

2021 Supervisory Board Report of Krka, d. d., Novo mesto¹

Dear Shareholders and Stakeholders,

I am pleased to announce that in 2021 the Krka Group achieved its highest sales revenue to date and highest net profit in its 67-year history, despite the pandemic. Krka (hereinafter also referred to as 'the Company' and 'controlling company') delivered strong business performance due to its vertically integrated business model, quality and innovative products, and employees' good work in all areas and levels of management and supervision. During the pandemic, Krka retained a solid financial structure based on equity, while cash flow from operating activities allowed for strong liquidity of the Krka Group. In 2021, the Management and the Supervisory Boards updated the development strategy. Especially in 2022 and 2023, Krka is adding new products into the current business model, investing in vertical integration, expanding business operations, and additional activities in sustainability management. In December 2021, Krka received the Prime Market Share of the Year Award by the Ljubljana Stock Exchange for the fourth year in a row. It also won the Best Investor Relations Award for the third consecutive time.

Below, I outline our work in 2021 on behalf of the members of the Supervisory Board.

Work of the Supervisory Board

Krka's Supervisory Board has nine members. As at 31 December 2021, the shareholder representatives were Prof. Dr Julijana Kristl, President of the Supervisory Board Jože Mermal, Deputy President of the Supervisory Board Prof. Dr Matej Lahovnik, Dr Boris Žnidarič, Borut Jamnik, and Mojca Osolnik Videmšek. The employee representatives were Deputy President of the Supervisory Board Franc Šašek, Dr Mateja Vrečer, and Tomaž Sever. In 2021, Krka's Supervisory Board was composed of three women and six men, all with diverse qualifications, work experience, age profiles, and fields of work. The Supervisory Board members range in age from 50 to 73 years. Their knowledge is wide-ranging and covers various fields, including pharmacy, chemistry, law, economics, mathematics, social sciences, mechanical engineering, organisational sciences, and management. They have managed and supervised many companies, organisations, and processes throughout their careers. More information about the composition of the Supervisory Board is available in the 'Corporate Governance Statement' section, table 'Composition of the Supervisory Board of Krka as at 31 December 2021'.

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

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

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

¹The Supervisory Board of Krka, d. d., Novo mesto approved the *2021 Annual Report* and the *2021 Supervisory Board Report of Krka, d. d., Novo mesto* at their regular meeting of 6 April 2022. The official version of the report is in the European Single Electronic Format (ESEF), in compliance with the Regulation (EU) 2019/815 and Paragraph 1 of Article 134 of the *Market in Financial Instruments Act (ZTFI-1)*. This version was approved by auditors on 28 March 2022 and is published on SEOnet, the official electronic information dissemination system of the Ljubljana Stock Exchange. Hence, the *2021 Supervisory Board Report of Krka, d. d., Novo mesto* is published as a separate document, contrary to previous years.

In 2021, the Supervisory Board members met at six regular meetings and discussed 56 agenda items. Members of the Supervisory Board committees met ten times and discussed 43 agenda items, which they reported and advised on to the Supervisory Board.

The Supervisory Board discussed Krka's past and current operations, financial and business risks, work during the pandemic, human resource issues, investments and products, and monitored strategy implementation. Together with the Management Board, we discussed and agreed on the updated 2022–2026 strategy and the 2022 business and financial plan. We monitored Krka's strengths, weaknesses, risks, and business opportunities recorded in the reports of the professional community and analysts. We compared Krka's operations with those of competitors and received regular updates on new developments in the Company, the pharmaceutical industry, and the business environment. We also evaluated the work of the Management Board. We prepared a proposal for the appropriation of distributable profit and materials for the Annual General Meeting (hereinafter: AGM) together with the Management Board. In the second half of 2021, we also discussed virtual AGMs, which have been permitted under Krka's *Articles of Association* since 2021. In 2021, we continued to improve our work, conducted a self-assessment, and adopted an action plan for further improvements.

Key Areas Discussed at Supervisory Board Meetings in 2021

Annual Report

In 2021, the Supervisory Board examined the *2020 Annual Report* of Krka and the Krka Group within the statutory time frame and discussed the independent auditor's report issued by the audit firm Ernst & Young d. o. o., Ljubljana. The report stated the financial statements, which form part of the annual report, presented fairly, in all material respects, the financial position of Krka and the Krka Group, their financial performance, and their cash flows in accordance with the *International Financial Reporting Standards* (hereinafter: IFRS) as adopted by the European Union.

We were briefed on the Company's and external auditor's activities concerning preparation of the financial statements in the European Single Electronic Format (hereinafter: ESEF). The statutory auditor Ernst & Young Revizija, poslovno svetovanje, d. o. o. reviewed the Company's reporting in the format complying with the Commission Delegated Regulation (EU) 2019/815 and confirmed it is appropriate.

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

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

Interim Results

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

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

Supervision of Krka Group Subsidiary Performance

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

The Management Board reported to the Supervisory Board on the business model of subsidiaries, their performance, and all significant accounting information, especially the book value of Krka investments in them, the number of employees,

the value of inventories, assets, equity, the amount of operating income and expenses, operating profit or loss, and net operating results.

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

2022–2026 Krka Group Development Strategy

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

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

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

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

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

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

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

2022 Krka Group Business Plan

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

The plan included detailed information about sales by region and product group, new products, planned investments in research and development, purchase of fixed assets and investments, employment plan, and projections of business results. The 2022 business plan is based on the 2022–2026 development strategy.

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

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

Convening and Holding Annual General Meeting

The Supervisory and the Management Board drafted the agenda and materials for the AGM of 8 July 2021 and prepared a proposal for the appropriation of distributable profit. The Supervisory Board proposed that the AGM discharge the Management and Supervisory Boards of liability for the previous year.

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

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

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

Investments

The Management Board reports to the Supervisory Board on operations and investments in their quarterly and annual business reports. Once a year, the Management Board prepares a detailed overview of major investments and reports on the work progress, fulfilment of deadlines, and budgeted cost and accounting value of investments. They also review photographs, diagrams, and other presentations of construction sites and buildings.

In 2021, the Supervisory Board members discussed a capacity increase in Krka's main production plant, Notol 2. The investment refers to Packaging Room 2 (Slovene: Pakirnica 2) and includes refurbishing and refitting rooms for additional packaging lines. We were also briefed about the works to expand bulk product manufacturing capacities at Notol 2, the increase in production capacities at the Krka-Rus subsidiary, the new raw material warehouse in Krško, and capacity increase at the Solid Dosage Form Production Plant (Slovene abbreviation: OTO). Investments during 2021 lagged behind the plan due to the impact of the COVID-19 pandemic on the execution of works. Krka intends to get the investment plan back on track as soon as possible, together with the contractors.

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

Risks

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

When discussing interim reports, the Management Board briefed the Supervisory Board on potential market and regional risks, such as measures taken by authorities or regulatory bodies in individual countries. Pandemic restrictions made working conditions more demanding in most countries. Employees, particularly in marketing, were faced with difficulties. Production processes, development, supply chain, and quality control ran relatively smoothly owing to measures introduced by governments to curb the pandemic. When unable to be carried out as usual, Krka organised some of the activities digitally, e.g. business partner meetings, promotional activities, self-inspections and internal audits, internal meetings, and events for external participants.

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

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

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

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

Since the Krka Group performed well and had no debts, liquidity risks remained very low in 2021. With the help of the cash-pooling system, the controlling company regularly covered the short- and long-term needs of subsidiaries for financial assets and absorbed their surplus.

During the discussion of interim performance results, the Management Board briefed the Supervisory Board on currency risks. The sales-side exposure to the Russian rouble was the Group's main exposure in 2021, followed by the US dollar exposure on the purchase side, which was significant. Krka's key policy remains mitigating foreign exchange risks by natural methods. It also uses forward contracts. In 2021, the Company continued its policy of partial hedging against the Russian rouble and US dollar through the use of forward contracts.

Business Trends in Pharmaceutical Industry and Analytical Reports on Krka

In 2021, Krka operations were monitored by one Slovenian and five foreign financial analysts from banks or financial companies and by internal analysts of large owners. As in previous years, the Supervisory Board was briefed about the findings of external analysts, fair value assessments of Krka shares, the Company's strengths and weaknesses, and market opportunities and dangers. It also discussed current information about the pharmaceutical industry.

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

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

Benchmarking Krka Performance Against Comparable Companies

The Supervisory Board regularly compares Krka's operations with those of its competitors. In 2021, the Supervisory Board learnt about the performance of the Krka Group compared to other generic pharmaceutical companies, in particular Gedeon Richter, Stada, Lek, and Hikma. We analysed sales, their structure by region and product group, gross profit, operating profit (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA), profit before tax and profit for the period, margins, ROE and ROA ratios, cost structure, statement of financial position, and share price ratios.

In 2021, Krka consistently ranked highly vis-à-vis competitors in terms of all ratios, especially the EBITDA margin and ROE ratio.

Works Council Report on Worker Participation in Management

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

In the report's conclusion, the Works Council members disclosed they had worked well with Krka's Management Board, their President, the Worker Director, relevant departments, both unions, and internal employee representatives on the Supervisory Board. They were effective in addressing day-to-day employee issues and kept employees regularly briefed about the situation in the Company. The members were involved in humanitarian projects and encouraged employees to develop good relationships and teamwork. They took part in a workplace health campaign. Together with Health and Safety at Work, the Works Council periodically analysed occupational injuries and were actively involved in finding solutions to improve traffic safety.

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

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

Based on the report, the President of the Works Council believed the organisational climate, employee engagement, and employee satisfaction were at a high level, and the employees trusted the management. The members of the Supervisory Board were presented with the report and had no comments on it.

Sustainability Management

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

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

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

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

Cooperation with Internal Audit

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

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

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

Management Board Performance and Remuneration

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

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

Quantitative criteria included growth in sales value and volume, increased cash flows from operating activities and operating profit, return on equity, and dividends. Qualitative criteria included activities in new indication areas,

implementation of new requirements, e.g. related to quality, regulatory, and other areas, entry into new markets, new product launches, corporate social responsibility, Krka's reputation, investor and public relations, as well as the areas of information technology, investments, and human resources. The report to the Supervisory Board also contained detailed information on charity and volunteering, support to healthcare institutions, sports, cultural, research and educational activities, and protection of the natural environment.

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

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

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

Shares and Shareholders' Structure

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

Every quarter, the Supervisory Board obtained up-to-date information about shares and reviewed the report on the acquisition of treasury shares, the shareholders' structure, share trading, and the Company share price. In 2021, no major changes occurred in the shareholders' structure. The Company regularly purchased treasury shares in line with the provisions of the relevant legislation and bye-laws.

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

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

Appointing Management Board Members for Next Term of Office

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

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

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

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

with his proposal for the Management Board composition in the next term of office and with the proposal of the Works Council.

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

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

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

Supervisory Board Participation in Examining Options for Virtual Annual General Meetings

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

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

Following New Developments in Production of COVID-19 Vaccines

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

Krka specialises in the development, production, and marketing of solid dosage forms, especially tablets, coated tablets, capsules, and also sterile products. From the aspect of pharmaceutical, labour protection, and environmental regulations, vaccines are a specific group of sterile products, so their production requires dedicated, separate plants and special procedures for work with raw materials and destruction of waste materials and media. For these reasons, Krka does not develop or produce COVID-19 vaccines. However, the Company still follows the developments in the field and maintain contacts with stakeholders and other manufacturers.

Strengthening Good Practice in Supervisory Board Performance

In 2021, using the methodology of the Slovenian Directors' Association, the Supervisory Board conducted a regular annual self-assessment. The members submitted the completed questionnaires to the Secretary, based on which the Secretary and the President of the Supervisory Board prepared a report. The average score was 3.8 out of 4, the same as last year. The scores demonstrate that the Supervisory Board performance meets the highest standards.

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

Review of Related Party Transactions

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

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

Harmonising Remuneration of Supervisory Board Members with Updated Good Practice Recommendations

On 18 March 2021, the revised *Corporate Governance Code* drawn up by Slovenian Sovereign Holding was published. In accordance with this *Code* and at the proposal of the Supervisory Board, the remuneration system for Supervisory Board members was updated at the 27th AGM of 8 July 2021. The basic remuneration for work on the Supervisory Board decreased by €500 to €15,000 per year. The AGM resolution also provides for additional payments in the case of extensive, highly demanding tasks or objective circumstances at the Company. Additional payments for specific duties in a year may amount to up to 50% of the basic remuneration for the performance of the function of a Supervisory Board member. An additional payment may also be made for past tasks, but only for the last financial year.

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

Corporate Events

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

Work of Supervisory Board Committees

The Audit Committee and the Human Resource Committee deal with accounting, auditing, finance, and human resource issues in detail, advise and report to the Supervisory Board. However, the decision-making remains the remit of the Supervisory Board. In 2021, the Supervisory Board agreed with the opinions tendered by both Committees regarding the items they reported and advised on.

The ensuing sections detail the Committees' work.

Audit Committee

In 2021, the Audit Committee met six times and discussed 29 agenda items. The President of the Audit Committee is Borut Jamnik, and its members are Dr Matej Lahovnik, Mojca Osolnik Videmšek, Franc Šašek, and Borut Šterbenc.

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

The Audit Committee invited the President of the Management Board, the member of the Management Board responsible for economics, finance, and IT, and the Head of Internal Audit to all its meetings. The President of the Supervisory Board may attend the meetings at his discretion. The Supervisory Board Secretary attends all meetings. In 2021, two representatives of the audit firm, Ernst & Young d. o. o., Ljubljana, also attended two meetings: the audit partner and audit coordinator of the annual report.

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

Annual Report

In 2021, the Committee discussed the *2020 Annual Report of Krka and the Krka Group*, the auditor's report, and the 2020 Supervisory Board report, and proposed the Supervisory Board approve them. The audit partner and coordinator from the external audit firm Ernst & Young d. o. o., Ljubljana reported twice to the members of the Committee on the audit procedures.

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

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

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

Interim Results

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

Cooperation with External Auditor

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

In August 2021, the Audit Committee started preparing for the audit of the *2021 Annual Report of Krka and the Krka Group*. Every year before the start of the audit, Committee representatives meet with the audit partner and coordinator to agree on the key work areas. They met on 31 August 2021 to review the draft audit plan and the audit team's composition and to agree with the auditors as to which individual work areas would be reviewed in greater detail. Representatives of Krka departments and the Head of Internal Audit also attended the meeting. The Management Board members were not present.

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

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

Annex to the External Auditor Contract

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

Approval of Additional Non-Audit Services by External Auditor

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

Request for Proposals for New External Auditor from 2022 onwards

With the 2021 audit, Ernst & Young, the auditor of Krka's separate and consolidated financial statements, reached the threshold allowed by Regulation (EU) 537/2014. This states that neither the initial engagement of the auditor nor this engagement in combination with all renewed engagements after this may not last more than ten years.

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

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

Cooperation with Internal Auditors

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

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

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

The Committee also discussed the Internal Audit 2022 work plan. In line with good practice, the *International Standards for the Professional Practice of Internal Auditing*, and legislation, the Head of Internal Audit must evaluate any starting points provided by the Audit Committee when preparing the work plan. In light of the positive experience with the Internal Audit and the quality of their work, the Committee members did not change any bases for the work of internal auditors in 2022.

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

Risk Management and Internal Controls

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

Current Topics and Other Reports

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

Human Resource Committee

In 2021, the Human Resource Committee met four times and discussed 14 agenda items. The Committee comprises the President Dr Boris Žnidarič and members Prof. Dr Julijana Kristl, Dr Mateja Vrečer, and Tomaž Sever. The Committee invited the President of the Management Board, the Management Board member responsible for economics, finance, and IT, and the Supervisory Board Secretary to all meetings. The President of the Supervisory Board may attend the meetings at his discretion.

Appointing Management Board for Next Term of Office – Proposals for the Supervisory Board

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

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

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

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

Management Board Remuneration – Proposals for Supervisory Board

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

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

Performance Evaluation of Management and Supervisory Boards

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

The Management Board regularly attended all the meetings of the Supervisory Board in 2021. The President of the Management Board primarily reported and answered questions on behalf of Krka, while individual members provided clarifications or explanations for specific topics.

In 2021, the Supervisory Board discussed the Management Board performance as a separate agenda item twice, i.e. when setting the amount of the variable portion of remunerations. Performance of the Management Board was evaluated based on a model further described in the subsection on the work of the Supervisory Board. The Supervisory Board regularly evaluated the work of the Management Board following each discussion of interim results, compared Krka's performance with that of competitors, and took note of external analysts' opinions about Krka.

The Management Board collected all the necessary data, reports and information on time so that the Supervisory Board could do its work properly. The Management Board responded quickly and efficiently to the resolutions of the Supervisory

Board. The President of the Supervisory Board and the President of the Management Board remained in contact between the meetings, consulted with one another, and examined various topics together. In 2021, the Management and Supervisory Boards cooperated well and to the benefit of the Company. We evaluated the Management Board performance as successful given that Krka outperformed results from previous years despite the pandemic and, in its 67-year corporate history, set an all-time high in sales and profit.

The Supervisory Board members discussed numerous subject areas from this report and supervised Krka's operations diligently throughout the year. We, therefore, evaluated our performance as successful. In accordance with our statutory duty (Article 6.18 of *Articles of Association*), we also signed off on the Company's 2022 plan and its strategy for the next five years.

All members remained independent in their work in 2021. In line with the recommendations of the *Corporate Governance Code for Listed Companies*, we completed statements on independence, which Krka published on its website with the CVs of the Supervisory Board members. Should a conflict of interest arise, the *Rules of Procedure of the Supervisory Board* take precedence. A member must refrain from voting in such cases, while the Supervisory Board may also take other steps.

Krka allocated €320,290 for the work of the Supervisory Board and its committees (remuneration, attendance fees, travel expenses) in 2021, whereas €356,450 were spent. In 2021, the Company paid €7,000 in membership fees to the Slovenian Directors' Association. In addition, Krka incurred costs for leasing the IxtlanBoard application totalling €8,076. There were no other costs or expenses payable to external contracting partners or consultants.

Approval of the Annual Report and Proposal for Appropriation of 2021 Distributable Profit

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

The draft 2021 annual report and the 2021 unaudited financial statements of Krka and the Krka Group were discussed by the Supervisory Board and the Audit Committee at their respective meetings of 16 March 2022. The statutory audit firm, Ernst & Young, d. o. o., Ljubljana, reported to the Audit Committee **on the 2021 audit procedures and findings** on the same day before the meeting of the Supervisory Board.

The members of the Supervisory Board and of the Audit Committee received the **draft 2021 Annual Report and the audited 2021 financial statements of Krka and the Krka Group** on 29 March 2022. They discussed them at their respective meetings of 6 April 2022. Certified auditors reported to the Committee and the Supervisory Board.

The '**Corporate Governance Statement**' forms a part of the *2021 Annual Report*. It illustrates key aspects of governance at Krka, particularly the composition and operations of the Company bodies, external audit, internal controls and risk management related to financial reporting, internal audit, corporate compliance, diversity policy related to representation in the management and supervisory bodies, and governance in the Group. The Supervisory Board had no comments on this statement.

Based on the review of the draft annual report and reports from the audit firm and Audit Committee, the Supervisory Board assessed that the Management Board's annual report gave a true and fair account of the events and presented a comprehensive view of Krka and Krka Group 2021 performance, and provided detailed information that was otherwise regularly sent to the Supervisory Board throughout the financial year. As the Supervisory Board had no comments or reservations about the draft annual report, the audit firm report, and the Audit Committee report, it unanimously approved the *2021 Annual Report* at their meeting of 6 April 2022. **The annual report was thereby formally adopted in accordance with Article 282 of the Companies Act and Krka's Articles of Association.**

Together with the annual report, the Supervisory Board also approved **the proposal for the appropriation of distributable profit**. In 2021, the Company generated profit of €245,216,436.23, of which €15,261,862.79 was allocated to reserves for treasury shares and €0.00 to other profit reserves. The remaining profit of €229,954,573.44 and retained earnings of €88,670,552.72 comprised distributable profit, which amounted to €318,625,126.16 as at 31 December 2021.

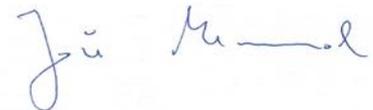
The Management Board and the Supervisory Board proposed to the AGM that distributable profit be appropriated as follows:

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

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

Conclusion

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



Jože Mermal
President of the Supervisory Board