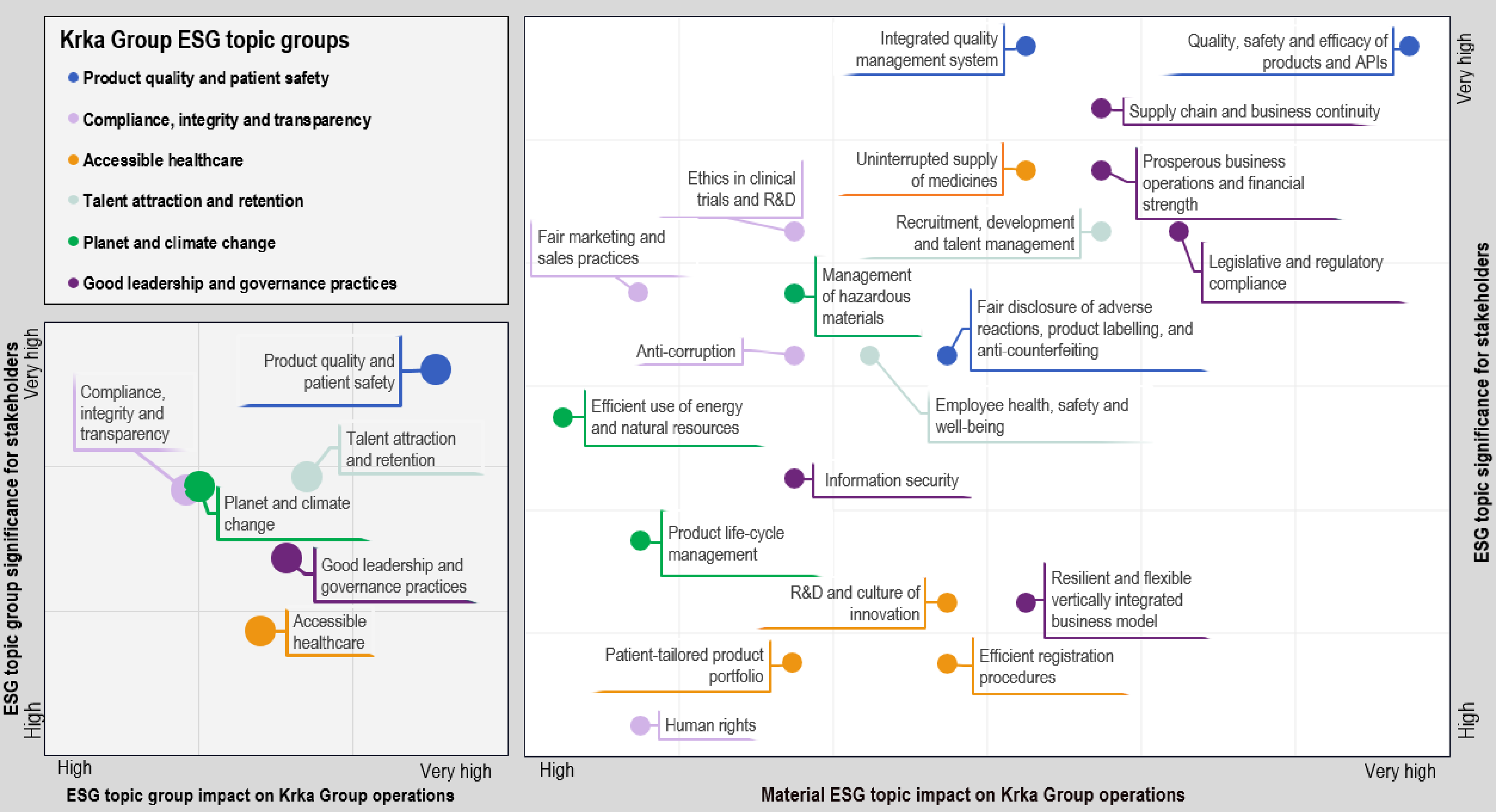
Material ESG topics and their six groups[44]

Topic groups	Topics
Product quality and patient safety	• Quality, safety and efficacy of products and APIs • Integrated quality management system • Fair disclosure of adverse reactions, product labelling, and anti-counterfeiting • Animal welfare
Talent attraction and retention	• Recruitment, development and talent management • Employee diversity, inclusion and participation • Employee health, safety and well-being
Good leadership and governance practices	• Resilient and flexible vertically integrated business model • Legislative and regulatory compliance • Management diversity, independence and competence • Sustainability linked remuneration • Information security • Prosperous business operations and financial strength • Supply chain and business continuity • Contribution to local community development
Accessible healthcare	• Patient-tailored product portfolio • Affordable medicines • R&D and culture of innovation • Efficient registration procedures • Expert support for health professionals • Initiatives to raise awareness of healthy lifestyles and identification of widespread diseases • Uninterrupted supply of medicines
Planet and climate change	• Management of carbon emissions • Waste management • Efficient use of energy and natural resources • Management of hazardous materials • Product life-cycle management
Compliance, integrity and transparency	• Ethics in clinical trials and R&D • Anti-corruption • Comprehensive and accessible reporting • Fair marketing and sales practices • Human rights • Tax policy and transparency

[44] GRI 3-2

Materiality matrix of the Krka Group

ESG topics are divided into six groups. Their significance for stakeholders and impact on the Krka Group operations are presented on the left. Individual ESG topics most relevant for stakeholders or considered to have a major impact on Krka Group operations are presented on the right.



Employees

A responsible attitude to employees entails sound and professional employee management throughout their employment at the Krka Group. We foster a stimulating working environment in which the goals and needs of individuals may be linked to the Group's objectives and contribute to the development of our employees' skills, competencies and careers. Special emphasis is placed on attracting and retaining talent to ensure that the company remains successful going forward.

Krka received the 2022 MEGA Acceleration (MEGA pospešek 2022) Award, the highest recognition for remarkable achievements in intergenerational activities, cooperation and integration at workplace in the Slovenian competition recognising employers who are actively working towards intergenerational cooperation. Our project on the wide-ranging programme for promoting intergenerational cooperation made us the worthy winner of the award.

Planet GV and the Slovenian institute for knowledge management and talent development Sofos presented us with the TOP Education Management certificate acknowledging our above-average investment in employee education and development.

New hires continued, as we recruited over 1,600 new employees. We intensified educational activities and increased the number of hours of training per employee. Despite our comprehensive health and safety at work system, the workplace injury rate slightly increased, yet the injuries were mainly minor.

The Krka Group operates in more than 70 countries with diverse cultural settings. We ensure equal opportunities for our employees regardless of gender, race, religion, sexual orientation, nationality or other cultural differences. We build our common culture on the principles of diversity, inclusion and participation. We respect human rights as enshrined in internationally recognised principles and guidelines, including the United Nations' *Universal Declaration of Human Rights*. We abide by statutory regulations and standards related to human rights wherever we operate. We are committed to high ethical standards, hence all employees receive training on Krka's *Code of Conduct.* The *Code* defines the principles and rules 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.[45]

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 at the Krka Group subsidiaries. This increases the scope of compiled data, and is set to be expanded further in the future.

Organisational climate

Highly dedicated and engaged employees shape a positive working environment and organisational climate and thus contribute to business results. We regularly gauge the organisational climate to learn how our employees feel about their work at the Company. Analyses of the findings are helpful in preparing improvements, which contribute to an efficient and creative environment. The most recent organisational climate survey showed that Krka employees have a sense of loyalty to the Company and are eager to achieve the set goals, and confirmed Krka's corporate social responsibility and adherence to high ethical standards. We used the survey findings to make improvements, which will contribute to an even more efficient and creative environment.

[45] GRI 3-3

Key data about employees[46]

	31 Dec 2022
Number of regular employees	11,598 of which 54.8% in Slovenia
Number of agency workers	994 (7.9% of total personnel)
Employees covered by collective bargaining agreements	62%
Average age	39.1 years
Female employees	60.1%
Female employees in management positions	50.8%
Permanent employees	88.1% (women 87.4% and men 89.2%)

2022 employment index

	Index 2022/21
Krka in Slovenia	101
Krka's representative offices abroad	104
Company	**101**
Subsidiaries abroad	99
Terme Krka	108
Krka Group	**101**
Agency workers	105

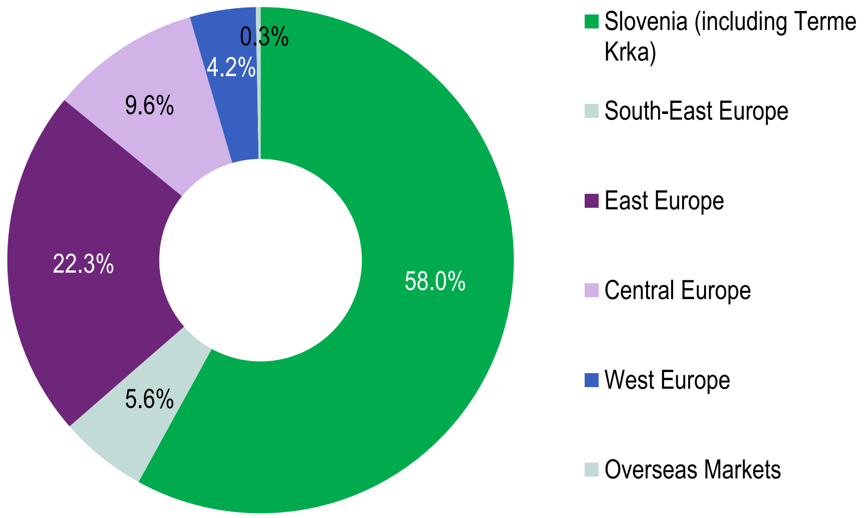
We hired 1,639 new employees, accounting for 13% of total Krka Group headcount. Employee turnover of the Krka Group was 11%.

2022 new employee hires by age group, gender and region[47]

	Rate of new employee hires
Age groups	
Under 30 years old	47.5%
30–50 years old	48.9%
Over 50 years old	3.6%
Gender	
Male	38%
Female	62%
Region	
Slovenia (including Terme Krka)	32.3
South-East Europe	10.9%
East Europe	30.5%
Central Europe	18.6%
West Europe	7.4%
Overseas Markets	0.3%

[46] GRI 2-7, 2-8, 2-30, 405-1, SDG 5
[47] GRI 401-1

Employee structure by region (including agency workers) as at 31 December 2022[48]



Educational structure

The Krka Group employs 200 persons holding a doctoral degree, and 389 persons holding a master's degree or specialisation. In total, 5,944 employees, or 51% of Krka employees, have at least university-level qualifications. One of the pillars of Krka's human resource policy is continuous work to improve educational structure. We are aware that only our experts' high level of qualifications allows us to respond to the demands of a highly competitive market quickly and effectively.

Krka Group employees by education level at the end of 2022

	31 Dec 2022
Higher professional, university degree or higher (level VII or higher)	66.7%
Vocational college degree (level VI)	2.6%
Secondary school education (level V)	22.5%
Other (less than level V)	8.2%

Employee education and development[49]

Development requirements inform our know-how development and upskilling programmes. We identify them through our competency-based system for various work areas. Competencies are a good starting point for recruiting new employees and for designing training and skills development programmes, and evaluating them. We provide our employees with various opportunities to participate in continuing educational and training programmes in various specialised fields such as management, quality management, modern information technologies, personal growth, and foreign languages, especially English and Russian. We encourage lifelong education, which contributes to successful work, career advancement, professional development, and personal growth. We plan our educational and training programmes and implement them systematically.

Quality comprised a significant proportion of our educational activities in 2022. We recorded 156,732 hours of training on quality. Our employees also learn about the most recent and significant developments at higher-education institutions, institutes and other educational organisations in Slovenia and abroad. As many as 506 Krka employees were part-time students, of whom 37 were pursuing postgraduate studies to obtain a specialisation, master's, or doctoral degree.

[48] GRI 2-7
[49] GRI 3-3, SDG 8

We are the only company in Slovenia to offer six national vocational qualification programmes for the pharmaceutical industry. These programmes are also available to employees of pharmacies and other pharmaceutical companies. In 2022, as many as 127 Krka employees 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.[50]

The Krka appraisal interview is an important tool enabling effective leadership, identification of potentials, motivation and development of employees. Managers and employees use it to exchange information and share knowledge, review goals, openly discuss the main tasks and expectations relating to work and career development, and plan future work and professional development.[51]

Krka has more than 60 in-house trainers in its marketing and sales network. Their task is to implement Krka strategy and ensure that good practices are transferred in the market. Trainers support employees and managers at regular training sessions and individually in the field. We place a considerable emphasis on designing training programmes on people management, conflict resolution, and effective and respectful communication.

A combination of traditional forms of training and e-learning and e-testing has played a crucial role given Krka's widely dispersed international organisation. Our employees have access to a web video library with various professional and personal development resources, including language courses, courses on time management, priority setting, project management, resilience and other topics.

2022 key data on employee education in the Krka Group[52]

	2022
Average training hours per employee	44.8
Proportion of revenue allocated for education	0.40%
Average cost of training per employee (€)	588
Hours of training on human rights	1,787
Proportion of employees trained on human rights	28%

We offer scholarships to those students who demonstrate interest, talent and high competence for working in the Krka Group. We systematically work with them and provide them with the opportunity to gain experience. They can learn about Krka and the company's working processes and also prove and develop their skills and competencies during their internship. We assist students and junior researchers with their theses. Our employees run courses in undergraduate and master's study programmes and help design their content. At the end of 2022, Krka had 68 scholarship students, 27 of whom graduated in 2022 and started working at Krka. We also work with secondary schools and faculties in providing obligatory work placements. By working with faculties and schools and offering scholarships, we can identify potential new hires and talents and manage risks related to the lack of experts on the labour market more easily.

Key and promising employees

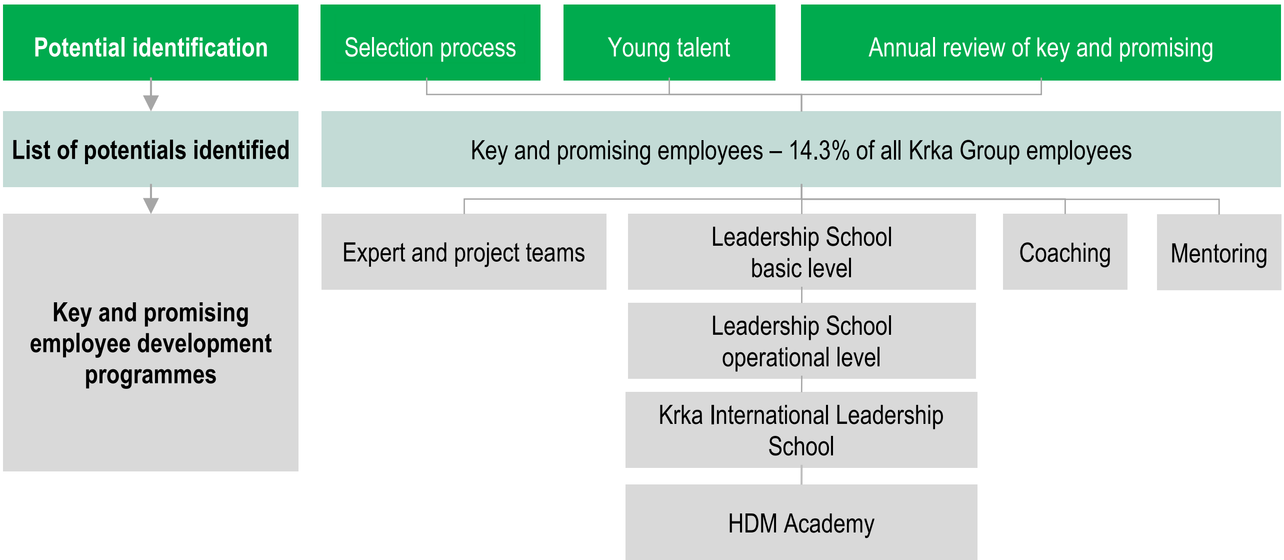
We systematically train key and promising employees and try to identify them early in their careers. We provide training, mentoring and coaching to prepare them for the most challenging and pivotal roles.

Highly promising employees with less than one year of service at Krka are invited to a workshop, where we test their abilities in various individual and group task settings. We also use this method when selecting candidates for challenging roles and for internal transfers of employees to other roles to determine their motivation, insight and capacity to cooperate.

We offer identified key and promising employees and young talents several programmes to support their individual development. The programmes of Krka Leadership School are complemented by coaching and action learning.

[50] GRI 404-3
[51] GRI 404-3
[52] GRI 404-1

Key and promising employees



At the Group level, we also run a programme for expert and project teams focused on communication skills, teamwork and project work, learning about and exchanging Krka's good practices, networking between employees from various backgrounds, and employees' personal development. New employees and employees who take on roles carrying greater responsibility learn about their tasks through mentoring. A special form of international mentorship is used to systematically develop promising employees.

Rewarding and motivation

All Krka Group employees are included in reward and recognition systems, which we use to systematically recognise good work and strong performance. They encourage dedication and motivation and praise excellence and loyalty.

We organise the Krka Awards Day, our traditional event where our best employees receive recognitions and awards and our most loyal employees are presented with long-service awards and special recognition awards. After two years of social restrictions, we held the 2022 Krka Award ceremony for all recipients again. We awarded the best employees and the best managers in organisational units and the Krka Group as a whole, and the best employees in the sales and marketing network, in regulatory affairs, and other fields.

Encouraging innovation

In 2022, as many as 380 useful proposals and improvements were submitted, and we awarded 373 proposals put forward by 365 employees.

Useful proposals and improvements lead to continuous improvement of the quality system and hence the integrated management system, generate savings, and improve efficiency. We try to inspire our employees to resolve issues related to the 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 through campaigns, meetings, recognitions, and awards. The most useful proposals and improvements are also recognised at the Krka Awards Day.

Digitalisation in human resources

We upgrade our human resource information system by introducing new solutions. In 2022, we optimised and digitalised our human resource processes, mainly those that are uniform in the entire Krka Group.

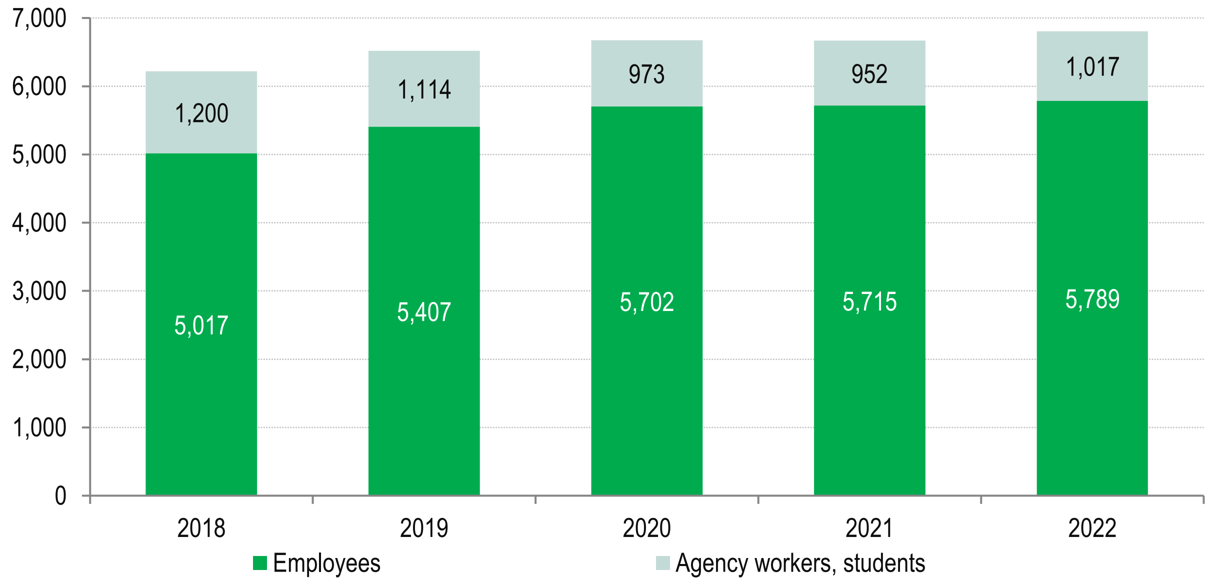
We augmented our digitalised time management system, which now includes a solution for submitting and approving absence, arrival and departure requests. The system is operational across all organisational units. We successfully launched the e-recruitment system at our subsidiaries in Croatia and Hungary. We have also continued to digitalise the Krka appraisal interview process and the employee education and development system.

Health and safety at work[53]

We ensure a safe and healthy work environment for all our employees and contractors of the Krka Group. Every new project and technological solution incorporates the latest health and safety at work and fire prevention developments.

The Management Board adopted the policy on health and safety at work in line with Krka's strategic goals. The implemented system of health and safety at work complies with the ISO 45001 standard and is fully incorporated into Krka's integrated management system. External auditors verify its performance every year, and we regularly conduct internal audits of the system. At the Company level, we have a health and safety at work team responsible for preparing, implementing, and executing key objectives and programmes approved by the Management Board, and for reporting to the Management Board regularly. Health and safety at work workgroups operate in organisational units and production sites and comprise an authorised certified HSW officer from Safety and Health.

Workers covered by ISO 45001 system



We continuously adopt safety measures to manage workplace risks and improve the working environment. We prepare risk assessments for all new or modified technological procedures. More information about risks related to health and safety at work is available in 'Risk management', subsection 'Employee risks'.

We organise regular occupational health and safety training, which is mandatory for all employees. The training is 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 that employees are or might be exposed to. We provide training for high-risk positions at least every two years. It is delivered by internal authorised certified health and safety officers and mentors responsible for introducing employees to correct and safe working practices. We conduct written and/or oral exams to verify the level of acquired knowledge and skills. All training courses are provided in languages that employees easily understand.

Training effectiveness is assessed in regular safety audits in all organisational units and production sites. We also gather information by managing safety incidents, near misses and accidents and take all necessary corrective and preventive actions if any deviations are identified.

[53] GRI 3-3, GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7

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.

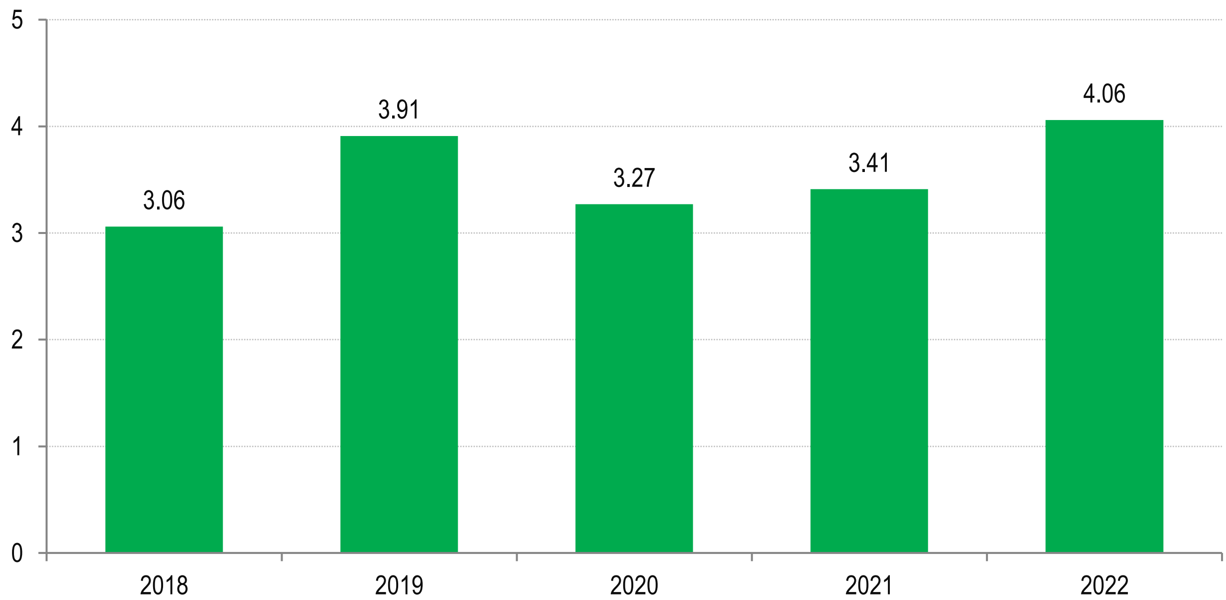
Care for health is a common task of all employees, managers, professional services, and occupational medicine doctors. The Works Council and both trade unions are also incorporated into the system. We update our Health Promotion Plan every year and prepare it dynamically considering proposals and initiatives put forward by all employees, agency and student workers. They can also voluntarily participate in sporting activities organised by Trim Klub Krka, healthy diet campaigns, satisfaction surveys, and other activities. Certain Krka departments or external providers conduct them during or outside regular work hours.

Various activities that help reduce sick leave have been in place in the Krka Group. We adopted many sanitary, health and organisational measures to prevent the introduction and spread of viral infections and to ensure uninterrupted work processes. In 2022, the sick leave rate was 7.8%, up 0.9 percentage points on 2021. The number of sick days and childcare leave days increased. There were 5.1% of Krka employees on parental leave, which they can take in compliance with their national legislation.[54]

At the Company, 5.0% of employees have a registered work-related disability. We adjust their workplaces to enable them to do their jobs in line 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 use the LTIFR (Lost Time Injury Frequency Rate) indicator to measure the incidence rate of workplace accidents, which refers to the number of workplace accidents resulting in three or more days' absence from work per one million hours worked. In 2022, there were no fatalities as a result of work-related injury or cases of work-related ill-health. The LTIFR reached 4.06, up 19% on the previous year. Injuries were mainly minor and involved hits, cuts and slips. One injury required absence of more than 6 months. 70% of accidents involved men, and 30% involved women, with no significant age group representation.[55]

LTIFR indicator by year for Krka employees and agency workers[56]

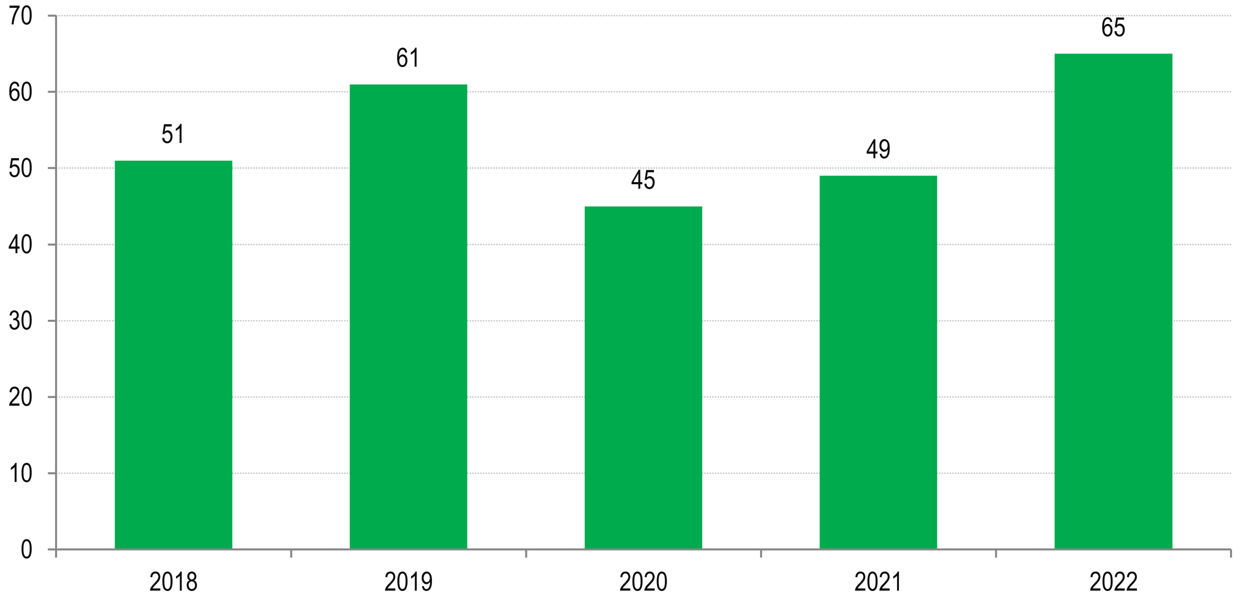


In 2022, we recorded no major safety incidents that might cause a fire or a major spillage of hazardous chemicals or impact manufacturing processes.

[54] GRI 401-3
[55] GRI 403-9
[56] GRI 403-9

Our employees undergo regular trainings on fire protection. We conducted 65 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 our business operations. We also tested the coordination and efficiency of internal and external intervention teams and Krka first aid and medical teams. The Fire Safety Unit and the Industrial Fire Brigade mobilise if any incident occurs.

Number of drills and emergency exercises



Health and safety at work systems 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

Inclusive communication leads to regular information exchange and contributes to a productive business environment, a strong organisational culture, and employee loyalty.

The members of the Works Council, who represent all organisational units, are a link between employees and the management team. Employees can put their initiatives and questions forward through their Council representatives, the President of the Works Council, or the Worker Director. At annual worker assemblies, the President of the Management Board, Management Board members and Works Council representatives brief employees about the past year's operating results, plans for the current year, development strategy, and other news. Employees can ask questions and give proposals.

If employees wish to speak with the President of the Management Board, they can do so by sending an e-mail or making an appointment to see him in person.

Internal corporate communication takes place simultaneously through various internal media and tools.

Corporate communication media and tools in the Krka Group

The *Bilten* weekly bulletin	The Krkanet intranet portal	The *Utrip* internal magazine	E-mails sent from the Krkaš.si e-mail address	Information screens
Notice boards at manufacturing and other sites	Internal campaigns	Online events	Initiatives (Your Effectiveness Counts, Krka's Mobility Plan)	Official Krka profiles on social media (Instagram, LinkedIn, and YouTube)

Employees learn about important corporate guidelines at internal events and in communication campaigns. 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. We have recently added Krka's official social media profiles to our corporate communication tools. We use them to post key information and information about our operations' impacts on society.

Internal communication tools abroad include local issues of the *Utrip* (*Puls*) and *Bilten* (*Bulletin*) in national languages, and the *KRKA Bulletin*, our quarterly e-newsletter in English and Russian for our markets without local publications in national languages. We inform our employees about local and important corporate news and campaigns via e-mailings and Krkanet. Employees in key markets use intranet portals (Krkanet) in their national languages. Communication with employees in minor markets is the responsibility of directors of subsidiaries and representative offices abroad, while marketing communication managers are responsible for good communication practices in key markets.

Patients and other customers

The quality of active ingredients, excipients, incoming materials and finished products is laboratory tested using state-of-the-art and validated analytical methods, devices and procedures. All our prescription pharmaceuticals and non-prescription products are tested and compliant with all regulations. We market only products that have been approved and comply with relevant requirements and regulations.

We 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 bioequivalence studies and research in pre-authorisation phases and support post-authorisation clinical research. Clinical research with Krka medicines helps health professionals make the right and reliable decisions and contributes to treatment success and medical advances. We ensure high quality, transparency and ethics in clinical research by complying with legal regulations, good clinical practice guidelines and the Helsinki Declaration.

We differentiate two groups of users of our products: patients and other end users; and health professionals, healthcare providers and direct customers. Their trust is built on responsible and professional communication and providing all necessary information about our products in compliance with the relevant legislation.[57]

Patients

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 in certain therapeutic areas to help users alleviate symptoms. We are optimising digital communication channels and improving information to address the concerns and needs of our end users. We also create digital content to promote healthy lifestyles. All our product information complies with relevant regulations and is pre-approved by the competent regulatory body in each country, e.g. in Slovenia, the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia. No incidents of non-compliance concerning product information were identified in 2022.[58]

[57] GRI 3-3
[58] GRI 417-1, 417-2, SDG 3

We implement health protection, safety, and patient and other end-user protection systems according to clear guidelines incorporated into our operations. Our risk management system related to these aspects complies with legal requirements and regulations.

Our system for collecting information about risks to the health of patients or public health related to prescription pharmaceuticals and non-prescription products, scientific data evaluation, assessment of potentials for risk reduction and prevention, and the adoption of appropriate measures for the safe use of medicines comply with European legislation and regulations in other countries where Krka holds marketing authorisations.

In 2022, we launched an entirely redesigned and updated corporate website with a new section Health Matters and additional information on our products, their development and production, and quality assurance. Our *eZdravje* portal is an important source of diverse and credible information on health in Slovenia. We also support certain web portals set up by professional associations to provide health-related information to the general public.

Patients can only be included in clinical research after expressing their willingness to participate freely and voluntarily. Investigators inform them about the course of the research and any risks involved. Our main concerns are patient safety, privacy, and data confidentiality. We pursue them in line with Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data. We identified no personal data breaches in 2022. We apply good pharmacovigilance practices in monitoring and reporting adverse events. Results of clinical trials are published in the EU Clinical Trials Register to support their transparency.[59]

Over 350,000 patients from 27 countries have participated in over 150 post-authorisation clinical studies with our key medicinal products from the main therapeutic classes. In 2022, the final report was prepared for Blossom, the international randomised clinical trial with pregabalin (Pragiola*) and duloxetine (Dulsevia*). The trial took place in five countries and included 254 patients with painful diabetic peripheral neuropathy. The trial findings confirmed that Pragiola* and Dulsevia* relieve pain in patients with neuropathic pain and help reduce symptoms of insomnia and related stress. The trial also confirmed the good tolerability of both medications.

* Products marketed under different product brand names in individual markets are marked with an asterisk and listed on pages 118–120. Products can also be marketed under the corporate trademark in individual markets.

Health professionals, healthcare providers and direct customers

We cooperate with various institutions, health insurance companies and other bodies dealing with medicinal and other Krka products in product development, production, sales and marketing. We adhere to all prescribed procedures and ensure our documents are up to date and reliable. To this end, we carry out our procedures properly and make sure our documentation is systematically organised, transparent and complete. Advertising of pharmaceutical products is subject to strict regulation and control. No complaints about non-compliance of marketing activities with regulations and ethical standards were received in 2022.[60]

Direct customers include distributors, pharmacy chains, hospitals, and pharmaceutical companies. We regularly conduct online satisfaction surveys among our direct customers to determine their general level of satisfaction, their satisfaction with our products, sales personnel, order processing and fulfilment, and complaint procedures. After thoroughly analysing their reviews and proposals, we set measurable goals, adopt relevant actions, and monitor their performance in the next survey.

In 2022, the response rate was 83%, down 3 percentage points compared to the year before. The satisfaction index of slightly less than 93% was the highest over the last five years. The respondents attached the highest importance to order fulfilment, actual delivery times, and complaint response times. Other aspects of customer satisfaction also recorded high average scores.[61]

[59] GRI 418-1
[60] GRI 417-3
[61] GRI 2-29

Indirect customers or health professionals, i.e. doctors, veterinarians and pharmacists, prescribe, recommend, and dispense our products representing a crucial link with patients and other end users. We regularly inform them about our products, enabling them to make informed decisions about which product is most suitable for their patients and users. We maintain direct contact with them in 42 countries, and provide them with information in printed or electronic form. Whenever we communicate with health professionals, we act responsibly and in accordance with the applicable laws and other regulations on business operations, including regulations on product marketing and personal data protection. We comply with good business practices, recommendations of the Medicines for Europe, and an ethical code of promotion.

We contribute to the professional development of doctors, pharmacists and veterinarians by organising and supporting professional and educational meetings where they can build on their know-how, learn about new guidelines, exchange opinions and experiences, and network. Meetings take place in various countries where Krka is present with its products. In 2022, most took place in person, and only some were organised as online or hybrid meetings.

Physicians and pharmacists can access educational information on our thematic web pages, which we constantly upgrade. In Slovenia, we redesigned our web portal for healthcare professionals Krka for Knowledge and launched it in 2022.

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. Special emphasis is placed on their understanding and compliance with ethical standards, standards of work, and legal and other regulations. We also ensure they have good communication skills.

Feedback and opinions obtained through daily contact and independent market research are important in providing high quality, safe and effective medicines. IQVIA data for Poland, our second-largest market, showed that cardiologists ranked us the most visible company, with medical specialists from 18 specialist areas of medicine and general practitioners placing us among the most visible. Ipsos Comcon data for the Russian Federation, our major market, indicated that general practitioners and cardiologists ranked us first for prescriptions.

We take an active part in the changing professional, scientific and regulatory environment by participating in various professional and industry associations in Slovenia, the European Union and other countries.

Corporate social responsibility

We are aware of our operations' impacts on the society as we are an international pharmaceutical group and one of the largest companies in Slovenia. We manage them responsibly, adhering to our strategic guidelines and policies. We foster integrated and responsible social development, scientific research, intergenerational and interdisciplinary cooperation, adherence to diversity principles, and healthy lifestyles. We support projects related to health and the quality of life. We maintain long-term partnerships through sports, culture, healthcare, science, education, and humanitarian actions.

We identify the needs of the community through regular contacts, long-term partnerships, annual meetings with our partners, and the process of preparing new sponsorship and donation contracts. Our sponsorship and donation committee examines sponsorship and donation applications. In 2022, we fulfilled all agreed obligations.[62]

We allocated 0.20% of our sales revenue to sponsorships and donations and helped more than 450 institutions, associations, and organisations achieve their goals.[63]

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 15 were recognised for their achievements. We expressed our appreciation to nine representatives of clubs, associations and institutions for their invaluable contribution.

[62] GRI 3-3
[63] GRI 201-1

Encouraging new scientific discoveries[64]

We support projects that advance the work of various educational and scientific institutions and deepen the expertise of highly skilled professionals. They are designed to upgrade infrastructure and provide scholarships, above-standard educational activities, research work, and participation at national and international competitions.

We attract young talent in research through Krka Prizes. Over the past 52 years, we have awarded 3,044 Krka Prizes. The Krka Prizes Council has played a prominent role in making research work popular among students, pupils and mentors in educational institutions. In the call for secondary school research papers, pupils handed in 43 research papers. We awarded 19 Krka Prizes and 23 recognitions for their research work. In the call for graduate and post-graduate research papers, we received 101 research papers and awarded Krka Prizes to 31 young researchers. Five of them received Krka Grand Prizes for their exceptional research work. We also presented the students with 35 special commendations and 35 recognitions. Among the recipients, 20 held doctoral degrees. The research papers covering theoretical and experimental issues and employing a multidisciplinary approach have been constantly improving in terms of quality and variety.

In 2022, we supported major projects at ten primary schools and kindergartens and contributed to school funds for talented pupils. We also supported several end-of-year celebrations at primary and secondary schools. Our contribution to the Janez Drnovšek Scholarship Fund, named after a prominent Slovenian politician, showed our support for the Fund's activities for the fifth consecutive time.

In 2022, the Slovene Science Foundation, our long-time sponsorship recipient, organised the 24th Slovene Science Festival, which attracted participants from around the world.

Charity and volunteering

Volunteering and charity have become inseparable parts of our organisational culture. In 2012, all our charity and volunteering actions were united under Krka's Week of Charity and Volunteering. This campaign is organised in all countries where Krka has its subsidiaries and representative offices. In 2022, 850 Krka employees volunteered to participate in the campaign.

Our charity impact over the nine years of Krka's Week of Charity and Volunteering

The campaign united 9,181 Krka volunteers in acts of kindness.
We collected 29.4 tonnes of clothes, food, books, toys, personal hygiene products and other necessities for the Red Cross and the Slovenian Karitas charity.
We donated 1,013 litres of blood.
We spent time with the residents of 12 various institutions, associations and primary schools for children with special needs.
We socialised with the residents of 37 retirement homes, organised workshops and cultural events for them.
We helped prepare more than 6,900 food packages (or 54 tonnes of food) and sort 6 tonnes of clothes at the Red Cross and the Karitas charity.
We collected almost 3.7 tonnes of pet food and helped at pet shelters and the Ljubljana ZOO.
We hosted almost 19,000 visitors and Krka employees at Krka.

We encourage our employees to volunteer through sponsorship boards of non-profit institutions and by providing supplies. In 2022, we supported two particular institutions: the retirement home in Novo mesto and the Novo mesto Dragotin Kette Primary School for children with special needs. We have supported the retirement home since its establishment 42 years ago and the school since the establishment of the Krka sponsorship board 45 years ago.

In 2022, we presented the 11th consecutive Volunteer of the Year Award and thanked 152 Krka employees who donated blood 10 to 100 times.

[64] GRI 203-1, 203-2, SDG 4, SDG 8

Support for healthcare institutions[65]

Providing medicines to treat modern-day common diseases is one of our top goals. We continuously complement and upgrade our product range to respond to other needs of patients and challenges in their treatment.

In line with our goal to provide affordable treatment, we donate to healthcare institutions while complying with applicable laws. Our donations towards the purchase of modern medical devices help improve the quality of health care services, diagnostics, and patient treatment.

In 2022, we donated 32 portable bedside ultrasound machines to general medical clinics in Slovenia, bringing the total to 82 bedside ultrasound machines over the last two years. The donation also included necessary training for the doctors.

We donated two incubators to the Division of Gynaecology and Obstetrics at the University Medical Centre Ljubljana. The two state-of-the-art machines ensure that premature babies and sick newborns get the best possible care and the medical staff the support they need. The donation exceeded €100,000.

Support for patient associations and societies[66]

We work with patient associations and societies because we appreciate their contribution to the quality of treatment and patient safety. Among others, we supported two projects: What Does Your Heart Beat for?, a campaign run by the Slovenian Hypertension Society and the Slovenian Society of Cardiology, and Neuropathic Pain, a project managed by the Slovenian Association for Pain Management.

Partnership in sports

We promote many sporting activities to foster healthy lifestyles. We primarily support local clubs and associations encouraging young people to take up recreational or professional sports. We donate funds to purchase sports equipment for schools and other organisations that promote a healthy lifestyle.

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. We have also supported recreational and sporting activities under Krka Retirees Society since its establishment in 2000.

Through our campaign Caring for Your Health – Together We Scale the Heights, we carried out maintenance work on 17 signposted Krka hiking trails and contributed to safety in the Slovenian mountains together with the Alpine Association of Slovenia.

Our sponsorship of the Ski Flying World Championship in Planica was an acknowledgement of a 37-year-long collaboration. In 2022, we arranged the fifth consecutive trip to Planica for 443 children and their mentors from five primary special education schools and four primary school branches to see the qualifications for the final competition.

We also supported the Women FIS Ski Jumping World Cup in Ljubno in Slovenia, events organised by the Slovenian Tennis Association and the Slovenian Gymnastics Federation, and the biggest amateur cycling event in Slovenia, Maraton Franja BTC City.

Dedicated to culture

We strive to bring culture closer to our employees and the local and wider community.

[65] SDG 3, SDG 5
[66] SDG 4

In 2022, we supported the publication of 10 books and hosted four cultural evenings. We staged the Krka Cultural Evening at the church housing the Galerija Božidar Jakac gallery in Kostanjevica na Krki for the sixteenth year running.

We also supported the artistic work of the Slovenian pianist Meta Fajdiga and the Slovenian violinist Patricija Avšič, both giving impressive performances at Krka cultural events. Our long-lasting partnership with the Cankarjev dom cultural and congress centre in Ljubljana led to the performance by the Berliner Philharmoniker, one of the world's best orchestras, at the centre.

We supported other cultural societies, institutions and events, among them the Galerija Božidar Jakac gallery in Kostanjevica na Krki, Pihalni orkester Krka brass band, the Novo mesto Anton Podbevšek Teater theatre, Festival Ljubljana cultural and art institution, the Slovenian Reading Badge Society, the Slavic Society of Dolenjska and Bela krajina, the 54th international PEN Writers' Meeting organised by the Slovene PEN Centre, and the Cankar Award for the best original literary work. Krka's Culture and Arts Society has a prominent role in fostering culture. To mark its 50th anniversary, the Society organised a performance by Krka's mixed choir and Krka Octet. The Society also arranged the 43rd Dolenjska Book Fair, 18 exhibitions of works by Slovenian and foreign artists, and eight Theatre Club meetings.

Support for non-governmental organisations[67]

Every year, we support several non-profit, non-governmental and non-political organisations and their initiatives, particularly those by the Red Cross and the Slovenian Karitas charity.

We responded to the Karitas charity's call to help Ukraine and made two donations of our medicines worth €200,000 in March.

Krka has been the main sponsor of the People in Need Fund of the Regional Branch of the Red Cross in Novo mesto for several years. We worked with humanitarian organisations and made several substantial donations to help 15 families and individuals in need. Our executive managers also made a contribution to the Regional Branch of the Red Cross in Novo mesto to help a family with three children from Novo mesto.

Together with the local Association of Friends of Youth Mojca in Novo mesto, we gave presents to more than 2,500 children from three municipalities in the Dolenjska region and children of Krka employees.

We maintained our association with the Chain of Good People project launched by the Association of Friends of Youth Ljubljana Moste-Polje. The association helps families in need in Slovenia. We have been working together with the Novo mesto Occupational Activity Centre for several years. The centre's residents also prepared New Year gifts for our company in 2022.

We provided material and financial support to firefighting departments. We contributed towards the purchase of new fire engines and equipment and the renovation of fire stations of 16 fire departments and firefighting agencies in Slovenia. We also helped 46 fire departments to raise funds by preparing promotional material. We sponsored the 100th anniversary of Ljubljana Fire Brigade, the largest and the oldest professional fire brigade in Slovenia, and were a silver sponsor of the Fire Fighter's Olympic in Celje, organised by the Slovenian Firefighters Association. Our male and female firefighting teams took part in the event and achieved good results.

In July, more than 10 Krka Volunteer Industrial Fire Service members helped fight wildfires in Slovenia's Carst region. They joined their colleagues from local volunteer fire departments. Eight professional Krka Industrial Fire Brigade firefighters also helped in this major operation.

Social responsibility projects

If you need further information on social responsibility projects, please e-mail us at druzbena.odgovornost@krka.biz or contact us by regular post at Krka, tovarna zdravil, d. d., Novo mesto, Public Relations, Šmarješka cesta 6, 8501 Novo mesto, Slovenia.

[67] GRI 201-1, 203-1

Natural environment

We reduce the environmental impacts of our operations by introducing sustainable solutions, something we factor in throughout the product life cycle. We are committed to climate change mitigation and adaptation, rational use of energy and all natural resources, transition to the circular economy, emission and waste reduction, and biodiversity conservation. Bearing this in mind, we ensure healthy working conditions for our employees and the wider community. We took a step forward as regards the environmental dimension of sustainability in 2022. We optimised paper use by improving patient information leaflet design, setting up a renewable energy supply, improving separate waste collection systems, reducing waste volume in collaboration with a major supplier, and setting up a returnable packaging system. We follow the guidelines on environmentally sound management in the entire Krka Group.

2022 environmental milestones

We cut the specific energy use, measured in TJ per billion product units, by 6% on average over the past few years.
We reduced our carbon footprint by 320 t CO_2-eq per year through our energy efficiency improvement projects
We reduced paper use by 9 tonnes by optimising the patient information leaflet design.
We substituted 4.3% of river water used to supply cooling towers with rainwater.
We reduced disposable waste by 13%.
A total of 492 tonnes of waste composites were sent for processing, from which the contractor recovered 206 tonnes of aluminium and 255 tonnes of plastic.
We set strategic ESG goals, which commit us to reducing our carbon footprint, increasing renewable energy, cutting specific waste volume, and ensuring efficient use of energy, water and other resources.

We handed over more than 94% of total waste for processing or energy recovery, increased waste separation by 6%, and decreased disposable waste by 13%. Year on year, our total waste increased by 5%, matching the increase in production volume. We maintained total water consumption at the 2021 level. Year on year, drinking water consumption increased by 4.8% to 676,482 m^3, while river water consumption decreased by 3.9% to 785.135 m^3. The production increased, so total wastewater generated increased by 3%, while total environmental load units (ELUs) for wastewater treatment increased by 13.5% on 2021.

Environmental management system and policies[68]

The updated 2022–2026 business strategy and *ESG Policy* of the Krka Group adopted in 2022 restated the close connection between our operations and sustainable development. Responsible environmental management adds to our long-term competitiveness and helps us achieve strict environmental standards. Our stakeholders also rely on us to mitigate environmental risks. We set up our comprehensive environmental management system in compliance with the ISO 14001 standard 21 years ago. The Environmental Management System (EMS) certificate committed us to reducing all our environmental impacts, while the revised edition of the ISO 14001:2015 standard committed us to integrating 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, which is specified in the internal document *Environmental Management System*. Employees of Environmental Protection carry out tasks at the operational level. The system's goals are: a high level of environmental protection throughout the product life cycle; constant reduction of our environmental impact; compliance; and attainment of the corporate environmental objectives. 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 a new technology, a production process or a product might lead to a significant environmental burden. If a risk of this kind is identified 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.

[68] GRI 2-23, 2-24, 2-25, 3-3

We collect and analyse data about the environmental management system using 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 system's suitability and efficiency and highlight improvement opportunities.

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.

The environmental policy and *ESG Policy* of the Krka Group also commit us to responsible environmental operations. To monitor progress, we have set measurable strategic goals. The two policies and strategic ESG goals, which include environmental goals, are available on the company website www.krka.si.

All our activities comply with the requirements of the Environmental Protection Act and implementing regulations. They serve as the basis for environmental protection permits issued for individual production sites. We regularly account for environmental taxes and submit them to competent institutions in conformity with relevant legislation. Environmental legislation composes an extensive part of the European acquis. 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. A management review deals with the achievement of goals and the implementation of programmes. The Committee is also responsible for the periodic identification of environmental aspects. These include the impacts of our products and services throughout their life cycles. Environmental Protection and the Committee assess identified environmental risks within environmental planning, which are also integrated into business continuity, quality, and risk assessments of contractual partners.

We control compliance with legislative and regulatory requirements and environmental protection permits by regularly monitoring air, water, soil and noise emissions and electromagnetic radiation, waste assessments, and regular checks of reservoirs, equipment, and transport of hazardous substances. We manage any deviations in compliance with internal standards and introduce necessary corrective measures.

Local community members and other stakeholders can use the complaint system to file a complaint, a question or a suggestion relating to environmental protection. Publicly available information on environmental protection and contact details are published on www.krka.si, which was completely updated and extended with ESG topics.

Environmental compliance[69]

All our activities comply with environmental laws, permits, ISO 14001, guidelines and EU directives. We control environmental compliance by regularly monitoring all environmental impacts. We recorded five deviations from legal threshold values in wastewater discharge in 2022. We properly examined them in compliance with the environmental programme and internal standards and carried out relevant corrective measures, reducing the load units below threshold values.

The Inspectorate of the Republic of Slovenia for the Environment and Spatial Planning inspected our production plant in Krško, Slovenia. They established no irregularities or regulatory non-compliance. Based on wastewater monitoring results from Ločna (Novo mesto, Slovenia) and Ljutomer (Slovenia), the Inspectorate requested an explanation about permanent flow monitoring and the number of conducted measurements. Following our explanation, the Inspectorate issued decisions to discontinue the proceedings. We received no improvement notices after the inspection procedure and incurred no costs.

The Inspectorate issued a decision in 2019 ordering us to take wastewater treatment measures at our Krško plant. We have been implementing the remedial actions as part of our Sinteza 2 project. The project is at the final environmental protection permit stage.

[69] GRI 2-27, 413-1

We recorded a noise complaint at Dunajska 65 in Ljubljana, Slovenia. We discovered a generator set, which was in operation occasionally, to be the noise source. We installed silencers, reducing noise to acceptable levels. We informed the petitioner accordingly.

We received a decision about a change in the environmental protection permit for our Šentjernej (Slovenia) plant, which sets down the conditions for wastewater discharge into the public sewer system. We are managing the environmental procedures for changing the environmental permit for our Ločna (Novo mesto, Slovenia) plant in accordance with the Slovenian Environmental Protection Act (ZVO-2).

Environmental protection costs

Over the last five years, we have allocated more than €48 million to environmental protection, of that €12 million in 2022. Direct costs amounted to €7.7 million and included costs of wastewater discharge and treatment, waste management, waste air treatment, noise reduction, monitoring costs, environmental levies and other direct environmental protection costs. We invested €4.3 million in environmental protection programmes to further reduce environmental impacts.

Water[70]

Clean drinking water, which must meet strict chemical and microbiological quality requirements, is essential for the pharmaceutical industry. We devote much effort to preserving the quality of water bodies at our production sites. Drinking water quality also depends on seasonal fluctuations and precipitation. We closely monitor gage height in order to ensure optimal performance of pharmaceutical water preparation machines and that drinking water quality remains within the threshold values. All water systems at Krka are managed in compliance with Good Manufacturing Practice (GMP) and the HACCP system. We reduce system failures by planned preventive maintenance in accordance with equipment manufacturers' recommendations, our experience, legislative requirements, and standards.

Wastewater that comes from rinsing the machines for preparation of pharmaceutical water and does not contain chemicals is reused to prepare 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 supply network. We replace the missing quantities with pharmaceutical water stored in reservoirs for that purpose.

Drinking and river water use

Our main water sources are:

- Drinking water from the municipal utility services; and
- River water.

Drinking water consumption is monitored by a computerised control system, which records the flow rate total and consumption total at the plant input and main user points. We can immediately identify any increase or deviation in drinking water consumption, investigate the underlying reasons, and take all necessary measures. We draw up monthly drinking water consumption reports. We encourage our employees to drink tap water or from drinking fountains. We save on average 10% of drinking water by tap jet regulators.

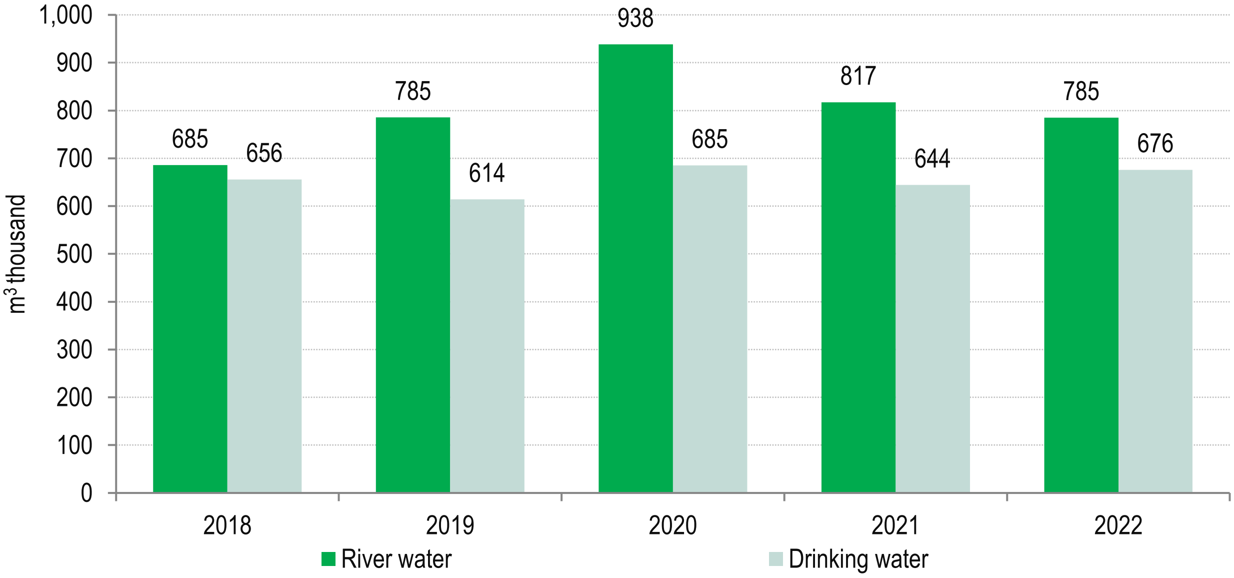
We comply with stringent requirements of pharmacopoeias regarding water preparation in the pharmaceutical industry. We strictly use drinking water of officially controlled quality from the water supply utility. Water is additionally purified depending on its purported use, most commonly using sophisticated membrane technologies. Preventive maintenance, machine operation monitoring, and technological improvements ensure consistent water quality, extended useful life of the equipment, decreased water and chemical consumption, and reduced waste generation.

At Krka, we maintained the 2021 water consumption level despite a significant increase in production volume in 2022. River water use decreased by 3.9%, while drinking water consumption increased by 4.8%. We upgraded automated washing systems at the Notol plant, increasing the efficiency of drinking water and detergent use.

[70] GRI 3-3, 303-1, 303-2

River water consumption declined by 3.9% compared to 2021. Approximately 50% 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 replaced 6,955 m^3 or 4.3% of river water for cooling systems with rainwater, a 1.3% year-on-year increase.

Drinking and river water use[71]



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, in-house generators powered by renewable sources such as the solar power station, and the natural gas-fired cogeneration plant.

Energy management system[72]

Energy management strategy is incorporated into Krka's integrated management system and drafted in accordance with the principles of ISO 50001 *Energy Management System*. It is integrated into the corporate strategy and comprises various activities and actions for achieving cost-related and environmental objectives. The Committee for Monitoring Environmental Aspects is responsible for the periodic identification of energy-related aspects in accordance with ISO 14001, bye-laws and policies. In this way, we manage and upgrade our processes based on sustainable development and circular economy principles to maintain a high level of environmental protection.

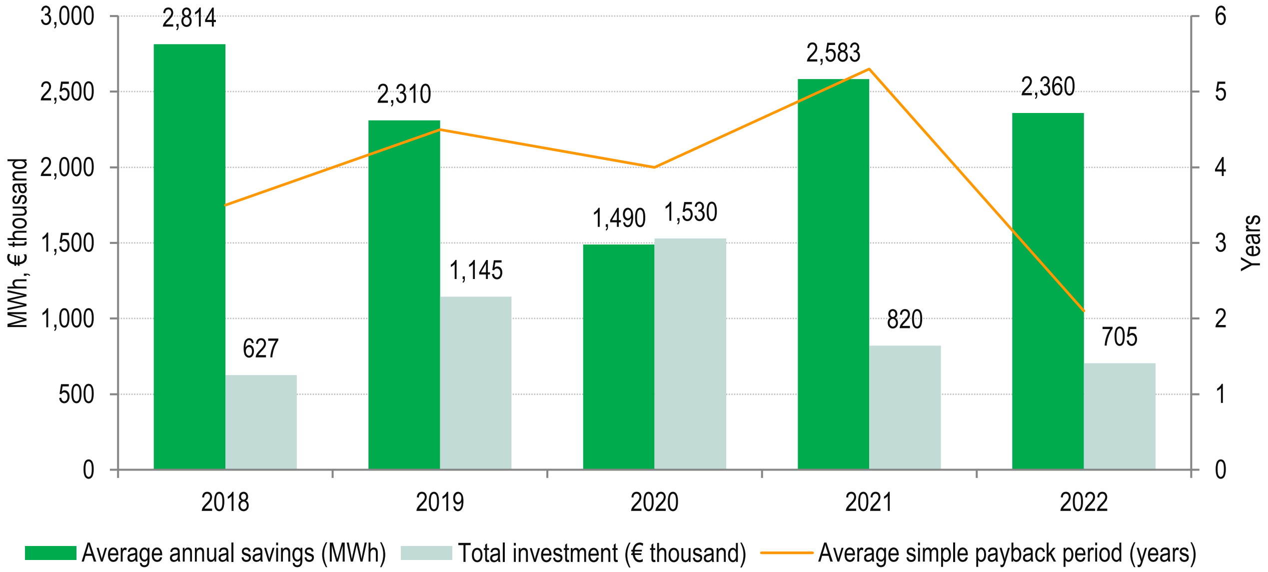
Energy management system incorporates:

- A corporate energy manager who supervises and coordinates the work of energy operators;
- Energy operators in production plants in Slovenia and abroad; and
- All employees are committed to efficient and rational energy use pursuant to the environmental policy.

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 2022, we started upgrading it to the latest version, including machine learning. Please see the 'Energy efficiency projects' section for more information.

[71] GRI 303-3, 303-5
[72] GRI 3-3

Multi-year survey of implemented measures and their effects on energy management[73]



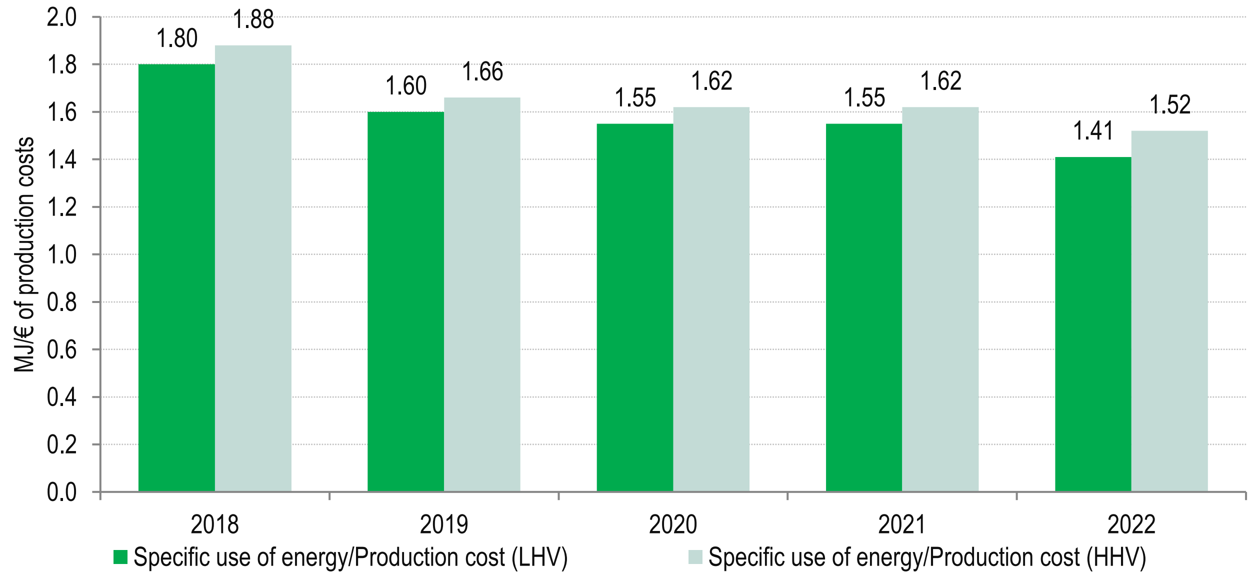
In accounting for an average simple payback period, we consider only measures taken exclusively for economic viability. Simple payback periods significantly decreased in 2022 compared to the past five-year period.

Specific use of energy[74]

Specific use of energy portrays production costs in consideration of the physical volume of production.

We reduced specific energy use in correlation to production costs by 10% year over year thanks to many activities geared towards efficient energy use, energy efficiency investment, and energy-efficient maintenance.

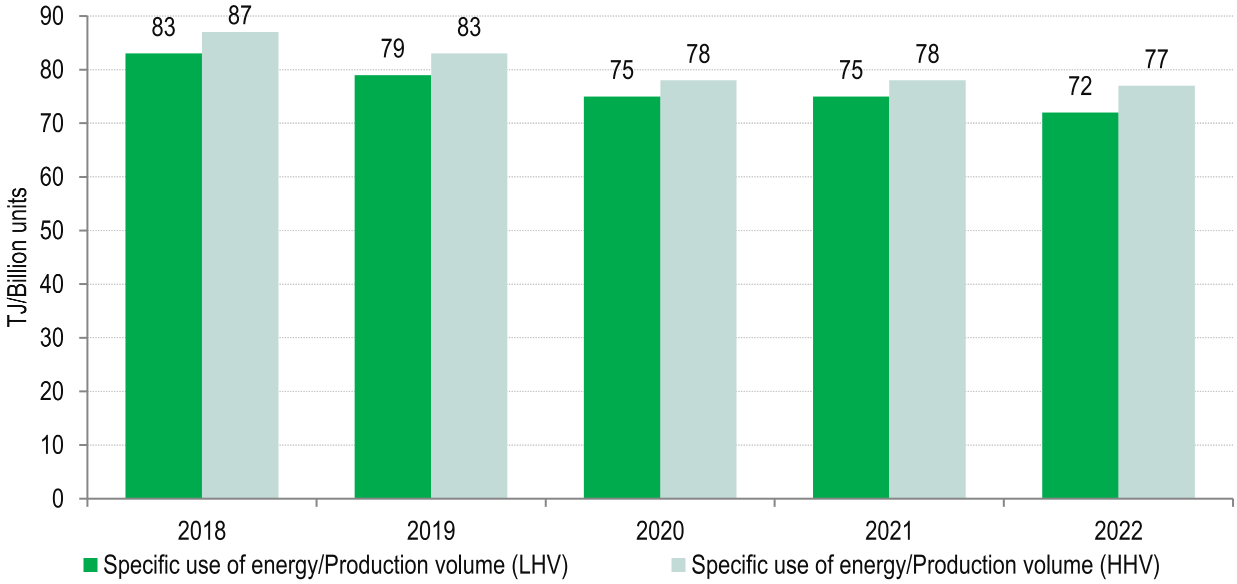
Specific use of energy by production costs



We reduced specific energy use in correlation to production volume by 2% year over year thanks to many activities geared towards efficient energy use, energy efficiency investment, and energy-efficient maintenance.

[73] GRI 302-4
[74] GRI 302-3

Specific use of energy by production volume



Energy efficiency projects

We pay special attention to energy efficiency, which is reflected in the continuous improvement of specific use of energy. In recent years, systematic measures and investments have returned average electricity and natural gas savings of more than 50 GWh or emission savings of 17,000 t CO_2-eq per year. In 2022, all energy efficiency projects generated savings of 2,360 MWh and reduced our emissions by 320 t CO_2.

Waste heat recovery from regenerative thermal oxidation

We completed the introduction of a new regenerative thermal oxidation system by using waste heat from flue gases for the first time, which proved to be fine. According to our estimates, this additional system will save 1,500 MWh of natural gas per year.

Upgrading the energy management information system

We started upgrading our energy management information system, which will support even more advanced analyses and accurate monitoring of our environmental goal achievements. One of the key objectives is the introduction of machine learning into energy processes. This advanced technological solution allows easy control over the efficiency of production, processes, energy and other media consumption in a large system, which includes 2,000 measurement points. It allows for energy efficiency screening of individual processes, speeding up our response in case of unexpected changes.

Waste heat recovery

We use waste heat as a by-product from various processes, e.g. from the compressor station, flue gases from steam boilers, vapours from the steam boiler system, and condensed heat from cooling units, and cogeneration, to prepare heating water. Thanks to this, natural gas for heat generation decreased by 54% or 24 GWh. We recorded an unexpected failure of the cogeneration system, increasing the electricity consumption from the power grid, while the proportion of recovered waste heat declined.

Replacement of FLUO lighting with LED lights

We drew up an internal strategy for the Krka Group for transition to LED lamps. We replaced either a part of or all fluorescent lamps with LED lamps. This upgrade improved the illumination of rooms and work surfaces at Ločna (Novo mesto, Slovenia). Annual electricity savings are estimated at 300 MWh.

Biodiversity[75]

Biodiversity in Slovenia is among the greatest in the European Union. Slovenia covers only 0.004% of the Earth's total surface area. However, it is home to more than one per cent of all known species and more than two per cent of terrestrial species.

All Krka production sites comply with and implement all guidelines and requirements of the European and national legislation on biodiversity to preserve the natural world's ecological, biotic and landscape features.

We raise employee awareness of the importance of biodiversity at internal training courses. We comply with the strictest environmental requirements for the existing buildings and newly planned ones. 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.

The area around the Krka River is an ecologically important area (EIA) and protected as a Natura 2000 site because it is an important natural habitat of several water and riparian plant and animal species, especially fish, amphibians and birds. According to the Nature Conservation Act, an EIA is an important contributor to biodiversity, while Natura 2000 demonstrates our commitment to preserving natural heritage important for Slovenia and Europe. Responsibilities are clearly defined in the European Birds Directive and the Habitats Directive. The Krka River is a habitat for several threatened species. These include fish species such as the asp, huchen, and cactus roach, thick-shelled river mussel, olm, and the European otter and beaver. The river water collection and discharge of treated wastewater from our wastewater treatment plant do not threaten the preservation of water and riparian areas or the conditions for connecting these areas.

All Krka production facilities are concentrated within their respective sites and do not sprawl into ecologically sensitive areas. The areas of our Ljutomer, Šentjernej, Bršljin, and Krško plants (all Slovenia) are not included in the Natura 2000 network. All wastewater is treated appropriately at the municipal wastewater treatment plants in Ljutomer, Šentjernej, Novo mesto, and the Vipap (all Slovenia) wastewater treatment plant in Krško so that we do not endanger biodiversity with our emissions.

Transport[76]

In 2022, we organised transport for over 11,000 shipments of finished products, raw materials and packaging materials. Total mileage by our own vehicles surpassed 2.1 million km, and fuel consumption totalled 585,000 litres. We continued to modernise our fleet of vehicles and organised training for drivers.

We use state-of-the-art vehicles for road transport with environmentally sound engines. We supply products to distant markets primarily by sea or by air. Transport is organised through our in-house transport department. We use our own vehicles or employ contractual carriers. Most of our products are delivered to European and Asian markets. To ensure uninterrupted supplies of medicines, we continued transporting goods by road between Shanghai (China) and Novo mesto (Slovenia), which proved to be an excellent alternative to transport by air. Despite additional restrictions in the transit countries and air and maritime transport difficulties, transport went unhindered. Towards the end of the year, we changed to maritime transport when circumstances permitted.

We closely and regularly follow and comply with the requirements of the laws governing the transport of pharmaceutical products and ensure we 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.

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.

[75] GRI 3-3, 304-2, 304-4
[76] SDG 12

Our fleet comprises 19 vehicles. We modernised it in 2022 by adding three new full trailers and ordered another three semi-trailers. They are scheduled for delivery in the first half of 2023. All vehicles satisfy relevant requirements regarding drivers, safety, and environmental standards. New vehicles are equipped with state-of-the-art accessories (e.g. adaptive cruise control systems, ESP/ESC emergency braking, traction control system, and blind-spot detection system) that enhance traffic safety. We have 14 electric and two hybrid vehicles in our carpool. Based on our vehicle acquisition strategy, we plan to replace at least 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.

We participated in the European Mobility Week with our Krka Car-Free Day campaign for the seventh consecutive year. In 2022, the campaign ran in 11 subsidiaries. Sustainable commuting has become a habit of Krka employees. Many of our employees in Slovenia, 40% of them, live more than 40 km away from the company. The number of employees who carshare is rising, which helps reduce the environmental impact, increases traffic safety, and improves air quality. Green mobility should be safe, so we regularly inform our employees of health and safety recommendations and campaigns, and encourage them to follow them on their way to work. To encourage our employees to commute by bike, we set up bicycle parking lots for at our facilities in Slovenia. We have 50 bicycle parking lots in Ločna (Novo mesto, Slovenia) and plan to build a new bicycle parking station. The bicycle parking capacity will increase by more than 40% and provide more secure bicycle parking. We also encourage using alternative and less environmentally harmful modes of commuting as part of *Krka's Mobility Plan*.

Emissions

Wastewater[77]

We use various physical, chemical and biological processes to completely and effectively remove pollutants from wastewater. We comply with the Decree on the Emission of Substances and Heat in the Discharge of Wastewater from Installations for the Production of Pharmaceutical Products and Active Substances, which serves as the basis for environmental protection permits issued for individual Krka production sites. At all our sites, an authorised contractor carries out wastewater monitoring. Its frequency and scope are set down in individual permits.

Study findings show that the proportion of active pharmaceutical ingredients discharged into water from the pharmaceutical industry is lower than the proportion of these substances 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 the 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 pose an increased environmental risk.

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 to save production water. Whenever possible, we use raw materials and excipients less harmful to water. We 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 surface water. Wastewater in Ločna, Novo mesto (Slovenia), is treated at our advanced in-house industrial wastewater treatment plant using the best available technologies to meet the requirements. Wastewater from off-site plants is treated at highly efficient municipal wastewater treatment plants.

The Ločna plant generates industrial and municipal wastewater, which we treat at the in-house biological wastewater treatment plant. Unpolluted cooling water is discharged into the Krka River through a cooling and rainwater discharge

[77] GRI 303-2, 303-4, SDG 12

system. Over the past few years, the biological wastewater treatment plant was upgraded, and technology professionally managed, so the quality of effluents is high and in compliance with all legal requirements. In 2022, we treated 790,548 m3 of wastewater, or 11,730 m3 more than the year before. Organic pollution expressed by chemical oxygen demand was cleaned in 92.6%, while removal of organic pollution expressed by biochemical oxygen demand within 5 days reached 99%. Cooling wastewater volume totalled 422,761 m3, up 16,454 m3 on 2021.

Our Bršljin (Slovenia) plant generates industrial and municipal wastewater, which is discharged by the public sewerage system and treated at the municipal wastewater treatment plant in Novo mesto. In 2022, we generated a total of 22,092 m^3 of wastewater.

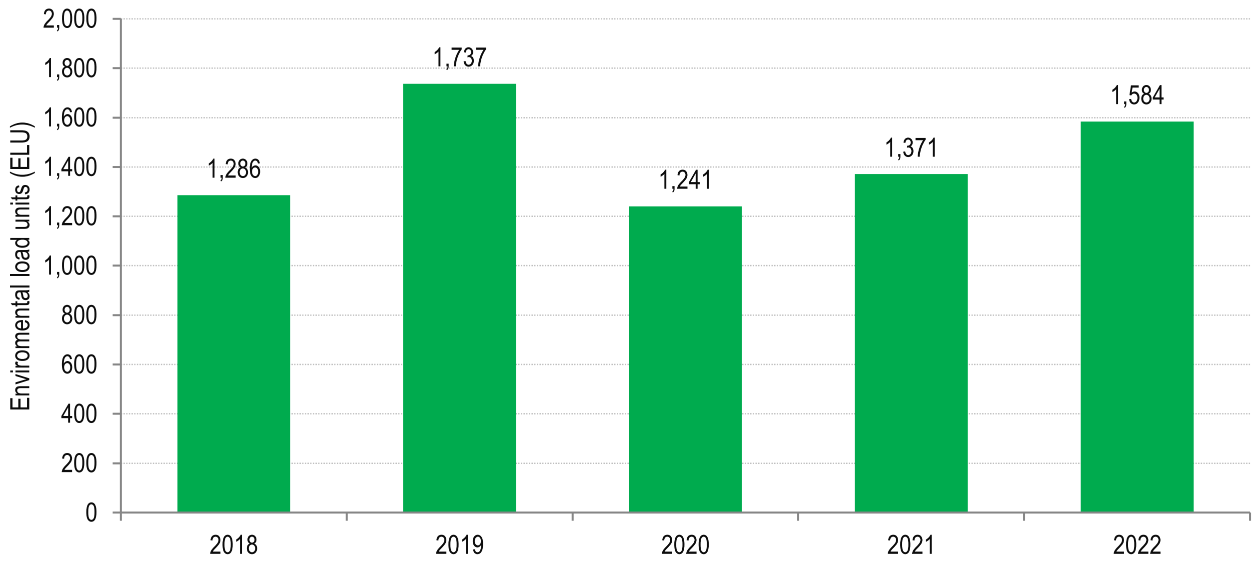
Our plant in Šentjernej (Slovenia) generates industrial and municipal wastewater. Effluents are discharged by the public sewerage system and treated at the common municipal wastewater treatment plant in Šentjernej. In 2022, we generated a total of 16,250 m^3 of wastewater.

Our plant in Ljutomer generates industrial, municipal, and cooling wastewater. Effluents are discharged by the public sewerage system and treated at the common municipal wastewater treatment plant in Ljutomer. In 2022, we generated a total of 22,057 m^3 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 2022, we generated a total of 30,411 m^3 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 the permit has been obtained.

Total environmental load units (ELU) increased by 213 ELU or 13.5% on 2021 due to higher production volume and therefore greater wastewater load at wastewater treatment plants.

Wastewater management



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[78]

Waste management complies with the waste management plan and instructions, which consider legal requirements and set out technical and organisational measures and waste management goals. We factor in extended producer responsibility in common plans for managing waste medicines and packaging waste. We ensure the collection and appropriate processing of packaging materials and the safe disposal of unused medicines by end users.

We comply with the legally prescribed waste management classification and consider the commitment to reduce environmental impacts, as set out in the environmental standard ISO 14001:2015. Our priority is to prevent waste generation through:

- Downsizing packaging units;
- Using returnable packaging;
- Developing improved technological and production procedures;
- Using recovered solvents;
- Reusing pallets; and
- Many other measures.

We reduced paper use in 2022 by 9 tonnes by optimising the patient information leaflet design, decreasing emissions by 2.6 t CO_2-eq. We constantly optimise pack sizes and packaging material weight to reduce purchasing costs and waste packaging volume. We set up a returnable packaging system with our supplier in 2022. This allows us to reuse 42 tonnes of packaging materials and reduce emissions by 111 t CO_2-eq through reuse in line with circular economy principles.

We manage unavoidable waste comprehensively. We prioritise their preparation for reuse. Waste is an important source of raw materials and energy, so special attention is paid to separating waste at source, i.e. at the point where it is generated, and preparing it for reuse. This is another way in which we contribute to the circular economy principles. We have set up a separate waste collection system. All employees take part in the process. Our system relies on advanced equipment for separated collection, pressing and waste transportation. In 2022, we collected 492 tonnes of waste composites in total, from which an approved contractor recovered 206 tonnes of aluminium and 255 tonnes of plastics and handed them over for recycling. We handed over 108 t of organic waste to obtain renewable energy sources, reducing emissions by almost 1 t CO_2-eq.

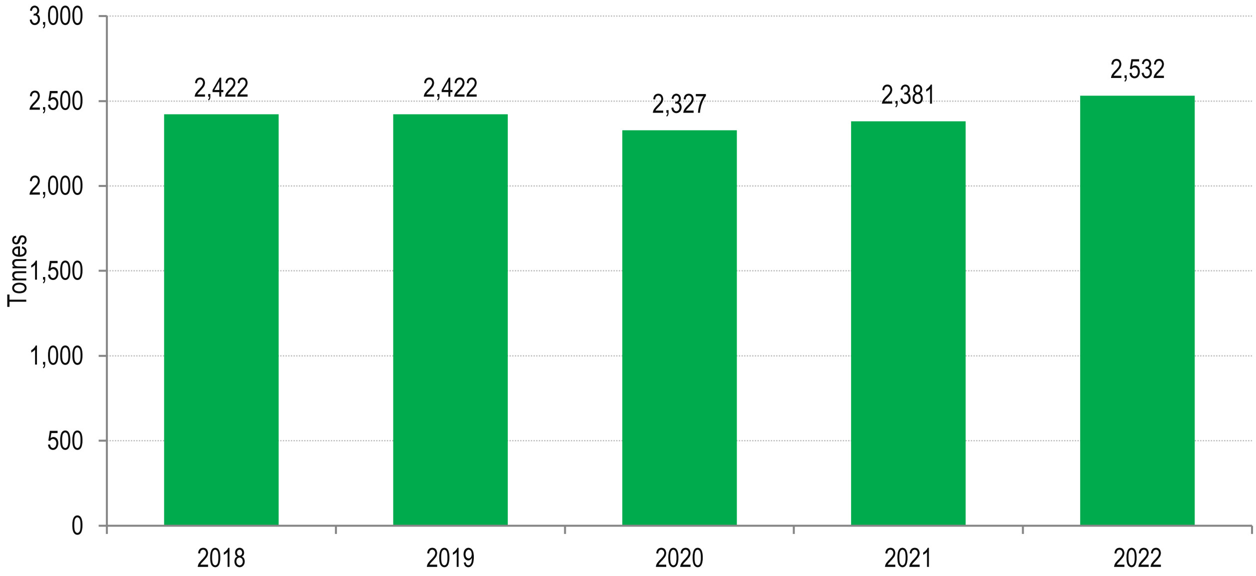
Year on year, we reduced the volume of disposable waste by 13% or 98 tonnes, notwithstanding the increase in production, and increased the proportion of waste handed over to recycling by 6% or 151 tonnes.

Risks related to the reception and removal of certain types of waste in Slovenia persisted in 2022. We diversified our waste management channels and extended cooperation to several waste collection and removal companies in Slovenia and abroad to manage the risks.

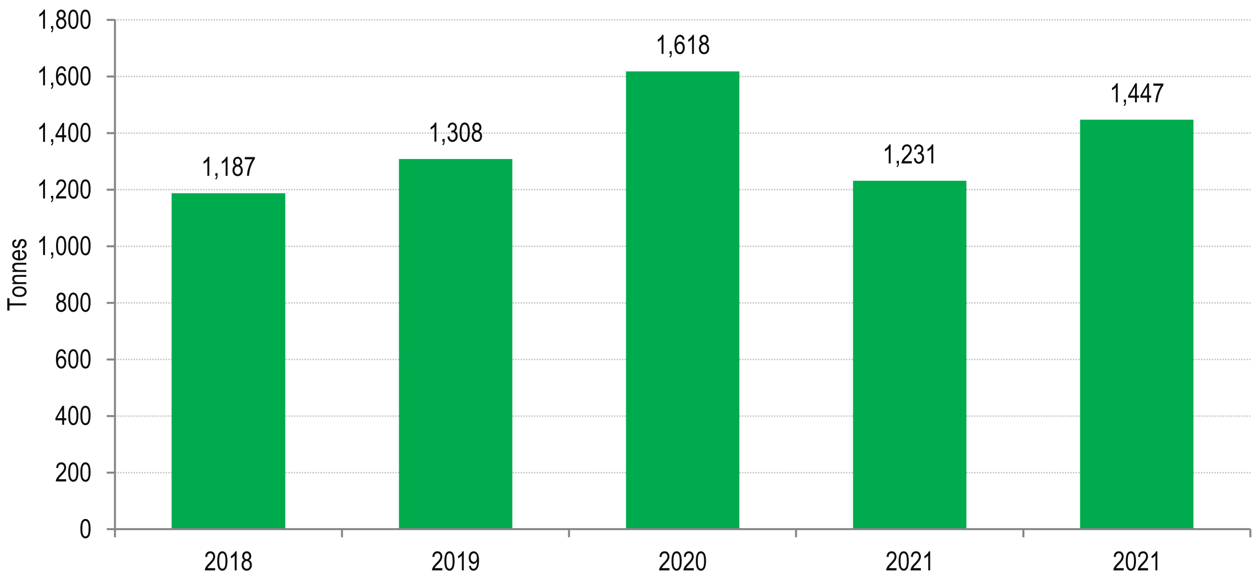
Good results can only be achieved if all employees work responsibly. To accomplish this, we provided our employees with regular waste management training.

[78] GRI 3-3, 306-1, 306-2, SDG 12

Recyclable waste[79]

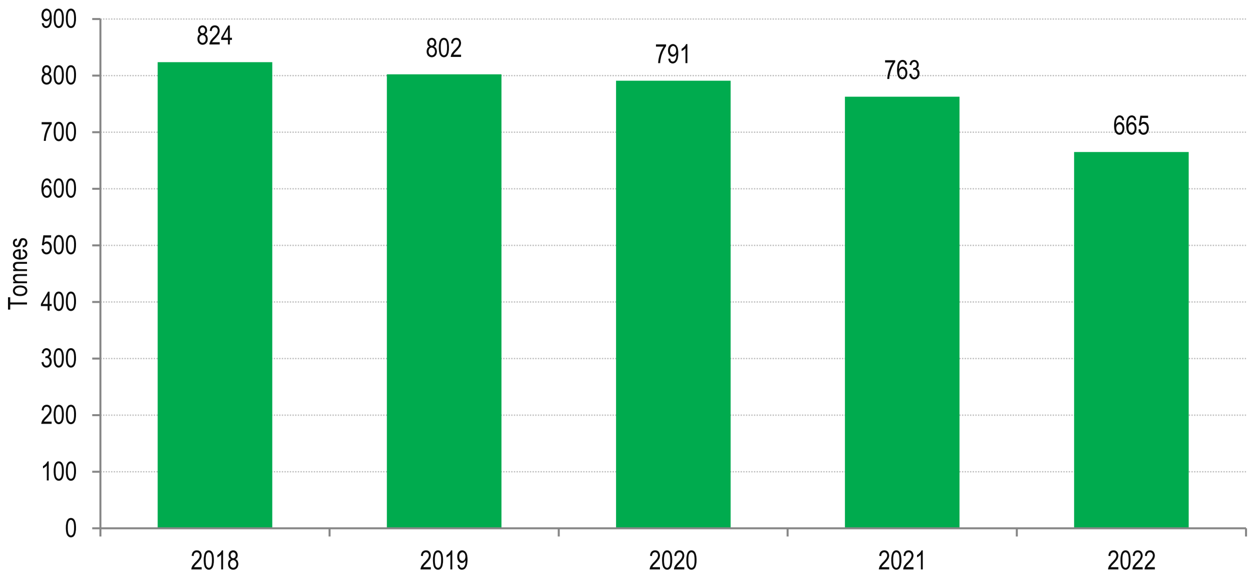


Waste for biological processing[80]

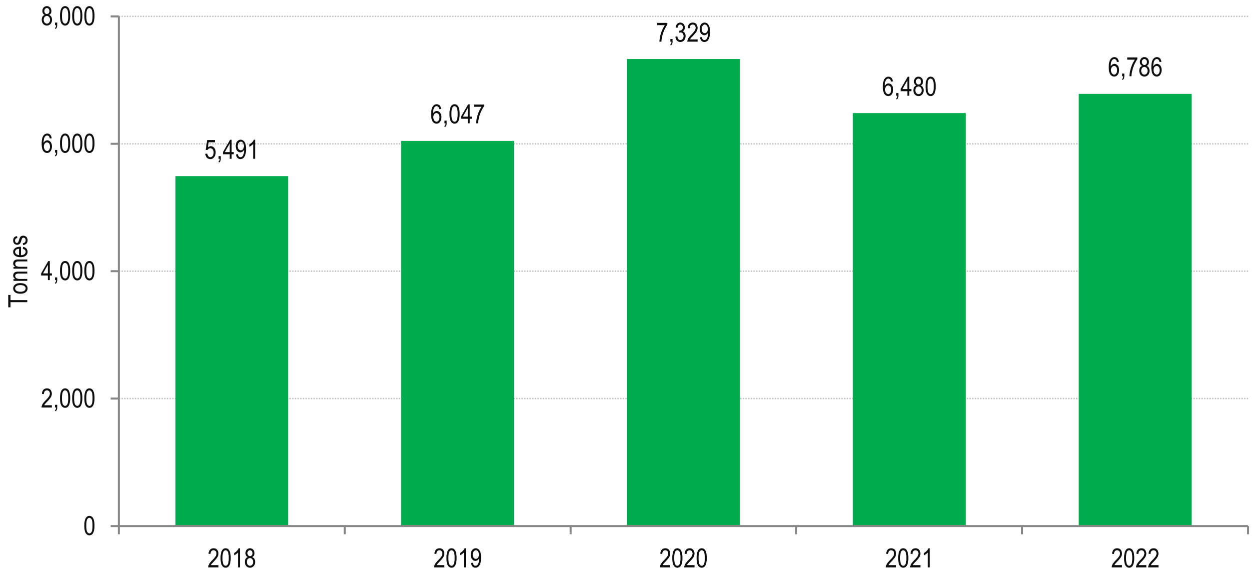


[79] GRI 306-4
[80] GRI 306-4

Waste disposed at landfills



Waste for incineration[81]



Noise

We minimise noise emissions using 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 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. Results of monitoring conducted by authorised contractors in 2022 confirm that all implemented measures were effective and noise levels complied with legislative requirements. We received a single complaint about noise at our site in Ljubljana. Please see the subsection 'Environmental compliance' for details.

Air emissions[82]

Effective reduction of air emissions is one of our priorities in environmental protection and climate change mitigation. We comply with the EU actions to implement the European Green Deal, legal requirements, and the pharmaceutical industry's

[81] GRI 306-5
[82] GRI 3-3, SDG 13

strict requirements to prevent cross-contamination. We reduce air emissions with treatment systems fitted to all outlets that constitute a potential source of pollution. We use effective de-dusting systems, filters, wet-type filtration systems, condenser columns, and thermal oxidisers to keep air emissions below the legal threshold or the levels best available technology allows.

We remove organic compounds from waste air using advanced thermal oxidisers. The fourth thermal oxidation device was put to use in 2022 at our production site in Ločna (Novo mesto, Slovenia). 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.

Slovenia has a problem with occasional excessive air pollution with harmful PM_{10} particles and certain other pollutants, for example, $PM_{2.5}$ particles, nitrogen dioxide, ozone, and benzo(a)pyrene, which cause many health issues. At Krka, absolute air filtration is applied to all airborne particle emissions to remove over 99.7% of all particulate matter.

For the first time in 2022, we calculated, according to *Greenhouse Gas Protocol* (GHG) Scope 1 and Scope 2, the carbon footprint for the Krka Group from 1 January 2019 until 31 December 2021 inclusive.

In 2019 and 2020, indirect emissions from the electricity consumption from the power grid accounted for the largest proportion of greenhouse gases (53.4% in 2019 and 53.1% in 2020). Greenhouse emissions from fuel combustion in stationary machines owned by the Krka Group were at 31.7% in 2019 and 34.4% in 2020, the next biggest pollutant. The third biggest pollution source was at 12.9% in 2019 and 9.8% in 2020 – engine combustion generated by means of transport (trucks, vans, cars) owned by the Krka Group. We recorded a significant drop in total greenhouse gas emissions, primarily from Scope 2. This resulted from our transition to zero carbon electricity sources in 2021, which reduced our annual CO_2-eq on average by 45,000 tonnes. Direct emissions from burning fuel and harmful substances from cooling devices (Scope 2) accounted for most of the CO_2-eq emissions in 2022. They fell 9% short of the 2021 values despite increased production.

Carbon footprint[83]

Since 2021, all our energy consumers in Slovenia have been using exclusively zero-carbon energy sources. We aim to reduce further total CO_2 emissions (Scope 1 and Scope 2 under the GHG Protocol) and maximise the carbon neutrality of our processes.

As our production site in Ločna (Novo mesto, Slovenia) 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.

In 2022, the Krka Group as a whole recorded a 49% decrease in CO_2 emissions on the reference year 2019. We reduced year-on-year Scope 1 emissions by 11% and Scope 2 emissions by 2% according to GHG.[84]

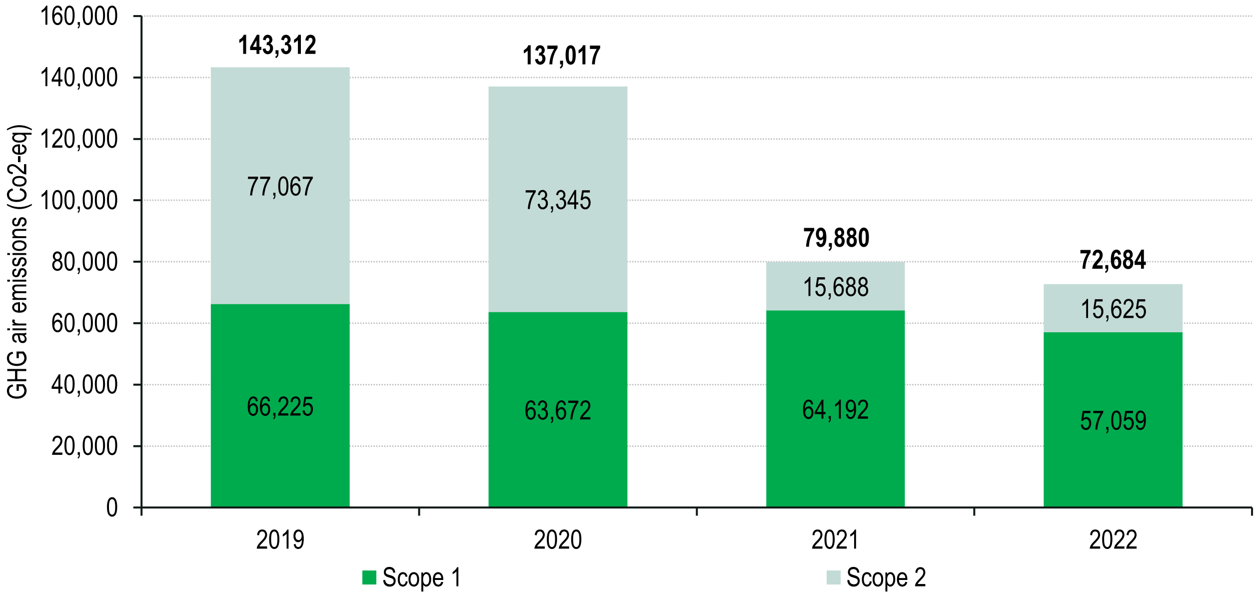
The Krka Group had decided to reduce natural gas consumption because of the exceptional situation on the energy markets and the EU's need to fill gas storage facilities before the start of winter in 2022. This was possible at our production sites equipped with the back-up fuel generators. We significantly decreased consumption of natural gas, which was in line with the EU's recommendations to plan for reduction of natural gas consumption. For this reason, consumption of extra-light fuel oil sharply increased, so also air emissions of SO_2 and NO_x went up.

2019–2022 Krka Group carbon footprint relative to revenue, employee total, and production volume[85]

	2022	2021	2020	2019
Carbon footprint/Revenue (kg CO_2-eq/€)	0.042	0.051	0.089	0.096
Carbon footprint/Employee total (t CO_2-eq/Employee)	6.28	6.90	11.78	12.48
Carbon footprint/Physical production volume (t Co_2-eq/billion units)	4,326.5	4,930.9	8,304.1	9,428.4

[83] GRI 305-1, 305-2
[84] GRI 305-5
[85] GRI 305-4

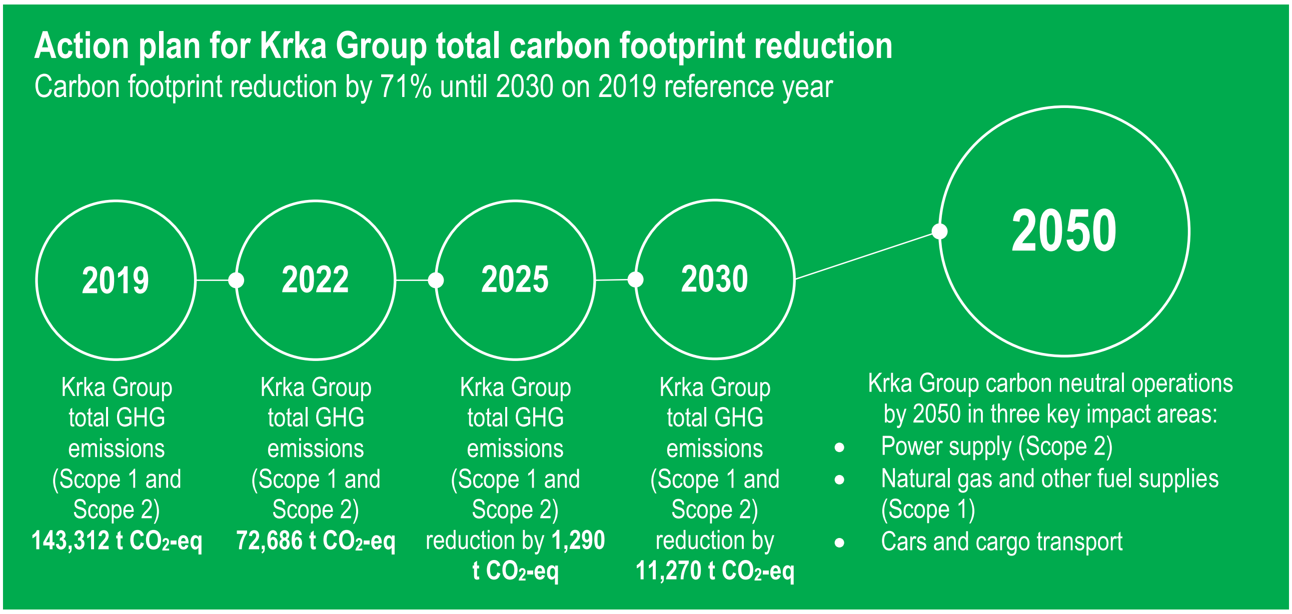
2019–2022 Krka Group total greenhouse emissions according to GHG (Scope 1 and Scope 2)[86]



Action plan

We calculated our Scope 1 and Scope 2 carbon footprints and prepared the Krka Group's action plan for the reduction of GHG emissions by 2025, 2030, and 2050 accordingly to reduce CO_2 emissions and for the EU to become climate neutral by 2050.

Chronology of performance and set goals by 2050



The Krka Group's objective by 2050 is to decarbonise transport vehicles and transport in general and become a carbon neutral business in terms of electricity and natural gas supplies. We intend to adjust the action plan to reduce the total Krka Group carbon footprint to develop new technologies and energy sources (RES, helium, etc.).

86 GRI 305-1, 305-2, SDG 12

Electromagnetic radiation (EMR)

We constantly follow relevant legislation and carry out required measurements. 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 identified high- and low-frequency electromagnetic radiation at Ločna, our main Slovenian facility in Novo mesto, as follows:

- Mobile phone base stations;
- Signal amplifier systems inside buildings;
- Transformer stations;
- Power sources used in production; and
- Medium-voltage power lines and connections.

The results of initial measurements indicate that radiation burdens of identified sources were below thresholds set by laws. There are no mobile phone base stations at our other production and business sites in Slovenia, making them less intense energy-wise.

Light pollution

Parking 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, signage, 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 seven years ago and have essentially reduced total rated electric power over that time. In 2022, total rated power for all sites in Slovenia amounted to 25 kW or 17% less than in 2014 in Ločna alone.

Environmental protection at Krka's subsidiaries

We transfer good environmental protection guidelines and practices to all subsidiaries through permanent cooperation, information exchange, and investment. We 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 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, which is due for upgrading in 2023. Wastewater from other production plants and companies is discharged to modern municipal wastewater treatment plants.

To reduce emissions, we install highly efficient absolute filtration devices on units emitting particulate matter. We transfer good practices in rational energy and water use to subsidiaries. We conducted a detailed energy audit at our subsidiary Terme Krka, which determined the savings potential of 1,579 MWh, a total annual emission reduction by 599 t CO_2-eq. The average simple payback period of the proposed investment is three years.

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 saving energy, paper, and separate waste collection.

Responsible environmental management forms a part of 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, as well as environmental sustainability topics. In 2022, 2,801 employees from Krka in Slovenia attended environment-related training courses. We arranged a special training course for 74 experts from pharmaceutical development, because best effects can be achieved at the product development stage by selecting raw materials with the lowest environmental load, and in production.

We had to make all the related content available online due to the COVID-19 pandemic. We also intend to include employees from abroad in the education about environmental protection and sustainable development. In 2022, we drew up various language versions of the content in e-format.

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.

Responsible care for society and the environment calls for good relationships with local community stakeholders, especially with our immediate neighbours, because we impact their living space and quality of life. We maintain an ongoing open dialogue with them, resulting in good relations. Every other year we organise a traditional meeting with them, informing them of our actions, results and environmental protection plans. 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 plan to hold a meeting in 2023.

GRI content index

Statement of use	The Krka Group has reported in accordance with the GRI Standards for the period from 1 January 2022 to 31 December 2022.
GRI 1 used	GRI 1: Foundation 2021
Applicable sector standards	No applicable sector standards were available when the *Annual Report* was drafted.

GENERAL DISCLOSURES				
GRI standard	**Disclosure**	**Page**	**Chapter**	**Omissions and notes**
GRI 2: General Disclosures 2021				
The organization and its reporting practices				
2-1	Organizational details	10 13 80	At a glance Krka in global markets Share trading and shareholding	
2-2	Entities included in the organization's sustainability reporting	140	Sustainable development, About the report	
2-3	Reporting period, frequency and contact point	140	Sustainable development, About the report	
2-4	Restatements of information	140	Sustainable development, About the report	
2-5	External assurance			Krka has not yet decided on external assurance in line with the GRI Standards.
Activities and workers				
2-6	Activities, value chain and other business relationships	7 80–81 88 101–120 122 128 129 130	Krka Group financial highlights Share trading and shareholding Sales by region Product and service groups Investments and accomplishments Supply process Suppliers Investments	
2-7	Employees	145-146	Employees	Data capturing does not include reporting under 2-7-b-iii because the disclosure is not relevant for the Krka Group.
2-8	Workers who are not employees	145	Employees	

Governance				
2-9	Governance structure and composition	17 32 34	Corporate governance statement Composition of Supervisory Board of Krka as at 31 December 2022 Composition of Management Board as at 31 December 2022	
2-10	Nomination and selection of the highest governance body	17 32 34	Corporate governance statement Composition of Supervisory Board of Krka as at 31 December 2022 Composition of Management Board as at 31 December 2022	
2-11	Chair of the highest governance body	32 34	Composition of Supervisory Board of Krka as at 31 December 2022 Composition of Management Board as at 31 December 2022	
2-12	Role of the highest governance body in overseeing the management of impacts	34	Composition of Management Board as at 31 December 2022	
2-13	Delegation of responsibility for managing impacts	54	Sustainability management of the Krka Group	
2-14	Role of the highest governance body in sustainability reporting	38	Non-financial statement	
2-15	Conflicts of interest	34	Composition of Management Board as at 31 December 2022	
2-16	Communication of critical concerns	28	Corporate compliance and integrity	
2-17	Collective knowledge of the highest governance body	34	Composition of Management Board as at 31 December 2022	
2-18	Evaluation of the performance of the highest governance body		*Supervisory Board Report*	Published on the Krka website.
2-19	Remuneration policies		*Supervisory Board Report*	Published on the Krka website.
2-20	Process to determine remuneration		*Supervisory Board Report*	Published on the Krka website.
2-21	Annual total compensation ratio			In line with the remuneration policy, fixed remuneration is determined as a multiple of the average salary of Krka employees in the last three months. These multiples are determined by the Supervisory Board upon the appointment of the Management Board and differ based on the extent of areas of work that each member of the Management Board covers. Multiple ten (10) is applied for the President of the Management Board.

Strategy, policies and practices				
2-22	Statement on sustainable development strategy	3	Statement by the President of the Management Board	
2-23	Policy commitments	27–28 30 50 158	Corporate compliance and integrity Human rights in business operations Krka Group development strategy Natural environment	
2-24	Embedding policy commitments	28 30 158	Corporate compliance and integrity Human rights in business operations Natural environment	
2-25	Processes to remediate negative impacts	158	Natural environment	
2-26	Mechanisms for seeking advice and raising concerns	28	Corporate compliance and integrity	
2-27	Compliance with laws and regulations	135 159	Quality Natural environment	
2-28	Membership associations	30	Contributions and other spending	
Stakeholder engagement				
2-29	Approach to stakeholder engagement	81 141 153	Communication with investors Sustainable development Health professionals, healthcare providers and direct customers	
2-30	Collective bargaining agreements	145	Employees	
GRI 3: Material Topics 2021				
3-1	Process to determine material topics	54 140	Krka Group development strategy Materiality assessment process	
3-2	List of material topics	140 140 142	Materiality assessment process Sustainable development, About the report Sustainable development	
ECONOMY				
GRI 201: Economic Performance 2016				
3-3	Management of material topics	50	Krka Group development strategy	
201-1	Direct economic value generated and distributed	7 154, 157 210	Krka Group financial highlights Corporate social responsibility Employee benefits	
201-3	Defined benefit plan obligations and other retirement plans	210	Employee benefits	
GRI 203: Indirect Economic Impacts 2016				
3-3	Management of material topics	152	Corporate social responsibility	
203-1	Infrastructure investments and services supported	155, 157	Corporate social responsibility	
203-2	Significant indirect economic impacts	155	Corporate social responsibility	

GRI 204: Procurement Practices 2016				
3-3	Management of material topics	129	Suppliers	
204-1	Proportion of spending on local suppliers	129	Suppliers	
GRI 205: Anti-corruption 2016				
3-3	Management of material topics	28	Corporate compliance and integrity	
205-1	Operations assessed for risks related to corruption	29	Integrity plan	
205-2	Communication and training about anti-corruption policies and procedures	28	Corporate compliance and integrity	Data capturing does not include the number of hours.
205-3	Confirmed incidents of corruption and actions taken	28	Corporate compliance and integrity	Data capturing includes reported suspected incidents.
GRI 206: Anti-competitive Behavior 2016				
3-3	Management of material topics	28	Corporate compliance and integrity	
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	221	21. Provisions	
207: Tax 2019				
3-3	Management of material topics	31	Internal controls and risk management relating to financial and tax reporting	
207-1	Approach to tax	31	Internal controls and risk management relating to financial and tax reporting	
207-2	Tax governance, control, and risk management	31	Internal controls and risk management relating to financial and tax reporting	
207-3	Stakeholder engagement and management of concerns related to tax	31	Internal controls and risk management relating to financial and tax reporting	
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ENVIRONMENT				
GRI 302: Energy 2016				
3-3	Management of material topics	161	Energy	
302-1	Energy consumption within the organization	8	Krka's sustainable development indicators	
302-3	Energy intensity	162	Specific use of energy	
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GRI 303: Water and Effluents 2018				
3-3	Management of material topics	160	Water	
303-1	Interactions with water as a shared resource	160	Water	
303-2	Management of water discharge-related impacts	160 165	Water Emissions, Wastewater	
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GRI 304: Biodiversity 2016				
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304-2	Significant impacts of activities, products, and services on biodiversity	164	Biodiversity	
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	164	Biodiversity	
GRI 305: Emissions 2016				
3-3	Management of material topics	169	Emissions	
305-1	Direct (Scope 1) GHG emissions	170–171	Emissions	
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305-4	GHG emissions intensity (emissions per unit produced)	170	Emissions	
305-5	Reduction of GHG emissions	170	Emissions	
305-6	Emissions of ozone-depleting substances (ODS)	9	Krka's sustainable development indicators	
305-7	Nitrogen oxides (NO_X), sulfur oxides (SO_X), and other significant air emissions	9	Krka's sustainable development indicators	
GRI 306: Waste 2020				
3-3	Management of material topics	167	Waste	
306-1	Waste generation and significant waste-related impacts	167	Waste	
306-2	Management of significant waste-related impacts	167	Waste	
306-3	Waste generated	8	Krka's sustainable development indicators	
306-4	Waste diverted from disposal	168	Waste	
306-5	Waste directed to disposal	169	Waste	
GRI 308: Supplier Environmental Assessment 2016				
3-3	Management of material topics	128	Supply process	
308-1	New suppliers that were screened using environmental criteria	128	Supply process	Data capturing includes the number of screenings using all criteria.
SOCIAL				
GRI 401: Employment 2016				
3-3	Management of material topics	144	Employees	
401-1	New employee hires and employee turnover	145	Employees	Data capturing includes employee turnover at the Krka Group level.
401-3	Parental leave	150	Health and safety at work	Data capturing includes the share of employees who took parental leave.
GRI 403: Occupational Health And Safety 2018				
3-3	Management of material topics	149–151	Health and safety at work	
403-1	Occupational health and safety management system	149–151	Health and safety at work	

403-2	Hazard identification, risk assessment, and incident investigation	149–151	Health and safety at work	
403-3	Occupational health services	149–151	Health and safety at work	
403-4	Worker participation, consultation, and communication on occupational health and safety	149–151	Health and safety at work	
403-5	Worker training on occupational health and safety	149–151	Health and safety at work	
403-6	Promotion of worker health	149–151	Health and safety at work	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	149–151	Health and safety at work	
403-9	Work-related injuries	150	Health and safety at work	
GRI 404: Training and Education 2016				
3-3	Management of material topics	146	Employee education and development	
404-1	Average hours of training per year per employee	147	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	147	Employee education and development	
GRI 405: Diversity and Equal Opportunity 2016				
3-3	Management of material topics	146	Employees	
405-1	Diversity of governance bodies and employees (gender, age group, minority, other indicators of diversity)	32 34 145	Composition of Supervisory Board of Krka as at 31 December 2022 Composition of Management Board as at 31 December 2022 Employees	Data capturing includes categorisation by gender and education.
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3-3	Management of material topics	30	Contributions and other spending	
415-1	Political contributions	30	Contributions and other spending	

GRI 416: Customer Health and Safety 2016				
3-3	Management of material topics	133	Quality	
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GRI 417: Marketing and Labeling 2016				
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417-1	Requirements for product and service information and labeling	152–153	Patients	
417-2	Incidents of non-compliance concerning product and service information and labeling	152–153	Patients	
417-3	Incidents of non-compliance concerning marketing communications (including advertising, promotion, and sponsorship)	153	Patients	
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FINANCIAL REPORT

KRKA

Living a healthy life.

Contents

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 2022 Annual Report, which is published via the SEOnet electronic announcement system of the Ljubljana Stock Exchange, the ESPI system of the Warsaw Stock Exchange, and on the Krka website (https://www.krka.biz/en/for-investors/financial-reports/).

Each section of the financial statements was audited by KPMG Slovenija, d.o.o., and two separate reports as individual sections have been prepared accordingly.

The Statement of Compliance presented below includes an acknowledgement of the Management Board's responsibility for all financial statements of both the Company and the Krka Group.

Statement of Compliance

The Management Board of Krka, d.d., Novo mesto is responsible for the preparation of the Annual Report of the Company and of the Krka Group including the financial statements in a manner that gives the interested public a true and fair view of the financial position and the results of operations of the Company and its subsidiaries in 2022.

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 2023

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 2022	31 Dec 2021	Index 2022/21
Assets				
Property, plant and equipment	11	779,336	773,657	101
Intangible assets	12	102,550	104,301	98
Loans	13	77,539	40,300	192
Investments	14	110,770	108,883	102
Deferred tax assets	15	53,770	46,883	115
Other non-current assets		1,060	1,028	103
Total non-current assets		**1,125,025**	**1,075,052**	**105**
Assets held for sale		41	41	100
Inventories	16	553,332	455,707	121
Contract assets		946	1,214	78
Trade receivables	17	402,730	467,764	86
Other receivables	17	27,728	29,564	94
Loans	13	6,327	192,360	3
Investments	14	52,437	155,448	34
Cash and cash equivalents	18	518,934	159,838	325
Total current assets		**1,562,475**	**1,461,936**	**107**
Total assets		**2,687,500**	**2,536,988**	**106**
Equity				
Share capital	19	54,732	54,732	100
Treasury shares	19	-124,566	-114,541	109
Reserves	19	192,204	145,077	132
Retained earnings	19	1,996,246	1,819,937	110
Total equity holders of the controlling company		**2,118,616**	**1,905,205**	**111**
Non-controlling interests	19	19,893	13,880	143
Total equity		**2,138,509**	**1,919,085**	**111**
Liabilities				
Provisions	21	107,235	126,153	85
Deferred income	22	6,048	6,875	88
Trade payables	23	0	10,000	0
Lease liabilities	27	8,089	8,724	93
Deferred tax liabilities	15	10,758	10,922	98
Total non-current liabilities		**132,130**	**162,674**	**81**
Trade payables	23	140,837	130,011	108
Lease liabilities	27	3,752	3,433	109
Income tax payables		28,194	7,023	401
Contract liabilities	24	157,710	124,730	126
Other current liabilities	25	86,368	190,032	45
Total current liabilities		**416,861**	**455,229**	**92**
Total liabilities		**548,991**	**617,903**	**89**
Total equity and liabilities		**2,687,500**	**2,536,988**	**106**

The accompanying Notes form an integral part of the consolidated financial statements and are to be read in conjunction with them.

Consolidated Income Statement

€ thousand	Notes	2022	2021	Index 2022/21
Revenue		**1,717,453**	**1,565,802**	**110**
– Revenue from contracts with customers	4	1,712,530	1,562,266	110
– Other revenue		4,923	3,536	139
Cost of goods sold		-743,060	-674,594	110
Gross profit		**974,393**	**891,208**	**109**
Other operating income	5	9,197	11,376	81
Selling and distribution expenses		-349,111	-305,870	114
– Whereof net impairments and write-offs of receivables		-1,875	-1,048	179
R&D expenses		-162,580	-154,559	105
General and administrative expenses		-90,688	-87,367	104
Operating profit		**381,211**	**354,788**	**107**
Financial income	9	57,668	19,711	293
Financial expenses	9	-5,806	-12,082	48
Net financial result		**51,862**	**7,629**	**680**
Profit before tax		**433,073**	**362,417**	**119**
Income tax expense	10	-69,411	-54,267	128
Net profit		**363,662**	**308,150**	**118**
Attributable to:				
– Equity holders of the controlling company		363,296	309,214	117
– Non-controlling interests		366	-1,064	
Basic earnings per share (€)	**20**	**11.69**	**9.92**	**118**
Diluted earnings per share (€)	**20**	**11.69**	**9.92**	**118**

The accompanying Notes form an integral part of the consolidated financial statements and are to be read in conjunction with them.

Consolidated Statement of Other Comprehensive Income

€ thousand	Notes	2022	2021	Index 2022/21
Net profit		**363,662**	**308,150**	**118**
Other comprehensive income for the year				
Other comprehensive income reclassified to profit or loss at a future date				
Translation reserve	19	11,850	14,503	82
Net other comprehensive income reclassified to profit or loss at a future date		**11,850**	**14,503**	**82**
Other comprehensive income that will not be reclassified to profit or loss at a future date				
Change in fair value of financial assets	14	128	5,441	2
Restatement of post-employment benefits	21	26,099	6,759	386
Deferred tax effect	15	-3,417	-1,622	211
Net other comprehensive income that will not be reclassified to profit or loss at a future date		**22,810**	**10,578**	**216**
Total other comprehensive income for the year (net of tax)		**34,660**	**25,081**	**138**
Total comprehensive income for the year (net of tax)		**398,322**	**333,231**	**120**
Attributable to:				
– Equity holders of the controlling company		398,461	333,030	120
– Non-controlling interests		-139	201	

The accompanying Notes form an integral part of the consolidated financial statements and are to be read in conjunction with them.

Consolidated Statement of Changes in Equity

			Reserves						Retained earnings					
€ thousand	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Translation reserve	Other profit reserves	Retained earnings	Profit for the year	Total equity holders of the controlling company	Non-controlling interests	Total equity
Balance at 1 Jan 2022	**54,732**	**-114,541**	**114,541**	**105,897**	**14,990**	**30,000**	**-22,077**	**-98,274**	**1,370,902**	**155,083**	**293,952**	**1,905,205**	**13,880**	**1,919,085**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**363,296**	**363,296**	**366**	**363,662**
Total other comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**24,747**	**12,355**	**0**	**-1,937**	**0**	**35,165**	**-505**	**34,660**
Total comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**24,747**	**12,355**	**0**	**-1,937**	**363,296**	**398,461**	**-139**	**398,322**
Transactions with owners, recognised in equity														
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0	0	0	0	71,800	-71,800	0	0	0	0
Transfer of previous periods' profit to retained earnings	0	0	0	0	0	0	0	0	0	293,952	-293,952	0	0	0
Repurchase of treasury shares	0	-10,025	0	0	0	0	0	0	0	0	0	-10,025	0	-10,025
Formation of reserves for treasury shares	0	0	10,025	0	0	0	0	0	0	0	-10,025	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-175,025	0	-175,025	0	-175,025
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0	6,152	6,152
Total transactions with owners, recognised in equity	**0**	**-10,025**	**10,025**	**0**	**0**	**0**	**0**	**0**	**71,800**	**47,127**	**-303,977**	**-185,050**	**6,152**	**-178,898**
Balance at 31 Dec 2022	**54,732**	**-124,566**	**124,566**	**105,897**	**14,990**	**30,000**	**2,670**	**-85,919**	**1,442,702**	**200,273**	**353,271**	**2,118,616**	**19,893**	**2,138,509**

The accompanying Notes form an integral part of the consolidated financial statements and are to be read in conjunction with them.

€ thousand	Share capital	Treasury shares	Reserves: Reserves for treasury shares	Reserves: Share premium	Reserves: Legal reserves	Reserves: Statutory reserves	Reserves: Fair value reserve	Reserves: Translation reserve	Retained earnings: Other profit reserves	Retained earnings: Retained earnings	Retained earnings: Profit for the year	Total equity holders of the controlling company	Non-controlling interests	Total equity
Balance at 1 Jan 2021	**54,732**	**–99,279**	**99,279**	**105,897**	**14,990**	**30,000**	**–35,059**	**–111,512**	**1,280,090**	**138,705**	**265,490**	**1,743,333**	**8,479**	**1,751,812**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**309,214**	**309,214**	**–1,064**	**308,150**
Total other comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**12,982**	**13,238**	**0**	**–2,404**	**0**	**23,816**	**1,265**	**25,081**
Total comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**12,982**	**13,238**	**0**	**–2,404**	**309,214**	**333,030**	**201**	**333,231**
Total transactions with owners, recognised in equity														
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0	0	0	0	90,812	–90,812	0	0	0	0
Transfer of previous periods' profit to retained earnings	0	0	0	0	0	0	0	0	0	265,490	–265,490	0	0	0
Repurchase of treasury shares	0	–15,262	0	0	0	0	0	0	0	0	0	–15,262	0	–15,262
Formation of reserves for treasury shares	0	0	15,262	0	0	0	0	0	0	0	–15,262	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	–155,896	0	–155,896	0	–155,896
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	0		0	0	5,200	5,200
Total transactions with owners, recognised in equity	**0**	**–15,262**	**15,262**	**0**	**0**	**0**	**0**	**0**	**90,812**	**18,782**	**–280,752**	**–171,158**	**5,200**	**–165,958**
Balance at 31 Dec 2021	**54,732**	**–114,541**	**114,541**	**105,897**	**14,990**	**30,000**	**–22,077**	**–98,274**	**1,370,902**	**155,083**	**293,952**	**1,905,205**	**13,880**	**1,919,085**

The accompanying Notes form an integral part of the consolidated financial statements and are to be read in conjunction with them.

Consolidated Statement of Cash Flows

€ thousand	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		**363,662**	**308,150**
Adjustments for:		**188,618**	**198,711**
– Amortisation/Depreciation	11,12	107,684	108,837
– Net foreign exchange differences		-224	4,828
– Net write-offs and allowances for inventories		20,321	20,738
– Net impairments and write-offs of receivables		1,875	1,048
– Investment income		-15,817	-5,699
– Investment expenses		89	13,199
– Income on financing activities		0	-39
– Interest expenses and other financial expenses		5,279	1,532
– Income tax expense	10	69,411	54,267
Operating profit before changes in net current assets		**552,280**	**506,861**
Change in trade receivables		63,898	-84,752
Change in inventories	16	-117,946	-22,755
Change in trade payables	23	32,820	45,164
Change in provisions	21	-4,272	-2,647
Change in deferred income	22	-827	-929
Change in other current liabilities		-1,410	9,484
Income tax paid		-56,892	-64,329
Net cash flow from operating activities		**467,651**	**386,097**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		3,115	718
Dividends received		631	668
Proceeds from sale of property, plant and equipment		4,949	3,700
Purchase of property, plant and equipment	11	-87,905	-65,914
Purchase of intangible assets	12	-6,827	-6,213
Proceeds from non-current loans		2,542	1,439
Payments for non-current loans		-42,690	-26,674
Net proceeds from/payments for current loans		189,589	-137,277
Proceeds from sale of non-current investments		4,950	24
Payments for acquiring non-current investments		-32,970	-92,138
Proceeds from sale of current investments		153,804	102,292
Payments for acquiring current investments		-121,621	-144,805
Proceeds from derivatives		8,847	2,002
Payments for derivatives		0	-10,459
Net cash flows from investing activities		**76,414**	**-372,637**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-4,179	-366
Lease liabilities paid	27	-3,926	-3,515
Dividends and other profit shares paid	28	-175,044	-155,907
Repurchase of treasury shares	19	-10,025	-15,262
Proceeds from payment of non-controlling interests		6,152	5,200
Net cash flow from financing activities		**-187,022**	**-169,850**
Net increase/decrease in cash and cash equivalents		**357,043**	**-156,390**
Cash and cash equivalents at beginning of year		159,838	313,568
Effect of foreign exchange rate fluctuations on cash held		2,053	2,660
Closing balance of cash and cash equivalents		**518,934**	**159,838**

The accompanying Notes form an integral part of the consolidated financial statements and are to 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 2022 refer to the Krka Group consisting of the controlling company and its subsidiaries in Slovenia and abroad. A list of subsidiaries, members of the Krka Group, is included in Note 31 'Profile of the Krka Group'.

The Krka Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health resorts and tourist services.

1. Basis for compiling the financial statements

Statement of compliance

The consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* ('*IFRS*'), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB *('IFRIC')* adopted by the European Union, and in compliance with additional provisions required by the *Companies Act (ZGD-1)*.

The consolidated financial statements were approved by the Company Management Board on 28 March 2023.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of derivatives, financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income (OCI) for which fair value was used. Methods applied in the measurement of fair value are presented in Note 2 'Fair Value'.

Functional and reporting currency

The consolidated financial statements are presented in the euro, which is 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 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 controlling company duly considers all factors that may impact the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, management makes judgements while considering potential changes in the business environment, new business events, new and additional information that may be available, as well as experience. Each year the Krka Group verifies the need for impairment of the goodwill that arose on the takeover of TAD Pharma.

Key estimates and assumptions as at the day of the statement of financial position that are associated with future operations and which could result in significant adjustment of the book values of assets and liabilities are presented below.

Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is presented in the following notes:

- Note 11 'Impairment testing of non-current assets'

  The controlling company checks for each cash generating unit whether there are any indicators of impairment at least once a year. The recoverable amount of non-financial assets determined as the present value of future cash flows is based on an estimate of expected cash flows from the cash generating unit and on determination of the appropriate discount rate.

- Note 4 'Revenue from contracts with customers'

  Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Krka Group expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract. In assessing variable compensation, the Krka Group specifically addresses returns, while considering specific terms and conditions of an individual contract for the sale of products and services to customers, statutory provisions and business practices in a given environment. When assessing variable compensation, the Krka Group applies either the expected value method or the most likely amount method, whichever better predicts the amount of consideration to which the Krka Group will be entitled.

  Given the large number of contracts with customers, the Krka Group determined the expected value method as the most appropriate for estimating variable consideration for the sale of products with a right of return.

  Prior to including any variable consideration in the transaction price, the Krka Group assesses whether there is a constraint on variable consideration. Based on past experience, business forecasts, and current economic conditions, the Krka Group has determined that there are no constraints on variable consideration.

  The Krka Group is a seller of products that may be subject to payment terms in excess of one year in certain markets. Krka Group recognises financial income and expenses on these sales using the appropriate discount rate.

- Note 12 'Impairment testing of the TAD Pharma goodwill'

  The criteria used in goodwill impairment testing are verified at least once a year by the controlling entity. Determining the present value of future cash flows requires the controlling company's Management Board to assess estimated future cash flows from each cash-generating unit as well as to determine the appropriate discount rate and other significant assumptions explained in this Note.

- Note 17 'Impairment testing of receivables'

  On the financial statement preparation (quarterly and annually), individual companies in the Krka Group recognise allowances (impairment) of those receivables for which it is assumed that will not be settled in full or not at all. Allowances are recognised using uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by the debtors. The methodology includes quantitative and qualitative criteria grouped into the following four sets: an analysis of the existing business dealings with the customer, an analysis of the customer's financial statements, a qualitative assessment of the customer by the sales personnel, and an assessment of the customer's country risk. For all customers whose receivables are insured by an insurance company or other first-class insurance, insurance is taken into account when assessing the amount of impairments. Hence, allowances of receivables due from individual customer are calculated by means of an algorithm that includes all the above criteria.

- Note 21 'Post-employment benefits'

  Defined post-employment benefit obligations include the present value of termination benefits on retirement. They are recognised on the basis of the actuarial calculation using assumptions and estimates effective at the time of the calculation, and which may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of a discount rate, assessment of employee turnover, mortality assessment, and assessment of an increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

- Note 21 'Provisions for lawsuits and contingent liabilities'

  Lawsuits and claims may be brought against individual companies in the Krka Group for alleged breaches of intellectual property (patent rights or competition law) and those referring to other civil law areas. A provision is recognised when a Krka Group company has present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Krka Group. The Management Board of the controlling company continually assesses contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If this is the case, a provision is recognised in the financial statements of the period in which the change in probability occurs.

2. Significant accounting policies

The Krka Group applied the same accounting policies in all periods presented in the accompanying consolidated financial statements.

Accounting policies applied by subsidiaries have been changed where necessary and adjusted with policies applied by the Krka 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 Krka Group in the reporting period.

New standards and interpretations effective from 1 January 2022

Amendments to IFRS 3 – Business Combinations, IAS 16 – Property, Plant and Equipment, IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. IASB has published the following limited amendments to IFRSs.

- The amendments to *IFRS 3 – Business Combinations* are intended to update the reference to the core framework of financial reporting standards in *IFRS 3*, but do not change the accounting requirements for accounting for business combinations.
- The amendments to *IAS 16 – Property, Plant and Equipment* prohibit an entity from deducting from the cost of property, plant and equipment the proceeds from the sale of products during the period that the asset is being prepared for its intended use. An entity recognises the proceeds from the sale and the related costs in profit or loss.
- The amendments to *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets* specify the costs that an entity considers in determining the cost of completing a contract when deciding whether the contract is onerous.

- The *2018-2020 Annual Improvements* provide for some minor amendments to *IFRS 1 – First-time Adoption of International Financial Reporting Standards*, *IFRS 9 – Financial Instruments, IAS 41 – Agriculture* and illustrative examples to *IFRS 16 – Lease*.

The management has assessed the impact of the amendments and established that 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.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements of the Krka Group. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated to the respective functional currencies of Krka Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the prevailing exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of equity instruments, which are recognised directly in other comprehensive income. Non-cash items measured at historical cost in foreign currency are translated to the functional currency by applying the exchange rate valid at the date of the transaction.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the euro at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to the euro. Foreign exchange differences arising on translation are recognised directly in other comprehensive income as a translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Operating profit

Operating profit comprises profit before tax and financial items. Financial items include interest on bank balances, deposits, investments held for sale, interest paid on borrowings, profit or loss from the sale of financial assets at fair value through other comprehensive income, and foreign exchange gains or losses from the translation of all monetary assets and liabilities to foreign currency.

Fair value

A number of the Krka Group's accounting policies and disclosures require the determination of fair value for both, financial and non-financial assets and liabilities.

Fair value is the amount for which an asset could be sold or a liability exchanged in a regular transaction between market participants. All assets and liabilities measured and disclosed at their fair value in financial statements are classified in the fair value hierarchy on the basis of lowest level of input data significant for measurements of total fair value:

- Level 1 – market value (unadjusted) from the active market for similar assets and liabilities;
- Level 2 – valuation model for assets and liabilities, which is not classified in level 1, is valued directly or indirectly on the basis of comparable market data;
- Level 3 – valuation model which is not based on the market data.

Fair 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, derivatives, loans and investments.

Initial recognition and measurement

Krka Group's financial assets are upon initial recognition classified as subsequently measured at amortised cost, fair value through other comprehensive income (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 Krka 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 Krka Group has applied the practical expedient are measured at the transaction price determined under *IFRS 15* (refer to accounting policies *Revenue from contracts with customers*).

In order for financial assets to be classified and measured at amortised cost or fair value through other comprehensive income, they need to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at the level of an individual instrument.

The Krka Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

If the Group selects a business model that aims to collect contractual cash flows, it values its financial assets (debt instruments) at amortised cost. If the Krka Group acquires financial assets (debt instruments) with the objective of collecting contractual cash flows and for sale, then they are measured at fair value through other comprehensive income by recycling cumulative gains and losses. If the Krka Group does not choose any of these business models, it measures its financial assets (debt instruments) at fair value through profit or loss. Financial assets that are in accordance with *IAS 32 – Financial Instruments* and are not held for trading purposes, are classified as equity instruments at fair value through other comprehensive income without recycling cumulative gains and losses after derecognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Krka 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 Krka Group are classified as financial assets at amortised cost, since the cash flows derived from these assets are solely payments of the principal and interest on the principal amount outstanding.

Krka Group's investments in debt securities, which include only low credit risk government bonds, are classified as financial assets at amortised cost.

The Krka Group's financial assets at amortised cost also include trade receivables.

After initial recognition, these investments are measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI (debt instruments)

Subsequent to initial recognition, they are measured at fair value. Interest income, foreign exchange differences, and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is transferred to profit or loss.

Financial assets at fair value through OCI (equity instruments)

Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is not transferred to profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Impairment of financial assets is described in the section 'Impairment – financial assets'.

Financial liabilities

Financial liabilities consist mainly of loans, payables to suppliers and other liabilities. Lease liabilities and employee benefits are treated separately (refer to accounting policies in the *Leases* and *Employee benefits expense* sections). All other financial liabilities are initially recognised on the trade date or when the Krka Group becomes a contracting party in relation to the instrument. On initial recognition, 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) 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.

The Krka Group includes in the cost of property, plant and equipment also borrowing costs that are directly attributable to the acquisition, construction or production of the asset under construction. Borrowing costs related to the acquisition or construction of the relevant assets are capitalised if they relate to the acquisition of a significant asset and the construction or preparation for use of the relevant assets takes more than six months.

Subsequent expenditure
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Krka Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

The estimated useful lives are as follows:
- for buildings:
  - management and administrative facilities 60 years,
  - production and warehouse facilities 40 years,
  - other from 15 to 20 years,
- for property, plant and equipment:
  - production equipment 5 to 20 years,
  - laboratory equipment 10 years,
  - other equipment 5 years,
- for furniture 5 years,
- for computer equipment 4 to 6 years,
- for means of transportation 5 to 15 years.

Leases

At contract conclusion, the Krka Group assesses whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Krka Group determines the lease term as the period during which the lease cannot be terminated, inclusive of:
a) the period for which the option to extend the lease applies if it is reasonably certain that the lessee will exercise that option; and
b) the period for which the option to terminate the lease applies if it is reasonably certain that the lessee will not exercise that option.

The Krka Group as a lessee

Lease liabilities

At the commencement date of the lease, the Krka Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid by the Krka Group under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Krka Group and payments of penalties for terminating the lease if the lease term reflects the Krka Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised in profit or loss as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Krka Group uses its incremental borrowing rate based on estimated bond returns if it were to incur debt on the financial markets, while considering their maturity if the interest rate implicit in the lease is not readily determinable.

Upon initial recognition, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. change of future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

For short-term leases and leases where the leased asset is of low value, the Krka Group applies the practical expedient allowed by the standard and recognises lease payments as an expense on a straight-line basis over the lease term. The practical expedient is applied to leases with a lease term of less than one year and leases where the cost of the new leased asset is less than €5,000.

The Krka Group recognises a right-of-use property, plant and equipment asset and a lease liability at the inception of the lease (i.e. the date the leased asset is available for use).

Right-of-use assets

Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, as well as an assessment of costs that will be incurred in dismantling or removing the leased asset, restoring the site to its original condition, or returning the asset to a condition as required in the lease terms.

The right-of-use assets are depreciated by the Krka Group on a straight-line basis over the shorter of the estimated lease term or the estimated useful lives of the assets.

The Krka Group as a lessor

Leases in which the Krka Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Intangible assets

Goodwill

Goodwill, which arose on the acquisition of the subsidiary, represents the excess of the cost of the acquisition over the Krka Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost less accumulated impairment losses and is tested for impairment once a year.

Trademark

The TAD Pharma trademark is treated by the Krka Group as an intangible asset with a useful life of 50 years and is reviewed annually for impairment.

Research and development

Development costs are not capitalised because the Krka Group does not distinguish between the research and development phases. All costs related to own research and development activities are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Krka 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. 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 written-down through profit and loss.

An inventory unit of raw materials and materials, auxiliary and packaging materials is valued at cost including all direct costs of purchase. Inventories of material are carried at weighted average cost. Inventories of finished products and work in progress are carried at standard cost, which in addition to direct cost of material includes also cost of production, such as: direct 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.

Impairment of assets

Financial assets

The Krka 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 Krka 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 Krka Group applies a simplified approach in calculating ECLs. Trade receivables that do not have a significant financing component or for which the Krka Group applies a practical expedient (contracts with a term of one year or less) are measured at the transaction price determined in accordance with *IFRS 15*, less the amount of any impairment losses.

The Krka Group does not track changes in credit risk, but instead recognises a loss allowance based on a lifetime ECL at each reporting date. The Krka 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.

Impairments of investments

For investments that include government bonds measured at amortised cost, the Krka Group measures expected credit losses annually.

Except when a 12-month expected credit loss is recognised, the Krka Group recognises an allowance for credit losses in an amount equal to the expected credit loss over the life of the financial instrument. A 12-month expected credit loss is recognised by:

- debt securities that are determined to have low credit risk at the reporting date; and debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk (i.e. the risk of default in the expected life of the financial instrument) has not increased significantly since initial recognition.

The Krka Group considers a debt security to have low credit risk if its credit risk rating is equivalent to the globally understood definition of 'investment grade' or equivalent to a rating of Baa2 or above by Moody's or BBB- or above by Standard & Poor's.

The Krka Group monitors changes in credit risk by tracking published external credit ratings. The probabilities of default (PD), both 12-month and over the life of the financial instrument, are based on information provided by the external credit rating agency. The loss given default (LGD) ratios, which reflect the assumed recovery rate, are also provided by the external credit rating agencies.

Non-financial assets

The carrying amounts of the Krka Group's non-financial assets are reassessed at each reporting date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is assessed.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to 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 into the smallest cash-generating units, which are the smallest groups of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purpose of impairment testing, the goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment of an asset or a cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. Impairment is recognised in the income statement. A loss recognised in a cash-generating unit as a result of impairment is allocated by first reducing the carrying amount of goodwill allocated to the cash-generating unit and then to the other assets of the unit (group of units) in proportion to the carrying amount of each asset in the unit.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in previous periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed 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 Krka 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 Krka 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 Krka Group expects to be entitled in exchange for those goods or services while considering specific terms and conditions of an individual contract.

Transfer of control over those goods and services depends on terms and conditions of the contract. In general, control is transferred when goods are accepted by the customer or services are rendered. The normal credit term ranges from 30 to 120 days.

The Krka Group 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 Krka 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 Krka Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of products provide customers with a right of return, bonuses, and volume rebates. The rights of return, bonuses, and volume rebates give rise to variable consideration.

Rights of return

Certain contracts provide a customer with a right to return goods that are past the expiry date. The Krka 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 Krka 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 Krka 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 Krka 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 Krka 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 for compiling the financial statements of the financial statements section.

Significant financing component

In some cases, the Krka Group receives current advances from its customers. Using the practical expedient in *IFRS 15.63*, the Krka 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 Krka 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 Krka 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 Krka 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 Krka Group performs under the contract.

Right-of-return assets

Right-of-return assets represent the Krka 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 Krka Group regularly updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable from the customer). It is measured at the amount the Krka Group ultimately expects it will have to return to the customer.

The Krka 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

Income from government grants is initially recognised when there is reasonable assurance that the grant will be received and that the Krka Group will comply with the attached conditions. Income 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. Income that compensates an entity for the cost of an asset is recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised on the date that the shareholder's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income.

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

Deferred tax is recognised using the balance sheet liability approach providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Also, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax is based on the expected manner of settling the carrying amount of assets and liabilities using tax rates enacted at the reporting date. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

The Krka Gropu presents basic earnings per share (EPS) data. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is equal to basic EPS, because the Krka Group has not issued any dilutive or potentially dilutive instruments.

Segment reporting

An operating segment is a distinguishable component of the Krka 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 European Union (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 application was permitted. In response to the COVID-19 pandemic, the IASB delayed the effective date of the amendments by one year, until 1 January 2024, to allow companies sufficient time to implement the changes to the classification of liabilities. 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. 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.

Amendments to IFRS 16 Leases: Lease Liability in sale and Leaseback

The amendments are effective for annual periods beginning on or after 1 January 2024. Early application is permitted. The amendments affect how a vendor-lessee accounts for variable lease payments in sale and leaseback transactions. They introduce a new accounting model for variable payments and require vendor-lessees to reassess and potentially adjust sale and leaseback transactions entered into from 2019.

The amendments confirm the following:

- on initial recognition, the seller-lessee includes variable lease payments when measuring the lease liability arising from sale and leaseback transactions;
- after initial recognition, the vendor-lessee applies the general requirements for subsequent accounting for a lease liability by recognising no gain or loss in respect of the right-of-use right that it retains.

The seller-lessee may adopt different approaches to meet the new subsequent measurement requirements. These amendments do not change the accounting for leases other than those arising in sale and leaseback transactions. Management has assessed the impact of the amendments on the financial statements of the Krka Group and believes that they will not have a material impact on them.

3. Segment reporting

The Krka Group reports in terms of certain geographical segments. Revenue generated by individual segments are presented in terms of customers' geographical location. The data are calculated on the basis of revenue and expenses, assets and liabilities directly attributable to each Krka Group market. Eliminations relate to transactions between the controlling company and subsidiaries and to transactions between subsidiaries themselves.

Segment reporting

	European Union		South-Eastern Europe		Eastern Europe		Total segment reporting		Other		Eliminations		Total	
€ thousand	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Revenue from sales to non-group customers	**904,135**	**851,210**	**93,316**	**88,481**	**623,549**	**547,916**	**1,621,000**	**1,487,607**	**96,453**	**78,195**			**1,717,453**	**1,565,802**
Revenue from sales to intra-group customers	**382,540**	**333,268**	**60,170**	**56,414**	**605,779**	**537,934**	**1,048,489**	**927,616**	**36,933**	**17,219**	**-1,085,422**	**-944,835**		
Total revenue	**1,286,675**	**1,184,478**	**153,486**	**144,895**	**1,229,328**	**1,085,850**	**2,669,489**	**2,415,223**	**133,386**	**95,414**	**-1,085,422**	**-944,835**	**1,717,453**	**1,565,802**
Other operating income	7,985	11,005	54	46	416	307	8,455	11,358	742	18			9,197	11,376
Operating expenses	-754,190	-713,409	-64,222	-61,607	-454,408	-386,483	-1,272,820	-1,161,499	-72,619	-60,891			-1,345,439	-1,222,390
Intra-group operating expenses, including elimination of profits	-382,541	-333,268	-60,170	-56,414	-605,778	-537,934	-1,048,489	-927,616	-36,933	-17,219	1,085,422	944,835		
Operating profit	**157,929**	**148,806**	**29,148**	**26,920**	**169,558**	**161,740**	**356,635**	**337,466**	**24,576**	**17,322**	**0**	**0**	**381,211**	**354,788**
Interest income	2,127	249	7	4	787	216	2,921	469	890	351			3,811	820
Intra-group interest income	995	544	0	0	0	0	995	544	0	1	-995	-545		
Interest expenses	-1,114	-366	-15	-11	-127	-113	-1,256	-490	-5	-5			-1,261	-495
Intra-group interest expenses	-995	-545	0	0	0	0	-995	-545	0	0	995	545		
Net financial result	**-1,249**	**-1,104**	**47**	**-155**	**46,275**	**5,891**	**45,073**	**4,632**	**6,789**	**2,997**			**51,862**	**7,629**
Income tax expense	-31,076	-26,730	-5,237	-3,963	-30,101	-21,634	-66,414	-52,327	-2,997	-1,940			-69,411	-54,267
Net profit	**125,604**	**120,972**	**23,958**	**22,802**	**185,732**	**145,997**	**335,294**	**289,771**	**28,368**	**18,379**	**0**	**0**	**363,662**	**308,150**
Investments	90,600	54,623	579	363	14,627	10,619	105,806	65,605	168	781			105,974	66,386
Depreciation of property, plant and equipment	70,443	71,651	2,073	2,004	21,454	22,591	93,970	96,246	2,964	2,443			96,934	98,689
Depreciation of the right-of-use assets	2,828	2,502	110	105	660	600	3,598	3,207	87	66			3,685	3,273
Amortisation of intangible assets	4,182	4,261	334	351	2,249	1,989	6,765	6,601	300	274			7,065	6,875
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Total assets	**2,069,151**	**1,917,518**	**64,802**	**57,976**	**463,008**	**492,729**	**2,596,961**	**2,468,223**	**90,539**	**68,765**			**2,687,500**	**2,536,988**
Non-current assets exclusive of deferred tax assets	922,872	898,811	5,357	5,112	99,916	87,801	1,028,145	991,724	43,110	36,445			1,071,255	1,028,169
Total liabilities	**360,495**	**404,832**	**15,854**	**23,358**	**129,136**	**150,975**	**505,485**	**579,165**	**43,506**	**38,738**			**548,991**	**617,903**

4. Revenue from contracts with customers

Itemisation of revenue from contracts with customers

€ thousand	2022	2021
Revenue from contracts with customers (products)	1,665,990	1,523,823
Revenue from contracts with customers (health resorts and tourist services)	42,552	36,465
Revenue from contracts with customers (materials)	3,988	1,978
Total revenue from contracts with customers	**1,712,530**	**1,562,266**

Revenue from contracts with customers by region

€ thousand	2022	2021
Region Slovenia	60,495	56,415
Region South-East Europe	224,523	209,166
Region East Europe	623,377	547,778
Region Central Europe	364,154	351,501
Region West Europe	327,343	305,246
Region Overseas Markets	66,098	53,717
Total	**1,665,990**	**1,523,823**

In Ukraine, our fourth largest market, we have sold €95,213 thousand of products in 2022 (2021: €96,419 thousand), which represents 5.6% of Krka Group's total sales.

In the Russian Federation, which is Krka's largest single market, we have sold €387,017 thousand of products in 2022 (2021: €332,899 thousand), representing 22.7% of Krka Group's total sales. Demand for our products is adequate.

Revenue from contracts with customers by product groups

€ thousand	2022	2021
Prescription pharmaceuticals	1,390,972	1,305,316
Non-prescription products	181,977	137,250
Animal health products	93,041	81,257
Total	**1,665,990**	**1,523,823**

All revenue from contracts with customers of health resorts and tourist services are generated in Slovenia.

Contract-related balances

Trade receivables are outlined in Note 17 'Trade and other receivables', while liabilities from contracts with customers in Note 24 'Current liabilities from contracts with customers'. The Krka Group recognised assets from contracts with customers in the amount of €420 thousand (2021: €437 thousand) and liabilities from contracts in the amount of €10,858 thousand (2021: €7,766 thousand in 2021). The recognised assets and liabilities under contracts with customers are set out in the consolidated statement of financial position.

Right-of-return liabilities

The Krka Group recognised right-of-return liabilities in the amount of €146,853 thousand (2021: €116,965 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 control depend on terms and conditions of an individual contract. Generally, the transfer occurs when the customer accepts the goods in accordance with *Incoterms 2021* 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, which could be recognised as assets.

5. Other operating income

€ thousand	2022	2021
Reversal of non-current provisions	2,256	5,116
Reversal of deferred income	1,118	1,229
Gains on sale of property, plant and equipment and intangible assets	1,736	1,161
Other operating income	4,087	3,870
Total other operating income	**9,197**	**11,376**

Other operating income also includes income from government grants relating to the curbing of the COVID-19 pandemic in the amount of €235 thousand (2021: €618 thousand) and the aid received in connection with the increase in energy prices in the amount of €656 thousand (no such grant was recorded in 2021).

6. Costs by nature

€ thousand	2022	2021
Cost of goods and materials	540,206	394,891
Cost of services	249,574	229,106
Employee benefits expense	469,576	441,476
Amortisation and depreciation	107,684	108,837
Net write-offs and allowances for inventories	20,321	20,738
Net impairments and write-offs of receivables	1,875	1,048
Formation of provisions for lawsuits	20	563
Other operating expenses	34,923	34,716
Total costs	**1,424,179**	**1,231,375**
Change in the value of inventories of finished products and work in progress	-78,740	-8,985
Total	**1,345,439**	**1,222,390**

7. Employee benefits expense[87]

€ thousand	2022	2021
Gross wages and salaries and continued pay	364,441	339,342
Social security contributions	26,368	25,003
Pension insurance contributions	51,187	46,601
Payroll tax	705	784
Post-employment benefits and other non-current employee benefits	3,888	7,799
Other employee benefits expense	22,987	21,947
Total employee benefits expense	**469,576**	**441,476**

Post-employment benefits and other non-current employee benefits are detailed in Note 21 'Provisions'. Other employee benefits include primarily vacation bonuses and commuting allowances.

8. Other operating expenses

€ thousand	2022	2021
Grants and assistance for humanitarian and other purposes	1,752	1,548
Environmental protection expenditures	6,025	5,161
Other taxes and levies	21,933	21,264
Loss on sale and write-offs of property, plant and equipment and intangible assets	965	2,754
Other operating expenses	4,248	3,989
Total other operating expenses	**34,923**	**34,716**

Other levies include €18,125 thousand (2021: €17,320 thousand) of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries for pursuing promotional activities.

9. Financial income and financial expenses

€ thousand	2022	2021
Net foreign exchange gains	43,586	15,145
Interest income	3,811	820
Derivatives income	9,096	2,968
– Realised revenue	8,847	2,002
– Fair value change	249	966
Income from dividends	702	691
Other financial income	473	87
Total financial income	**57,668**	**19,711**
Interest expenses	-1,261	-495
– Interest paid	-960	-199
– Interest expenses on lease liabilities	-301	-296
Derivatives expenses	0	-10,459
– Realised expenses	0	-10,459
Other financial expenses	-4,545	-1,128
Total financial expenses	**-5,806**	**-12,082**
Net financial result	**51,862**	**7,629**

The net financial result in 2022 improved over the previous period mostly on the account of net foreign exchange differences recorded in the amount of €44,233 thousand. In 2022, Krka continued its policy of partial hedging against

[87] GRI 201-1, 201-3

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 2022 €1 = RUB 78.4308 and on 31 December 2021 €1 = RUB 85.3004).

Detailed information on the risk of changes in foreign exchange rates can be found in Note 29 ‘Financial Instruments and Financial Risks’.

10. Income tax expense

Adjustment to the effective tax rate

€ thousand	2022	2021
Current income tax	79,477	53,767
Deferred tax	-10,066	500
Total income tax expense	**69,411**	**54,267**
Profit before tax	**433,073**	**362,417**
Income tax for both years calculated at the rate of 19%	82,284	68,859
Tax on reduced income	-3,252	-3,231
Tax on non-deductible expenses	4,518	3,190
Income tax from tax incentives	-19,336	-16,028
Tax on increase/decrease of costs for taxable purposes	2,855	2,071
Effect of different tax rates	1,631	603
Other	711	-1,197
Total income tax expense	**69,411**	**54,267**
Effective tax rate	**16.0%**	**15.0%**

Investments in R&D and investment relief represent the major share of tax incentives.

11. Property, plant and equipment

€ thousand	31 Dec 2022	31 Dec 2021
Land	40,721	40,590
Buildings	356,784	359,244
Equipment	294,308	313,227
Property, plant and equipment being acquired	76,139	48,833
Right-of-use assets	11,384	11,763
Total property, plant and equipment	**779,336**	**773,657**

The largest investments in the controlling company were in 2022 earmarked for increasing the capacity of the OTO plant, i.e. €15,162 thousand (2021: €2,548 thousand) and for renovating the Notol`s packaging unit i.e. €6,712 thousand (a new investment in 2022). Another €4,999 thousand (2021: €3,606 thousand) was earmarked for IT and telecommunication projects, €3,958 thousand (2021: €1,265 thousand) for the investment in the new packaging unit at Notol 2 and €3,406 thousand (new investment in 2022) for replacing the cladding boilers at Notol.

As for the subsidiaries, the largest investment was allocated to increase production capacity in the subsidiary Krka-Rus in the Russian Federation, amounting to €13,218 thousand (2021: €5,564 thousand). €3,300 thousand (2021: €179 thousand) was invested in renovating the accommodation facility within the Hotel Laguna in the Terme Krka.

The majority of the right-of-use asset refers to the right of using assets relating to buildings in the amount of Tax on increase/decrease of costs for taxable purposes €8,033 thousand (2021: €8,487 thousand).

Movement of property, plant and equipment (PPE)

€ thousand	Land	Buildings	Equipment	PPE being acquired	Right-of-use assets	Total
Purchase cost						
Balance at 1 Jan 2021	**40,290**	**848,025**	**1,209,544**	**41,727**	**16,508**	**2,156,094**
Additions	0	0	0	61,125	0	61,125
Capitalisations – transfer from PPE being acquired	336	8,165	45,356	-53,857	0	0
Capitalisations – IFRS 16 Leases	0	0	0	0	3,871	3,871
Disposals, impairments, deficit, surplus	-80	-723	-18,310	-907	-1,135	-21,155
Translation reserve	44	4,087	5,214	776	172	10,293
Transfers, reclassifications	0	0	-8	-31	0	-39
Balance at 31 Dec 2021	**40,590**	**859,554**	**1,241,796**	**48,833**	**19,416**	**2,210,189**
Balance at 1 Jan 2022	**40,590**	**859,554**	**1,241,796**	**48,833**	**19,416**	**2,210,189**
Additions	0	0	0	99,147	0	99,147
Capitalisations – transfer from PPE being acquired	102	21,885	50,382	-72,369	0	0
Capitalisations – IFRS 16 Leases	0	0	0	0	3,648	3,648
Disposals, impairments, deficit, surplus	-19	-1,805	-23,883	0	-1,327	-27,034
Translation reserve	48	4,656	3,879	570	77	9,230
Transfers, reclassifications	0	-240	301	-42	0	19
Balance at 31 Dec 2022	**40,721**	**884,050**	**1,272,475**	**76,139**	**21,814**	**2,295,199**
Accumulated depreciation						
Balance at 1 Jan 2021	**0**	**-471,898**	**-872,122**	**0**	**-4,945**	**-1,348,965**
Depreciation	0	-27,560	-71,129	0	-3,273	-101,962
Disposals, deficit, surplus	0	423	17,835	0	641	18,899
Transfers, reclassifications	0	0	5	0	0	5
Translation reserve	0	-1,275	-3,158	0	-76	-4,509
Balance at 31 Dec 2021	**0**	**-500,310**	**-928,569**	**0**	**-7,653**	**-1,436,532**
Balance at 1 Jan 2022	**0**	**-500,310**	**-928,569**	**0**	**-7,653**	**-1,436,532**
Depreciation	0	-26,874	-70,060	0	-3,685	-100,619
Disposals, deficit, surplus	0	1,363	22,946	0	919	25,228
Transfers, reclassifications	0	-25	-40	0	0	-65
Translation reserve	0	-1,420	-2,444	0	-11	-3,875
Balance at 31 Dec 2022	**0**	**-527,266**	**-978,167**	**0**	**-10,430**	**-1,515,863**
Carrying amount						
Balance at 1 Jan 2021	**40,290**	**376,127**	**337,422**	**41,727**	**11,563**	**807,129**
Balance at 31 Dec 2021	**40,590**	**359,244**	**313,227**	**48,833**	**11,763**	**773,657**
Balance at 1 Jan 2022	**40,590**	**359,244**	**313,227**	**48,833**	**11,763**	**773,657**
Balance at 31 Dec 2022	**40,721**	**356,784**	**294,308**	**76,139**	**11,384**	**779,336**

No capitalised borrowing costs relate to the items of property, plant and equipment in 2022.

All property, plant and equipment is free of encumbrances. The status of known future commitments related to the acquisition of property, plant and equipment is disclosed in Note 26 ‘Contingent Liabilities and Commitments’.

The movements and lease liabilities recognised in profit or loss are presented in Notes 27 ‘Leases’ and 29 ‘Financial Instruments and Risk’.

Impairment testing of the cash-generating unit Russian Federation

The Krka Group has production and distribution facilities in the Russian Federation, where production is carried out at Krka RUS, while distribution is carried out through Krka Farma. Both companies together constitute the cash-generating unit (CGU) Russian Federation. The carrying amount of property, plant and equipment allocated to the cash-generating unit is €86,527 thousand (2021: €74,461 thousand).

The Russian-Ukrainian situation has increased uncertainty, which has led to a significant increase in the weighted average cost of capital in the financial markets. Consequently, management has assessed the recoverable amount of the assets allocated to the Russian Federation CGU. The recoverable amount of the CGU is based on the value in use calculated by discounting the future cash flows generated by the continued use of the CGU. The Krka Group's current strategy does not envisage the sale of production capacity in the Russian Federation and does not foresee the payment of dividends in the foreseeable future.

The five-year projection of the CGU's performance until 2027 uses a discount rate of 14.0%, while for the residual value the discount rate is set at 12.1%. Based on the impairment assessment performed, it was concluded that there is no need to impair the CGU Russian Federation.

12. Intangible assets

€ thousand	31 Dec 2022	31 Dec 2021
Goodwill	42,644	42,644
Trademark	34,047	34,918
Software	14,685	15,216
Other intangible assets	7,468	7,590
– Long-term deferred operating costs	715	645
– Development-related projects	5,738	6,633
– Emission coupons	1,015	312
Intangible assets being acquired	3,706	3,933
Total intangible assets	**102,550**	**104,301**

Goodwill arose on the acquisition of subsidiaries TAD Pharma in Germany (€42,277 thousand) and Krka Pharma in Austria (€367 thousand). The item of trademark refers mostly to the trademark of TAD Pharma (€33,922 thousand).

Movement of intangible assets (IA)

€ thousand	Goodwill	Trademark	Concessions, trademarks and licences	Other IA	IA being acquired	Total
Purchase cost						
Balance at 1 Jan 2021	**42,644**	**42,629**	**72,383**	**62,772**	**4,487**	**224,915**
Additions	0	0	0	0	5,261	5,261
Transfer from IA being acquired	0	0	3,548	1,317	-4,865	0
Disposals, deficit, surplus	0	0	-55	-596	-952	-1,603
Transfers, reclassifications	0	0	-6	0	2	-4
Translation reserve	0	0	37	209	0	246
Balance at 31 Dec 2021	**42,644**	**42,629**	**75,907**	**63,702**	**3,933**	**228,815**
Balance at 1 Jan 2022	**42,644**	**42,629**	**75,907**	**63,702**	**3,933**	**228,815**
Additions	0	0	0	0	6,827	6,827
Transfer from IA being acquired	0	0	3,893	2,917	-6,810	0
Disposals, deficit, surplus	0	0	-869	-2,016	-238	-3,123
Transfers, reclassifications	0	0	132	-190	0	-58
Translation reserve	0	0	62	179	-6	235
Balance at 31 Dec 2022	**42,644**	**42,629**	**79,125**	**64,592**	**3,706**	**232,696**
Accumulated amortisation						
Balance at 1 Jan 2021	**0**	**-6,841**	**-56,435**	**-54,268**	**0**	**-117,544**
Amortisation	0	-870	-4,279	-1,726	0	-6,875
Disposals, deficit, surplus	0	0	41	65	0	106
Transfers, reclassifications	0	0	6	-4	0	2
Translation reserve	0	0	-24	-179	0	-203
Balance at 31 Dec 2021	**0**	**-7,711**	**-60,691**	**-56,112**	**0**	**-124,514**
Balance at 1 Jan 2022	**0**	**-7,711**	**-60,691**	**-56,112**	**0**	**-124,514**
Amortisation	0	-871	-4,486	-1,708	0	-7,065
Disposals, deficit, surplus	0	0	833	722	0	1,555
Transfers, reclassifications	0	0	-43	101	0	58
Translation reserve	0	0	-53	-127	0	-180
Balance at 31 Dec 2022	**0**	**-8,582**	**-64,440**	**-57,124**	**0**	**-130,146**
Carrying amount						
Balance at 1 Jan 2021	**42,644**	**35,788**	**15,948**	**8,504**	**4,487**	**107,371**
Balance at 31 Dec 2021	**42,644**	**34,918**	**15,216**	**7,590**	**3,933**	**104,301**
Balance at 1 Jan 2022	**42,644**	**34,918**	**15,216**	**7,590**	**3,933**	**104,301**
Balance at 31 Dec 2022	**42,644**	**34,047**	**14,685**	**7,468**	**3,706**	**102,550**

Impairment testing of cash generating units that include goodwill

For the purpose of impairment testing, goodwill arising on the acquisition of TAD Pharma amounting to €42,277 thousand has been allocated to two cash-generating units (CGUs) i.e. to CGU TAD Pharma in the amount of €30,989 thousand and to CGU Krka (controlling company) in the amount of €11,288 thousand.

Cash-generating unit TAD Pharma

The recoverable amount of the CGU TAD Pharma is based on the value in use calculated by discounting the future cash flows generated by the continued use of the CGU. The five-year financial plans of CGU TAD Pharma were used, with a projected five-year average growth rate of earnings before interest, taxes, amortisation of 1.7% (previous year's projected five-year average growth rate: 10.0%), the discount rate is 6.6% (2021: 6.8%) and the annual growth rate of the free cash flow at residual value is 2.0% (2021: 2.0%). The annual growth rate of free cash flow was determined on the basis of long-term inflation estimates. The values assigned to the key assumptions represent management's best estimate of future industry trends and were based on historical data obtained from both internal and external sources.

The estimated recoverable amount of the cash-generating unit exceeds its carrying amount and therefore there is no need to impair the cash-generating unit.

Cash-generating unit Krka (controlling company)

The recoverable amount of the CGU Krka is based on the value in use calculated by discounting the future cash flows generated by the continued use of the CGU. The five-year financial plans of CGU Krka were used, with a projected five-year average growth rate of earnings before interest, taxes, amortisation of 1.7% (previous year's projected five-year average growth rate: 4.8%), the discount rate is 8.0% (2021: 7.9%) and the annual growth rate of the free cash flow at residual value is 2.0% (2021: 2.0%). The annual growth rate of free cash flow was determined on the basis of long-term inflation estimates. The values assigned to the key assumptions represent management's best estimate of future industry trends and were based on historical data obtained from both internal and external sources.

Based on the goodwill impairment assessment performed, it was concluded that there is no need to impair CGU Krka.

13. Loans

€ thousand	31 Dec 2022	31 Dec 2021
Non-current loans	**77,539**	**40,300**
– Loans to others	47,539	40,300
– Deposits granted to banks	30,000	0
Current loans	**6,327**	**192,360**
– Portion of non-current loans maturing next year	4,559	1,826
– Loans to others	23	321
– Deposits granted to banks	2	190,264
– Current interest receivables	1,743	-51
Total loans	**83,866**	**232,660**

Non-current loans include a loans by a subsidiary in China for the construction of a production plant for an amount of €35,335 thousand (2021: €27,798 thousand), as well as housing loans granted by the controlling company and certain subsidiaries to employees in accordance with the internal rules. The loan in China has a maturity of 7 years from the first disbursement and a grace period for repayment of 2.5 years from the first disbursement. The loan is secured by a guarantee from Ningbo Menovo Pharmaceutical Co. Ltd, which is the owner of the borrowing company Ningbo Menovo Tiankang Pharmaceutical Co., Ltd, and a mortgage on the borrower's immovable property.

14. Investments

€ thousand	31 Dec 2022	31 Dec 2021
Non-current investments	**110,770**	**108,883**
– Investments at fair value through OCI (equity instruments)	15,989	15,861
– Investments at amortised cost (debt instruments)	94,781	93,022
Current investments including derivatives	**52,437**	**155,448**
–Investments at amortised cost (debt instruments)	50,697	113,987
– Derivatives	1,740	1,491
– Other current investments at fair value through profit or loss (debt instruments)	0	39,970
Total investments	**163,207**	**264,331**

Investments at fair value through other comprehensive income comprised €877 thousand of investments in shares and interests in companies in Slovenia (2021: €1,002 thousand), and €15,112 thousand of investments in shares of companies located abroad (2021: €14,859 thousand). Investments at amortised cost include investments in Slovenian government bonds which amounted to €6,533 thousand (2012: €4,455 thousand), while investments in foreign government bonds amounted to €138,945 thousand (2021: €202,554 thousand).

Movement of financial assets

€ thousand	Financial assets at fair value through OCI	Investments at amortised cost	Investments at fair value through profit or loss
Balance at 1 Jan 2021	**10,420**	**0**	**0**
Increase	0	205,946	40,000
Foreign exchange differences	0	1,063	0
Adjustment to market value	5,441	/	-30
Balance at 31 Dec 2021	**15,861**	**207,009**	**39,970**
Balance at 1 Jan 2022	**15,861**	**207,009**	**39,970**
Increase	0	54,083	0
Decrease	0	-119,265	-40,000
Foreign exchange differences	0	3,651	0
Adjustment to market value	128	/	30
Balance at 31 Dec 2022	**15,989**	**145,478**	**0**

Increases in financial assets comprise new acquisitions and imputed interest, while decreases comprise coupons received, imputed interest and disposals due to the investment's maturity. Adjustments of non-current investments at fair value through OCI were recognised in other comprehensive income in the amount of €128 thousand (2021: €5,441 thousand). Exchange differences on investments at amortised cost of €3,651 thousand (2021: €1,063 thousand) are recognised in financial income.

15. Deferred tax assets and deferred tax liabilities

€ thousand	Assets		Liabilities	
	2022	**2021**	**2022**	**2021**
Investments, property, plant and equipment and intangible assets	332	367	11,925	12,316
Investments at fair value through OCI	1,708	1,727	2,490	2,466
Inventories	34,540	24,378	0	-37
Receivables	11,766	10,242	0	0
Dividends	33	19	0	0
Provisions for post-employment benefits and other non-current employee benefits	8,704	13,398	0	0
Transfer of tax loss	344	575	0	0
Total	**57,427**	**50,706**	**14,415**	**14,745**
Offsetting	**-3,657**	**-3,823**	**-3,657**	**-3,823**
Net	**53,770**	**46,883**	**10,758**	**10,922**

€ thousand	Balance at 1 Jan 2021	Recognised in income statement	Translation reserve	Recognised in OCI	Balance at 31 Dec 2021	Recognised in income statement	Translation reserve	Recognised in OCI	Balance at 31 Dec 2022
Investments, property, plant and equipment and intangible assets	**-12,206**	296	-39	0	**-11,949**	417	-61	0	**-11,593**
Investments at fair value through OCI	**295**	0	0	-1,034	**-739**	-19	0	-24	**-782**
Inventories	**30,547**	-6,208	76	0	**24,415**	10,218	-93	0	**34,540**
Receivables	**4,693**	5,290	259	0	**10,242**	967	557	0	**11,766**
Dividends	**14**	5	0	0	**19**	14	0	0	**33**
Provisions for post-employment benefits and other non-current employee benefits	**13,642**	347	-3	-588	**13,398**	-1,300	-1	-3,393	**8,704**
Transfer of tax loss	**805**	-230	0	0	**575**	-231	0	0	**344**
Total	**37,790**	**-500**	**293**	**-1,622**	**35,961**	**10,066**	**402**	**-3,417**	**43,012**

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to €484 thousand at the year-end of 2022 (2021: €850 thousand). The unrecognised deferred tax liability for unpaid dividends from subsidiaries amounts to €13,675 thousand (2021: €10,831 thousand).

16. Inventories

€ thousand	31 Dec 2022	31 Dec 2021
Materials	230,094	188,994
Work in progress	125,925	104,640
Finished products	169,510	152,597
Merchandise	8,297	7,299
Advances for inventories	19,506	2,177
Total inventories	**553,332**	**455,707**

The increase in inventories is the result of adapting to uncertain market conditions. By carefully planning our inventories and maintaining safety stocks, we ensure that we always have access to the intermediate goods that we require to produce our finished products. The planning of inventories of intermediate goods is based on sales forecasts. We also ensure optimal and adequate stocks of finished products throughout the distribution chain.

The net write-downs and write-offs of inventories recorded among operating expenses amounted in the reporting period to €20,321 thousand (2021: €20,738 thousand).

The Krka Group does not pledge inventories as collateral.

17. Trade and other receivables

€ thousand	31 Dec 2022	31 Dec 2021
Current trade receivables	402,730	467,764
Current receivables due from others	27,728	29,564
Total trade and other receivables	**430,458**	**497,328**

The net amount of the write-offs and impairment of receivables disclosed in operating expenses amounted in 2022 to €1,875 thousand (2021: €1,048 thousand).

96.1% of trade receivables were insured with a credit insurer, by taking into account 86.7% of the deductible (98.5% were insured as at 31 December 2021, by taking into account 89.8% of the deductible).

Current trade receivables

€ thousand	Gross value	Allowances for receivables	Net value at 31 Dec 2022	Net value at 31 Dec 2021
Trade receivables due from domestic customers	11,605	39	11,566	12,212
Trade receivables due from foreign customers	432,180	38,520	393,660	456,377
Deferred income from contracts with foreign customers	-2,496	0	-2,496	-825
Total current trade receivables	**441,289**	**38,559**	**402,730**	**467,764**

Current receivables due from others

Current receivables due from others relate primarily to receivables due from the State. Income tax credits amounted to €1,644 thousand (2021: €3,057 thousand), while the remaining €16,570 thousand relate to other receivables due by the State (2021: €17,368 thousand).

Advances for services were recorded at €2,304 thousand (2021: €2,442 thousand) at the year-end of 2022.

18. Cash and cash equivalents

€ thousand	31 Dec 2022	31 Dec 2021
Cash in hand	64	30
Bank balances	518,870	159,808
Total cash and cash equivalents	**518,934**	**159,838**

19. Equity

Share capital

The share capital of the Company in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. There is solely one class of share. The share capital is fully paid in.

Treasury shares

At the 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 the 10% of Company's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by Krka as at the date. The authorisation is valid for a period of 36 months from the date of the decision adoption.

Based on this authorisation, the Company 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* (*ZGD-1*), an entity may reduce the share capital by withdrawal of all treasury shares in a simplified procedure and recognise the amount against other profit reserves.

Repurchase of treasury shares

	No. of shares	Weighted average share price (€)	Value of treasury shares (€ thousand)
Balance at 31 Dec 2020	**1,541,774**		**99,279**
Repurchases in 2021	142,134	107.38	15,262
Balance at 31 Dec 2021	**1,683,908**		**114,541**
Repurchases in 2022	101,941	98.35	10,025
Balance at 31 Dec 2022	**1,785,849**		**124,566**

The performed repurchases of treasury shares refers to repurchases that were recorded in individual years. A subscription fee is included in the weighted average price of shares. The amount paid, including commission, is deducted from the total capital as treasury shares until such shares are withdrawn, reissued or sold.

The repurchases of treasury shares in 2022 in terms of days are outlined in Note 35 to the financial statements of Krka, d.d., Novo mesto 'Repurchase of treasury shares'.

Reserves

The Krka Group's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves, fair value reserve and translation reserves.

Reserves for treasury shares amounted as at the balance sheet date to €124,566 thousand and increased by €10,025 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 2022 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 2022, 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 2022 and remained unchanged compared to the previous period.

Statutory reserves amounted to €30,000 thousand as at the reporting date and remained unchanged over the previous period. Statutory reserves are formed by the Krka Group up to the amount of €30,000 thousand. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy. Statutory reserves are available for drawdown.

The fair value reserve includes the cumulative change in the fair value of financial assets and post-employment benefits. Compared to the previous period, the fair value reserve increased by €24,747 thousand and amounted to €2,670 thousand as at 31 December 2022. The cumulative change is due to a €128 thousand increase in the fair value of financial assets through OCI (equity instruments); a decrease for the impact of deferred taxes of €3,417 thousand and an increase due to the restatement of post-employment benefits of €28,036 thousand.

Compared to the previous period, the value of the *translation reserve* increased by €12,355 thousand and amounted to –€85,919 thousand as at 31 December 2022. 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 €363,296 thousand. On the other hand, they declined as a result of allocation of accumulated profit to dividend payment amounting to €175,025 thousand in accordance with the resolution adopted by the 28th Annual General Meeting on 7 July 2022; an additional formation of reserves for treasury shares in total of €10,025 thousand on account of the share repurchase by the controlling company in 2022 and changes in provisions for termination benefits amounting to €1,937 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 €19 thousand of dividends paid in respect of previous periods (2021: €11 thousand).

Dividends per share

In 2022, the declared gross dividend per share was €5.63 (2021: €5.00).

Non-controlling interests

Krka holds a 60-percent holding in Ningbo Krka Menovo Pharmaceutical Co. Ltd., with Ningbo Menovo Pharmaceutical Co., Ltd. having a 40-percent holding. The following table summarises information about the company before any intra-group spin-offs. In 2022, the shareholders increased the company's share capital in the amount of €15,380 thousand, in proportion to their respective shareholdings.

€ thousand	2022	2021
Non-controlling interest	**40%**	**40%**
Non-current assets	40,521	33,813
Current assets	20,626	5,082
Non-current liabilities	0	-7
Current liabilities	-11,416	-4,189
Net assets	**49,731**	**34,699**
Net assets, attributable to the non-controlling interest	**19,893**	**13,879**
Revenue	29,634	14,543
Net profit	915	-2,661
Other comprehensive income	0	0
Total comprehensive income	**915**	**-2,661**
Net profit, attributable to the non-controlling interest	366	-1,064
Other comprehensive income, attributable to the non-controlling interest	-505	1,265

20. Earnings per share

Basic earnings per share amounted to €11.69 in 2022 and increased by 18% over the previous year, when it amounted to €9.92. The calculation of earnings per share took into account the profit for the period attributable to the controlling interests in the amount of €363,296 thousand (2021: €309,214 thousand). The weighted average number of shares was accounted for in the calculation for both years i.e. 31,070,960 shares for 2022, and 31,185,323 shares for 2021. The average number of shares is calculated from the daily share balances during the year, less treasury shares.

Diluted earnings per share equal the basic earnings per share as the Krka Group has not issued any dilutive or contingently dilutive instruments.

21. Provisions

Movement of provisions in 2022

€ thousand	Balance at 31 Dec 2021	Transfer	Formation	Utilisation	Reversal	Translation reserve	Balance at 31 Dec 2022
Provisions for lawsuits	577	10,000	20	0	0	0	10,597
Provisions for post-employment benefits	104,429	0	-18,966	-3,898	-1,807	-8	79,750
Provisions for other non-current employee benefits	19,854	0	-1,857	-1,442	-341	-5	16,209
Other provisions	1,293	0	719	-1,225	-108	0	679
Total provisions	**126,153**	**10,000**	**-20,084**	**-6,565**	**-2,256**	**-13**	**107,235**

Movement of provisions in 2021

€ thousand	Balance at 31 Dec 2021	Formation	Utilisation	Reversal	Translation reserve	Balance at 31 Dec 2022
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
Total provisions	**134,686**	**3,289**	**–6,701**	**–5,116**	**–5**	**126,153**

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for disputes referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed.

In 2014, the European Commission found that Krka had infringed Article 101 of the Treaty on the Functioning of the EU, thereby distorting competition on the EU market for perindopril, and imposed a fine of €10,000 thousand on Krka. Krka paid the fine within the time limit set by the Commission. However, as it considered that its conduct did not infringe competition law rules, it brought an action against the decision before the EU General Court, which ruled in favour of Krka in December 2018.[88]

The General Court's decision is not yet final and the Commission has lodged an appeal against it within the appeal period, which will be decided by the European Court of Justice. In 2022, Krka transferred the value from non-current operating liabilities to provisions for lawsuits.

The controlling company and its subsidiaries were in 2022 involved in intellectual property disputes and other areas of law (civil, labour, administrative disputes, etc.). The total value of the claims against Krka is estimated at €1,324 thousand. The Krka Group has formed provisions of €597 thousand for this purpose. The reversal of provisions is disclosed in Note 5 'Other operating income'.

Provisions for obligations to employees arising from post-employment and other non-current benefits are based on actuarial calculation using the following assumptions:

- a discount rate that depends on the average duration of the liability in each company – for the Company, an annual discount rate of 3.91% is used, which is the yield on 10-year Eurozone high quality corporate bonds at the end of November 2022 (2021: 1. 27%), for subsidiaries different annual discount rates are used, ranging between 3.14% and 6.75% (2021: from 0.78% and 3.60%);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal rules;

[88] GRI 206-1

- staff turnover depending primarily upon the employees' age (3.0% for up to 30 years; 2.0% for 31 to 40 years; 0.5% for 41 to 50 years; 0.2% for 51 to 60 years);
- mortality rates calculated on the basis of most recent mortality tables available;
- the 2.00% increase in salaries (2021: 2.00%).

Liabilities for post-employment benefits

€ thousand	2022	2021
Balance at 1 Jan	**104,429**	**109,698**
Current service costs (CSC)	5,824	6,602
Interest costs (IC)	1,300	796
Post-employment benefits paid	-3,897	-4,526
Staff departures (reversal)	-1,807	-1,382
Actuarial surplus/deficit, whereof:	-26,099	-6,759
– Change in financial assumptions	-28,492	-7,973
– Experience	2,393	1,214
Balance at 31 Dec	**79,750**	**104,429**

Sensitivity analysis for post-employment and other benefits

	Discount rate		Increase in wages and salaries	
Change in	percentage points		percentage points	
Change by	0.5	–0.5	0.5	–0.5
Impact on liabilities (€ thousand)	**-4,879**	**5,358**	**5,435**	**-4,990**

22. Deferred income

€ thousand	Balance at 31 Dec 2021	New deferred income received	Reversal of deferred income	Balance at 31 Dec 2022
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	1,058	0	-215	843
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	3,320	266	-355	3,231
Grants received from the European Regional Development Fund (Farma GRS)	2,376	0	-521	1,855
Subsidy for acquisition of electric drive vehicles	3	0	-1	2
Property, plant and equipment received free of charge	12	13	-12	13
Emission coupons	10	10	-10	10
Subsidy for the purchase of joinery	93	0	-1	92
Subsidy for acquisition of other equipment	3	0	-1	2
Reserve fund assets (eko fund)	0	2	-2	0
Total deferred income	**6,875**	**291**	**-1,118**	**6,048**

Production of pharmaceuticals in the new Notol 2 Plant and Farma GRS projects are partly funded by the EU from the European Regional Development Fund. The Notol project is carried out within the framework of the Operational programme for strengthening regional development potentials for the 2007-2013 period; Priority axis 1: Competitiveness and Research Excellence: main type of activity 1.1.: Improvement of competitiveness and research excellence. The Farma GRS project was eligible for co-financing of costs under R&D projects, including project management and investment in research and development and production activities.

The amounts of deferred income are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

23. Trade payables

€ thousand	31 Dec 2022	31 Dec 2021
Non-current trade payables	**0**	**10,000**
Current trade payables	**140,837**	**130,011**
Payables to domestic suppliers	55,799	46,767
Payables to foreign suppliers	85,038	83,244
Total trade payables	**140,837**	**140,011**

24. Current contract liabilities

€ thousand	31 Dec 2022	31 Dec 2021
Refund liabilities	**146,853**	**116,965**
– Bonuses and volume rebates	145,924	114,795
– Rights of return	929	2,170
Contract liabilities	**10,857**	**7,765**
– Contract liabilities – deferred income	1,290	1,101
– Contract liabilities – advances from other customers	9,567	6,664
Total current contract liabilities	**157,710**	**124,730**

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.

25. Other current liabilities

€ thousand	31 Dec 2022	31 Dec 2021
Payables to employees – gross salaries, other receipts and charges	69,812	67,978
Liabilities under repurchase transactions (repo-type operations)	0	102,234
Other	16,556	19,820
Total other current liabilities	**86,368**	**190,032**

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €10,557 thousand (2021: €13,261 thousand) and other current liabilities to the State totalling to €4,268 thousand (2021: €4,133 thousand).

26. Contingent liabilities and commitments

€ thousand	31 Dec 2022	31 Dec 2021
Guarantees issued	17,291	16,019
Other	1,935	976
Total contingent liabilities	**19,226**	**16,995**

Among the guarantees issued, the largest items are the performance guarantee for the supply of products awarded in tenders in Italy, amounting to €12,000 thousand, and the guarantee for the TAD Pharma credit line, amounting to €3,000 thousand.

Based on the contracts that had been signed in connection with the on-going investments, the balance of Krka's commitments for acquisition of property, plant and equipment amounted at the end of 2022 to €82,801 thousand of (2021: €45,539 thousand).

27. Leases

The Krka Group concludes lease agreements for various assets such as parking spaces and offices, warehouses, land, apartments, cars and equipment.

The lease terms are assessed according to the type of a lease:

- office premises, parking spaces and warehouses: up to 10 years;
- land: 30 years;
- apartments: up to 3 years maximum;
- cars: up to 5 years maximum;
- equipment: up to 10 years.

The Krka Group does not sub-lease the leased assets.

The Krka Group concluded lease contracts for various production and non-production equipment, temporary offices and parking spaces, with lease term of shorter than one year. In respect of those leases, the Group applied a practical expedient provided by the Standard.

The carrying amounts of lease liabilities included under interest-bearing loans and borrowings and movements during the period

€ thousand	Carrying amounts of lease liabilities under interest-bearing loans and borrowings and movements during the period
Balance at 1 Jan 2021	**11,833**
Increase/Decrease	3,473
Interest	296
Lease payments	-3,515
Translation reserve	70
Balance at 31 Dec 2021	**12,157**
– Current lease liabilities	3,433
– Non-current lease liabilities	8,724
Balance at 1 Jan 2022	**12,157**
Increase/Decrease	3,305
Interest	301
Lease payments	-3,926
Translation reserve	4
Balance at 31 Dec 2022	**11,841**
– Current lease liabilities	3,752
– Non-current lease liabilities	8,089

The maturity analysis of lease liabilities is disclosed in Note 29 'Financial instruments and financial risks'.

Amounts recognised in the income statement

€ thousand	2022	2021
Depreciation of right-of-use assets	3,685	3,273
Interest expenses on lease liabilities	301	296
Expenses relating to current leases	1,134	1,357
Total amount recognised in income statement	**5,120**	**4,926**

28. Financial liabilities

Movement of financial liabilities in 2022

€ thousand	Balance at 31 Dec 2021	Monetary changes	Non-monetary changes	Other	Balance at 31 Dec 2022
Dividends	1,322	-175,044	175,025	0	1,303
Leases	12,157	-3,926	3,309	301	11,841
Liabilities under repurchase transactions (repo-type operations)	102,234	-101,762	0	-472	0
Total	**115,713**	**-280,732**	**178,334**	**-171**	**13,144**

Movement of financial liabilities in 2021

€ thousand	Balance at 31 Dec 2020	Monetary changes	Non-monetary changes	Other	Balance at 31 Dec 2021
Dividends	1,335	-155,907	155,896	-2	1,322
Leases	11,833	-3,515	3,543	296	12,157
Liabilities under repurchase transactions (repo-type operations)	0	102,292	0	-58	102,234
Total	**13,168**	**-57,130**	**159,439**	**236**	**115,713**

29. Financial instruments and financial risks

Credit risk

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

The Krka Group introduced a centralised credit control process in 2004. The system includes all customers with credit limits exceeding €20,000. Numbering over 670 of such customers at the end of 2022, 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 4 categories (an assessment of the buyer's profitability, payment habits and payment discipline, an assessment of the buyer's financial statements, a qualitative assessment of the sales staff and an assessment of country risk) each of which carries a different weight in the final assessment).

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

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

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

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

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

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

The credit risk environment was due to the challenges related to the COVID-19 pandemic and the heightened situation in Ukraine, the Russian Federation and Belarus very challenging in 2022. We paid particular attention to these markets and further strengthened our activities to manage trade receivables. The credit risk management performance in 2022 was favourable. At the year-end, the value of trade receivables was 14% lower than at the beginning of the year, while the amount of overdue and unpaid receivables remained within a range acceptable to 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 2022 was less than 0.11% 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 2022	31 Dec 2021
Loans	13	83,866	232,660
Investments at amortised cost (debt instruments)	14	145,478	207,009
Trade receivables	17	402,730	467,764
Cash and cash equivalents	18	518,934	159,838
Total		**1,151,008**	**1,067,271**

As for the financial assets exposed to credit risk, the loans and trade receivables are presented separately.

The loans include a €30,000 thousand deposit with a maturity of over one year with a Slovenian bank with a high credit rating. The loan in the amount of €35,335 thousand for production facilities in China and housing loans for Krka employees represent a limited credit risk for the Krka Group.

Investments at amortised cost (debt instruments) represent investments in non-current and current bonds of EU countries. They are classified as a low credit risk financial instrument because their credit risk rating is equivalent to the globally understood definition of 'investment grade', which is equivalent to a rating of Baa2 or above by Moody's or BBB- or above by Standard & Poor's.

The majority of Krka Group's cash and cash equivalents are represented by the parent company's bank balances and deposits with maturities of less than 90 days with banks in the EU with a high credit rating (P-1 according to Moody's). A smaller proportion of cash and cash equivalents is represented by the bank balances of the subsidiaries' foreign bank accounts, earmarked for regular payments.

Loans by geographical region

€ thousand	31 Dec 2022	31 Dec 2021
Region Slovenia	43,817	101,727
Region South-East Europe	107	114
Region East Europe	163	159
Region Central Europe	199	262
Region West Europe	381	102,302
Region Overseas Markets	39,199	28,096
Total	**83,866**	**232,660**

Trade receivables by geographical region

€ thousand	31 Dec 2022	31 Dec 2021
Region Slovenia	11,568	12,214
Region South-East Europe	78,859	80,178
Region East Europe	143,635	240,641
Region Central Europe	72,534	58,109
Region West Europe	90,545	71,966
Region Overseas Markets	5,589	4,656
Total	**402,730**	**467,764**

As at 31 December 2022, €132 thousand of receivables were outstanding from Ukrainian customers (as at 31 December 2021, receivables in the amount of €39,159 thousand were outstanding, which were almost fully closed with customer payments during 2022). In 2022, advance payments have been agreed with all Ukrainian customers.

The value of receivables from Russian customers as at 31 December 2022 and 31 December 2021 amounted to €120,137 thousand and €181,661 thousand, respectively. The lower receivables balance is due to factoring carried out by the Russian subsidiary Krka Farma LLC with Russian banks.

Age analysis of loans as at the reporting date

€ thousand	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022	Gross value at 31 Dec 2021	Allowance at 31 Dec 2021
Not past due	83,861	0	232,650	0
Past due up to 20 days	-1	0	0	0
Past due from 21 to 50 days	1	0	1	0
Past due from 51 to 180 days	1	0	2	0
Past due more than 180 days	4	0	7	0
Total	**83,866**	**0**	**232,660**	**0**

Age analysis of trade receivables as at the reporting date

€ thousand	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022	Net value at 31 Dec 2022	Gross value at 31 Dec 2021	Allowance at 31 Dec 2021	Net value at 31 Dec 2021
Not past due	394,575	685	393,890	457,944	487	457,457
Past due up to 20 days	6,618	45	6,573	7,011	39	6,972
Past due from 21 to 50 days	372	16	356	2,341	80	2,261
Past due from 51 to 180 days	862	58	804	95	46	49
Past due more than 180 days	38,862	37,755	1,107	37,922	36,897	1,025
Total	**441,289**	**38,559**	**402,730**	**505,313**	**37,549**	**467,764**

The Krka Group agrees extended terms with certain customers. If 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 €364,673 thousand (2021: €400,150 thousand); past due up to 20 days €21,125 thousand (2021:€43,046 thousand); past due between 21 and 50 days €10,136 thousand (2021: €22,462 thousand); past due between 51 and 180 days €2,806 thousand (2021: €104 thousand); and past due more than 180 days €3,458 thousand (2021: €1,610 thousand).

Age analysis of receivables due from customers in the Russian Federation as at the reporting date

€ thousand	Gross value at 31 Dec 2022	Allowance 31 Dec 2022	Net value at 31 Dec 2022	Gross value at 31 Dec 2021	Allowance 31 Dec 2021	Net value at 31 Dec 2021
Not past due	120,406	269	120,137	181,813	178	181,635
Past due up to 20 days	0	0	0	26	0	26
Past due from 21 to 50 days	0	0	0	0	0	0
Past due from 51 to 180 days	0	0	0	0	0	0
Past due more than 180 days	0	0	0	0	0	0
Total	**120,406**	**269**	**120,137**	**181,839**	**178**	**181,661**

Due to the decrease in receivables from customers in the Russian Federation, the high percentage of secured receivables, which amounted to 90.9% and 72.4% if taking into account the own participation (at 31 December 2021 all receivables were secured and 90% if taking into account the own participation 90%) and the good payment discipline of the customers, the allowance for doubtful debts towards Russian customers has not been increased with respect to 2021. None of the receivables as at 31 December 2022 was past due.

Movement of allowances for trade receivables

€ thousand	2022	2021
Balance at 1 Jan	**37,549**	**37,286**
Formation of allowance	2,054	1,550
Write-off of receivables	-700	-957
Impairment reversal	-352	-334
Collected written-off receivables	-1	-16
Effect of exchange rate differences	9	20
Balance at 31 Dec	**38,559**	**37,549**

Liquidity risk

Business partners value Krka for its excellent financial discipline and stable cash flows. In 2022, we settled all financial liabilities regularly. Krka Group exposure to liquidity risk was low.

The Krka Group has agreements with two banks for the allowed negative balance on transaction accounts for a total amount of €5,688 thousand (in 2021, the Krka Group had agreements with two banks for a total amount of €5,415 thousand). As there were no negative balances on transaction accounts at 31 December 2022, the bank overdraft remained fully unused.

As at 31 December 2022, Krka Group had an undrawn credit facility of €20,000 thousand (2021: €20,000 thousand).

At the end of 2022, the Krka Group recorded excess liquidity, primarily as cash at bank or deposits with commercial banks with high credit ratings. The increase in excess liquid assets in 2022 is due to the excess of positive cash flow from operating and investing activities over financing uses.

The European Central Bank started to gradually increase key interest rates in the second half of 2022. Low-risk cash investments have thus started to yield positive returns. In line with our internal investment diversification rules and taking into account interest rate, liquidity, credit and currency risks, we deposited most of our cash surpluses with commercial banks.

The controlling company manages liquidity risk centrally for the entire Krka Group. The controlling company finances subsidiaries through intra-group loans. Any potential cash surpluses are deposited with the controlling company. Excess cash from all Krka 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 Krka Group companies, and enhanced security of cash transactions.

The Krka Group also reported favourable and stable liquidity ratios at the end of 2022.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 December 2022

€ thousand	Carrying amount	Contractual cash flows					
		Total	Up to 6 months	6 – 12 months	1 – 2 years	2 – 5 years	5 – 10 years
Financial liabilities							
Lease liabilities	11,841	12,406	1,980	1,923	2,842	4,771	890
Trade payables excluding advances	140,837	140,837	140,837	0	0	0	0
Contract liabilities excluding advances	145,924	145,924	145,924	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	7,478	7,478	7,478	0	0	0	0
Total financial liabilities	**306,080**	**306,645**	**296,219**	**1,923**	**2,842**	**4,771**	**890**
Total derivative financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**306,080**	**306,645**	**296,219**	**1,923**	**2,842**	**4,771**	**890**

Maturity of financial liabilities as at 31 December 2021

€ thousand	Carrying amount	Contractual cash flows					
		Total	Up to 6 months	6 – 12 months	1 – 2 years	2 – 5 years	5 – 10 years
Financial liabilities							
Lease liabilities	12,157	12,805	1,838	1,778	3,152	4,620	1,417
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
Repo liability	102,234	102,234	102,234	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	3,546	3,546	3,546	0	0	0	0
Total financial liabilities	**362,743**	**363,391**	**352,424**	**1,778**	**3,152**	**4,620**	**1,417**
Total derivative financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**362,743**	**363,391**	**352,424**	**1,778**	**3,152**	**4,620**	**1,417**

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 Krka 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 recorded purchase orders.

The Russian rouble is the largest currency position of the Krka Group at 39% at the end of 2022. The position in roubles has increased compared to the beginning of 2022. As of April 2022, the rouble currency position could no longer be reduced by derivatives, which was the key reason for its increase. The rouble position arises from trade receivables on the Russian market.

The significance of the Russian sales market, the size of the currency exposure and the volatile value of the Russian rouble are the reasons why we pay special attention to the risk management of the Russian rouble. Due to the lower availability of financial instruments, we put more emphasis on natural methods of reducing exposure in 2022.

In contrast to other currencies, we report an excess of liabilities over assets in US dollars from ordinary operations i.e. a short currency position. The exposure to the US dollar is mainly derived from the purchase of raw materials and supplies. Taking into account the liquid US dollar financial assets and the forward contracts for the purchase of US dollars, which totally neutralise the short currency position from operating activities, the US dollar exposure at the end of 2022 represents approximately 5% of the Krka Group's total currency exposure.

The exposure to the Romanian leu, which represented 15% of the currency position at the end of 2022, arises from trade receivables resulting from longer payment terms in the country. The exposure to the Polish zloty is a result of trade receivables and production capacity that we have in Poland and represents 13% of the currency position.

Other currencies, including the Swedish krona, the Macedonian denar, the Kazakh tenge, the Serbian dinar, the British pound, the Czech koruna, the Ukrainian hryvnia and the Hungarian forint, accounted for 28% of Krka Group's total currency position.

The value of the rouble in euro terms increased by 8.8% from the beginning to the end of 2022, and was on average 18.7% higher than in 2021.

The value of the US dollar denominated in euro increased by 6.2% from the beginning to the end of 2022, on average 12.3% higher than in 2021. The impact of the change in the value of the US dollar on Krka Group's net financial result was neutralised by financial instruments.

The Ukrainian hryvnia has lost around 20% of its value against the euro since the beginning of the Russian invasion of Ukraine. We are not directly exposed to currency risks in Ukraine because we sell in euro.

The Polish zloty has been fairly stable, depreciating by 1.8% from the beginning to the end of 2022, while its average value was 2.6% lower than in 2021. The Romanian leu and the Croatian kuna, which were in the ERM in 2022, have been very stable. The value of the British pound decreased in 2022. The contribution of these currencies to Krka Group's net financial result was small.

The Krka Group generally eliminates currency risks through natural methods, primarily by increasing purchases and payables in the currencies in which it invofices sales. Where this is not possible, financial instruments are used or the risk is left unhedged. As a rule, forward contracts are used for hedging.

In 2022, we continued our policy of partially hedging the Russian rouble and US dollar risk with financial instruments. In the first quarter of 2022, we had partially hedged the Russian rouble risk with forward contracts, but this was no longer possible from April 2022 onwards. The appreciation of the rouble against the euro resulted in net foreign exchange gains.

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 2022. Due to the short currency position, the dollar strengthening had a negative financial impact on the Krka Group result. In 2022 however, this was largely offset by income from the US dollar hedging instruments.

To hedge the risk of changes in the EUR/USD currency pair and to hedge additional risks in 2023, forward contracts of the controlling company with a principal amount of $45,000 thousand and a maturity of less than 2 months were open at the year-end of 2022.

Exposure to the risk of foreign exchange rate fluctuations

€ thousand	31 Dec 2022 EUR*	RUB	PLN	USD	RON
Loans	44,244	86	17	0	31
Trade receivables	101,451	137,966	50,293	5,819	46,991
Cash and cash equivalents	454,565	29,846	2,674	7,682	538
Current trade payables	-109,248	-4,385	-1,914	-9,753	-485
Financial position exposure (net)	**491,012**	**163,513**	**51,069**	**3,748**	**47,075**

**EUR is the functional currency and does not represent exposure to foreign currency risk.*

€ thousand	31 Dec 2021 EUR*	RUB	PLN	USD	RON
Loans	204,071	69	211	0	31
Trade receivables	118,062	198,121	44,803	5,093	44,213
Cash and cash equivalents	87,416	6,497	3,104	44,169	1,075
Non-current operating liabilities	-10,000	0	0	0	0
Current trade payables	-101,305	-8,566	-2,058	-9,129	-283
Financial position exposure (net)	**298,244**	**196,121**	**46,060**	**40,133**	**45,037**

**EUR is the functional currency and does not represent exposure to foreign currency risk.*

Significant exchange rates

	Average exchange rate*		Final exchange rate*	
	2022	**2021**	**2022**	**2021**
RUB	73,43	87,15	78,43	85,30
PLN	4,69	4,57	4,68	4,60
USD	1,05	1,18	1,07	1,13
RON	4,93	4,92	4,95	4,95

**Number of national currency units for one euro.*

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December and equal the reference exchange rates of the ECB effective on the last day of the year. Since the end of March 2022, the Bloomberg exchange rate is used to convert the Russian rouble.

Sensitivity analysis

A 1% change in the value of these currencies against euro as at 31 December 2022 or 31 December 2021 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 cash and cash equivalents denominated in the local currencies.

	Impact on profit or loss before tax			
	2022		2021	
Currency fluctuations	**+1%**	**–1%**	**+1%**	**–1%**
RUB	1,635	-1,635	1,961	-1,961
PLN	511	-511	461	-461
USD	37	-37	401	-401
RON	471	-471	450	-450

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 defined as the risk that the Krka Group will incur an increase in its cost of long-term funding or a decrease in its income on non-current investments as a result of changed market interest rates.

The risk of changes in interest rates on current financial resources and current investments is managed within the Krka Group's liquidity risks.

Krka Group had no non-current borrowings in 2022.

Exposure to interest rate risk

€ thousand	31 Dec 2022	31 Dec 2021
Financial instruments at a fixed rate of interest	**485,123**	**232,701**
Financial assets	485,123	232,701
Financial liabilities	0	0
Financial instruments at a variable rate of interest	**30,000**	**10**
Financial assets	30,000	10
Financial liabilities	0	0

Analysis of the cash flow's sensitivity by applying the variable interest rate

A 100 basis-point increase in the variable interest rate for 2022 would have increased the profit or loss by €300 thousand decrease in 2021 (a decrease in the interest rate by 100 basis points would decrease the profit or loss by €300 thousand). An increase of 100 basis points in the variable interest rate would increase the 2021 profit or loss by €0.1 thousand (a decrease of the interest rate by 100 basis points would decrease the profit or loss by €0.1 thousand). The analysis, which is carried out in the same way for both years, assumes that all variables, in particular the exchange rate, remain constant.

Capital management

The primary objective of the Krka Group's capital management is to ensure a high credit rating and adequate funding ratios to ensure the appropriate development of its business and to maximise value for its shareholders. By managing and adjusting its capital structure, the Krka Group aims to keep pace with changes in the economic environment. Dividends are paid once a year in line with the strategic dividend growth policy. The Krka Group has no specific employee ownership targets and no share option plan.

There were no changes in approach to capital management in 2022 or 2021.

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 and other current payables less cash and cash equivalents.

Financial leverage ratio

€ thousand	31 Dec 2022	31 Dec 2021
Trade payables and other current liabilities	384,915	454,773
Cash and cash equivalents	518,934	159,838
Net indebtedness	**-134,019**	**294,935**
Equity	2,138,509	1,919,085
Equity and net indebtedness	**2,004,490**	**2,214,020**
Financial leverage (debt/equity) ratio	**-6.7%**	**13.3%**

Fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. The table does not include disclosures about the fair values of financial assets and liabilities not measured at fair value, where the carrying amount is a reasonable approximation of fair value.

	31 Dec 2022		31 Dec 2021	
€ thousand	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial assets				
Loans	77,539		40,300	
Investments at fair value through OCI	15,989	15,989	15,861	15,861
Investments at amortised cost	94,781		93,022	
Current financial assets				
Loans	6,327		192,360	
Investments through profit or loss	0	0	39,970	39,970
Investments at amortised cost	50,697		113,987	
Derivatives	1,740	1,740	1,491	1,491
Trade receivables	402,730		467,764	
Cash and cash equivalents	518,934		159,838	
Non-current financial liabilities				
Trade payables	0		-10,000	
Lease liabilities	-8,089		-8,724	
Current financial liabilities				
Lease liabilities	-3,752		-3,433	
Trade payables excluding advances	-140,837		-130,011	
Contract liabilities excluding advances	-145,924		-114,795	
Liabilities under repurchase transactions (repo-type operations)	0		-102,234	
Other current liabilities excluding amounts owed to the State, to employees and advances	-7,478		-3,546	
Total	**862,657**	**17,729**	**751,850**	**57,322**

In terms of fair value, assets and liabilities are classified into three levels:

- Level 1 – assets at market price;
- Level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- Level 3 – assets the value of which cannot be determined using observable market data.

Fair value of assets

	31 Dec 2022				31 Dec 2021			
€ thousand	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Investments at fair value through OCI	14,602	0	1,387	15,989	14,474	0	1,387	15,861
Investments through profit or loss	0	0	0	0	39,970	0	0	39,970
Derivatives	0	0	1,740	1,740	0	0	1,491	1,491
Total assets at fair value	**14,602**	**0**	**3,127**	**17,729**	**54,444**	**0**	**2,878**	**57,322**

30. Related party transaction

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 0.1195% of voting rights. Members of the Supervisory Board of the controlling company held 3347 shares i.e. 0.0102% of total equity or 0.0108% of voting rights. Directors of subsidiaries held 4207 shares or 0.0128% of the total equity or 0.0136% of voting rights.

Equity stakes held by Management and the Supervisory Board members of the controlling company and their shares of voting rights

	31 Dec 2022			31 Dec 2021		
	No. of shares	Equity share (%)	Share in voting rights (%)	No. of shares	Equity share (%)	Share in voting rights (%)
Members of the Management Board						
Jože Colarič	22,500	0,0686	0,0726	22,500	0.0686	0.0723
Aleš Rotar	13,915	0,0424	0,0449	13,915	0.0424	0.0447
Vinko Zupančič	120	0,0004	0,0004	120	0.0004	0.0004
David Bratož	0	/	/	0	/	/
Milena Kastelic	505	0,0015	0,0016	505	0.0015	0.0016
Total Members of the Management Board	**37,040**	**0,1129**	**0,1195**	**37,040**	**0.1129**	**0.1191**
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	/	/	0	/	/
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	/	/
Mojca Osolnik Videmšek	617	0,0019	0,0020	617	0.0019	0.0020
Boris Žnidarič	0	/	/	0	/	/
Members of the Supervisory Board (employee representatives)						
Franc Šašek	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	/	/
Total Members of the Supervisory Board	**3,347**	**0,0102**	**0,0108**	**3,347**	**0.0102**	**0.0108**
Total	**40,387**	**0,1232**	**0,1302**	**40,387**	**0.1232**	**0.1298**

Treasury shares were eliminated from the calculation of voting rights (1,785,849 treasury shares as at 31 December 2022 and 1,683,908 as at 31 December 2021).

Remuneration paid to groups of persons (gross)

€ thousand	31 Dec 2022	31 Dec 2021
Members of the Management Board in the controlling company	4,163	3,560
Managers of subsidiaries	2,839	2,682
Members of the Supervisory Board in the controlling company	274	303
Members of the Supervisory and Management Boards in subsidiaries	1	1
Total gross remuneration paid to groups of persons	**7,277**	**6,546**

Remuneration paid to members of the Management Board in the controlling company and directors of subsidiaries included wages and salaries, fringe benefits and any other earnings. For each year, they are shown on a cost basis and therefore differ from the remuneration shown in the Report on Remuneration of the Members of the Management Board and Supervisory Board of the Company for 2022, 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 2022 amounted to €13,825 thousand (2021: €13,091 thousand).

Remuneration paid to Management Board members in the controlling company in 2022

	Salary – fixed part			Salary – variable part		Total	
€ thousand	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	521	214	19	849	341	1,370	574
Aleš Rotar	390	165	15	549	221	939	401
Vinko Zupančič	311	132	16	457	184	768	332
David Bratož	333	142	16	449	181	782	339
Milena Kastelic	219	94	13	85	35	304	142
Total remuneration paid to Members of the Management Board	**1,774**	**747**	**79**	**2,389**	**962**	**4,163**	**1,788**

	Net fringe benefits and other earnings						
€ thousand	Executive health insurance	Supplementary pension insurance	Anniversary bonuses	Other bonuses	Refund of work-related costs	Pay for annual leave	Total
Jože Colarič	10.00	2.89	3.18	1.19	0.04	1.92	19.23
Aleš Rotar	5.00	2.89	0.00	3.87	1.02	1.92	14.70
Vinko Zupančič	5.00	2.89	0.00	5.31	0.84	1.92	15.97
David Bratož	5.00	2.89	0.00	5.59	1.03	1.92	16.43
Milena Kastelic	5.00	2.89	1.92	0.06	1.09	1.92	12.88
Total remuneration paid to Members of the Management Board	**30.00**	**14.45**	**5.11**	**16.02**	**4.01**	**9.62**	**79.20**

Remuneration paid to Management Board members in the controlling company in 2021

	Salary – fixed part			Salary – variable part		Total	
€ thousand	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
Total remuneration paid to Members of the Management Board	**1,514**	**637**	**48**	**2,046**	**854**	**3,560**	**1,539**

€ 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
Total remuneration paid to Members of the Management Board	**0.00**	**14.10**	**1.34**	**17.77**	**4.17**	**9.90**	**47.28**

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 2022

€ thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	30.00	21.82	1.65	1.20	0.00	0.00	31.65	23.02
Matej Lahovnik	27.75	20.18	2.75	2.00	0.85	0.62	31.35	22.80
Borut Jamnik	28.13	20.46	3.25	2.36	0.00	0.00	31.38	22.82
Julijana Kristl	26.25	19.09	2.59	1.88	0.41	0.30	29.25	21.27
Mojca Osolnik Videmšek	26.25	19.09	3.25	2.36	0.43	0.31	29.93	21.76
Boris Žnidarič	28.13	20.46	2.59	1.88	0.43	0.31	31.15	22.65
Members of the Supervisory Board (employee representatives)							0.00	0.00
Franc Šašek	27.75	20.18	3.25	2.36	0.00	0.00	31.00	22.54
Tomaž Sever	26.25	19.09	2.59	1.88	0.43	0.32	29.27	21.29
Mateja Vrečer	26.25	19.09	2.31	1.68	0.00	0.00	28.56	20.77
Total remuneration paid to Members of the Supervisory Board	**246.76**	**179.46**	**24.23**	**17.60**	**2.55**	**1.86**	**273.54**	**198.92**

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 NS, 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 SC 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 payouts of extra fees for the performance of his/her duties in a financial year, until the total amount of such payouts 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 2022	31 Dec 2021	2022	2021
Members of the Management Board in the controlling company	0	0	0	0
Managers of subsidiaries	26	37	37	10
Members of the Supervisory Board in the controlling company	0	0	0	0
Members of the Supervisory and Management Boards in subsidiaries	0	0	0	0
Total loans to groups of persons	**26**	**37**	**37**	**10**

Loans to staff employed under individual employment contracts amounted to €152 thousand at 31 December 2022 (2021: €179 thousand). In 2022, repayments of loans by staff employed under individual employment contracts reached €27 thousand (2021: €26 thousand).

31. Profile of the Krka Group

	Ownership share	Value of share capital at 31 Dec 2022 (in thousand)	Currency	Headcount at 31 Dec 2022	Headcount at 31 Dec 2021
Controlling company					
Krka, d. d., Novo mesto	100%	54,732	EUR	6320	6228
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753	EUR	592	548
KRKA-FARMA d.o.o., Zagreb, Croatia	100%	143,027	HRK	204	184
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37	RON	160	144
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	65	RSD	93	77
KRKA-FARMA DOOEL, Skopje, North Macedonia	100%	49,021	MKD	45	44
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	20	BGN	74	74
KRKA HELLAS E.P.E., Athens, Greece	100%	10	EUR	17	16
KRKA FARMA, d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	100%	20	BAM	1	1
Krka-Rus LLC, Istra, Russian Federation	100%	5,361,375	RUB	569	525
KRKA FARMA LLC, Istra, Russian Federation	100%	753,875	RUB	1356	1427
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100	UAH	367	395
LLC ´KRKA Kazakhstan´, Almaty, Kazakhstan	100%	14	USD	97	93
KRKA – POLSKA Sp. z.o.o., Warsaw, Poland	100%	17,490	PLN	656	660
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100	CZK	166	173
KRKA Magyarország Kft., Budapest, Hungary	100%	44,880	HUF	158	174
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	EUR	121	113
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	EUR	53	55
SIA KRKA Latvija, Riga, Latvia	100%	10	EUR	37	39
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	EUR	200	215
KRKA Sverige AB, Stockholm, Sweden	100%	150	SEK	6	7
KRKA Pharma GmbH, Vienna, Austria	100%	37	EUR	20	21
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	EUR	48	46
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	EUR	64	62
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	100%	10	EUR	62	69
KRKA France Eurl, Paris, France	100%	10	EUR	35	41
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	EUR	9	11
KRKA Belgium, SA, Brussels, Belgium	100%	300	EUR	17	21
KRKA Finland Oy, Espoo, Finland	100%	3	EUR	16	17
KRKA UK Ltd, London, United Kingdom	100%	1	GBP	16	14
123 Acurae Pharma GmbH, Cuxhaven, Germany	100%	25	EUR	0	0
Ningbo Krka Menovo Pharmaceutical Co. Ltd., China	60%	455,642	CNY	19	17
KRKA USA LLC, Wilmington, USA	100%	10	USD	0	0
KRKA GCC L.L.C., Dubai, United Arab Emirates*	100%	-	AED	0	0
Total				**11,598**	**11,511**

The subsidiary KRKA GCC L.L.C. in Dubai, United Arab Emirates, was incorporated on 14 September 2022, with the share capital in the amount of AED 36,700 (€9,000 thousand) being paid up on 12 January 2023.

The subsidiary Terme Krka, d.o.o. had a 100% interest in Golf Grad Otočec, d.o.o., at 31 December 2022; the subsidiary KRKA France Eurl had a 100-percent equity nterest in HCS bvba in Belgium. The Chinese company Ningbo Menovo Pharmaceutical Co. Ltd. has a 40-percent holding in the company Ningbo Krka Menovo Pharmaceutical Ltd., China.

32. Situation in Ukraine and the Russian Federation

We conduct our business activities in Ukraine and the Russian Federation, which are part of the Eastern Europe sales region, through three subsidiaries and our parent company Krka, d.d., Novo mesto.

Krka's subsidiary in Ukraine is only involved in marketing. It does not carry out distribution and production activities and therefore had no receivables from customers outside the Group, but had other assets of €1,658 thousand (2021: €2,492 thousand), the largest item whereof are property, plant and equipment (office premises and vehicles). The Krka Group has no significant exposure to credit risk (Note 29 ‘Credit risk‘) and no exposure to foreign exchange risk (Note 29 ‘Foreign exchange risk‘). The subsidiary in Ukraine had 367 employees at the end of 2022 and 395 employees at the end of 2021. Ukraine is our fourth largest market (Note 4 ‘Revenue from contracts with customers‘).

We have two subsidiaries in the Russian Federation. Krka-Rus LLC is engaged in the manufacture of pharmaceuticals. It produces the vast majority of all the products we sell on the Russian market. Production there runs smoothly. Krka Farma LLC is engaged in marketing and sales activities. The Russian Federation is Krka's largest single market (Note 4 ‘Revenue from contracts with customers‘).

The companies have various forms of physical assets - business and production premises, equipment, vehicles, stocks of raw materials and supplies, finished goods and other assets. As indicators of impairment existed, an impairment test was performed on the assets (Note 11 ‘Property, plant and equipment‘). It indicated that the value of the assets did not require impairment. The Krka Group's assets (excluding trade receivables) in the two Krka subsidiaries in the Russian Federation amounted to €172,461 thousand and €133,968 thousand as at 31 December 2022 and 31 December 2021, respectively. The situation is closely monitored and continuously adjusted in the different areas of the business. Demand for our products is adequate. We have put in place additional controls on receivables and are closely monitoring the liquidity of our business partners so that we can adjust our activities immediately in the event of any payment delays (Note 29 ‘Credit risk‘). In line with our business continuity plan, we have immediately started to implement the necessary activities to ensure uninterrupted production in the future. The largest increases compared to the previous year are in inventories, property, plant and equipment and cash. As at 31 December 2022, the number of employees in the Russian Federation subsidiaries was 1,925, compared to 1,952 at the end of 2021. The exposure to foreign exchange rate risk is disclosed in Note 29 ‘Foreign exchange risk‘).

In 2022, all payments between the subsidiaries in the Russian Federation and the parent company were made without specificity. The payment of dividends from companies in the Russian Federation is not prohibited, but it is subject to conditions or lengthy procedures. Special requests are required and are treated by the Russian government (Ministry of Finance) in accordance with the going concern principle in respect of the subsidiary that is to pay the dividend. Given that these are pharmaceutical companies, we consider that the Russian Federation has an interest in their continued operation.

33. Educational structure of the Krka Group employees

	2022		2021	
	Average headcount	Share (%)	Average headcount	Share (%)
PhD	204	1.8	206	1.8
MSc	390	3.4	397	3.4
University education	5330	46.1	5313	45.9
Higher professional education	1773	15.3	1727	14.9
Vocational college education	313	2.7	306	2.6
Secondary school education	2591	22.4	2613	22.6
Skilled workers	833	7.2	859	7.4
Unskilled workers	135	1.1	160	1.4
Total (average for the year)	**11,569**	**100.0**	**11,581**	**100.0**

34. Transactions with audit firms

The contract value of the audit of the Krka Group was €557 thousand (2021: €494 thousand) in 2022.

The contract value of auditing the financial statements performed in 2022 by the audit firm KPMG Slovenija, d.o.o. was €118 thousand and includes the verification of the compliance of the electronic financial statements with the requirements of the Delegated Regulation No 2019/815 on a single electronic reporting format (ESEF). KPMG Slovenija also performs the verification of the Report on Remuneration of Members of Management and Supervision, which has to be verified in accordance with the requirements of the legislation. The contract value of verifying the Report on the Management Board's remuneration amounted to €9 thousand. The contract value of the audit services provided by the companies within the KPMG network for the consolidated financial statements of the Krka Group amounts to €207 thousand.

35. Event after the reporting date

The 2022 financial statements were not impacted by the event after the end of the period.

Repurchase of treasury shares

From 1 January 2023 to 20 March 2023, we acquired 25,852 of treasury shares. At the end of this period, Krka held 1,811,701 treasury shares (5.525% of total shares).

Independent Auditor's Report

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Independent Auditors' Report

To the shareholders of KRKA, tovarna zdravil, d. d., Novo mesto

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of KRKA, tovarna zdravil, d. d., Novo mesto and its subsidiaries (together the "Group"), which comprise:

- the consolidated statement of financial position as at 31 December 2022;

and, for the period from 1 January 2022 to 31 December 2022:

- the consolidated statement of profit or loss;
- the consolidated statement of other comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows;

and

- notes, comprising significant accounting policies and other explanatory information.

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

The Independent Auditor's Report is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556000

KPMG

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (OJ L 158, 27.5.2014, p. 77-112 - EU Regulation EU No 537/2014). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the following key audit matters:

Impairment testing of TAD Pharma goodwill

As at 31 December 2022 the Group carried goodwill at EUR 42,277 thousand (31 December 2021: EUR 42,277 thousand). The goodwill was allocated to two cash generating units (CGUs): controlling company Krka and TAD Pharma.

We refer to the consolidated financial statements: Note 12 Intangible assets (disclosures).

Key audit matter	Our response
The recoverable amount of the CGUs, which is based on of the value in use, has been derived from discounted cash flow models. These models use several key assumptions, including estimates of future sales, operating costs, terminal value growth rates and the weighted-average cost of capital (discount rate). The annual impairment testing of goodwill has been considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgement required in determining the assumptions to be used to estimate the recoverable amount.	Our audit procedures in this area included, among others: • involving our own valuation specialist to assist us in evaluating the appropriateness of the discount rates applied, which included comparing the weighted-average cost of capital with sector averages for the relevant markets in which the CGUs operate; • evaluating the appropriateness of the assumptions applied to key inputs such as future sales, operating costs, and long-term growth rates, which included comparing these inputs with historical data of the Group, where possible with externally derived data, as well as our own assessments based on our knowledge of the Group and the industry; and

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	• evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.

Impairment testing of cash generating unit – Krka Russian Federation	
The carrying amount of property, plant and equipment allocated to the CGU Krka Russian Federation as at 31 December 2022: EUR 86,527 thousand (31 December 2021: EUR 74,461 thousand). *We refer to the consolidated financial statements: Note 32 Situation in Ukraine and the Russian Federation (disclosures); Note 11 Property, plant and equipment (disclosures).*	
Key audit matter	**Our response**
The Group owns several production facilities allocated to different cash generating units in different countries, including the Russian Federation. As at each reporting date, management assesses whether indicators of impairment exist. The Russian-Ukrainian war has increased uncertainty, resulting in a substantial increase in the weighted-average cost of capital (discount rate) which was identified as impairment indicator by management. The impairment testing of the CGU Krka Russian Federation is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgement required in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of the CGU was determined as its value in use, based on discounted cash flow model. The model uses several key assumptions, including estimates of future sales, operating costs, terminal value growth rates and the weighted-average cost of capital (discount rate).	Our audit procedures in this area included, among others: • involving our own valuation specialist to assist us in evaluating the appropriateness of the discount rates applied, which included comparing the weighted-average cost of capital with sector averages for the relevant markets in which the CGU operates; • evaluating the appropriateness of the assumptions applied to key inputs such as sales revenue, operating costs, and long-term growth rates, which included comparing these inputs with historical data of the Group, where possible with externally derived data, as well as our own assessments based on our knowledge of the CGU and the industry; and • evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.

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Revenue recognition	
The carrying amount of revenue as at 31 December 2022: EUR 1,717,453 thousand (31 December 2021: EUR 1.565.802 thousand). *We refer to the consolidated financial statements: Note 4 Revenue from contracts with customers (disclosures), Note 24 Current contract liabilities (disclosures).*	
Key audit matter	**Our response**
Revenue is measured taking account of discounts and rebates. Due to the multitude of contractual terms across the Group's markets, the calculation of discounts and rebates is considered to be complex. Revenue is one of the key performance indicators for the Group, which could create an incentive for revenue to be recognised before the point in time when control of the assets is transferred to the customer or at the amount that is not measured in accordance with contractual terms. In the wake of the above we considered revenue recognition to be a key audit matter.	Our audit procedures in this area included, among others: • testing the design and implementation of Group's controls over recognition of revenue including controls over discounts and rebates; • selecting and testing a sample of sale transactions throughout the period with particular focus on sale transactions close to the turn of the year to assess whether revenue was allocated to appropriate period and measured in accordance with the contractual terms by reference to underlying source documentation supporting revenue recognition and/or completeness of discounts and rebates, • inspecting a sample of credit notes issued after the year end to assess completeness of rebates, and • evaluating the adequacy of the financial statement disclosures.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 March 2022.

Other Information

Management is responsible for the other information. The other information comprises the "Management Report", the "Report of Supervisory Board", the "Business Report" and the "Sustainability report" included in the Annual Report but does not include the consolidated financial statements and our auditor's report thereon. Other information was obtained prior to the date of this auditors' report, except for the Report of the Supervisory Board, which will be available after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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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.

With respect to the Business Report, we considered whether the Business Report includes the disclosures required by the Company's Act dated 4 May 2006 (official gazette of Republic of Slovenia No. 42/2006 with amendments - hereafter referred to as "the applicable legal requirements"). Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements and the procedures above, in our opinion, in all material respects:

- the information given in the Business Report for the financial year for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in other information that we obtained prior to the date of this auditors' report. We have nothing to report in this respect.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and EU Regulation (EU) No 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs and EU Regulation (EU) No 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

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error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by the shareholders of company KRKA, tovarna zdravil, d. d., Novo mesto on the shareholders meeting dated 7 July 2022 to audit the consolidated financial statements of the Group for the year ended 31 December 2022. Our total uninterrupted period of engagement is 1 year.

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We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 28 March 2023;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the Group in conducting the audit.

Independent auditor's report on the compliance of the electronic financial statements with the delegated regulation 2019/815 on a single electronic reporting format

We have conducted an engagement to provide reasonable assurance as to whether the audited consolidated financial statements of the Group, for the financial year ended 31 December 2022 ('Audited Consolidated Financial Statements') have been prepared in accordance with requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 on supplementing the Directive 2004/109/EC of the European Parliament and the Council with regard to regulatory technical standards for establishing a single electronic reporting format applicable for the year 2022 ("Delegated Regulation").

Responsibility of the Management and those charged with Governance

Management is responsible for the preparation and presentation of the Audited Consolidated Financial Statements in accordance with the Delegated Regulation, and for such internal control as management determines is necessary to enable the preparation of the Audited Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error. Those charged with governance are responsible for overseeing the preparation of the Audited Consolidated Financial Statements in compliance with requirements of the Delegated Regulation.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the Audited Consolidated Financial Statements are prepared in accordance with requirements of the Delegated Regulation. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform the engagement to obtain reasonable assurance on whether the opinion is appropriate. We have acted in accordance with the independence and ethical requirements of the EU Regulation 537/2014 and the International Code of Ethics for Accounting Professionals issued by the International Ethics Standards Board for Accounting Professionals. The Code is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional conduct.

The firm applies International Standard on Quality Management 1 which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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Summary of Work Performed

Within the scope of our work, we performed the following audit procedures:

- identified and assessed the risks of material non-compliance of the Audited Consolidated Financial Statements with the requirements of the Delegated Regulation, whether due to error or fraud;
- obtained an understanding of internal control relevant to the engagement in order to provide reasonable assurance for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- assessed whether the Audited Consolidated Financial Statements comply with the requirements of the Delegated Regulation applicable as of the reporting date;
- obtained reasonable assurance that the Audited Consolidated Financial Statements of the issuer are presented in a correct XHTML electronic format.
- obtained reasonable assurance that the values and disclosures in the Audited Consolidated Financial Statements in XHTML format are correctly marked and in Inline XBRL (iXBRL) technology and that their machine reading provides complete and accurate information contained in the Audited Consolidated Financial Statements.
- obtained reasonable assurance that notes to the consolidated financial statements are correctly block-tagged.

We believe that the evidence obtained provides a sufficient and appropriate basis for our opinion.

Opinion

Based on the procedures performed and the evidence obtained, the Audited Consolidated Financial Statements of the Group for the financial year ended 31 December 2022 are in our opinion prepared, in all material respects, in accordance with the requirements of the Delegated Regulation.

On behalf of audit firm

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Matej Ušaj
Certified Auditor

Domagoj Vuković, FCCA
Certified Auditor
Partner

Ljubljana, 28 March 2023

KPMG Slovenija, d.o.o.
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Financial Statement of Krka, d.d., Novo mesto

Statement of Financial Position

€ thousand	Notes	31 Dec 2022	31 Dec 2021	Index 2022/21
Assets				
Property, plant and equipment	10	566,780	569,391	100
Intangible assets	11	24,960	25,628	97
Investments in subsidiaries	12	355,763	346,444	103
Loans	13	56,013	31,010	181
Investments	14	110,769	108,882	102
Deferred tax assets	15	8,666	12,742	68
Other non-current assets		643	627	103
Total non-current assets		**1,123,594**	**1,094,724**	**103**
Assets held for sale		41	41	100
Inventories	16	492,978	394,323	125
Contract assets		0	300	0
Trade receivables	17	357,889	424,588	84
Other receivables	17	12,639	17,381	73
Loans	13	6,669	195,459	3
Investments	14	52,437	155,448	34
Cash and cash equivalents	18	470,297	144,981	324
Total current assets		**1,392,950**	**1,332,521**	**105**
Total assets		**2,516,544**	**2,427,245**	**104**
Equity				
Share capital	19	54,732	54,732	100
Treasury shares	19	-124,566	-114,541	109
Reserves	19	279,760	246,424	114
Retained earnings	19	1,850,866	1,689,527	110
Total equity		**2,060,792**	**1,876,142**	**110**
Liabilities				
Provisions	22	96,608	113,136	85
Deferred income	23	2,816	3,546	79
Trade payables	24	0	10,000	0
Lease liabilities		2,909	2,101	138
Total non-current liabilities		**102,333**	**128,783**	**79**
Trade payables	24	194,143	178,143	109
Borrowings	21	53,524	55,092	97
Lease liabilities		1,033	987	105
Income tax payables		25,660	4,611	556
Contract liabilities	25	21,687	19,477	111
Other current liabilities	26	57,372	164,010	35
Total current liabilities		**353,419**	**422,320**	**84**
Total liabilities		**455,752**	**551,103**	**83**
Total equity and liabilities		**2,516,544**	**2,427,245**	**104**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Income Statement

€ thousand	Notes	2022	2021	Index 2022/21
Revenue		**1,553,514**	**1,381,367**	**112**
– Revenue from contracts with customers	3	1,544,409	1,374,765	112
– Other revenue		9,105	6,602	138
Cost of goods sold		-663,332	-614,832	108
Gross profit		**890,182**	**766,535**	**116**
Other operating income	4	4,699	6,660	71
Selling and distribution expenses		-301,319	-271,425	111
– Whereof net impairments and write-offs of receivables		-1,548	-50	3.096
R&D expenses		-158,292	-150,232	105
General and administrative expenses		-77,400	-78,213	99
Operating profit		**357,870**	**273,325**	**131**
Financial income	8	57,744	24,714	234
Financial expenses	8	-3,356	-12,083	28
Net financial result		**54,388**	**12,631**	**431**
Profit before tax		**412,258**	**285,956**	**144**
Income tax expense	9	-64,043	-40,740	157
Net profit		**348,215**	**245,216**	**142**
Basic earnings per share (€)	**20**	**11.21**	**7.86**	**143**
Diluted earnings per share (€)	**20**	**11.21**	**7.86**	**143**

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	2022	2021	Index 2022/21
Net profit		**348,215**	**245,216**	**142**
Other comprehensive income that will not be reclassified to profit or loss at a future date				
Change in fair value of financial assets	14	128	5,441	2
Restatement of post-employment benefits	22	24,691	6,438	384
Deferred tax effect	15	-3,334	-1,645	203
Net other comprehensive income that will not be reclassified to profit or loss at a future date		**21,485**	**10,234**	**210**
Total other comprehensive income for the year (net of tax)		**21,485**	**10,234**	**210**
Total comprehensive income for the year (net of tax)		**369,700**	**255,450**	**145**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of Changes in Equity

€ thousand	Share capital	Treasury shares	Reserves: Reserves for treasury shares	Reserves: Share premium	Reserves: Legal reserves	Reserves: Statutory reserves	Reserves: Fair value reserve	Retained earnings: Other profit reserves	Retained earnings: Retained earnings	Retained earnings: Profit for the year	Total equity
Balance at 1 Jan 2022	**54,732**	**-114,541**	**114,541**	**105,897**	**14,990**	**30,000**	**-19,004**	**1,370,902**	**88,671**	**229,954**	**1,876,142**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**348,215**	**348,215**
Total other comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**23,311**	**0**	**-1,826**	**0**	**21,485**
Total comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**23,311**	**0**	**-1,826**	**348,215**	**369,700**
Transactions with owners, recognised in equity											
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0	0	0	71,800	-71,800	0	0
Transfer of previous periods' profit to retained earnings	0	0	0	0	0	0	0	0	229,954	-229,954	0
Repurchase of treasury shares	0	-10,025	0	0	0	0	0	0	0	0	-10,025
Formation of reserves for treasury shares	0	0	10,025	0	0	0	0	0	0	-10,025	0
Dividends paid	0	0	0	0	0	0	0	0	-175,025	0	-175,025
Total transactions with owners, recognised in equity	**0**	**-10,025**	**10,025**	**0**	**0**	**0**	**0**	**71,800**	**-16,871**	**-239,979**	**-185,050**
Balance at 31 Dec 2022	**54,732**	**-124,566**	**124,566**	**105,897**	**14,990**	**30,000**	**4,307**	**1,442,702**	**69,974**	**338,190**	**2,060,792**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

€ thousand	Share capital	Treasury shares	Reserves: Reserves for treasury shares	Reserves: Share premium	Reserves: Legal reserves	Reserves: Statutory reserves	Reserves: Fair value reserve	Retained earnings: Other profit reserves	Retained earnings: Retained earnings	Retained earnings: Profit for the year	Total equity
Balance at 1 Jan 2021	**54,732**	**–99,279**	**99,279**	**105,897**	**14,990**	**30,000**	**–31,379**	**1,280,090**	**102,773**	**234,747**	**1,791,850**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**245,216**	**245,216**
Total other comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**12,375**	**0**	**–2,141**	**0**	**10,234**
Total comprehensive income for the year (net of tax)	**0**	**0**	**0**	**0**	**0**	**0**	**12,375**	**0**	**–2,141**	**245,216**	**255,450**
Transactions with owners, recognised in equity											
Formation of other rprofit reserves under the resolution of the AGM	0	0	0	0	0	0	0	90,812	–90,812	0	0
Transfer of previous periods' profit to retained earnings	0	0	0	0	0	0	0	0	234,747	–234,747	0
Repurchase of treasury shares	0	–15,262	0	0	0	0	0	0	0	0	–15,262
Formation of reserves for treasury shares	0	0	15,262	0	0	0	0	0	0	–15,262	0
Dividends paid	0	0	0	0	0	0	0	0	–155,896	0	–155,896
Total transactions with owners, recognised in equity	**0**	**–15,262**	**15,262**	**0**	**0**	**0**	**0**	**90,812**	**–11,961**	**–250,009**	**–171,158**
Balance at 31 Dec 2021	**54,732**	**–114,541**	**114,541**	**105,897**	**14,990**	**30,000**	**–19,004**	**1,370,902**	**88,671**	**229,954**	**1,876,142**

The accompanying Notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of Cash Flows

€ thousand	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		**348,215**	**245,216**
Adjustments for:		**145,291**	**143,567**
– Amortisation/Depreciation	10, 11	82,216	84,863
– Net foreign exchange differences		-6,490	-3,634
– Net write-offs and allowances for inventories		14,194	17,287
– Net impairments and write-offs of receivables		1,548	50
– Investment income		-12,990	-10,118
– Investment expenses		-60	12,951
– Income on financing activities		0	-3
– Interest expenses and other financial expenses		2,830	1,431
– Income tax expense	9	64,043	40,740
Operating profit before changes in net current assets		**493,506**	**388,783**
Change in trade receivables		70,231	-10,847
Change in inventories	16	-112,849	-22,432
Change in trade payables	24	7,501	41,785
Change in provisions	22	-3,289	-1,128
Change in deferred income	23	-730	-841
Change in other current liabilities		-4,386	2,567
Income tax paid		-42,251	-49,648
Net cash flow from operating activities		**407,733**	**348,239**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,656	403
Dividends received		631	668
Proportionate profit of subsidiaries		0	5,419
Proceeds from sale of property, plant and equipment		2,971	1,391
Purchase of property, plant and equipment	10	-61,771	-48,851
Purchase of intangible assets	11	-6,570	-4,836
Acquisition of subsidiaries and a share of non-controlling interests net of financial assets acquired	12	-9,319	-7,824
Refunds of subsequent contributions to subsidiaries	12	0	992
Proceeds from non-current loans		5,726	6,670
Payments for current loans		-31,708	-2,795
Net proceeds from/payments for current loans		190,432	-137,558
Proceeds from sale of non-current investments		4,941	20
Payments for acquiring non-current investments		-32,946	-92,155
Proceeds from sale of current investments		153,804	102,292
Payments for acquiring current investments		-121,621	-153,780
Proceeds from derivatives		8,847	2,002
Payments for derivatives		0	-10,459
Net cash flows from investing activities		**105,073**	**-338,401**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-1,856	-444
Net proceeds from/payments for current borrowings	29	-1,758	8,703
Lease liabilities paid	28	-1,124	-991
Dividends and other profit shares paid	29	-175,044	-155,907
Repurchase of treasury shares	34	-10,025	-15,262
Net cash flow from financing activities		**-189,807**	**-163,901**
Net increase/decrease in cash and cash equivalents		**322,999**	**-154,063**
Cash and cash equivalents at beginning of year		144,981	296,398
Effect of foreign exchange rate fluctuations on cash held		2,317	2,646
Closing balance of cash and cash equivalents		**470,297**	**144,981**

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 2022.

The Company is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals and non-prescription products), and animal health products.

1. Basis for compiling the financial statements

Statement of compliance

The financial statements of the Company have been prepared in accordance with *International Financial Reporting Standards* (‘*IFRS*’), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (‘*IFRIC*’) adopted by the European Union, and in compliance with additional provisions required by the *Companies Act* (*ZGD-1*).

The financial statements were approved by the Krka Management Board on 28 March 2023.

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 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; revenue 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 3 'Revenue from contracts with customers'

  Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract. In assessing variable compensation, the Company specifically addresses returns, while considering specific terms and conditions of an individual contracts for the sale of products and services to customers, statutory provisions, and business practices in a given environment. When assessing variable compensation, the Company must use either the expected value method or the most likely amount method, whichever better predicts the amount of consideration to which it will be entitled.

  Given the large number of contracts with customers, the Company determined the expected value method as the most appropriate for estimating variable consideration for the sale of products with a right to return. To estimate the variable consideration for expected future volume rebates on the quantity of products purchased, the Company identified combination of the most likely amount method and the expected value method as the most appropriate. The method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contracts, legal provisions and business practices in various environments. The most likely amount method is best suited for contracts with a single-volume threshold, and the expected value method for contracts with more than one volume threshold.

  Prior to including any variable consideration in the transaction price, the Company assesses whether there is a constraint on variable consideration. Based on past experience, business forecasts and current economic conditions, the Company has determined that there are no constraints on variable consideration.

  The Company is a seller of products that may be subject to payment terms in excess of one year in certain markets. The Company recognises financial income and expenses on these sales using the appropriate discount rate.

- Note 12 'Impairment testing of investments in subsidiaries'

  The controlling company checks whether there are any indicators of impairment of investments in subsidiaries at least once a year. The fair value of investments that may be impaired is determined as the present value of future cash flows, which is based on an estimate of expected cash flows from the cash-generating unit and on determination of the appropriate discount rate. The Company found no need for impairment of investments in subsidiaries as at 31 December 2022.

- Note 17 'Impairment testing of receivables'

  On the financial statement preparation (quarterly and annually), the Company recognises allowances (impairment) of those receivables for which it is assumed that will not be settled in full or not at all. Allowances are recognised using uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by the debtors. The methodology includes quantitative and qualitative criteria grouped into the following four sets: an analysis of the existing business dealings with the customer, an analysis of the customer's financial statements, a qualitative assessment of the customer by the sales personnel, and an assessment of the customer's country risk. For all customers whose receivables are insured by an insurance company or other first-class insurance, insurance is taken into account when assessing the amount of impairments. Hence, allowances of receivables due from individual customer are calculated by means of an algorithm that includes all the above criteria.

- Note 22 'Post-employment benefits'

  Defined post-employment benefit obligations include the present value of termination benefits on retirement. They are recognised on the basis of the actuarial calculation using assumptions and estimates effective at the time of the calculation, and which may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of a discount rate, assessment of employee turnover, mortality assessment, and assessment of an increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

- Note 22 'Provisions for lawsuits and contingent liabilities'

  Lawsuits and claims may be brought against the Company for alleged breaches of intellectual property (patent rights or competition law) and those referring to other civil law areas. A provision is recognised when the Company has present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. 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.

2. Significant accounting policies

The Company applied the same accounting policies in all periods presented in the accompanying financial statements.

The accounting policies and the calculation methods used are the same as for the last annual reporting, except for the newly adopted standards and interpretations. which are noted below and were applied if relevant events occurred in the Company in the reporting period.

New standards and interpretations effective from 1 January 2022

Amendments to IFRS 3 - Business Combinations, IAS 16 - Property, Plant and Equipment, IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. IASB has published the following limited amendments to IFRSs.

- The amendments to *IFRS 3 – Business Combinations* are intended to update the reference to the core framework of financial reporting standards in *IFRS 3*, but do not change the accounting requirements for accounting for business combinations.
- The amendments to *IAS 16 – Property, Plant and Equipment* prohibit an entity from deducting from the cost of property, plant and equipment the proceeds from the sale of products during the period that the asset is being prepared for its intended use. An entity recognises the proceeds from the sale and the related costs in profit or loss.
- The amendments to *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets* specify the costs that an entity considers in determining the cost of completing a contract when deciding whether the contract is onerous.
- The *2018-2020 Annual Improvements* provide for some minor amendments to *IFRS 1 – First-time Adoption of International Financial Reporting Standards*, *IFRS 9 – Financial Instruments, IAS 41 – Agriculture* and illustrative examples to *IFRS 16 – Lease*.

The management has assessed the impact of the amendments and believes they had no significant impact on the consolidated financial statements of the Company.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated to the euro (the functional currency of the Company) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to the euro at the exchange rate applicable on the reporting date. Non- monetary assets and liabilities denominated in foreign currencies and measured at the fair value are converted to the euro at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of equity instruments, which are recognised directly in other comprehensive income. Non-cash items measured at historical cost in foreign currency are translated to the functional currency by applying the exchange rate valid at the date of the transaction.

Fair value

A number of the Company's accounting policies and disclosures require the determination of fair value for both, financial and non-financial assets and liabilities.

Fair value is the amount for which an asset could be sold or a liability exchanged in a regular transaction between market participants. All assets and liabilities measured and disclosed at their fair value in financial statements are classified in the fair value hierarchy on the basis of lowest level of input data significant for measurements of total fair value:

- Level 1 – market value (unadjusted) from the active market for similar assets and liabilities;
- Level 2 – valuation model for assets and liabilities, which is not classified in level 1, is valued directly or indirectly on the basis of comparable market data;
- Level 3 – valuation model which is not based on the market data.

Fair 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, derivatives, loans and investments and investments in subsidiaries (refer to accounting policies Investments in subsidiaries).

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under *IFRS 15* (refer to the accounting policies in section *Revenue from contracts with customers*).

In order for financial assets to be classified and measured at amortised cost or fair value through OCI, they need to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

If Company selects a business model that aims to collect contractual cash flows, it values its financial assets (debt instruments) at amortised cost. If the Company acquires financial assets (debt instruments) with the objective of collecting contractual cash flows and for sale, then they are measured at fair value through other comprehensive income by recycling cumulative gains and losses. If the Company does not choose any of these business models, it measures its financial assets (debt instruments) at fair value through profit or loss. Financial assets that have the characteristics of an equity instrument in accordance with *IAS 32 – Financial Instruments,* are classified as equity instruments at fair value through other comprehensive income without recycling cumulative gains and losses after derecognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to the contractual cash flows from the financial asset in a transaction that transfers all the risks and rewards of ownership of the financial asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

Cash and cash equivalents comprise cash, bank deposits up to three months, and other current, highly realisable investments with an original maturity of three months or less. The latter can be easily converted into known amounts of cash and for which the risk of changes in value is insignificant. The cash flows derived from these assets are solely payments of the principal and interest are therefore classified as financial assets at amortised cost.

According to the SSPI test, loans issued by the Company are classified as financial assets at amortised cost, since the cash flows derived from these assets are solely payments of the principal and interest on the principal amount outstanding. The Company's investments in debt securities, which include only low credit risk government bonds, are classified as financial assets at amortised cost.

The Company's financial assets at amortised cost also include trade receivables.

After initial recognition, these investments are measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI (debt instruments)

Subsequent to initial recognition, they are measured at fair value. Interest income, foreign exchange differences, and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through OCI (equity instruments)

Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is not transferred to profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Impairment of financial assets is described in the section'Impairment – financial assets'.

Financial liabilities

Financial liabilities consist mainly of loans, payables to suppliers and other liabilities. Lease liabilities and employee benefits are treated separately (refer to accounting policies in the *Leases* and *Employee benefits expense* sections). All other financial liabilities are initially recognised on the trade date or when the Company becomes a contracting party in relation to the instrument. On initial recognition, the Company classifies non-derivative financial liabilities as subsequently measured at amortised cost and derivative financial liabilities as at fair value through profit or loss. After initial recognition, financial liabilities arising from loans are measured using the effective interest method. Gains and losses are recognised in profit or loss when these liabilities are discharged or modified. The Company derecognises a financial liability if the obligations set out in the contract are fulfilled, cancelled or expired.

Investments in subsidiaries

Non-current investments made in equity of subsidiaries included in consolidated financial statements are valued at cost. Participation in the profit of a subsidiary is recognised in the profit or loss of the controlling company when an appropriate resolution referring to profit distribution has been adopted. If the investment is required to be impaired due to subsidiary's loss, the amount of loss due to impairment is measured as a difference between the carrying amount of the investment and the present value of expected future cash flows.

Property, plant and equipment

The items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (refer to the accounting policy *Impairment*). The cost of an item of property, plant and equipment as at 1 January 2004, the date of transition to *IFRS*, is determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of making the asset ready for its intended use, and (if applicable) assessed costs of dismantling and removing the items and restoring the site on which they are located, as well as capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.

The Company includes in the cost of property, plant and equipment also borrowing costs that are directly attributable to the acquisition, construction or production of the asset under construction. Borrowing costs related to the acquisition or construction of the relevant assets are capitalised if they relate to the acquisition of a significant asset and the construction or preparation for use of the relevant assets takes more than six months.

Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

The estimated useful lives are as follows:

- for buildings:
  - management and administrative facilities 60 years,
  - production and warehouse facilities 40 years,
  - other from 15 to 20 years,
- for property, plant and equipment:
  - production equipment 5 to 20 years,
  - laboratory equipment 10 years,
  - other equipment 5 years,
- for furniture 5 years,
- for computer equipment 4 to 6 years,
- for means of transportation 5 to 15 years.

Leases

At contract inception, the Company assesses whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee, the Company determines the lease term as the period during which the lease cannot be terminated, inclusive of:

a) The period for which the option to extend the lease applies if it is reasonably certain that the lessee will exercise that option; and
b) The period for which the option to terminate the lease applies if it is reasonably certain that the lessee will not exercise that option.

The Company as a lessee

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid by the Company under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised in profit or loss as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate based on estimated bond returns if it were to incur debt on the financial markets, while considering their maturity if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. change of future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

For short-term leases and leases where the leased asset is of low value, the Company applies the practical expedient allowed by the standard and recognises lease payments as an expense on a straight-line basis over the lease term. The practical expedient is applied to leases with a lease term of less than one year and leases where the cost of the new leased asset is less than €5,000.

The Company recognises a right-of-use property, plant and equipment asset and a lease liability at the inception of the lease (i.e. the date the leased asset is available for use).

Right-of-use assets

Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, as well as an assessment of costs that will be incurred in dismantling or removing the leased asset, restoring the site to its original condition, or returning the asset to a condition as required in the lease terms. The right-of-use assets are depreciated by the Company on a straight-line basis over the shorter of the estimated lease term or the estimated useful lives of the assets.

The Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Intangible assets

Research and development

Development costs are not capitalised because the Company does not distinguish between the research and development phases. All costs referring to the research and development work within the Company are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (refer to the accounting policy *Impairment*).

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

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 through profit or loss.

An inventory unit of raw materials and materials, auxiliary and packaging materials is valued at cost including all direct costs of purchase. Inventories of material are carried at moving average prices. Inventories of finished products and work in progress are carried at standard cost, which in addition to direct cost of material includes also cost of production, such as: direct labour cost, 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.

Impairment of assets

Financial assets

The Company recognises an allowance for the expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since the initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Impairments of receivables and assets from contracts

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient (contracts agreed for a period of one year or less) are measured at the transaction price determined under *IFRS 15* less any impairment losses.

Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on a lifetime ECL at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Allowances are recognised using uniform methodology applicable to the Company and in consideration of the probability or assessed probability of receivable settlement by the debtors.

Impairment of investments

For investments that include government bonds measured at amortised cost, the Company measures expected credit losses annually.

Except when a 12-month expected credit loss is recognised, the Company recognises an allowance for credit losses in an amount equal to the expected credit loss over the life of the financial instrument. A 12-month expected credit loss is recognised by:

- debt securities that are determined to have low credit risk at the reporting date; and debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk (i.e. the risk of default in the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company considers a debt security to have low credit risk if its credit risk rating is equivalent to the globally understood definition of 'investment grade' or equivalent to a rating of Baa2 or above by Moody's or BBB- or above by Standard & Poor's.

The Company monitors changes in credit risk by tracking published external credit ratings. The probabilities of default (PD), both 12-month and over the life of the financial instrument, are based on information provided by the external credit rating agency. The loss given default (LGD) ratios, which reflect the assumed recovery rate, are also provided by the external credit rating agencies.

Non-financial assets

The carrying amounts of the Company's non-financial assets, except for inventories and deferred tax assets, are reassessed at each reporting date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is assessed.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to 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. These are the smallest groups of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets

An impairment of an asset or cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. Impairment is recognised in the income statement. A loss recognised in a cash-generating unit as a result of impairment is allocated by first reducing the carrying amount of goodwill allocated to the cash-generating unit and then to the other assets of the unit (group of units) in proportion to the carrying amount of each asset in the unit.

Impairment losses recognised in previous periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Share capital

Repurchase of treasury shares

When treasury shares recognised as a part of share equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends

Dividends are recognised in the Company's financial statements in the period in which they are declared by the Annual General Meeting.

Current employee benefits

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Non-current employee benefits

Provisions for post-employment benefits and other non-current employee benefits

Pursuant to the local legislation, the Company 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, 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. The described accounting policy applies also to the variable consideration.

Government grants

Income 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. Income 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. Income that compensates an entity for the cost of an asset is recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised on the date that the shareholder's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income.

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

Deferred tax is recognised using the balance sheet liability approach providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Also, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax is based on the expected manner of settling the carrying amount of assets and liabilities using tax rates enacted at the reporting date. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is equal to basic EPS, because the Company has not issued any dilutive or potentially dilutive instruments.

Amendments to standards and interpretations issued but not yet effective

The following new and amended standards have not come into effect by the date of the financial statements and will be applied in future periods. The Company will apply the new and revised standards and interpretations when they become effective. The Company did not apply any 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 consolidated 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 application was permitted. In response to the COVID-19 pandemic, the IASB delayed the effective date of the amendments by one year, until 1 January 2024, to allow companies sufficient time to implement the changes to the classification of liabilities. 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.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 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 consolidated 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 consolidated financial statements of the Company.

Amendments to IFRS 16 Leases: Lease Liability in Sale and Leaseback

The amendments are effective for annual periods beginning on or after 1 January 2024. Early application is permitted. The amendments affect how a vendor-lessee accounts for variable lease payments in sale and leaseback transactions. They introduce a new accounting model for variable payments and require vendor-lessees to reassess and potentially adjust sale and leaseback transactions entered into from 2019.

The amendments confirm the following:

- on initial recognition, the seller-lessee includes variable lease payments when measuring the lease liability arising from sale and leaseback transactions;
- after initial recognition, the vendor-lessee applies the general requirements for subsequent accounting for a lease liability by recognising no gain or loss in respect of the right-of-use right that it retains.

The seller-lessee may adopt different approaches to meet the new subsequent measurement requirements. These amendments do not change the accounting for leases other than those arising in sale and leaseback transactions.

Management has assessed the impact of the amendments on the Company's financial statements and believes that they will not have a material impact on them.

3. Revenue from contracts with customers

Itemisation of revenue from contracts with customers

€ thousand	2022	2021
Revenue from contracts with customers (products)	1,356,075	1,211,494
Revenue from contracts with customers (materials)	188,334	163,271
Total revenue from contracts with customers	**1,544,409**	**1,374,765**

Revenue from contracts with customers by region

€ thousand	2022	2021
Region Slovenia	60,503	56,421
Region South-East Europe	220,624	205,491
Region East Europe	387,489	320,973
Region Central Europe	351,191	336,699
Region West Europe	284,593	246,350
Region Overseas Markets	51,675	45,560
Total	**1,356,075**	**1,211,494**

In Ukraine, our third largest market, we have sold €95,213 thousand of products in 2022 (2021: €96,419 thousand), which represents 7.0% of the Company's total sales.

In the Russian Federation, which is Krka's largest single market, we have sold €150,791 thousand of products in 2022 (2021: €106,818 thousand), representing 11.1% of the Company's total sales. Demand for our products is adequate.

Revenue from contracts with customers by product groups

€ thousand	2022	2021
Prescription pharmaceuticals	1,104,323	1,017,273
Non-prescription products	163,482	118,527
Animal health products	88,270	75,694
Total	**1,356,075**	**1,211,494**

Contract balances

Trade receivables are described in Note 17 'Trade and other receivables', while liabilities recognised from contracts with customers in Note 25 'Current liabilities from contracts with customers'. The Company has not recognised assets from contracts with customers (2021: €300 thousand) while liabilities from contracts were recognised in the amount of €8,593 thousand (2021: €5,839 thousand). Recognised assets and liabilities arising from contracts with customers are reported in the statement of financial position.

Right-of-return liabilities

The Company recognised right-of-return liabilities as accrued bonuses, volume rebates and discounts on products sold to other customers in the amount €13,094 thousand (2021: €13,638 thousand).

Performance obligations

The Company is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and material. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract.

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 2021* 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, which could be recognised as an item of asset.

4. Other operating income

€ thousand	2022	2021
Reversal of non-current provisions	1,827	3,332
Reversal of deferred income	755	870
Gains on sale of property, plant and equipment and intangible assets	352	515
Revaluation operating revenue – leases	0	3
Other operating income	1,765	1,940
Total other operating income	**4,699**	**6,660**

Other operating income also includes income from government grants relating to the curbing of the COVID-19 pandemic in the amount of €156 thousand (2021: €489 thousand) and the aid received in connection with the increase in energy prices in the amount of €180 thousand (no such grant was recorded in 2021).

5. Costs by nature

€ thousand	2022	2021
Cost of goods and materials	487,124	388,639
Cost of services	331,940	307,464
Employee benefits expense	317,362	305,192
Amortisation and depreciation	82,216	84,863
Net write-offs and allowances for inventories	14,194	17,287
Net impairments and write-offs of receivables	1,548	50
Formation of provisions for lawsuits	0	543
Other operating expenses	25,048	25,053
Total costs	**1,259,432**	**1,129,091**
Change in the value of inventories of finished products and work in progress	-59,089	-14,389
Total	**1,200,343**	**1,114,702**

6. Employee benefits expense

€ thousand	2022	2021
Gross wages and salaries and continued pay	247,046	234,331
Social security contributions	16,763	16,173
Pension insurance contributions	33,189	31,079
Post-employment benefits and other non-current employee benefits	3,264	7,020
Other employee benefits	17,100	16,589
Total employee benefits expense	**317,362**	**305,192**

Post-employment benefits and other non-current employee benefits are detailed in Note 22 'Provisions'. Other employee benefits include primarily vacation bonuses and commuting allowances.
Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable amounted in 2022 to €61,399 thousand (2021: €57,825 thousand).

Supplementary pension insurance contributions amounted to €9,546 thousand in 2021 (2021: €8,913 thousand).

7. Other operating expenses

€ thousand	2022	2021
Grants and assistance for humanitarian and other purposes	1,551	1,409
Environmental protection expenditures	4,414	3,653
Other taxes and levies	15,904	15,040
Revaluation operating expenses on property, plant and equipment and intangible assets	818	2,506
Other operating expenses	2,361	2,445
Total other operating expenses	**25,048**	**25,053**

Other levies include €13,854 thousand (2021: €13,100 thousand) of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries for pursuing promotional activities.

8. Financial income and financial expenses

€ thousand	2022	2021
Net foreign exchange gains	45,105	15,111
Interest income	2,369	501
Derivatives income	9,096	2,968
– Realised revenue	8,847	2,002
– Fair value change	249	966
Income from dividends and other profit shares	702	6,075
– Dividends	702	691
– Profits of subsidiaries	0	5,384
Other financial income	472	59
Total financial income	**57,744**	**24,714**
Interest expenses	-1,718	-513
– Interest paid	-1,669	-466
– Interest expenses on lease liabilities	-49	-47
Derivatives expenses	0	-10,459
– Realised expenses	0	-10,459
Other financial expenses	-1,638	-1,111
Total financial expenses	**-3,356**	**-12,083**
Net financial result	**54,388**	**12,631**

The net financial result in 2022 improved mainly due to a better result from the net foreign exchange differences in the amount of €41,757 thousand. In 2022, the Company continued its policy of partial hedging against rouble-related risk and the US dollar with financial instruments. The largest impact was caused by the exchange rate of the rouble (final exchange rate on 31 December 2022 €1 = RUB 78.4308 and on 31 December 2021 €1 = RUB 85.3004).

Detailed information on the risk of changes in foreign exchange rates can be found in Note 30 'Financial Instruments and Financial Risks'.

9. Income tax expense

Adjustment to effective tax rate

€ thousand	2022	2021
Current income tax	63,301	40,905
Deferred tax	742	-165
Total income tax expense	**64,043**	**40,740**
Profit before tax	**412,258**	**285,957**
Income tax for both years calculated at the rate of 19%	78,329	54,332
Tax on reduced income	-133	-1,137
Tax on non-deductible expenses	2,677	2,529
Income tax from tax incentives	-17,588	-15,664
Tax on increase/decrease of costs for taxable purposes	758	680
Total income tax expense	**64,043**	**40,740**
Effective tax rate	**15.5%**	**14.2%**

Investments in R&D and investment relief represent the major share of tax incentives.

10. Property, plant and equipment

€ thousand	31 Dec 2022	31 Dec 2021
Land	28,010	28,010
Buildings	243,918	248,550
Equipment	238,871	255,165
Property, plant and equipment being acquired	52,107	34,621
Right-of-use assets	3,874	3,045
Total property, plant and equipment	**566,780**	**569,391**

The largest investments in the controlling company were in 2022 earmarked for increasing the capacity of the OTO plant i.e. €15,162 thousand (2021: €2,548 thousand), and for renovating the Notol`s packaging unit €6,712 thousand (a new investment in 2022). Another €4,999 thousand (2021: €3,606 thousand) was earmarked for IT and telecommunications-related projects, €3,958 thousand (2021: €1,265 thousand) for the investment in the new packaging unit at Notol 2 and €3,406 thousand (new investment in 2022) for replacing the cladding boilers at Notol.

The majority of the right-of-use asset refers to the right of using assets relating to buildings in the amount of €3,858 thousand (2021: €3,026 thousand).

Movement of property, plant and equipment (PPE)

€ thousand	Land	Buildings	Equipment	PPE being acquired	Right-of-use assets	Total
Purchase cost						
Balance at 1 Jan 2021	**27,703**	**618,791**	**1,037,419**	**30,263**	**4,050**	**1,718,226**
Additions	0	0	0	44,657	0	44,657
Capitalisations – transfer from PPE being acquired	307	6,104	33,031	-39,442	0	0
Capitalisations – IFRS 16 Leases	0	0	0	0	1,320	1,320
Disposals, impairments, deficit, surplus	0	-683	-12,167	-857	-259	-13,966
Transfers, reclassifications	0	0	8	0	0	8
Balance at 31 Dec 2021	**28,010**	**624,212**	**1,058,291**	**34,621**	**5,111**	**1,750,245**
Balance at 1 Jan 2022	**28,010**	**624,212**	**1,058,291**	**34,621**	**5,111**	**1,750,245**
Additions	0	0	0	72,970	0	72,970
Capitalisations – transfer from PPE being acquired	0	16,122	39,362	-55,484	0	0
Capitalisations – IFRS 16 Leases	0	0	0	0	1,918	1,918
Disposals, impairments, deficit, surplus	0	-636	-17,131	0	-257	-18,024
Transfers, reclassifications	0	-240	298	0	0	58
Balance at 31 Dec 2022	**28,010**	**639,458**	**1,080,820**	**52,107**	**6,772**	**1,807,167**
Accumulated depreciation						
Balance at 1 Jan 2021	**0**	**-354,935**	**-757,623**	**0**	**-1,199**	**-1,113,757**
Depreciation	0	-21,115	-57,188	0	-955	-79,258
Disposals, deficit, surplus	0	388	11,691	0	88	12,167
Transfers, reclassifications	0	0	-6	0	0	-6
Balance at 31 Dec 2021	**0**	**-375,662**	**-803,126**	**0**	**-2,066**	**-1,180,854**
Balance at 1 Jan 2022	**0**	**-375,662**	**-803,126**	**0**	**-2,066**	**-1,180,854**
Depreciation	0	-20,360	-55,104	0	-1,062	-76,526
Disposals, deficit, surplus	0	507	16,314	0	230	17,051
Transfers, reclassifications	0	-25	-33	0	0	-58
Balance at 31 Dec 2022	**0**	**-395,540**	**-841,949**	**0**	**-2,898**	**-1,240,387**
Carrying amount						
Balance at 1 Jan 2021	**27,703**	**263,856**	**279,796**	**30,263**	**2,851**	**604,469**
Balance at 31 Dec 2021	**28,010**	**248,550**	**255,165**	**34,621**	**3,045**	**569,391**
Balance at 1 Jan 2022	**28,010**	**248,550**	**255,165**	**34,621**	**3,045**	**569,391**
Balance at 31 Dec 2022	**28,010**	**243,918**	**238,871**	**52,107**	**3,874**	**566,780**

In 2021 and 2022, the Company did not make any investments that would have met the criteria for capitalised borrowing costs.

All property, plant and equipment is free of encumbrances. The status of known future commitments related to the acquisition of property, plant and equipment is disclosed in Note 27 ‘Contingent Liabilities and Commitments’.

The movements and lease liabilities recognised in profit or loss are presented in Notes 28 ‘Leases’ and Note 30 ‘Financial Instruments and Risks’.

11. Intangible assets

€ thousand	31 Dec 2022	31 Dec 2021
Software	14,334	14,800
Other intangible assets	7,007	6,899
– Long-term deferred operating costs	282	95
– Development-related projects	5,710	6,492
– Emission coupons	1,015	312
Intangible assets being acquired	3,619	3,929
Total intangible assets	**24,960**	**25,628**

Movement of intangible assets (IA)

€ thousand	Concessions, trademarks and licences	Other IA	IA being acquired	Total
Purchase cost				
Balance at 1 Jan 2021	**84,150**	**27,970**	**4,450**	**116,570**
Additions	0	0	4,836	4,836
Transfer from IA being acquired	3,274	1,130	-4,404	0
Disposals, deficit, surplus	-14	-527	-953	-1,494
Transfers, reclassifications	-6	-2	0	-8
Balance at 31 Dec 2021	**87,404**	**28,571**	**3,929**	**119,904**
Balance at 1 Jan 2022	**87,404**	**28,571**	**3,929**	**119,904**
Additions	0	0	6,570	6,570
Transfer from IA being acquired	3,771	2,870	-6,641	0
Disposals, deficit, surplus	-858	-1,982	-239	-3,079
Transfers, reclassifications	-54	-4	0	-58
Balance at 31 Dec 2022	**90,263**	**29,455**	**3,619**	**123,337**
Balance at 1 Jan 2021	**-68,588**	**-20,089**	**0**	**-88,677**
Amortisation	-4,022	-1,583	0	-5,605
Transfers, reclassifications	6	0	0	6
Balance at 31 Dec 2021	**-72,604**	**-21,672**	**0**	**-94,276**
Balance at 1 Jan 2022	**-72,604**	**-21,672**	**0**	**-94,276**
Amortisation	-4,202	-1,488	0	-5,690
Disposals, deficit, surplus	823	708	0	1,531
Transfers, reclassifications	54	4	0	58
Balance at 31 Dec 2022	**-75,929**	**-22,448**	**0**	**-98,377**
Carrying amount				
Balance at 1 Jan 2021	**15,562**	**7,881**	**4,450**	**27,893**
Balance at 31 Dec 2021	**14,800**	**6,899**	**3,929**	**25,628**
Balance at 1 Jan 2022	**14,800**	**6,899**	**3,929**	**25,628**
Balance at 31 Dec 2022	**14,334**	**7,007**	**3,619**	**24,960**

12. Investments in subsidiaries

Movement of investments in subsidiaries

€ thousand	Investments in subsidiaries
Purchase cost	
Balance at 1 Jan 2021	**348,603**
Establishment of new companies	25
Subsequent payments	7,799
Refunds of subsequent contributions	-992
Balance at 31 Dec 2021	**355,435**
Balance at 1 Jan 2022	**355,435**
Acquisition of equity interest	91
Subsequent payments	9,228
Balance at 31 Dec 2022	**364,754**
Accumulated depreciation	
Balance at 1 Jan 2021	**–8,991**
Balance at 31 Dec 2021	**–8,991**
Balance at 1 Jan 2022	**–8,991**
Balance at 31 Dec 2022	**–8,991**
Carrying amount	
Balance at 1 Jan 2021	**339,612**
Balance at 31 Dec 2021	**346,444**
Balance at 1 Jan 2022	**346,444**
Balance at 31 Dec 2022	**355,763**

The Company reviews whether there are any indications for impairment of investments in subsidiaries at least once a year. The fair value of an investment that may be impaired is determined by applying methods that are most appropriate in an individual investment. The most recent assessment was performed in December 2022.

Impairment testing of investments in subsidiaries KRKA-RUS LLC and KRKA FARMA LLC

In the Russian Federation, the Company is the owner of the subsidiary Krka-Rus, which in engaged in production activities, and of Krka Farma, which carries out distribution activities. Both investments constitute a single cash-generating unit. The carrying amount of the investment in Krka-Rus is €118,916 thousand (2021: €118,916 thousand), whereas the carrying amount of the investment in Krka Farma is recorded at €15,170 thousand (2021: €15,170 thousand).

The Russian-Ukrainian situation has increased uncertainty, which has also resulted in a significant increase in the weighted average cost of capital. As a consequence, management has assessed the value in use of the two investments in the subsidiaries. The value in use is calculated by discounting the future cash flows of the subsidiaries. Company's current strategy does not envisage the sale of the two subsidiaries in the Russian Federation and does not foresee the payment of dividends in the foreseeable future.

In the five-year projection of the operating cash flows of the subsidiaries until 2027, a discount rate of 14.0% is applied, while for the residual value a discount rate of 12.1% is set. Based on the impairment assessment performed, it was concluded that there is no need to impair the investments in the subsidiary.

Shareholdings in subsidiaries

€ thousand	Ownership share (%)	Share capital	Value of share in subsidiaries	
	31 Dec 2022	31 Dec 2022	31 Dec 2022	31 Dec 2021
KRKA-RUS LLC, Istra, Russian Federation	100%	68,358	118,916	118,916
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
TERME KRKA, d.o.o., Novo mesto, Slovenia	100%	14,753	36,416	36,416
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	61,923	35,642	26,414
KRKA-FARMA d.o.o., Zagreb, Croatia	100%	18,978	19,738	19,738
KRKA – POLSKA Sp. z.o.o., Warsaw, Poland	100%	3,737	18,697	18,697
KRKA FARMA LLC, Istra, Russian Federation	100%	9,612	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%	3	1,003	1,003
KRKA-FARMA DOOEL, Skopje, North Macedonia	100%	796	802	802
KRKA Belgium, SA, Brussels, Belgium	100%	300	376	285
KRKA Magyarország Kft., Budapest, Hungary	100%	112	184	184
123 Acurae Pharma GmbH, Cuxhaven, Germany	100%	25	25	25
KRKA Sverige AB, Stockholm, Sweden	100%	14	16	16
LLC ´KRKA Kazakhstan´, Almaty, Kazakhstan	100%	13	11	11
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	10	10	10
KRKA FARMA, d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	100%	10	10	10
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	10	10
KRKA HELLAS E.P.E., Athens, Greece	100%	10	10	10
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	7	10	10
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	10	10
SIA KRKA 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
KRKA GCC L.L.C., Dubai, United Arab Emirates*	100%	/	/	/
Total		**185,436**	**355,763**	**346,444**

* The subsidiary KRKA GCC L.L.C. in Dubai, United Arab Emirates, was incorporated on 14 September 2022, with the share capital in the amount of AED 36,700 (€9,000 thousand) being paid up on 12 January 2023.

The subsidiary Terme Krka, d.o.o. had a 100% interest in Golf Grad Otočec, d.o.o., at 31 December 2022; 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 Menovo Pharmaceutical Ltd.

13. Loans

€ thousand	31 Dec 2022	31 Dec 2021
Non-current loans	**56,013**	**31,010**
– Loans to subsidiaries	14,100	18,850
– Loans to others	11,913	12,160
– Deposits granted to banks	30,000	0
Current loans	**6,669**	**195,459**
– Portion of non-current loans maturing next year	5,140	4,163
– Loans to subsidiaries	888	1,055
– Loans to others	23	23
– Deposits granted to banks	0	190,264
– Current interest receivables	618	-46
Total loans	**62,682**	**226,469**

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 2022, the interest rate ranged from 0.0870% to 1.687%.

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 0.281% and 3.652% in 2022 (2021: between 0.269% and 0.367%). The maximum repayment period is 15 years.

Loans to subsidiaries including related current interest receivable

€ thousand	31 Dec 2022	31 Dec 2021
Non-current loans to subsidiaries	**14,100**	**18,850**
TERME KRKA, d.o.o., Novo mesto, Slovenia	14,100	16,800
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	0	2,000
KRKA Bulgaria EOOD, Sofia, Bulgaria	0	50
Current loans to subsidiaries, inclusive of the current amounts of non-current loans	**4,349**	**3,559**
TERME KRKA, d.o.o., Novo mesto, Slovenia	2,502	2,500
KRKA Farmaceutici Milano S.r.l., Milano, Italy	890	0
Krka France Eurl, Paris, France	601	2
SIA KRKA Latvija, Riga, Latvia	115	115
KRKA HELLAS E.P.E., Athens, Greece	100	365
HCS bvba*, Edegem, Belgium	74	33
KRKA Bulgaria EOOD, Sofia, Bulgaria	50	0
TAD Pharma GmbH, Cuxhaven, Germany	9	1
Krka FARMACÉUTICA, S.L., Madrid, Spain	2	0
KRKA Finland Oy, Espoo, Finland	1	462
KRKA Sverige AB, Stockholm, Sweden	1	1
KRKA Belgium, SA, Brussels, Belgium	1	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	1	0
KRKA Pharma GmbH, Dunaj, Austria	1	0
123 Acurae Pharma GmbH, Cuxhaven, Germany	0	80
Total loans to subsidiaries	**18,449**	**22,409**

** Subsidiary Krka France Eurl holds a 100% stake in HCS bvba.*

The repayment period of the non-current loan to the subsidiary Terme Krka was 18 months as at the reporting date.

14. Investments

€ thousand	31 Dec 2022	31 Dec 2021
Non-current investments	**110,769**	**108,882**
– Investments at fair value through OCI (equity instruments)	15,988	15,860
– Investments at amortised cost (debt instruments)	94,781	93,022
Current investments including derivatives	**52,437**	**155,448**
– Investments at amortised cost (debt instruments)	50,697	113,987
– Derivatives	1,740	1,491
– Other current investments at fair value through profit or loss (debt instruments)	0	39,970
Total investments	**163,206**	**264,330**

Investments at fair value through other comprehensive income (OCI) comprised €876 thousand of investments in shares and interests in companies in Slovenia (2021: €1,001 thousand), and €15,112 thousand of investments in shares of companies located abroad (2021: €14,859 thousand). Investments at amortised cost include investments in Slovenian government bonds which amounted to €6,533 thousand (2021: €4,455 thousand), while investments in foreign government bonds amounted to €138,945 thousand (2021: €202,554 thousand).

Movement of financial assets

€ thousand	Financial assets at fair value through OCI	Investments at amortised cost	Investments at fair value through profit or loss
Balance at 1 Jan 2021	**10,419**	**0**	**0**
Increase	0	205,946	40,000
Foreign exchange differences	0	1,063	0
Adjustment to market value	5,441	/	-30
Balance at 31 Dec 2021	**15,860**	**207,009**	**39,970**
Balance at 1 Jan 2022	**15,860**	**207,009**	**39,970**
Increase	0	54,083	0
Decrease	0	-119,265	-40,000
Foreign exchange differences	0	3,651	0
Adjustment to market value	128	/	30
Balance at 31 Dec 2022	**15,988**	**145,478**	**0**

Increases in financial assets comprise new acquisitions and imputed interest, while decreases comprise coupons received, imputed interest and disposals due to the investment's maturity. Adjustments of non-current investments at fair value through OCI were recognised in other comprehensive income in the amount of €128 thousand in the reporting period (2021: €5,441 thousand). Foreign exchange differences on investments at amortised cost amounting to €3,651 thousand (2021: €1,063 thousand) are recognised in financial income.

15. Deferred tax assets and deferred tax liabilities

€ thousand	Assets 2022	Assets 2021	Liabilities 2022	Liabilities 2021
Investments at fair value through OCI	1,708	1,727	2,490	2,466
Receivables	1,687	1,484	0	0
Dividends	33	19	0	0
Provisions for post-employment benefits and other non-current employee benefits – the merger effect	7,728	11,978	0	0
Total	**11,156**	**15,208**	**2,490**	**2,466**
Offsetting	**-2,490**	**-2,466**	**-2,490**	**-2,466**
Net	**8,666**	**12,742**	**0**	**0**

€ thousand	Balance at 1 Jan 2021	Recognised in income statement	Recognised in OCI	Balance at 31 Dec 2021	Recognised in income statement	Recognised in OCI	Balance at 31 Dec 2022
Investments at fair value through OCI	**295**	0	-1,034	**-739**	-19	-24	**-782**
Receivables	**1,447**	37	0	**1,484**	203	0	**1,687**
Dividends	**14**	5	0	**19**	14	0	**33**
Provisions for post-employment benefits and other non-current employee benefits – the merger effect	**12,466**	123	-611	**11,978**	-940	-3,310	**7,728**
Total	**14,222**	**165**	**-1,645**	**12,742**	**-742**	**-3,334**	**8,666**

The relevant amount of deferred tax assets and liabilities was calculated using the 19% income tax rate.

16. Inventories

€ thousand	31 Dec 2022	31 Dec 2021
Materials	215,961	183,593
Work in progress	122,864	89,744
Finished products	122,144	108,124
Merchandise	12,711	10,773
Advances for inventories	19,298	2,089
Total inventories	**492,978**	**394,323**

The increase in inventories is the result of adapting to uncertain market conditions. By carefully planning our inventories and maintaining safety stocks, we ensure that we always have access to the intermediate goods that we require to produce our finished products. The planning of inventories of intermediate goods is based on sales forecasts. We also ensure optimal and adequate stocks of finished products throughout the distribution chain.

The write-downs and write-offs of inventories to their net realisable value amounted to €14,194 thousand in 2022 and €17,287 thousand in 2021.

The Company does not pledge inventories as security for a liability.

17. Trade and other receivables

€ thousand	31 Dec 2022	31 Dec 2021
Current trade receivables	357,889	424,588
– Receivables due from subsidiaries	196,166	234,064
– Receivables due from customers other than Group companies	161,723	190,524
Current receivables for other dividends	171	99
Current receivables due from others	12,468	17,282
Total trade and other receivables	**370,528**	**441,969**

97.3% of receivables due from customers other than Group companies were insured with a credit insurer, by taking into account 87.6% of the deductible (99.2% of such receivables were insured as at 31 December 2021, by taking into account 89.3% of the deductible).

Current trade receivables

Current trade receivables due from subsidiaries

€ thousand	31 Dec 2022	31 Dec 2021
KRKA-RUS LLC, Istra, Russian Federation	76,254	104,394
KRKA FARMA LLC, Istra, Russian Federation	36,260	52,541
Krka Sverige AB, Stockholm, Sweden	16,395	16,508
KRKA - POLSKA, Sp. z.o.o., Warsaw, Poland	10,128	8,763
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	9,981	7,667
KRKA-FARMA DOOEL, Skopje, North Macedonia	9,792	8,750
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	8,406	9,098
KRKA FARMACEUTICI MILANO S.r.l., Milan, Italy	5,701	3,843
KRKA UK Ltd, London, United Kingdom	4,307	244
KRKA Finland Oy, Espoo, Finland	4,080	3,175
KRKA Belgium, SA, Brussels, Belgium	3,120	1,301
KRKA-FARMA d.o.o., Zagreb, Croatia	2,516	3,091
TAD Pharma GmbH, Cuxhaven, Germany	2,403	4,558
KRKA France Eurl, Paris, France	1,948	5,384
KRKA FARMACÉUTICA, S.L., Madrid, Spain	1,456	605
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	1,301	1,360
KRKA Pharma GmbH, Wienna, Austria	861	1,026
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	417	200
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	334	1,137
123 Acurae Pharma GmbH, Cuxhaven, Germany	278	0
Receivables due from other Krka Group companies	228	419
Total current trade receivables due from subsidiaries	**196,166**	**234,064**

Current trade receivables due from customers other than Group companies

€ thousand	Gross value	Allowances for receivables	Net value at 31 Dec 2022	Net value at 31 Dec 2021
Current trade receivables due from domestic customers other than Group companies	9,323	13	9,310	10,381
Current trade receivables due from foreign customers other than Group companies	190,326	35,428	154,898	180,913
Deferred revenue from contracts with foreign customers	-2,485	0	-2,485	-770
Total current trade receivables due from customers other than Group companies	**197,164**	**35,441**	**161,723**	**190,524**

The net amount of the receivable write-offs and impairment disclosed in operating expenses amounted in 2022 to €1,548 thousand (2021: €50 thousand).

Current receivables due from others

Most of current receivables due from others in the total amount of €12,468 thousand (2021: €17,282 thousand) include primarily receivables due from the State, whereof VAT receivables amounted to €4,346 thousand (2021: €10,227 thousand).

Advances for services were recorded at €859 thousand (2021: €777 thousand).

18. Cash and cash equivalents

€ thousand	31 Dec 2022	31 Dec 2021
Cash in hand	0	1
Bank balances	470,297	144,980
Total cash and cash equivalents	**470,297**	**144,981**

19. Equity

Share capital

The share capital of the Company in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. The Company has solely one class of share. The share capital was fully paid in.

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 the 10% of Company's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by the Company as at the date. The authorisation is valid for a period of 36 months from the date of the decision adoption.

Based on this authorisation, the Company 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* (*ZGD-1*), an entity may reduce the share capital by withdrawal of all treasury shares in a simplified procedure and recognise the amount against other profit reserves.

Repurchase of treasury shares

	No. of shares	Weighted average share price (€)	Value of treasury shares (€ thousand)
Balance at 31 Dec 2020	**1,541,774**		**99,279**
Repurchases in 2021	142,134	107.38	15,262
Balance at 31 Dec 2021	**1,683,908**		**114,541**
Repurchases in 2022	101,941	98.35	10,025
Balance at 31 Dec 2022	**1,785,849**		**124,566**

The performed repurchases of treasury shares refers to repurchases that were recorded in individual years. A subscription fee is included in the weighted average price of shares. The amount paid, including commission, is deducted from the total capital as treasury shares until such shares are withdrawn, reissued or sold.

The repurchases of treasury shares in 2022 in terms of days are outlined in Note 35 'Repurchase of treasury shares'.

Reserves

The Company's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves, fair value reserve and translation reserves.

Reserves for treasury shares amounted as at the balance sheet date to €124,566 thousand and increased by €10,025 thousand based on their formation as a result of additional repurchase of treasury shares.

The *share premium* is to be used under the terms and purposes as defined by the applicable act. The share premium was recorded at €105,897 thousand as at 31 December 2022 and consisted of the general equity revaluation adjustment of €90,659 thousand that was included in share premium during the transfer to *IFRS*; the share premium of €10,844 thousand formed pursuant to a special regulation applicable in the ownership transformation of the Company; and €4,394 thousand of share premium resulting from reduction in the share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2022, the value of share premium remained unchanged.

Legal reserves may be formed up to 30% of the share capital for the coverage of possible future losses. They amounted to €14,990 thousand as at 31 December 2022 and remained unchanged compared to the previous period.

Statutory reserves amounted to €30,000 thousand as at the reporting date and remained unchanged over the previous period. Statutory reserves are formed by the Company up to the amount of €30,000 thousand. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy. Statutory reserves are available for drawdown.

The fair value reserve includes the cumulative change in the fair value of financial assets and post-employment benefits. Compared to the previous period, the fair value reserve increased by €23,311 thousand and amounted to €4,307 thousand as at 31 December 2022. The cumulative change is due to a €128 thousand increase in the fair value of financial assets through OCI (equity instruments); an increase due to the restatement of post-employment benefits of €26,517 thousand and a decrease for the impact of deferred taxes of €3,334 thousand.

Retained earnings

Retained earnings grew based on the profit of €348,215 thousand. On the other hand, they declined as a result of allocation of accumulated profit to dividend payment (€175,025 thousand) in accordance with the resolution adopted by the 28th Annual General Meeting on 7 July 2022; an additional formation of reserves for treasury shares in total of €10,025 thousand on account of the treasury share repurchase in 2022 and changes in provisions for termination benefits amounting to €1,826 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 €19 thousand of dividends paid in respect of previous periods (2021: €11 thousand).

Dividends per share

In 2022, the declared gross dividend per share was €5.63 (2021: €5.00).

Distributable profit

The table below is presented in €, unlike all other tables in the financial report hereof, where data is expressed in € thousand.

€	2022	2021
Compulsory appropriation of profit		
Net profit	**348,215,048.50**	**245,216,436.23**
– 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	-10,025,534.49	-15,261,862.79
– Allocation to statutory reserves	0.00	0.00
Profit after compulsory appropriation	**338,189,514.01**	**229,954,573.44**
– Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0.00	0.00
Surplus of profit	**338,189,514.01**	**229,954,573.44**
Identification of distributable profit		
– Surplus of profit	338,189,514.01	229,954,573.44
– Profit brough forward	69,973,616.13	88,670,552.72
Distributable profit	**408,163,130.14**	**318,625,126.16**

20. Earnings per share

Basic earnings per share amounted to €11.21 in 2022 and increased by 43% over the previous year, when it amounted to €7.86. The calculation of earnings per share took into account the profit in the amount of €348,215 thousand (2021: €245,216 thousand). The weighted average number of shares was accounted for in the calculation for both years i.e. 31,070,960 shares for 2022, and 31,185,323 shares for 2021. The average number of shares is calculated from the daily share balances during the year, less treasury shares.

Diluted earnings per share equal the basic earnings per share as the Company has not issued any dilutive or contingently dilutive instruments.

21. Borrowings

€ thousand	31 Dec 2022	31 Dec 2021
Current borrowings	**53,524**	**55,092**
– Borrowings from subsidiaries	53,375	55,068
– Current interest payable	149	24
Total borrowings	**53,524**	**55,092**

Borrowings from subsidiaries, including current interest payable

€ thousand	31 Dec 2022	31 Dec 2021
Current borrowings from subsidiaries	**53,524**	**55,092**
TAD Pharma GmbH, Cuxhaven, Germany	48,467	51,960
KRKA Sverige AB, Stockholm, Sweden	2,174	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	1,365	1,211
KRKA Belgium, SA, Brussels, Belgium	927	8
TERME KRKA, d. o. o., Novo mesto, Slovenia	424	1,575
KRKA Pharma GmbH, Vienna, Austria	144	337
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	18	0
KRKA Finland Oy, Espoo, Finland	3	0
KRKA France Eurl, Paris, France	1	1
123 Acurae Pharma GmbH, Cuxhaven, Germany	1	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	0
Total	**53,524**	**55,092**

Current loans were raised in euro for a period of up to one year and were not specifically collateralised.

22. Provisions

Movement of provisions in 2022

€ thousand	Balance at 31 Dec 2021	Transfer	Formation	Utilisation	Reversal	Balance at 31 Dec 2022
Provisions for lawsuits	543	10,000	0	0	0	10,543
Provisions for post-employment benefits	93,963	0	-18,123	-3,345	-1,597	70,898
Provisions for other non-current employee benefits	18,630	0	-1,851	-1,382	-230	15,167
Total provisions	**113,136**	**10,000**	**-19,974**	**-4,727**	**-1,827**	**96,608**

Movement of provisions in 2021

€ thousand	Balance at 31 Dec 2021	Formation	Utilisation	Reversal	Balance at 31 Dec 2022
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
Total provisions	**119,830**	**1,997**	**–5,359**	**–3,332**	**113,136**

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for disputes referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed.

In 2014, the European Commission found that Krka had infringed Article 101 of the Treaty on the Functioning of the EU, thereby distorting competition on the EU market for perindopril, and imposed a fine of €10,000 thousand on Krka. Krka paid the fine within the time limit set by the Commission. However, as it considered that its conduct did not infringe competition law rules, it brought an action against the decision before the EU General Court, which ruled in favour of Krka in December 2018.

The General Court's decision is not yet final and the Commission has lodged an appeal against it within the appeal period, which will be decided by the European Court of Justice. In 2022, the Company transferred the value from non-current operating liabilities to provisions for lawsuits.

The Company was in 2022 involved in intellectual property disputes and other areas of law (civil, labour, administrative disputes, etc.). The total value of the claims against Krka is estimated at €227 thousand. The Company has formed provisions of €543 thousand for this purpose. The reversal of provisions is disclosed in Note 4 'Other operating income'.

Provisions for obligations to employees arising from post-employment and other non-current benefits are based on actuarial calculation using the following assumptions:

- 3.91% annual discount rate, which is the yield on 10-year high quality corporate bonds in the euro area at end-November 2022 (1.27% discount rate used in 2021); Bloomberg was used as data source;
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal rules;
- staff turnover depending primarily upon the employees' age (3.0% for up to 30 years; 2.0% for 31 to 40 years; 0.5% for 41 to 50 years; 0.2% for 51 to 60 years);
- mortality rates calculated on the basis of most recent mortality tables available;
- the 2.00% increase in salaries (2021: 2.00%).

Liabilities for post-employment benefits

€ thousand	2022	2021
Balance at 1 Jan	**93,963**	**98,516**
Current service costs (CSC)	5,364	6,030
Interest costs (IC)	1,204	726
Post-employment benefits paid	-3,344	-3,879
Staff departures (reversal)	-1,598	-992
Actuarial surplus/deficit, whereof:	-24,691	-6,438
– Change in financial assumptions	-27,006	-7,562
– Experience	2,315	1,124
Balance at 31 Dec	**70,898**	**93,963**

Sensitivity analysis for post-employment and other benefits

	Discount rate		**Increase in wages and salaries**	
Change in	percentage points		percentage points	
Change by	0.5	–0.5	0.5	–0.5
Impact on liabilities (€ thousand)	**-4,721**	**5,185**	**5,261**	**-4,828**

23. Deferred income

€ thousand	Balance at 31 Dec 2021	New deferred income received	Reversal of deferred income	Balance at 31 Dec 2022
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	1,058	0	-215	843
Subsidy for acquisition of electric drive vehicles	3	0	-1	2
Property, plant and equipment received free of charge	3	13	-4	12
Emission coupons	10	10	-10	10
Subsidy for the purchase of joinery	93	0	-1	92
Subsidy for acquisition of other equipment	3	0	-1	2
Grants received from the European Regional Development Fund (Farma GRS)	2,376	0	-521	1,855
Reserve fund assets (eko fund)	0	2	-2	0
Total deferred income	**3,546**	**25**	**-755**	**2,816**

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 income 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 2022	31 Dec 2021
Non-current trade payables	**0**	**10,000**
Current trade payables	**194,143**	**178,143**
Payables to subsidiaries	87,559	79,391
Payables to domestic suppliers	52,271	43,654
Payables to foreign suppliers	54,313	55,098
Total trade payables	**194,143**	**188,143**

Payables to subsidiaries

€ thousand	31 Dec 2022	31 Dec 2021
KRKA-FARMA d.o.o., Zagreb, Croatia	24,912	21,116
KRKA FARMA LLC, Istra, Russian Federation	17,555	17,042
Ningbo Krka Menovo Pharmaceutical Co. Ltd., China	5,306	1,466
KRKA – POLSKA Sp. z.o.o., Warsaw, Poland	5,009	6,612
KRKA ROMANIA S.R.L., Bucharest, Romania	4,689	4,459
Krka-Rus LLC, Istra, Russian Federation	3,761	2,403
KRKA ČR, s. r. o., Prague, Czech Republic	3,686	3,190
TAD Pharma GmbH, Cuxhaven, Germany	3,507	2,886
KRKA UKRAINE LLC, Kiev, Ukraine	3,199	3,081
KRKA Magyarország Kft., Budapest, Hungary	2,779	2,872
KRKA Slovensko, s.r.o., Bratislava, Slovakia	2,124	2,124
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	1,799	873
UAB KRKA Lietuva, Vilnius, Lithuania	1,556	1,431
KRKA France Eurl, Paris, France	1,331	3,622
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	1,060	866
SIA KRKA Latvija, Riga, Latvia	772	681
KRKA Bulgaria EOOD, Sofia, Bulgaria	740	766
KRKA Pharma GmbH, Vienna, Austria	602	143
KRKA FARMACÉUTICA, S.L., Madrid, Spain	531	455
KRKA-FARMA DOOEL, Skopje, North Macedonia	512	461
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	512	475
LLC ´KRKA Kazakhstan´, Almaty, Kazakhstan	506	767
KRKA HELLAS E.P.E., Athens, Greece	293	322
KRKA Finland Oy, Espoo, Finland	286	249
KRKA Sverige AB, Stockholm, Sweden	154	176
KRKA Belgium, SA, Brussels, Belgium	115	427
KRKA UK Ltd, London, United Kingdom	95	68
HCS bvba, Edegem, Belgium*	70	77
KRKA FARMA, d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	48	213
TERME KRKA, d. o. o., Novo mesto	31	43
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	18	24
KRKA USA LLC, Wilmington, USA	1	1
Total payables to subsidiaries	**87,559**	**79,391**

** Subsidiary Krka France Eurl holds a 100% stake in HCS bvba.*

25. Current contract liabilities

€ thousand	31 Dec 2022	31 Dec 2021
Refund liabilities	**13,094**	**13,638**
– Bonuses and volume rebates	13,094	13,638
Contract liabilities	**8,593**	**5,839**
– Contract liabilities – advances from other customers	8,593	5,839
Total current contract liabilities	**21,687**	**19,477**

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 2022	31 Dec 2021
Payables to employees – gross salaries, other receipts and charges	55,304	53,446
Liabilities under repurchase transactions (repo-type operations)	0	102,234
Other	2,068	8,330
Total other current liabilities	**57,372**	**164,010**

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €739 thousand (2021: €6,284 thousand).

27. Contingent liabilities and commitments

€ thousand	31 Dec 2022	31 Dec 2021
Guarantees issued	15,195	13,695
Other	1,935	976
Total contingent liabilities	**17,130**	**14,671**

Among the guarantees issued, the largest items are the performance guarantee for the supply of products awarded in tenders in Italy, amounting to €12,000 thousand, and the guarantee for the TAD Pharma credit line, amounting to €3,000 thousand.

Based on the contracts that had been signed in connection with the on-going investments, the balance of Company's commitments for acquisition of property, plant and equipment amounted at the year-end of 2022 to €74,610 thousand of (2021: €27,787 thousand).

28. Leases

The Company concludes lease agreements for various assets such as land, parking spaces and offices, apartments, warehouses, and equipment.

The lease terms are assessed according to the type of a lease:

- offices, parking spaces and warehouses: up to 10 years;
- land: 30 years;
- apartments: up to 2 years maximum;
- equipment: up to 10 years.

The Company does not sub-lease the leased assets.

The Company has concluded lease contracts for various production and non-production equipment, temporary offices and parking spaces, with lease term of shorter than one year. In respect of those leases, the Company applied the practical expedient provided by the Standard.

The carrying amounts of lease liabilities included under interest-bearing loans and borrowings and movements during the period

€ thousand	Carrying amounts of lease liabilities under interest-bearing loans and borrowings and movements during the period
Balance at 1 Jan 2021	**2,822**
Increase/Decrease	1,210
Interest	47
Lease payments	-991
Balance at 31 Dec 2021	**3,088**
– Current lease liabilities	987
– Non-current lease liabilities	2,101
Balance at 1 Jan 2022	**3,088**
Increase/Decrease	1,929
Interest	49
Lease payments	-1,124
Balance at 31 Dec 2022	**3,942**
– Current lease liabilities	1,033
– Non-current lease liabilities	2,909

The maturity analysis of lease liabilities is disclosed in Note 30 'Financial instruments and financial risks'.

Amounts recognised in the income statement

€ thousand	2022	2021
Depreciation of right-of-use assets	1,062	956
Interest expenses on lease liabilities	49	47
Expenses relating to current leases	1	39
Expenses relating to leases of low-value assets	12	6
Total amount recognised in income statement	**1,124**	**1,048**

29. Financial liabilities

Movement of financial liabilities in 2022

€ thousand	Balance at 31 Dec 2021	Monetary changes	Non-monetary changes		Balance at 31 Dec 2022
			Additions/ disposals	Other	
Borrowings	55,068	-1,758	0	65	53,375
Interest on borrowings	24	-1,856	1,981	0	149
Dividends	1,322	-175,044	175,025	0	1,303
Leases	3,088	-1,124	1,929	49	3,942
Liabilities under repurchase transactions (repo-type operations)	102,234	-101,762	0	-472	0
Total	**161,736**	**-281,544**	**178,935**	**-358**	**58,769**

Liabilities under repurchase transactions (repo-type operations) are presented in Note 26 'Other current liabilities'.

Movement of financial liabilities in 2021

€ thousand	Balance at 31 Dec 2020	Monetary changes	Non-monetary changes Additions/ disposals	Non-monetary changes Other	Balance at 31 Dec 2021
Borrowings	46,317	8,703	0	48	55,068
Interest on borrowings	28	-444	440	0	24
Dividends	1,335	-155,907	155,896	-2	1,322
Leases	2,822	-991	1,210	47	3,088
Liabilities under repurchase transactions (repo-type operations)	0	102,292	0	-58	102,234
Total	**50,502**	**-46,347**	**157,546**	**35**	**161,736**

30. Financial instruments and financial risks

Credit risk

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

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

Credit control is a two-step process. The first step involves assessing the credit risk for each customer, determining risk mitigation instruments, and assigning relevant credit limits. We assess each new customer and review the credit ratings of all customers twice a year. Each credit rating includes many different financial and non-financial indicators, which fall into 4 categories (an assessment of the buyer's profitability, payment habits and payment discipline, an assessment of the buyer's financial statements, a qualitative assessment of the sales staff and an assessment of country risk) each of which carries a different weight in the final assessment).

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

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

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

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

Credit control guarantees permanent control over the quality of the trade receivables portfolio. The result is a low share of receivable write-offs and impairments in view of Company's sales.

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

The credit risk environment was due to the challenges related to the COVID-19 pandemic and the heightened situation in Ukraine, the Russian Federation and Belarus very challenging in 2022. We paid particular attention to these markets and further strengthened our activities to manage trade receivables. The credit risk management performance in 2022 was favourable. At the year-end, the value of trade receivables due from Company's customer was 16% lower than at the beginning of the year, while the amount of overdue and unpaid receivables remained within a range acceptable to Krka.

Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below:

€ thousand	Notes	31 Dec 2022	31 Dec 2021
Loans	13	62,682	226,469
Investments at amortised cost (debt instruments)	14	145,478	207,009
Trade receivables including those due from subsidiaries	17	357,889	424,588
Cash and cash equivalents	18	470,297	144,981
Total		**1,036,346**	**1,003,047**

As for the financial assets exposed to credit risk, the loans, trade receivables and receivables due from subsidiaries are presented separately.

The loans include a €30,000 thousand deposit with a maturity of over one year with a Slovenian bank with a high credit rating.

Investments at amortised cost (debt instruments) represent investments in non-current and current bonds of EU countries. They are classified as a low credit risk financial instrument because their credit risk rating is equivalent to the globally understood definition of 'investment grade', which is equivalent to a rating of Baa2 or above by Moody's or BBB- or above by Standard & Poor's.

The majority of Krka's cash and cash equivalents refer to bank balances and deposits with maturities of less than 90 days with banks in the EU with a high credit rating (P-1 according to Moody's).

Loans by geographical region

€ thousand	31 Dec 2022	31 Dec 2021
Region Slovenia	60,419	121,027
Region South-East Europe	150	415
Region East Europe	40	41
Region Central Europe	121	115
Region West Europe	1,952	104,871
Region Overseas Markets	0	0
Total	**62,682**	**226,469**

Trade receivables including those due from subsidiaries by geographical region

€ thousand	31 Dec 2022	31 Dec 2021
Region Slovenia	9,359	10,452
Region South-East Europe	81,760	83,873
Region East Europe	141,775	222,183
Region Central Europe	68,088	56,348
Region West Europe	50,955	46,877
Region Overseas Markets	5,952	4,855
Total	**357,889**	**424,588**

Age analysis of loans as at the reporting date

€ thousand	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022	Gross value 31 Dec 2021	Allowance at 31 Dec 2021
Not past due	62,673	0	226,456	0
Past due up to 20 days	0	0	0	0
Past due from 21 to 50 days	2	0	1	0
Past due from 51 to 180 days	2	0	3	0
Past due more than 180 days	5	0	9	0
Total	**62,682**	**0**	**226,469**	**0**

Age analysis of trade receivables as at the reporting date

€ thousand	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022	Net value at 31 Dec 2022	Gross value at 31 Dec 2021	Allowance at 31 Dec 2021	Net value at 31 Dec 2021
Not past due	346,743	182	346,561	409,494	187	409,307
Past due up to 20 days	3,000	16	2,984	7,384	14	7,370
Past due from 21 to 50 days	2,782	8	2,774	4,597	67	4,530
Past due from 51 to 180 days	4,789	27	4,762	2,361	0	2,361
Past due more than 180 days	36,016	35,208	808	35,317	34,297	1,020
Total	**393,330**	**35,441**	**357,889**	**459,153**	**34,565**	**424,588**

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 €343,445 thousand (2021: €404,494 thousand); past due up to 20 days €2,892 thousand (2021: €9,223 thousand); past due between 21 and 50 days €5,634 thousand (2021: €6,905 thousand); past due between 51 and 180 days €2,759 thousand (2021: €2,360 thousand); and past due more than 180 days €3,158 thousand (2021: €1,606 thousand).

Age analysis of receivables due from customers in the Russian Federation as at the reporting date

€ thousand	Gross value at 31 Dec 2022	Allowance at 31 Dec 2022	Net value at 31 Dec 2022	Gross value at 31 Dec 2021	Allowance at 31 Dec 2021	Net value at 31 Dec 2021
Not past due	331	0	331	3.405	0	3.405
Past due up to 20 days	0	0	0	0	0	0
Past due from 21 to 50 days	0	0	0	0	0	0
Past due from 51 to 180 days	0	0	0	0	0	0
Past due more than 180 days	0	0	0	0	0	0
Total	**331**	**0**	**331**	**3.405**	**0**	**3.405**

All receivables in the Russian Federation were secured and, taking into account the own participation, the share of secured receivables was 80% (at 31 December 2021 all receivables were secured and, taking into account the own participation, the share of secured receivables was 90%). None of the receivables as at 31 December 2022 was past due.

Liquidity risk

Business partners value Krka for its excellent financial discipline and stable cash flows. In 2022, we settled all financial liabilities regularly. Company's exposure to liquidity risk was low.

The Company has agreements with two banks for the allowed negative balance on transaction accounts for a total amount of €5,688 thousand (in 2021, the Company had agreements with two banks for a total amount of €5,415 thousand). As there were no negative balances on transaction accounts at 31 December 2022, the bank overdraft remained fully unused.

As at 31 December 2022, the Company had an undrawn credit facility of €20,000 thousand (2021: €20,000 thousand).

At the end of 2022, the Company recorded excess liquidity, primarily as cash at bank or deposits with commercial banks with high credit ratings. The 2022 increase in excess liquidity resulted from surplus of cash flow from operating and investing activities over financing uses.

The European Central Bank started to gradually increase key interest rates in the second half of 2022. Low-risk cash investments have thus started to yield positive returns. In line with our internal investment diversification rules and taking into account interest rate, liquidity, credit and currency risks, we deposited most of our cash surpluses with commercial banks.

The Company manages liquidity risk centrally for the entire Krka Group. Subsidiaries are financed through intra-group loans and any potential cash surpluses are deposited with the controlling company. Excess cash from all Krka 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 Krka Group companies, and enhanced security of cash transactions.

The Company's liquidity ratios remain favourable and stable at the end of 2022.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 December 2022

€ thousand	Carrying amount	Contractual cash flows					
		Total	Up to 6 months	6 – 12 months	1 – 2 years	2 – 5 years	5 – 10 years
Financial liabilities							
Other current loans	53,524	53,524	53,524	0	0	0	0
Lease liabilities	3,942	4,095	555	529	892	1,932	187
Trade payables excluding advances	194,143	194,143	194,143	0	0	0	0
Contract liabilities excluding advances	13,094	13,094	13,094	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	1,328	1,328	1,328	0	0	0	0
Total financial liabilities	**266,031**	**266,184**	**262,644**	**529**	**892**	**1,932**	**187**
Total derivative financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**266,031**	**266,184**	**262,644**	**529**	**892**	**1,932**	**187**

Maturity of financial liabilities as at 31 December 2021

€ thousand	Carrying amount	Contractual cash flows					
		Total	Up to 6 months	6 – 12 months	1 – 2 years	2 – 5 years	5 – 10 years
Financial liabilities							
Other current loans	55,092	55,092	55,092	0	0	0	0
Lease liabilities	3,088	3,217	530	497	665	1,278	247
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
Repo liability	102,234	102,234	102,234	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	2,046	2,046	2,046	0	0	0	0
Total financial liabilities	**354,241**	**354,370**	**351,683**	**497**	**665**	**1,278**	**247**
Total derivative financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**354,241**	**354,370**	**351,683**	**497**	**665**	**1,278**	**247**

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 Krka 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 recorded purchase orders.

The value of the rouble in euro terms increased by 8.8% from the beginning to the end of 2022, on average 18.7% higher than in 2021.

The value of the US dollar in euro terms rose by 6.2% from the beginning to the end of 2022, and was on average 12.3% higher than in 2021. The impact of the change in the value of the US dollar on Krka Group's net financial result was neutralised by financial instruments.

The Ukrainian hryvnia has lost around 20% of its value against the euro since the beginning of the Russian invasion of Ukraine.

The Polish zloty has been fairly stable, depreciating by 1.8% from the beginning to the end of 2022, while its average value was 2.6% lower than in 2021. The Romanian leu and the Croatian kuna, which were in the ERM in 2022, have been very stable. The value of the British pound decreased in 2022. The contribution of these currencies to Krka Group's net financial result was small.

The Company generally eliminates currency risks through natural methods, primarily by increasing purchases and payables in the currencies in which it invoices sales. Where this is not possible, financial instruments are used or the risk is left unhedged. As a rule, forward contracts are used for hedging.

In 2022, we continued our policy of partially hedging the Russian rouble and US dollar risk with financial instruments. In the first quarter of 2022, we had partially hedged the Russian rouble risk with forward contracts, but this was no longer possible from April 2022 onwards. The appreciation of the rouble against the euro resulted in net foreign exchange gains.

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 2022. Due to the short currency position, the dollar strengthening had a negative financial impact on the Krka Group result. In 2022 however, this was largely offset by income from the US dollar hedging instruments.

To hedge the risk of changes in the EUR/USD currency pair and to hedge additional risks in 2023, forward contracts of the controlling company with a principal amount of $45,000 thousand and a maturity of less than 2 months were open at the year-end of 2022.

Exposure to the risk of foreign exchange rate fluctuations

	31 Dec 2022				
€ thousand	EUR*	RUB	PLN	USD	RON
Loans	62,682	0	0	0	0
Trade receivables	98,656	125,927	45,732	5,575	46,991
Cash and cash equivalents	451,763	49	823	7,665	528
Borrowings	-53,524	0	0	0	0
Current trade payables	-165,283	-2,455	-5,172	-9,246	-4,642
Financial position exposure (net)	**394,293**	**123,520**	**41,384**	**3,994**	**42,877**

**EUR is the functional currency and does not represent exposure to foreign currency risk.*

€ thousand	31 Dec 2021				
	EUR*	RUB	PLN	USD	RON
Loans	226,469	0	0	0	0
Trade receivables	128,233	176,785	42,897	5,118	44,213
Cash and cash equivalents	85,394	1,217	1,295	44,156	994
Borrowings	-55,092	0	0	0	0
Non-current operating liabilities	-10,000	0	0	0	0
Current trade payables	-131,638	-19,493	-6,957	-8,564	-4,438
Financial position exposure (net)	**243,366**	**158,509**	**37,235**	**40,709**	**40,770**

**EUR is the functional currency and does not represent exposure to foreign currency risk.*

Significant exchange rates

	Average exchange rate*		Final exchange rate*	
	2022	2021	2022	2021
RUB	73.43	87.15	78.43	85.30
PLN	4.69	4.57	4.68	4.60
USD	1.05	1.18	1.07	1.13
RON	4.93	4.92	4.95	4.95

**Number of national currency units for one euro.*

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December and equal the reference exchange rates of the ECB effective on the last day of the year. Since the end of March 2022, the Bloomberg exchange rate is used to convert the Russian rouble

Sensitivity analysis

A 1% change in the value of these currencies against euro as at 31 December 2022 or 31 December 2021 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 cash and cash equivalents denominated in the local currencies.

€ thousand	Impact on profit or loss before tax			
	2022		2021	
Currency fluctuations	**+1%**	**–1%**	**+1%**	**–1%**
RUB	1,235	-1,235	1,585	-1,585
PLN	414	-414	372	-372
USD	40	-40	407	-407
RON	429	-429	408	-408

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 the Company’s non-current borrowings and investments.

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

In 2022, the Company raised non-current borrowings only from subsidiaries.

Exposure to interest rate risk

€ thousand	31 Dec 2022	31 Dec 2021
Financial instruments at fixed rate of interest	**464,464**	**226,043**
Financial assets	464,464	226,043
Financial liabilities	0	0
Financial instruments at variable rate of interest	**-22,775**	**-54,596**
Financial assets	30,600	472
Financial liabilities	-53,375	-55,068

Analysis of the cash flow's sensitivity by applying the variable interest rate

A 100 basis point increase in the variable interest rate for 2022 would reduce the result by €228 thousand (a decrease of the interest rate by 100 basis point would increase the result by €228 thousand). An increase of 100 basis points in the variable interest rate would reduce the 2021 result by €546 thousand (a decrease of the interest rate by 100 basis points would increase the result by €546 thousand). The analysis, which is carried out in the same way for both years, assumes that all variables, in particular the exchange rate, remain constant.

A detailed schedule of current borrowings is presented below.

Current borrowings

€ thousand	31 Dec 2022	31 Dec 2021
Current borrowings inclusive of current portion of non-current borrowings	53,375	55,068
– Other borrowings	53,375	55,068
Current borrowings exclusive of current portion of non-current borrowings	53,375	55,068
Average balance of current borrowings	54,222	50,693
Interest paid in the financial year	720	280
Other costs of raising current borrowings	0	0
Average effective cost of current borrowings	1.33%	0.55%
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

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 2022 or 2021.

The Company monitors capital using a gearing ratio, which is net debt divided by total net debt plus total equity. Within net debt, the Company includes interest bearing borrowings and trade and other current payables less cash and cash equivalents.

Financial leverage ratio

€ thousand	31 Dec 2022	31 Dec 2021
Borrowings	53,524	55,092
Trade payables and other current liabilities	273,202	371,630
Cash and cash equivalents	470,297	144,981
Net indebtedness	**-143,571**	**281,741**
Equity	2,060,792	1,876,142
Equity and net indebtedness	**1,917,221**	**2,157,883**
Financial leverage (debt/equity) ratio	**-7.5%**	**13.1%**

Fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. The table does not include disclosures about the fair values of financial assets and liabilities not measured at fair value, where the carrying amount is a reasonable approximation of fair value.

	31 Dec 2022		31 Dec 2021	
€ thousand	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial assets				
Loans	56,013		31,010	
Investments at fair value through OCI	15,988	15,988	15,860	15,860
Investments at amortised cost	94,781		93,022	
Current financial assets				
Loans	6,669		195,459	
Investments through profit or loss	0	0	39,970	39,970
Investments at amortised cost	50,697		113,987	
Derivatives	1,740	1,740	1,491	1,491
Trade receivables	357,889		424,588	
Cash and cash equivalents	470,297		144,981	
Non-current financial liabilities				
Trade payables	0		-10,000	
Lease liabilities	-2,909		-2,101	
Current financial liabilities				
Borrowings	-53,524		-55,092	
Lease liabilities	-1,033		-987	
Trade payables excluding advances	-194,143		-178,143	
Contract liabilities excluding advances	-13,094		-13,638	
Liabilities under repurchase transactions (repo-type operations)	0		-102,234	
Other current liabilities excluding amounts owed to the State, to employees and advances	-1,328		-2,046	
Total	**788,043**	**17,728**	**696,127**	**57,321**

In terms of fair value, investments are classified into three levels:

- Level 1 – assets at market price;
- Level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- Level 3 – assets the value of which cannot be determined using observable market data.

There were no transfers between fair value levels in 2022.

Fair value of assets

€ thousand	31 Dec 2022				31 Dec 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Investments at fair value through OCI	14,602	0	1,386	15,988	14,474	0	1,386	15,860
Investments through profit or loss	0	0	0	0	39,970	0	0	39,970
Derivatives	0	0	1,740	1,740	0	0	1,491	1,491
Total assets at fair value	**14,602**	**0**	**3,126**	**17,728**	**54,444**	**0**	**2,877**	**57,321**

31. Related party transactions

Intra-group transactions

Transactions (turnover) with subsidiaries in 2022 are presented below.

€ thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto, Slovenia*	334	656	0	0
KRKA-FARMA d.o.o., Zagreb, Croatia	7,736	27,592	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	104	18,887	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	29,361	4,173	0	0
KRKA-FARMA DOOEL, Skopje, North Macedonia	24,591	1,882	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	56	3,307	0	0
KRKA HELLAS E.P.E., Athens, Greece	16	1,487	0	0
KRKA FARMA, d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	4	480	0	0
Krka-Rus LLC, Istra, Russian Federation	167,101	12,554	0	0
KRKA FARMA LLC, Istra, Russian Federation	146,322	58,225	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	144	12,830	0	0
LLC ´KRKA Kazakhstan´, Almaty, Kazakhstan	20,860	2,896	0	0
KRKA – POLSKA Sp. z.o.o., Warsaw, Poland	30,280	27,480	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	155	12,397	0	0
KRKA Magyarország Kft., Budapest, Hungary	60	10,891	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	297	7,562	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	26	4,613	0	0
SIA KRKA Latvija, Riga, Latvia	21	3,011	0	0
KRKA Finland Oy, Espoo, Finland	12,901	1,706	0	0
TAD Pharma GmbH, Cuxhaven, Germany	71,710	10,854	0	0
KRKA Sverige AB, Stockholm, Sweden	36,354	1,967	0	0
KRKA Pharma GmbH, Vienna, Austria	8,347	1,633	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	17,100	1,942	0	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	12,491	2,767	0	0
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	15,247	7,587	0	0
KRKA France Eurl, Paris, France**	5,954	5,220	0	40
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	8,048	95	0	0
KRKA Belgium, SA, Brussels, Belgium	12,921	771	0	0
KRKA UK Ltd, London, United Kingdom	15,504	773	0	0
123 Acurae Pharma GmbH, Cuxhaven, Germany	913	0	0	485
Ningbo Krka Menovo Pharmaceutical Co. Ltd., China	847	20,126	0	0
KRKA USA LLC, Wilmington, USA	0	7	0	0
Total	**645,805**	**266,371**	**0**	**525**

** Including the subsidiary Golf Grad Otočec, d.o.o.*
*** Including the subsidiary HCS bvba*

The transactions between the Company and the above-mentioned subsidiaries were based on sales contracts, which included rendering products and services at market prices.

Loans received and granted do not include turnover from daily automatic cash pooling.The balance of loans to subsidiaries is presented in Note 13 'Loans', the balance of borrowings from subsidiaries is presented in Note 21 'Borrowings', the balance of receivables due from subsidiaries is presented in Note 17 'Trade receivables' and the balance of current trade payables to subsidiaries is presented in Note 24 'Trade and other payables'.

Data on groups of persons

By the end of the year, members of the Management Board of the Company held 37,040 Krka shares i.e. 0.1129% of total equity or 0.1195% of voting rights.

Members of the Supervisory Board of the Company held 3347 shares i.e. 0.0102% of total equity or 0.0108% of voting rights.

Equity stakes held by Management and the Supervisory Board members of the controlling company and their shares of voting rights

	31 Dec 2022			31 Dec 2021		
	No. of shares	Equity share (%)	Share in voting rights (%)	No. of shares	Equity share (%)	Share in voting rights (%)
Members of the Management Board						
Jože Colarič	22,500	0.0686	0.0726	22,500	0.0686	0.0723
Aleš Rotar	13,915	0.0424	0.0449	13,915	0.0424	0.0447
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
David Bratož	0	/	/	0	/	/
Milena Kastelic	505	0.0015	0.0016	505	0.0015	0.0016
Total Members of the Management Board	**37,040**	**0.1129**	**0.1195**	**37,040**	**0.1129**	**0.1191**
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	/	/	0	/	/
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	/	/
Mojca Osolnik Videmšek	617	0.0019	0.0020	617	0.0019	0.0020
Boris Žnidarič	0	/	/	0	/	/
Members of the Supervisory Board (employee representatives)						
Franc Šašek	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	/	/
Total Members of the Supervisory Board	**3,347**	**0.0102**	**0.0108**	**3,347**	**0.0102**	**0.0108**
Total	**40,387**	**0.1232**	**0.1302**	**40,387**	**0.1232**	**0.1298**

Treasury shares were eliminated from the calculation of voting rights (1,785,849 treasury shares as at 31 December 2022 and 1,683,908 as at 31 December 2021).

Remuneration paid to groups of persons (gross)

€ thousand	31 Dec 2022	31 Dec 2021
Members of the Management Board	4,163	3,560
Member of the Supervisory Board	274	303
Total gross remuneration paid to groups of persons	**4,437**	**3,863**

Remuneration paid to members of the Company`s Management Board included wages and salaries, fringe benefits and any other earnings. For each year, they are shown on a cost basis and therefore differ from the remuneration shown in the Report on Remuneration of the Members of the Management Board and Supervisory Board of the Company for 2022, where they are shown by payments in each year.

Gross earnings paid to persons employed under individual employment contracts in 2022 amounted to €12,571 thousand (2021: €11,919 thousand).

Remuneration paid to Management Board members in 2022

	Salary – fixed part			Salary – variable part		Total	
€ thousand	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Neto
Jože Colarič	521	214	19	849	341	1,370	574
Aleš Rotar	390	165	15	549	221	939	401
Vinko Zupančič	311	132	16	457	184	768	332
David Bratož	333	142	16	449	181	782	339
Milena Kastelic	219	94	13	85	35	304	142
Total remuneration paid to Members of the Management Board	**1,774**	**747**	**79**	**2,389**	**962**	**4,163**	**1,788**

	Net fringe benefits and other earnings						
€ thousand	Executive health insurance	Supplementary pension insurance	Anniversary bonuses	Other bonuses	Refund of work-related costs	Pay for annual leave	Total
Jože Colarič	10.00	2.89	3.18	1.19	0.04	1.92	19.23
Aleš Rotar	5.00	2.89	0.00	3.87	1.02	1.92	14.70
Vinko Zupančič	5.00	2.89	0.00	5.31	0.84	1.92	15.97
David Bratož	5.00	2.89	0.00	5.59	1.03	1.92	16.43
Milena Kastelic	5.00	2.89	1.92	0.06	1.09	1.92	12.88
Total remuneration paid to Members of the Management Board	**30.00**	**14.45**	**5.11**	**16.02**	**4.01**	**9.62**	**79.20**

Remuneration paid to Management Board members in 2021

	Salary – fixed part			Salary – variable part		Total	
€ thousand	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Neto
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
Total remuneration paid to Members of the Management Board	**1,514**	**637**	**48**	**2,046**	**854**	**3,560**	**1,539**

€ 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
Total remuneration paid to Members of the Management Board	**0.00**	**14.10**	**1.34**	**17.77**	**4.17**	**9.90**	**47.28**

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 2022

€ thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	30.00	21.82	1.65	1.20	0.00	0.00	31.65	23.02
Matej Lahovnik	27.75	20.18	2.75	2.00	0.85	0.62	31.35	22.80
Borut Jamnik	28.13	20.46	3.25	2.36	0.00	0.00	31.38	22.82
Julijana Kristl	26.25	19.09	2.59	1.88	0.41	0.30	29.25	21.27
Mojca Osolnik Videmšek	26.25	19.09	3.25	2.36	0.43	0.31	29.93	21.76
Boris Žnidarič	28.13	20.46	2.59	1.88	0.43	0.31	31.15	22.65
Members of the Supervisory Board (employee representatives)							0.00	0.00
Franc Šašek	27.75	20.18	3.25	2.36	0.00	0.00	31.00	22.54
Tomaž Sever	26.25	19.09	2.59	1.88	0.43	0.32	29.27	21.29
Mateja Vrečer	26.25	19.09	2.31	1.68	0.00	0.00	28.56	20.77
Total remuneration paid to Members of the Supervisory Board	**246.76**	**179.46**	**24.23**	**17.60**	**2.55**	**1.86**	**273.54**	**198.92**

In accordance with a resolution adopted at the 27th Annual General Meeting on 8 July 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 NS, 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 Seprvisory 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 2021 and 2022, the members of the Management Board and the Supervisory Board, the employee representatives, did not receive any loans from the Company.

Loans to staff employed under individual employment contracts amounted to €152 thousand at 31 December 2022 (2021: €179 thousand). In 2022, repayments of loans by staff employed under individual employment contracts reached €27 thousand (2021: €26 thousand). The loans to the above-mentioned persons are meant for housing purposes.

32. Situation in Ukraine and the Russian Federation

We conduct our business activities in Ukraine and the Russian Federation, which are part of the Eastern Europe sales region, through three subsidiaries and our controlling company Krka, d.d., Novo mesto.

Krka's subsidiary in Ukraine is only involved in marketing. It does not carry out distribution and production activities and therefore had no receivables from customers outside the Krka Group, but had other assets of €1,658 thousand (2021: €2,492 thousand), the largest item whereof are property, plant and equipment (office premises and vehicles). The Company has no significant exposure to credit risk (Note 30 'Credit risk') and no exposure to foreign exchange risk (Note 30 'Foreign exchange risk'). At the end of 2022, the number of employees in the Ukrainian subsidiary was 367, and at the end of 2021 it was 395. Ukraine is one of the Company's important markets (Note 3 'Revenue from contracts with customers').

We have two subsidiaries in the Russian Federation. Krka-Rus LLC is engaged in the manufacture of pharmaceuticals. It produces the vast majority of all the products we sell on the Russian market. Production there runs smoothly. Krka Farma LLC is engaged in marketing and sales activities. In line with our business continuity plan, we have immediately started to implement the necessary activities to ensure uninterrupted production in the future. The largest increases compared to the previous year are in inventories, property, plant and equipment and cash. As at 31 December 2022, the number of employees in the Russian Federation subsidiaries was 1,925, compared to 1,952 at the end of 2021. The exposure to foreign exchange rate risk is disclosed in Note 30 'Foreign exchange risk'. The Russian Federation is the Company's largest single market (Note 3 'Revenue from contracts with customers').

As at 31 December 2022, the Company's investment in the subsidiary in Ukraine amounted to €9 thousand and the investments in the subsidiary in the Russian Federation totalled to €134,086 thousand. In 2022, the Company did not increase its investments in its subsidiaries in Ukraine and the Russian Federation. The Russian-Ukrainian situation has increased uncertainty, which has also resulted in a significant increase in the weighted average cost of capital (discount rate), which management has determined to be an indicator of impairment. After performing an impairment test, it was concluded that there was no need for impairment (Note 12 'Investments in subsidiaries').

As at 31 December 2022, the Company recorded €162 thousand of receivables from customers and subsidiaries in Ukraine (2021: €39,194 thousand), whereof €30 thousand from the subsidiary (2021: €35 thousand) and €132 thousand from customers outside the Krka Group (2021: €39,159 thousand). As for the Russian Federation, the Company recorded €143,005 thousand of receivables due from customers and subsidiaries (2021: €160,340 thousand), whereof €142,674 thousand to subsidiaries (2021: €156,935 thousand) and €331 thousand from customers outside the Krka Group (2021: €3,405 thousand) (Note 30 'Credit risk'). The exposure to exchange rate risk is outlined in Note 30 'Foreign exchange rate risk'.

In 2022, all payments between the subsidiaries in the Russian Federation and the controlling company were made without specificity. The payment of dividends from companies in the Russian Federation is not prohibited, but it is subject to conditions or lengthy procedures. Special requests are required, which are treated by the Russian government (Ministry of Finance) in accordance with the going concern principle in relation to the subsidiary that is to pay the dividends. Given that these are pharmaceutical companies, we consider that the Russian Federation has an interest in their continued operation.

33. Educational structure of employees

	2022		2021	
	Average headcount	Share (%)	Average headcount	Share (%)
PhD	170	2.7	169	2.7
MSc	264	4.2	268	4.3
University education	2,015	32.2	1,947	31.4
Higher professional education	871	13.9	846	13.7
Vocational college education	263	4.2	257	4.1
Secondary school education	1,900	30.4	1,905	30.7
Skilled workers	697	11.2	716	11.5
Unskilled workers	74	1.2	96	1.6
Total (average for the year)	**6,254**	**100.0**	**6,204**	**100.0**

34. Transactions with the audit firms

The contract value of auditing the financial statements performed in 2022 by the audit firm KPMG Slovenija, d.o.o. was €118 thousand and includes the verification of the compliance of the electronic financial statements with the requirements of the Delegated Regulation No 2019/815 on a single electronic reporting format (ESEF). KPMG Slovenija also performs the verification of the Report on Remuneration of Members of Management and Supervision, which has to be verified in accordance with the requirements of the legislation. The contract value of verifying the Report on the Management Board's remuneration amounted to €9 thousand.

The contract value of the audit services performed in 2021 by the audit firm ERNST & YOUNG, Revizija, poslovno svetovanje, d.o.o. was €118 thousand.

The cost of the audit performed by ERNST & YOUNG in 2022 was €71 thousand (2021: €114 thousand) and the cost of the audit performed by KPMG Slovenija was €54 thousand (no such cost in 2021).

35. Repurchase of treasury shares

Repurchase of Krka treasury shares in 2022 by date

Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)
3 Jan 2022	1,089	118.69	129	22 Aug 2022	925	99.87	92	29 Sep 2022	1,372	85,97	118
4 Jan 2022	1,073	118.38	127	23 Aug 2022	849	99.14	84	30 Sep 2022	1,374	85,89	118
5 Jan 2022	981	119.61	117	24 Aug 2022	787	98.36	77	3 Oct 2022	1,529	86,12	132
6 Jan 2022	735	119.35	88	25 Aug 2022	898	99.57	89	4 Oct 2022	1,131	87,02	98
7 Jan 2022	989	118.19	117	26 Aug 2022	941	99.07	93	5 Oct 2022	1,524	88,84	135
10 Jan 2022	800	117.94	94	29 Aug 2022	511	98.21	50	6 Oct 2022	1,100	89,93	99
11 Jan 2022	1,002	119.19	119	30 Aug 2022	846	98.78	84	7 Oct 2022	1,781	90,11	160
12 Jan 2022	688	119.19	82	31 Aug 2022	852	98.86	84	10 Oct 2022	1,802	89,64	162
28 Jan 2022	1,085	115.03	125	1 Sep 2022	876	98.43	86	11 Oct 2022	1,646	90,11	148
31 Jan 2022	1,329	115.61	154	2 Sep 2022	450	97.98	44	12 Oct 2022	475	90,58	43
1 Feb 2022	1,392	115.94	161	5 Sep 2022	885	96.10	85	13 Oct 2022	1,902	90,36	172
2 Feb 2022	1,466	115.22	169	6 Sep 2022	932	95.79	89	14 Oct 2022	779	91,20	71
3 Feb 2022	1,523	115.14	175	7 Sep 2022	400	94.55	38	17 Oct 2022	1,919	91,06	175
4 Feb 2022	1,563	114.73	179	8 Sep 2022	962	93.90	90	17 Nov 2022	1,053	96,51	102
9 Feb 2022	1,562	115.33	180	9 Sep 2022	1,022	94.59	97	18 Nov 2022	454	98,51	45
10 Feb 2022	1,581	114.28	181	12 Sep 2022	601	93.30	56	21 Nov 2022	1,234	98,14	121
11 Feb 2022	1,182	114.28	135	13 Sep 2022	855	93.95	80	22 Nov 2022	1,269	95,88	122
14 Feb 2022	1,649	110.80	183	14 Sep 2022	324	92.55	30	23 Nov 2022	695	94,32	66
21 Jul 2022	1,275	95.42	122	15 Sep 2022	734	93.67	69	24 Nov 2022	1,244	94,78	118
22 Jul 2022	1,196	96.09	115	16 Sep 2022	1,037	93.05	96	25 Nov 2022	1,247	94,59	118
25 Jul 2022	1,349	96.65	130	19 Sep 2022	1,166	92.86	108	28 Nov 2022	919	92,75	85
26 Jul 2022	1,228	96.91	119	20 Sep 2022	946	92.53	88	29 Nov 2022	210	94,15	20
27 Jul 2022	1,328	97.47	129	21 Sep 2022	1,153	92.18	106	30 Nov 2022	1,402	93,90	132
28 Jul 2022	1,338	97.54	131	22 Sep 2022	1,161	91.73	106	1 Dec 2022	1,426	93,93	134
16 Aug 2022	1,094	99.36	109	23 Sep 2022	1,105	90.85	100	2 Dec 2022	1,417	94,15	133
17 Aug 2022	967	99.88	97	26 Sep 2022	1,147	88.82	102	5 Dec 2022	1,003	94,49	95
18 Aug 2022	874	99.96	87	27 Sep 2022	1,216	87.64	107	6 Dec 2022	350	94,44	33
19 Aug 2022	350	99.96	35	28 Sep 2022	1,319	86.53	114	7 Dec 2022	1,377	94,69	130

Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	No. of shares	Average share price (€)	Value of treasury shares (€ thousand)
8 Dec 2022	1.374	94.86	130	14 Dec 2022	590	93.32	55	20 Dec 2022	985	93,10	92
9 Dec 2022	1.085	94.41	102	15 Dec 2022	975	93.59	91	21 Dec 2022	995	93,14	93
12 Dec 2022	1.074	94.29	101	16 Dec 2022	1,005	93.32	94	22 Dec 2022	973	93,04	91
13 Dec 2022	1.063	93.69	100	19 Dec 2022	600	93.22	56				
								Total purchases in 2022	**101,941**	**98,35**	**10,025**

The average share price includes also the commission paid.

36. Event after the reporting date

The 2022 financial statements were not impacted by the event after the end of the period.

Acquisition of treasury shares

From 1 January 2023 to 20 March 2023, we acquired 25,852 of treasury shares. At the end of this period, Krka held 1,811,701 treasury shares (5.525% of total shares).

Independent Auditor's Report

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Independent Auditors' Report

To the Shareholders of KRKA, tovarna zdravil, d. d., Novo mesto

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of KRKA, tovarna zdravil, d. d., Novo mesto (the "Company"), which comprise:

- the separate statement of financial position as at 31 December 2022;

and, for the period from 1 January 2022 to 31 December 2022:

- the separate statement of profit or loss;
- the separate statement of other comprehensive income;
- the separate statement of changes in equity;
- the separate statement of cash flows;

and

- notes, comprising significant accounting policies and other explanatory information.

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

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Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (OJ L 158, 27.5.2014, p. 77-112 - EU Regulation EU No 537/2014). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the following key audit matters:

Impairment testing of investments in subsidiaries operating in the Russian Federation

The carrying amount of the investment in Krka-Rus is EUR 118,916 thousand (2021: EUR 118,916 thousand) and the carrying amount of the investment in Krka Farma is EUR 15,170 thousand (2021: EUR 15,170 thousand).

We refer to the separate financial statements: Note 12 Investments in subsidiaries (disclosures); Note 32 Situation in Ukraine and the Russian Federation (disclosures).

Key audit matter	Our response
The Company holds investments in the subsidiaries which operate in the Russian Federation. In the separate financial statements, the investments are carried at cost less impairment losses, if any. As at each reporting date, management assesses whether indicators of impairment exist. The Russian-Ukrainian war has increased uncertainty, resulting in a substantial increase in the weighted-average cost of capital (discount rate) which was identified as impairment indicator by management. If impairment indicators are identified, management estimates the investments' recoverable amounts, by reference to the discounted cash flows methods for relevant cash generating units. The determination of the recoverable amount involves significant management judgement and estimates, in particular, in respect of the assumptions such as future sales, operating	Our audit procedures in this area included, among others: • involving our own valuation specialist to assist us in evaluating the appropriateness of the discount rates applied, which included comparing the weighted-average cost of capital with sector averages for the relevant markets in which the subsidiaries operate; • evaluating the appropriateness of the assumptions applied to key inputs such as sales, operating costs, and long-term growth rates, which included comparing these inputs with historical data, where possible with externally derived data as well as our own assessments based on our knowledge of the entities and the industry; and • evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.

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costs, terminal value growth rates and the weighted-average cost of capital (discount rate). In the wake of the above, we considered impairment of the investments in subsidiaries operating in the Russian Federation to be a key audit matter.	

Revenue recognition

The carrying amount of revenue as at 31 December 2022: EUR 1,553,514 thousand (31 December 2021: EUR 1,381,367 thousand).

We refer to the separate financial statements: Note 3 Revenue from contracts with customers (disclosures); Note 25 Current contracts liabilities (disclosures).

Key audit matter	**Our response**
Revenue is recognised at the point in time when control of the asset is transferred to the customer. Revenue is measured taking account of discounts and rebates. Due to the multitude of contractual terms, calculation of discounts and rebates is considered to be complex. Revenue is one of the key performance indicators for the Company, which could create an incentive for revenue to be recognised before the point in time when control of the assets is transferred to the customer or at the amount that is not measured in accordance with contractual terms. In the wake of the above we considered revenue recognition to be a key audit matter.	Our audit procedures in this area included, among others: • testing the design and implementation of Company's controls over recognition of revenue including controls over discounts and rebates; • selecting and testing a sample of sale transactions throughout the period with particular focus on sale transactions close to the turn of the year to assess whether revenue was allocated to appropriate period and measured in accordance with the contractual terms by reference to underlying source documentation supporting revenue recognition and/or completeness of discounts and rebates, • inspecting a sample of credit notes issued after the year end to assess completeness of rebates, and • evaluating the adequacy of the financial statement disclosures.

Other Matter

The separate financial statements of the Company as at and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 March 2022.

Other Information

Management is responsible for the other information. The other information comprises the "Management Report", the "Report of Supervisory Board", the "Business Report" and the "Sustainability report" included in the Annual Report but does not include the separate financial

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statements and our auditor's report thereon. Other information was obtained prior to the date of this auditors' report, except for the Report of the Supervisory Board, which will be available after that date.

Our opinion on the separate financial statements does not cover the other information and 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.

With respect to the Business Report, we considered whether the Business Report includes the disclosures required by the Company's Act dated 4 May 2006 (official gazette of Republic of Slovenia No. 42/2006 with amendments - hereafter referred to as "the applicable legal requirements"). Based solely on the work required to be undertaken in the course of the audit of the separate financial statements and the procedures above, in our opinion, in all material respects:

- the information given in the Business Report for the financial year for which the separate financial statements are prepared, is consistent with the separate financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in other information that we obtained prior to the date of this auditors' report. We have nothing to report in this respect.

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

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

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and EU Regulation (EU) No 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs and EU Regulation (EU) No 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

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error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by the shareholders of the on the shareholders meeting dated 7 July 2022 to audit the separate financial statements of the Company for the year ended 31 December 2022. Our total uninterrupted period of engagement is 1 year.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 28 March 2023;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the Company in conducting the audit.

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Independent auditor's report on the compliance of the electronic financial statements with the delegated regulation 2019/815 on a single electronic reporting format

We have conducted an engagement to provide reasonable assurance as to whether the audited separate financial statements of the Company, for the financial year ended 31 December 2022 ('Audited Separate Financial Statements') have been prepared in accordance with requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 on supplementing the Directive 2004/109/EC of the European Parliament and the Council with regard to regulatory technical standards for establishing a single electronic reporting format applicable for the year 2022 ("Delegated Regulation").

Responsibility of the Management and Those Charged with Governance

Management is responsible for the preparation and presentation of the electronic Audited Separate Financial Statements in accordance with the Delegated Regulation, and for such internal control as management determines is necessary to enable the preparation of the electronic Audited Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the preparation of the electronic Audited Separated Financial Statements in compliance with requirements of the Delegated Regulation.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the electronic Audited Separate Financial Statements are prepared in accordance with requirements of the Delegated Regulation. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform the engagement to obtain reasonable assurance on whether the opinion is appropriate. We have acted in accordance with the independence and ethical requirements of the EU Regulation 537/2014 and the International Code of Ethics for Accounting Professionals issued by the International Ethics Standards Board for Accounting Professionals. The Code is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional conduct.

The firm applies International Standard on Quality Management 1 which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of Work Performed

Within the scope of our work, we performed the following audit procedures:

- identified and assessed the risks of material non-compliance of the electronic Audited Separate Financial Statements with the requirements of the Delegated Regulation, whether due to error or fraud;
- obtained an understanding of internal control relevant to the engagement in order to provide reasonable assurance for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- assessed whether the electronic Audited Separate Financial Statements are prepared in a correct XHTML format.

We believe that the evidence obtained provides a sufficient and appropriate basis for our opinion.

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Opinion

Based on the procedures performed and the evidence obtained, the Audited Separate Financial Statements of the Company for the financial year ended 31 December 2022 are in our opinion prepared, in all material respects, in accordance with the requirements of the Delegated Regulation.

On behalf of audit firm

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Matej Ušaj
Certified Auditor

Domagoj Vuković, FCCA
Certified Auditor
Partner

Ljubljana, 28 March 2023

KPMG Slovenija, d.o.o.
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SIGNING OF THE 2022 ANNUAL REPORT AND ITS CONSTITUENT PARTS

President and members of Krka's Management Board are aware of the content of the integral parts of the 2022 Annual Report of Krka and the Krka Group, and hence the 2022 Annual Report in its entirety. We hereby acknowledge the Report by our signatures.

Jože Colarič
President of the Management Board and CEO

dr. Aleš Rotar
Member of the Management Board

dr. Vinko Zupančič
Member of the Management Board

David Bratož
Member of the Management Board

Milena Kastelic
Member of the Management Board – Worker Director