

2022 Supervisory Board Report of Krka, d. d., Novo mesto¹

Dear shareholders and stakeholders,

I am pleased to inform you on behalf of the Supervisory Board of Krka, d. d., Novo mesto (hereinafter also 'the Company' and 'controlling company') that in 2022 Krka further increased sales and net profit on 2021, recording its best results in 68 years of business, notwithstanding the fact that business conditions remained complex throughout the year. Prices of energy supplies, materials, and technological equipment soared, while lack of certainty and supply chain interruptions on sales and purchasing markets needed prompt addressing. Many companies also encountered recruitment challenges as the most successful and qualified personnel were hard to attract. Krka employs highly motivated and qualified personnel at all management levels. The Management and Supervisory Boards successfully weathered several challenges and grew the business in all areas. The Company's vertically integrated business model once again proved one of its greatest competitive advantages. Based on market analyses, Krka independently develops products and the required raw materials, manufactures them to a large extent, guarantees their quality, and sells and markets them through 48 subsidiaries and representative offices abroad. Krka self-finances its business growth, which proved particularly beneficial during the economic turbulence of 2022.

On behalf of the members of the Supervisory Board, I outline our work in 2022 below.

Work of the Supervisory Board

The Supervisory Board of Krka has nine members. As at 31 December 2022, 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. The Supervisory Board was composed of three women and six men, all with diverse qualifications, work experience, age profiles, and fields of work. Their age ranged from 51 to 74 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. Detailed information about the composition of the Supervisory Board is in the 'Corporate governance statement' section, table 'Composition of Supervisory Board of Krka as at 31 December 2022'.

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 2022, there were no differences of opinion about any items on the agenda.

We received all requisite data, reports, and information in 2022. Krka's departments provided technical and organisational support to us. A secure digital platform, *IxtlanBoard*, developed by a Slovenian company Ixtlan, was used throughout the year to disseminate materials and work support. The Management Board sent the materials seven days before each Supervisory Board meeting.

The members regularly attended the meetings and actively participated in them. Further information is available in the 'Corporate governance statement' section, table 'Composition of Supervisory Board of Krka as at 31 December 2022'. The Supervisory and Management Board members and the Supervisory Board Secretary were present at the meetings. External auditors (the audit partner and an audit coordinator) attended the meetings as rapporteurs when adopting the annual report. The Head of Internal Audit also attended meetings as a rapporteur when mandatory topics concerning internal audit were on the agenda.

¹ The Supervisory Board of Krka, d. d., Novo mesto (approved the 2022 Annual Report and the 2022 Supervisory Board Report of Krka, d. d., Novo mesto at their regular meeting of 5 April 2023. The official version of the report is in Slovenian language 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). It was approved by auditors on 28 March 2023 and is published on SEOnet, the official electronic information dissemination system of the Ljubljana Stock Exchange. Hence, the 2022 Supervisory Board Report of Krka, d. d., Novo mesto is published as a separate document, contrary to previous years.

In 2022, the Supervisory Board members met at seven regular meetings and discussed 63 agenda items. Members of the Supervisory Board committees met nine times and discussed 45 agenda items, which they reported and advised on to the Supervisory Board. All Supervisory Board meetings and its committees were held in person at the registered office of Krka.

The Supervisory Board discussed Krka's past and current operations, financial and business risks, conditions on sales and purchase markets, work during the pandemic, human resource issues, investments and products, and monitored strategy implementation. We discussed the 2023 business and financial plan with the Management Board and approved it. 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, pharmaceutical industry, and 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 first half of 2022, we thoroughly investigated the pros and cons of AGM assemblies held online. The *Articles of Associations* made this option possible in July 2021. Our supervisory role in the year's second half was to focus on upgrading the Krka Group sustainable business system, and we intend to address the issue in greater detail in the future. The Supervisory Board was constantly improving its work in compliance with good practice and company requirements. We adopted new developments from the updated *Corporate Governance Code for Listed Companies* (hereinafter: the *Code*) that entered into force on 1 January 2022, conducted a self-assessment, and drew up a plan for further improvements accordingly.

Key issues for discussion at Supervisory Board meetings in 2022

Annual report

In 2022, the Supervisory Board examined the *2021 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 that the financial statements, which form a part of the annual report, presented fairly, in all material respects, the financial position of Krka and the Krka Group, their financial performance, and 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 in preparing the financial statements in the European Single Electronic Format (hereinafter: ESEF). The statutory auditor Ernst & Young reviewed the Company's reporting in the format complying with *Commission Delegated Regulation (EU) 2019/815* and confirmed its relevance.

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

In April 2022, we also compiled and adopted our 2021 activity report. Together with the Management Board, we drew up the 'Corporate governance code compliance statement' on the Company's compliance with the *Code*, which the Slovenian Directors' Association and the Ljubljana Stock Exchange adopted.

We included comprehensive GRI standard indicators and certain SASB standard indicators for pharmaceutical industry in the annual report. We also identified major sustainable development goals of the United Nations to which we contribute the most by our business operations.

On 24 November 2022, the Slovenian business daily *Finance* held a contest for best annual report. Krka received the highest award in the large company category for the eighth time.

Interim results

The Supervisory Board discussed 2022 first-quarter, half-year, and nine-month performance reports for Krka and the Krka Group. The Audit Committee reviewed the accounting and financial aspects of interim results and financial risks and briefed the Supervisory Board on all interim reports. As part of the analysis of interim results, the Audit Committee and the Supervisory Board received information about business processes and risk management.

The Krka Group's revenue and net profit in the first quarter, half year, and nine months of 2022 were higher than in the comparable periods a year ago, and the Group generated record revenue and net profit. The uncertain business climate

required all employees to work even more quickly and flexibly to achieve such good results. Favourable foreign exchange rates also bolstered strong interim results.

Supervision of Krka Group subsidiary performance

There were no issues of note concerning operations at subsidiaries in 2022. Krka registered a subsidiary in the United Arab Emirates in September 2022, increasing the year-end count to 32 subsidiaries and 16 representative offices registered abroad. Krka has one subsidiary in Slovenia, i.e. Terme Krka.

Krka acts as the controlling company and performs all business functions. Subsidiaries produce, distribute, and market medicines abroad. An individual company performs one more function. The Slovenian subsidiary Terme Krka provides health-resort and tourist services.

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

2023 Krka Group business plan

At the November 2022 meeting, the Supervisory and Management Boards members discussed the 2023 business plan for the Company and the Krka Group. It was prepared by the Management Board and approved by the Supervisory Board (Item 6.18 of the *Articles of Association*).

In 2023, we expect Krka Group's sales of products and services to reach €1,755 million, and exports to account for 94% of total sales. Prescription pharmaceuticals, accounting for an estimated 82% of overall sales, remain the most important product group. Net profit is estimated at approximately €300 million. New recruitments in Slovenia and abroad are planned and expected to increase the total number of employees by 2%.

Investments are planned at €130 million plus, primarily in expansion and technological upgrades to production, development facilities and infrastructure.

The 2023 business plan includes detailed information about sales by region and product group, new products, investments in research and development, purchase of fixed assets and investments, employment plans, and business results forecasts. It is based on the updated 2022–2026 development strategy.

Annual General Meeting

The Supervisory and Management Boards drafted the agenda and materials for the 28th AGM of 7 July 2022 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.

Ernst & Young audited individual and consolidated financial statements of the Company and the Krka Group over the past 10 subsequent years, according to the law, the longest possible period. The Supervisory Board proposed that the AGM appoint the audit firm KPMG Slovenija, podjetje za revidiranje, d. o. o., Železna cesta 8 a, 1000 Ljubljana auditor for business years 2022, 2023, and 2024, which the AGM approved. The procedure for drafting AGM motions is detailed in the section on the work of the Audit Committee.

The term of office for Borut Jamnik, a Supervisory Board member, expired on 7 July 2022. According to the proposal given by the Supervisory Board, the AGM reelected Jamnik a Supervisory Board member for another five-year term, commencing on 8 July 2022.

Article 294 a of the *Companies Act* (hereinafter ZGD-1) stipulates that company whose securities are traded on the regulated market must formulate a remuneration policy for management and supervisory bodies, which must be submitted for AGM approval. The AGM vote on the remuneration policy is an advisory vote. The Company has always based its Management and Supervisory Board remuneration policy on good practice, so the Management Board remuneration proposal incorporated good practice recommendations into the currently valid remuneration model. The provision to return

a portion of remuneration was therefore added for variable remuneration or its part in case an annual report were void or the auditor issued a special report on incorrect determination of variable remuneration. Board member severance pay covering a variety of grounds was regulated in more detail. A description was added detailing when the Supervisory Board should exercise discretion to increase or decrease the computed variable remuneration. To encourage successful long-term business performance, the Supervisory Board was also given the power to attach greater weight to long-term results when calculating variable remuneration. Payment of the deferred part of variable remuneration was extended. The proposed Supervisory Board remuneration policy was consistent with the policy adopted at the 27th AGM already in 2021.

Slovenski državni holding (SDH, Slovenian Sovereign Holding), as an important shareholder, was of opinion at the 28th AGM that the Management Board performance evaluation criteria were adequate but that the remuneration system failed to reflect SDH's recommendations to award their long-term performance. The motion, therefore, did not receive the majority votes at the consultative voting. At the 2023 AGM, the Supervisory and Management Boards intend to examine the prospect of incorporating that recommendation as part of the Company's established remuneration system and in line with other examples of good practice.

The Company prepared a report for the 28th AGM on 2021 remuneration for the Supervisory and Management Board members. The report contained comprehensive remuneration disclosures in compliance with Article 294 b(2) of the ZGD-1, including all benefits, regardless of their form, that the Company gave or owed to individual members of the management or supervisory bodies within the past business year. The certified auditor of Ernst & Young reviewed the document and drew up a relevant report. The AGM approved the report on 2021 remuneration for Management and Supervisory Board members.

Investments

The Management Board also delivers quarterly, nine-month, and annual investment reports to the Supervisory Board. Once a year, it compiles a detailed report on major investments covering work in progress, deadline compliance, budgeted costs, and the accounting value of investments. Photographs, diagrams, and other presentations of construction sites and buildings are also reviewed at the meeting.

Supervisory Board members also discussed the successful rollout of a major investment in Pakirnica 2 (2 Packaging Room) that significantly increased packaging capacities at Notol 2, the main Krka production plant in Novo mesto, Slovenia. Another investment, this time to increase bulk product production capacity, was also brought to an end at the same plant. The two investments totalled €54 million, significantly increasing the role played by Notol 2 in Krka's overall business operations.

We also discussed the investment to increase bulk product capacities and upgrade logistics at OTO Department, one of the medium-sized production plants for tablets and other solid pharmaceutical forms that Krka operates in Slovenia. The project is due for completion in 2023. We also discussed the investment in Paviljon 3 (in Novo mesto, Slovenia), an extension for the microbiology laboratory. Construction works were at an early stage in 2022.

Among the other major investments of note at the planning stage are the chemical synthesis plant Sinteza 2 and laboratories for chemical analyses Kemijsko-analitski center, two facilities for API development and production in Krško, Slovenia. The total investment value is estimated at €163 million. Krka was still in the process of obtaining all the required permits in 2022.

Ningbo Krka Menovo Pharmaceutical Co. Ltd., the joint venture in China, where Krka holds a 60% stake, and the Chinese partner, Ningbo Menovo Pharmaceutical, a 40% stake, increased its production capacities for solid pharmaceutical forms for the Chinese and EU markets.

Krka manufactures most products intended for the Russian Federation in Russia. Another investment of note outside Slovenia is the increase in production capacities at Krka-Rus, a subsidiary in the Russian Federation. Completion is due in 2023.

Investments were made on schedule, and the Company properly managed short-term interruptions of supplies and the completion of works.

Risk management

The Management Board regularly reported any risks to the Supervisory Board.

As in previous years, the Management Board informed the members about patent and similar disputes broken down by individual products and markets. The Company encountered no major risks in terms of value in that respect.

When discussing interim reports, the Management Board briefed the Supervisory Board on market and regional risks, such as measures taken by authorities or regulatory bodies in individual countries. COVID-19 restrictions did not materially impact the course of 2022 business processes. Production processes, development, supply chain, and quality control complied with all general precautionary measures and ran relatively smoothly. The pandemic nevertheless affected access to healthcare systems on Krka's markets, posing a risk for the Krka Group in 2022. Krka's experience during the pandemic has shown that remote communication fails to facilitate the same strong results as face-to-face interactions. With precautionary measures in place, the Company did its utmost to make standard pre-pandemic arrangements for meetings with business partners, product promos, inspections, audits, and corporate events.

The Management and Supervisory Boards monitored the situation in eastern Europe closely. The Company quickly and efficiently adapted to the events, ensuring business operations continued to run smoothly in the Ukrainian and Russian markets. Over fifty years of doing business in eastern Europe proved beneficial in that endeavour.

A considerable part of Krka's Russian rouble exposure is minimised by liabilities paid in the currency. Currency and credit risks were hedged in part by factoring in 2022. Krka was not exposed to currency and credit risks in Ukraine because advance payments in euro are made for products.

Many companies encountered problems in purchasing raw and production materials in 2022. Against that background, the Krka Group continued to build up its inventories, which was possible because of its sufficient liquidity. Business operations remained uninterrupted primarily owing to the vertically integrated business model, relatively short supply chains established with long-term business partners, and the constant search for new competitive suppliers.

The situation on the energy market was quite unpredictable in 2021, but the related risks further increased last year. Krka immediately responded to substantial electricity price hikes and introduced additional organisational and technical measures to enhance energy efficiency across its operations. The strategy of electricity forward purchasing enabled the Company to partly reduce the risk of high electricity prices in 2022 and 2023.

Last year also saw a complex labour market with strong employer competition in all segments. Active head-hunting and Krka's reputation among job seekers helped drive recruitment. We should also point out that Krka ranked among the most reputable employers in Slovenia last year. Krka received the award in September 2022 based on a survey conducted by MojeDelo.com in cooperation with Sweden-based Universum Global. Krka has received the most-reputable-employer-in-Slovenia award seven times since surveys began in 2007.

Krka's Internal Audit department submitted its annual report to the Supervisory Board on risks identified in internal audit reviews, which revealed no issues of note. Internal audit activities were again conducted on-site.

Given the Krka Group's strong performance and absence of debts, liquidity risks remained very low in 2022. 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.

The Management Board updated the *Krka Group Risk Register* for the November meeting of the Supervisory Board. The risk register serves to identify and control risks that could affect business performance. The update considered new developments in risks and control activities from the revised *2022–2026 Krka Group Development Strategy* and changes in the business environment. The Supervisory Board also discussed the *Integrity Plan*, which focuses on managing risks related to ethics, integrity, and business compliance. The Supervisory Board had no comments about the documents.

Business trends in pharmaceutical industry and analytical reports on Krka

One Slovenian and five foreign financial analysts from banks or financial companies and in-house analysts from majority owners monitored Krka operations in 2022. 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 risks. It also discussed current information about the pharmaceutical industry.

External reports often mention vertical integration as Krka's competitive advantage, as it ensures ready quantities of raw materials and products and a quick response to market needs. Other advantages noted by analysts included Krka's new products, economy of scale, the highest dividend of all comparable companies, strong capital structure, and presence in China.

As for risks in 2022, they considered price and competition pressures in the pharmaceutical industry, deteriorating economic conditions, risks encountered in eastern European markets, and Krka's slowing investment cycle. Investments were postponed because of difficulties with equipment availability or obtaining initial project permits.

Benchmarking Krka performance against comparable companies

The Supervisory Board regularly compares Krka's operations with those of its competitors. In 2022, the Supervisory Board gained an insight into the Krka Group's performance 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 2022, Krka consistently ranked highly vis-à-vis competitors in terms of all ratios, especially the EBITDA margin, net profit margin, and ROE ratio. Also, foreign analysts referred to high profitability from operations.

Works Council report on worker participation in management

In 2022, nineteen members composed the Works Council of Krka. In accordance with Article 80 of the *Worker Participation in Management Act*, president of the Works Council presented the Works Council report at the Supervisory Board meeting in July. The materials aim to inform the Supervisory Board about worker participation in management, draw attention to any shortcomings, and propose measures if deemed necessary.

The Works Council members concluded the report by stating they had worked well with the Company's Management Board, President, the Worker Director, relevant departments, the two unions, and employee representatives sitting on the Supervisory Board. They effectively addressed 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, actively participated in finding solutions for improving traffic safety and parking issues, and called on employees to adhere to all COVID-19 measures in 2022. The Supervisory Board members were presented with the report and had no comments.

ESG Policy and strategy of the Krka Group

In November 2022, the Supervisory Board approved Krka Group's *ESG Policy* and 2023–2026 strategy drawn up by the Management Board. The policy sets down the general principles, organisation, and competencies in relation to sustainable operations, and monitoring their implementation. The strategy details policies, objectives, and ratios for individual material ESG topics.

Under the *Policy* and the strategy, the key sustainable operating aspects at Krka are as follows: (a) Product quality and patient safety; (b) Attracting and retaining talent; (c) Accessible treatment; (d) Good leadership and management practices; (e) Compliance, integrity, and transparency of business operations; (f) Planet and climate change; and (g) Economic impacts and taxes.

The Management Board has formed a working team led by a member of the Management Board, whose purview is to upgrade the Krka Group sustainability governance system. The Supervisory Board became even more involved in sustainable management in 2022 and regularly monitored the Management Board's work with that regard. We regularly inform the employees about this topic via the internal media.

In 2022, disclosures on sustainability topics were not audited. Krka plans to obtain an independent body's assessment of the Company's sustainable operations in 2023.

Cooperation between Supervisory Board and Internal Audit department

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

In 2022, the Supervisory Board determined the performance bonus for the Head of Internal Audit for 2021 and the first half of 2022 in line with her employment contract.

In accordance with the ZGD-1, we discussed the Head of Internal Audit's employment contract for the upcoming contract term commencing on 1 April 2022 and gave our approval.

We were briefed about the Internal Audit annual performance report. We had no comments. The Supervisory Board also discussed and approved the 2023 Internal Audit annual work plan.

More details on the reviewed areas are available in the section dealing with the work of Audit Committee, which reported to and advised the Supervisory Board on all said topics.

Last year saw successful cooperation between the Supervisory Board and Internal Audit. Internal Audit found no material errors or irregularities with the areas reviewed in 2022.

Management Board performance and remuneration

The Supervisory Board measures the Management Board's performance according to financial and non-financial criteria. Financial criteria comprise 11 of the 17-point score, and non-financial criteria comprise the remaining 6 points. The score has a linear effect on the variable remuneration.

Identical variable remuneration criteria apply to the President and other Management Board members and are aligned with the long-term operational guidelines because they are based on the Krka Group development strategy.

Financial criteria regarded growth in sales value and volume, increases in cash flows from operating activities and operating profit, return on equity, and dividends. Non-financial criteria considered 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 various institutions, sports, cultural, research and educational activities, and protection of the natural environment.

Variable remuneration is determined depending on long-term performance results. The criteria are used to evaluate the current year or half-year and the past ten calendar years. Current performance is weighed against performance over the past ten years at a 60% to 40% ratio for all Management Board members. Management Board members' remuneration does not increase on reappointment.

The Human Resource Committee and the Supervisory Board evaluate the Management Board's performance twice a year, based on written and oral reports from the Management Board. In 2022, in line with the criteria from the Code, independent members sat on the two bodies. The Management Board does not conduct self-assessments.

Variable remuneration to the Management Board members is payable in two parts: as an advance payment based on semi-annual results and as back pay linked to annual performance.

Management Board remuneration types and full methodology are disclosed in the remuneration policy for management and supervisory bodies submitted to the AGM for consultative voting per ZGD-1.

Shares and shareholder structure

The shareholder structure of Krka is characteristically stable and was not subject to major changes last year. No shareholder has a majority or controlling holding.

The Company regularly purchased treasury shares in line with legislative provisions and bye-laws.

Every quarter, the Supervisory Board received up-to-date share information and a report on the acquisition of treasury shares, the shareholder ledger, share trading, and the share price. We also received information about the calendar of closed periods when persons with access to insider information are prohibited from trading in Krka shares. This includes Supervisory Board members.

Supervisory Board helped examine viability of eAGM

According to the statutory changes adopted at the 27th AGM of 8 July 2021 and with the consent of the Supervisory Board, the Management Board can convene eAGMs. The legislation and Krka's *Articles of Association* allow for one virtual AGM format, i.e. a hybrid AGM. This means the meeting is in-person, while shareholders can attend remotely.

As practices are still developing, Supervisory Board members in the first half of 2022 closely examined valid legal grounds, domestic practices, and risks in organising a hybrid AGM and identifying shareholders. We were also briefed about the technical arrangements for convening a virtual AGM. We discovered that available technical solutions were not best suited to that assembly format. This was supported by the fact that Krka is a publicly listed company with an extensive list of shareholders. We believe the most substantial risk lies in potential counter proposals to AGM resolutions if technical problems should arise with shareholder identification or during a remotely held AGM, for example, in communication with investors and voting. Last year, applications for hybrid AGMs still did not support entirely reliable authentication modes for attendee verification and secure remote communications. In 2022, eAGMs were not established practice in large listed companies in Slovenia. The Supervisory Board plans to revisit their viability if the circumstances and technical solutions for hybrid AGMs change.

Strengthening good practice in Supervisory Board performance

The revised *Code* introduced improvements to the work of the Supervisory Board, commencing on 1 January 2022.

The *Code* addresses sustainability management and new developments regarding eAGMs. As stated, Krka's Supervisory Board actively dealt with the two areas in 2022.

When drafting AGM motions, we considered new developments from the *Code* concerning auditor appointment, competency profile, and the election of Supervisory Board members.

In line with the revised *Code*, we also drew up the report on the remuneration of the Management and Supervisory Board members.

The *Code* provides for a compliance warning system. Krka established a similar system in 2018. In November 2022, the Audit Committee received detailed information about its operation.

The Supervisory Board conducted a regular annual self-assessment using the methodology of the Slovenian Directors' Association, as part of which it considered the assessment matrix revised in compliance with the new *Code*. 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 demonstrated

that Supervisory Board performance was close to the highest standards. Despite this, members decided to improve our work further.

In compliance with the recommendations from the revised *Code*, we received information about statements of independence of the Supervisory Board and the related committees at the March meeting.

Screening of related-party transactions

In accordance with ZGD-1K requirements, the Company introduced an internal mechanism to regularly screen related-party transactions, including those with members of the Management and Supervisory Boards and their related persons. Krka's Documentary and Financial Control department screens the transactions. The screening checks the alignment of transactions with market conditions and Krka's regular business operations. All members completed related-party declarations in 2022.

Corporate events

In 2022, the Supervisory Board attended the AGM, while individual members also attended corporate events organised by the Company.

Work of Supervisory Board Committees

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

The following sections detail the Committees' work.

Audit Committee

In 2022, the Audit Committee met six times and discussed 33 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.

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 does not sit on Krka's 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 2022, 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 in 2022 to the items stated below.

Annual report

In 2022, the Committee discussed the *2021 Annual Report of the Company and the Krka Group*, the auditor's report, and the 2021 Supervisory Board report on review of operations, and moved that 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 Commission Delegated Regulation (EU) 2019/815.

At the meeting of 16 March 2022, 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. Their high-quality and comprehensive work contributed to improved oversight of business operations.

Interim results

When discussing interim reports, the Audit Committee reviewed their accounting and financial aspects and reported to the Supervisory Board. In 2022, no accounting or financial issues of note or significant changes to past practice were identified.

External auditor cooperation

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

KPMG Slovenija is to audit the Company and the Krka Group 2022, 2023, and 2024 annual reports. In September 2022, the Audit Committee and KPMG Slovenija started preparing to audit the *2022 annual report of the Company and the Krka Group*. Every year before the start of the audit, Committee representatives meet with the audit partner and coordinator to agree on key work areas. They met on 6 September 2022 to review the draft audit plan and the composition of the audit team at KPMG and to agree on work areas that 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.

Krka's departments and the new auditor prepared on time for the operative start of the preliminary audit that was in progress since autumn 2022 and for the upcoming audit.

Approval of additional non-audit services by external auditor

The Audit Committee gave approval for Ernst & Young d. o. o., Slovenia, the audit firm contracted by Krka to audit the 2019, 2020 and 2021 financial statements, to render a non-audit service in compliance with the Krka's *Protocol for the Preliminary Approval of Non-Audit Services* i.e. a review of the report to the 28th AGM of 7 July 2022 about the remuneration for management and supervisory bodies in 2021.

Ernst & Young had the financial statements translated into English and audited the correctness of the consolidated financial statements in ESEF. The firm also rendered a non-audit service of reviewing the report on relations of the subsidiary Terme Krka, d. o. o., Novo mesto, Slovenia with related companies.

Drafting AGM motion to appoint KPMG Slovenia as new external auditor

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

A request for proposals (RfP) for a new external auditor for auditing the Company's financial statements and the Krka Group's consolidated financial statements for the period 2022–2024 was therefore put out to tender. Four bidders had at their disposal sufficiently sized and experienced work teams to conduct the audits, met requirements for independence and impunity, and presented the methodology for conducting the audits in compliance with legal regulations and professional rules. They submitted references on auditing comparable groups, especially in the pharmaceutical industry. In compliance with the *Code*, the Audit Committee and the Supervisory Board first approved tender participation and evaluation criteria, then monitored its progress, and discussed the results.

Following this, the Audit Committee advised the Supervisory Board to propose to the AGM the appointment of the audit firm KPMG for audits in business years 2022, 2023, and 2024, which the AGM approved.

At the July 2022 meeting, the Audit Committee proposed to the Supervisory Board that it endorse the draft contract with statutory auditor KPMG to audit the Company and Krka Group 2022, 2023 and 2024 financial statements, which the Supervisory Board approved.

Cooperation with internal auditors

The Audit Committee discussed several topics related to the internal audit in 2022. In March 2022, they reviewed the 2021 Internal Audit performance report. In her annual report, the Head of Internal Audit reported on audits of managing quality of sterile, semi-solid, solid, and liquid pharmaceutical product forms; regulatory affairs; engineering; regional marketing; health and safety at work; sales; human resource management; and supply chain. Internal Audit audited subsidiaries and representative offices in Finland, Croatia, Bulgaria, Latvia, Ukraine, the United Kingdom, Uzbekistan, and also in Terme Krka (Slovenia), where they focused on information technologies in catering. The department also rendered consultation services, including continuous corporate management monitoring. 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 January to June 2022. During that period, the department audited processes in Analytics Development; Promotional Material Preparation and Digital Marketing; sales in Region West Europe and Region Overseas Markets; and IT management. They also audited business operations in North Macedonia, Spain, Sweden, and Hungary. According to the report, the internal auditor from the Russian Federation, where the function-to-function principle applies, completed one extensive audit on behalf of Internal Audit, while another was in the final phase.

Also, in the first half of 2022, the department conducted several short and one extensive counselling engagements. They reviewed compliance of procedures with rules for the selected IT project for application support in API production. As part of the continuous corporate management monitoring, the department reviewed the Krka Group *Risk Register* and participated in the project of sustainability management upgrades.

Internal auditors identified no significant non-compliances or deviations. The Audit Committee had no comments on the Internal Audit performance report for 2021 and their performance report for the first half of 2022.

The Committee also discussed the Internal Audit 2023 work plan. In line with good practice, *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 Internal Audit and the quality of their work, the Committee members did not change any bases for work by internal auditors in 2023. However, they recommended that Internal Audit monitor energy and utility supply risks more closely.

Also, in 2022, the Audit Committee proposed to the Supervisory Board to award performance bonuses to the Head of Internal Audit for 2021 and the first half of 2022.

Risk management and internal controls

The Audit Committee regularly discussed financial risks in particular. As regards currency risk, they focused on the Russian rouble. The US dollar exposure on the purchase side is also becoming increasingly important. The Committee also monitored credit and liquidity risks.

The risks were adequately managed through internal controls and other measures. Further information on this topic is available in the section covering the work of the Supervisory Board.

Addressing whistle-blower programme

The Audit Committee examined the report on the system for addressing whistle-blower notifications in compliance with *Appendix A of the Code*. Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law as of 17 December 2021 requires the establishment of internal reporting channels to address purported irregularities in companies with more than 250 employees, and as of 17 December 2023 in companies with more than 50 employees. Krka's procedure complies with the said Directive.

Human Resource Committee

In 2022, the Human Resource Committee met three times and discussed 12 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 and the member of the Management Board responsible for accounting, finance and controlling, and the Supervisory Board Secretary to all meetings. The President of the Supervisory Board may attend the meetings at his discretion.

Drafting motion to reappoint Supervisory Board member, shareholders' representative, whose tenure expired

The term of office expired in 2022 for Borut Jamnik, a Supervisory Board member. The Supervisory Board, therefore, acted on the motion drafting recommendations from *Appendix 3A* to the *Code*, and authorised the Committee to take all steps to that end. The Supervisory Board approved a candidate competency profile and procedural rules for finding, nominating and evaluating candidates. We opted for a direct invitation to the nominee from the Supervisory Board or its committee.

The competency profile included: (a) criteria from Articles 255 and 273 of the ZGD-1; (b) criteria for evaluation of a potential competitive conflict in compliance with the ZGD-1; (c) all recommended criteria from *Appendix B* to the *Code* for evaluating nominee impartiality; (d) all recommendations from Article 12 of the *Code* concerning the selection of the supervisory board nominees; (e) criteria from Article 21 of the ZSDH-1; and (f) criteria from the *Rules of Procedure of the Supervisory Board* and the Company's *Diversity Policy*.

Nominee documentation was to include: a statement evidencing that the nominee meets the competency profile criteria; Certificate issued by the Slovenian Directors' Association evidencing that the nominee is qualified to sit on a supervisory board or an equally valid document; a statement of independence signed by all members of a supervisory board; and a curriculum vitae. The nominee readily gave additional explanations to the Supervisory Board and its Nomination Committee.

The Supervisory Board agreed with the Committee and proposed the present member Borut Jamnik for reappointment at the AGM, as Jamnik met all the required criteria. The AGM of 7 July 2022 approved the proposal.

Remuneration policy for management and supervisory bodies

The Human Resource Committee drafted a remuneration policy for management and supervisory bodies in compliance with ZGD-1, according to which the AGM should decide by consultative resolution on the remuneration policy for management and supervisory bodies at least every four years or upon any important changes. The Slovenian Directors' Association published recommendations for drafting policies, and we took them into account. Further information on the policy is available in the section concerning the work of the Supervisory Board.

Management Board remuneration – drafting proposals for Supervisory Board

The Committee evaluated the work of the Management Board twice, for 2021 and the first half of 2022. They applied financial and non-financial 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 by the Management Board, 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 be paid to the President of the Management Board and the Management Board members for their efficient work in 2021 and the first half of 2022.

Performance evaluation of Management and Supervisory Boards

The Supervisory Board monitors the management and business operations of the Company and the Krka Group in compliance with the legislation in force, primarily ZGD-1, and good practices, especially the *Code*.

The Management Board regularly attended all Supervisory Board meetings in 2022. The President of the Management Board primarily delivered reports and answered questions on behalf of Krka, while individual members presented specific topics.

When setting variable remuneration amounts, the Supervisory Board discussed the Management Board's 2022 performance as a separate agenda item twice. Management Board performance 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, benchmarked Krka's performance against that of competitors, and noted external analysts' opinions about Krka.

The Management Board collected all the necessary data, reports and information on time so 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 one another, and examined various topics together. In 2022, the Management and Supervisory Boards enjoyed fruitful cooperation, all to the benefit of the Company. We evaluated the Management Board performance as successful.

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 compliance with the duty from the *Articles of Association* (Item 6.18) we examined the Company's 2023 business plan and endorsed it.

All members remained independent in their work in 2022. In line with the recommendations of the *Code*, we completed statements on independence, which Krka published on its website alongside 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 €320,503 towards the work of the Supervisory Board and its committees (remuneration, attendance fees, travel expenses) in 2022, whereas €324,598 were spent. In 2022, Krka paid €7,126 in membership fees to the Slovenian Directors' Association. In addition, Krka spent a total of €8,446 on *IxtlanBoard* application lease fees. No other costs or expenses were payable to external contracting partners or consultants.

Approval of the annual report and proposal for appropriation of 2022 distributable profit

The Supervisory Board discussed the contents of the 2022 annual report at two Supervisory Board meetings and two Audit Committee meetings. Also, the Supervisory Board and Audit Committee discussed the 2022 preliminary business results estimate at their meeting of 25 January 2023.

The Supervisory Board and the Audit Committee discussed at their respective meetings of 15 March 2023 the draft 2022 annual report and the unaudited financial statements of the Company and the Krka Group. The statutory audit firm, KPMG, reported to the Audit Committee on the findings and 2022 audit procedures before the meeting of the Supervisory Board on the same day.

Supervisory Board and Audit Committee members received the draft 2022 annual report and the audited 2022 financial statements of the Company and the Krka Group on 28 March 2023. They discussed them at their respective meetings of 5 April 2023. Certified auditors, KPMG, reported to the Committee and the Supervisory Board.

The 'Corporate governance statement' forms a part of the 2022 annual report. It illustrates key aspects of governance at Krka, particularly the composition and operations of Company bodies, external audits, internal controls and risk management related to financial reporting, internal audits, 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 either.

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 the Company and the Krka Group 2022 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 concerning the draft annual report, independent auditor's report, or the Audit Committee report, it unanimously endorsed the 2022 annual report at its meeting of 5 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 2022, the Company generated profit of €348,215,048.50 of which €10,025,534.49 was allocated to reserves for treasury shares and €0.00 to other profit reserves. The remaining profit of €338,189,514.01 and the retained earnings of €69,973,616.13 comprised the distributable profit, which amounted to €408,163,130.14 as at 31 December 2022.

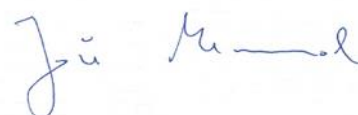
The Management Board and the Supervisory Board proposed to the AGM that distributable profit be appropriated as follows:

- Dividends €204,443,434.80, or €6.60 gross per share;
- Other profit reserves €101,859,847.67, and
- Retained earnings €101,859,847.67.

The proposal was drawn up taking account of the number of treasury shares as at 31 March 2023. As the number of treasury shares can change, 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 are to be adjusted accordingly.

Conclusion

According to our evaluation, Krka, its Management and Supervisory Boards performed very well in 2022. Krka supplies medicines to over 50 million patients on average in 70 countries worldwide every day. The Company ensured uninterrupted supplies to patients on all its markets in 2022. The Company generated record total sales and net profit. Krka, renowned for quality, safe and effective products, surpassed all quantity records in production and cut delivery response times. It remained fully committed to its mission: to help maintain the health of as many people as possible across the globe.



Jože Mermal
President of the Supervisory Board