

2023 Supervisory Board report ¹

Dear shareholders and stakeholders,

I am delighted to announce that in 2023, Krka recorded the highest sales to date, coupled with very good performance indicators. Once again, Krka secured the top position among the 54 companies in the Slovenian Business Excellence survey.

On behalf of the members of the Supervisory Board, I outline our work in 2023 below.

Work of the Supervisory Board

The Supervisory Board of Krka has nine members. As at 31 December 2023, 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, Luka Cerar, 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 47 to 75 years. Their wide-ranging knowledge covers various fields, including pharmacy, chemistry, law, economics, 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 2023'.

Borut Jamnik served as a Supervisory Board member until 6 July 2023, when he resigned due to legal reasons, having assumed another role outside Krka. The Annual General Meeting (hereinafter: AGM) appointed Luka Cerar, a shareholder representative, as a Supervisory Board member for a five-year term, replacing Bourt Jamnik.

The remit and decision-making processes of the Supervisory Board involve overseeing Krka's objectives and those of the Krka Group in line with its development strategy and plans, legislation, best national and international practices, and by-laws. Meetings allow the Supervisory Board members to voice their opinions and concerns while working to reconcile differences to pass unanimous resolutions. No member voted against any motion tabled last year.

We received all requisite data, reports, and information in 2023. Krka's departments provided technical and organisational support to us. A secure digital platform, *IxtlanBoard*, developed by 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 2023'. The Supervisory and Management Board members and the Supervisory Board Secretary were regularly in attendance 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.

In 2023, the Supervisory Board members met at seven regular meetings and deliberated 61 agenda items. Members of the Supervisory Board committees met nine times and deliberated 39 agenda items, which they subsequently reported on and provided advice to the Supervisory Board. All Supervisory Board meetings and its committees were held in person at Krka's registered office.

¹ The Supervisory Board of Krka, d. d., Novo mesto, Slovenia approved the *2023 Annual Report* and the *2023 Supervisory Board Report* at their regular meeting of 3 April 2024. According to *Commission Delegated Regulation (EU) 2019/815* and Paragraph 1 of Article 134 of the *Market in Financial Instruments Act (ZTFI-1)*, the official version of the report is the one created in the European Single Electronic Format (ESEF), prepared in the Slovenian language, and published via SEOnet, the official electronic dissemination information system of the Ljubljana Stock Exchange, approved by statutory auditors on 25 March 2024. This is why we are publishing the *2023 Supervisory Board Report of Krka, d. d., Novo mesto* separately.

The Supervisory Board discussed Krka's past and current operations, financial and business risks, situation on sales and purchase markets, human resource issues, investments and products, and monitored strategy implementation. We discussed the updated 2024–2028 strategy and the 2024 business and financial plan with the Management Board and approved them. 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, 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 AGM together with the Management Board. Our supervisory role was to focus on upgrading the sustainable business system of the Krka Group 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 practices and the company's requirements. Also, in 2023, we conducted a self-assessment and drew up a plan for further improvements accordingly.

Key issues for discussion at Supervisory Board meetings in 2023

Annual report

In 2023, the Supervisory Board examined the *2022 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 KPMG, Slovenija, podjetje za revidiranje, d. o. o. (hereinafter: KPMG). 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 KPMG reviewed the Company's reporting in the format that complies with the *Commission Delegated Regulation (EU) 2019/815* and confirmed its relevance.

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

In April 2023, we also compiled and adopted our 2022 activity report. Together with the Management Board, we drew up the 'Corporate governance code compliance statement' outlining the Company's compliance with the *Corporate Governance Code for Listed Companies*, which was endorsed by the Slovenian Directors' Association and the Ljubljana Stock Exchange.

For the first time, we included additional ESG indicators in our *2022 Annual Report* and identified the primary sustainable development goals that our business operations significantly contribute to.

Interim results

The Supervisory Board discussed the 2023 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 were briefed on business processes and risk management.

In 2023, fluctuations in foreign exchange rates primarily resulted in losses, as Krka encountered uncertainties in many sales markets. Despite this, the Krka Group managed to increase year-on-year sales further in the first quarter, first half, and first nine months of 2023.

Supervision of subsidiary performance in the Krka Group

No notable operational issues arose at Krka's subsidiaries in 2023. Krka registered a subsidiary in the Netherlands in February 2023. The year-end tally rose to 33 subsidiaries and 16 representative offices registered abroad. Krka has one subsidiary in Slovenia, i.e. Terme Krka.

Krka is the controlling company and performs all business functions. Subsidiaries produce, distribute, and market medicines abroad. A company can perform one or more functions. The Slovenian subsidiary Terme Krka provides health-resort and tourist services.

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

As at 31 December 2023, Krka was the sole owner of all Krka Group subsidiaries, except Ningbo Krka Menovo, a joint venture in China, where the Chinese partner holds a 40% stake. All subsidiaries significantly added to the Krka Group's success in 2023.

2024–2028 development strategy and 2024 business plan of the Krka Group

The Management and Supervisory Boards review and update Krka's long-term strategy every two years. At the November 2023 meeting, the two boards discussed the updated *2024–2028 Krka Group Development Strategy* and approved it (Item 6.18 of the *Articles of Association*).

In November 2023, the Management and Supervisory Boards also updated the *ESG Policy of the Krka Group*, which was adopted in 2022 and is updated yearly.

At the November 2023 meeting, Supervisory Board and Management Board members discussed the 2024 business plan of Krka and the Krka Group. It was prepared by the Management Board and endorsed by the Supervisory Board (Item 6.18 of the *Articles of Association*).

The 2024 business plan is based on the 2024–2028 development strategy. It includes detailed information about sales by region and product group, new products, research and development investments, procurement of fixed assets and investments, employment plan, and business performance forecasts.

Annual General Meeting

The Supervisory and Management Boards drafted the agenda and materials for the 29th AGM of 6 July 2023 and prepared a proposal for the appropriation of distributable profit. The AGM passed the Management and Supervisory Board's motion to pay out dividends of €6.60 gross per share, the highest to date.

On 6 July 2023, a Supervisory Board member, Borut Jamnik, resigned due to him taking up a new role outside Krka. In line with the Supervisory Board's proposal, the AGM elected a new member, Luka Cerar, in Jamnik's place. Cerar's five-year term commenced on 7 July 2023.

Securities of Krka, d. d., Novo mesto, Slovenia are traded on the regulated market, so Krka submitted the *Remuneration Policy for Management and Supervisory Bodies of Krka, d. d., Novo mesto* to the AGM for consultative voting per Article 294 a of the *Companies Act* (ZGD-1). Of the total votes cast, 97.45% favoured adopting the document. It is published on Krka's website, in the materials for the 29th AGM, and on the SEOnet. See 'Management Board performance and remuneration' for details.

The Company prepared a report for the 29th AGM on Supervisory and Management Board member remuneration in 2022. The report contained comprehensive remuneration disclosures in compliance with Article 294 b of the *Companies Act* (ZGD-1). The certified auditor of KPMG reviewed the document and drew up a relevant report. The AGM endorsed the report on Management and Supervisory Board member remuneration for the previous year.

The 29th AGM authorised the Management Board again to repurchase and dispose of treasury shares, whereby the total amount of treasury shares cannot exceed 10% of share capital, i.e. 3,279,344 shares. The total amount also includes shares owned by the Company as at authorisation issue date. The authorisation remains in force for 36 months.

In line with best practices, the 29th AGM also revised the remuneration structure for members of the Supervisory Board. It approved an update to Resolution No. 4, 'Remuneration for Supervisory Board members' passed at the 27th AGM of 8 July 2021, and increased the annual basic pay for Supervisory Board members from €15,000 gross to €21,000 gross,

and raised Supervisory Board meeting attendance fees from €275 to €360. Other provisions of the resolution remained unchanged.

The AGM discharged the Management and Supervisory Boards of liability for the previous year.

Investments

The Management Board also delivers quarterly, nine-month, and annual reports on investments 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 received detailed information about the enhanced production capacities of the OTO Department, a production plant for tablets and other solid pharmaceutical forms in Ljutomer, Slovenia. We discussed the extensive refurbishment of Notol, the solid dosage form production plant, and the construction of Paviljon 3, an extension for the microbiology laboratory, both in Novo mesto, Slovenia. Other major investments at project stage include the chemical synthesis plant Sinteza 2 and laboratories for chemical analyses Kemijsko-analitski center that will significantly increase API development and production capacities. The two facilities are in Krško, Slovenia.

The Management Board also detailed 2023 investments in environmental protection, with the Company allocating approximately €9 million annually for this purpose. One of the major investments of this kind is the construction of additional firewater containment systems. The Company started construction on a wastewater treatment plant in Krško, Slovenia.

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. In 2023, the Company did not encounter any major value-related risks in this regard.

When discussing interim reports, the Management Board briefed the Supervisory Board on credit, currency, market, and regional risks, and potential measures taken by authorities or regulatory bodies in individual countries. Risks related to COVID-19 restrictions did not materially impact the course of 2023 business processes. Production processes, development, supply chain, and quality control, marketing, sales, and other business segments complied with all general precautionary measures and ran smoothly.

The Company promptly and effectively adapted to the prevailing situation, guaranteeing seamless business operations in both the Ukrainian and Russian markets. Over fifty years of business experience in Eastern Europe proved advantageous in that undertaking.

The Internal Audit of Krka reports annually to the Supervisory Board on risks identified in internal audit reviews. In 2023, the Company recorded no specific issues in this regard.

Given the Krka Group's strong performance and absence of debts, liquidity risks remained very low in 2023. The controlling company uses the cash-pooling system to settle all subsidiaries' current and non-current financial liabilities and absorb their cash surpluses.

Business trends in the pharmaceutical industry and analytical reports on Krka

In 2023, seven financial analysts – six foreign and one Slovenian – from banks or financial companies monitored Krka operations. Also, in-house analysts from majority owners monitored Krka operations. 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 the latest updates and insights regarding the pharmaceutical industry.

External reports often mention vertical integration as Krka's competitive edge, as it ensures ready quantities of products and a quick response to market needs. Other advantages noted by analysts included Krka's product mix, new products, continuous investments, high dividend yield, strong capital structure, and presence in China.

As for risks in 2023, considerations encompassed price and competition pressures in the pharmaceutical industry, uncertain economic conditions in many markets, risks encountered in eastern European markets, and associated currency risks.

Benchmarking Krka performance against comparable companies

The Supervisory Board regularly compares Krka's operations with those of its competitors. In 2023, 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.

Additionally, in 2023, Krka consistently ranked highly vis-à-vis competitors in terms of margins, especially the EBITDA and net profit margins. Despite the absence of debt, the Company generally recorded very high ROE.

Works Council report on worker participation in management

The Works Council's composition changed as the terms of the incumbent members expired in 2023. Krka is growing, so the number of Works Council members increased from 19 to 21.

In July 2023, the Supervisory Board discussed the Works Council report for the past period in accordance with Article 80 of the *Worker Participation in Management Act*. The then president of the Works Council, sitting on the Supervisory Board as the employee representative, presented the report. 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 evaluated the degree to which the management complied with the *Worker Participation in Management Act* and established that the company's management supported worker participation in management. The Works Council and the Management Board have concluded a participation agreement that grants workers additional rights beyond those stipulated by law. Employee satisfaction was very high according to the organisational climate survey. The employees believed in Krka's business model and management. Members of the Supervisory Board were presented with the report and had no comments on it.

The Krka Group's sustainable operations and independent audit results for Krka

The Supervisory Board has discussed the sustainability of operations at each meeting since July 2022. In line with best practices, the Management Board appointed a project team for sustainable operations as early as 2021. The Sustainability Board was formed, and ESG coordinator and ESG managers appointed. In November 2022, the Supervisory Board endorsed the *ESG Policy of the Krka Group*, as proposed by the Management Board, which is reviewed annually. The policy outlines the principles, organisation, and competencies concerning sustainable operations and monitoring its implementation.

During the double materiality assessment process, the Krka Group identified its stakeholders, significant sustainability concerns, and their impact on the company. That process also delved into Krka's impact on stakeholders, the economy, and the natural environment. Additional disclosures on sustainable operations were first available in the *2021 Annual Report*, and in 2022 and 2023, the Company further improved the quality of disclosure.

Strategic ESG objectives were incorporated in the updated *2024–2028 Krka Group Development Strategy* in 2023.

Supervisory Board and Internal Audit cooperation

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. It also receives a briefing on the Internal Audit annual performance report.

In 2023, the Supervisory Board determined the performance bonus for the Head of Internal Audit for 2022 and the first half of 2023 as per her employment contract.

We were briefed on the Internal Audit annual performance report. We had no comments. The Supervisory Board also discussed and approved the 2024 Internal Audit annual work plan.

More details on the areas reviewed by Internal Audit in 2023 are available later in the section discussing the work of the Audit Committee. It reported on all those topics related to internal audit performance and advised the Supervisory Board.

Last year's cooperation between the Supervisory Board and Internal Audit was successful. Internal Audit found no material errors or irregularities in relation to the areas reviewed in 2023.

Management Board performance and remuneration

The *Remuneration Policy for Management and Supervisory Bodies* outlines the remuneration structure for Management Board members. A summary of the policy is provided below.

Management Board members receive fixed and variable remuneration components, bonuses, and other fringe benefits. The fixed remuneration for each member is determined at the start of their term in office as a multiple of the average salary of Krka employees, ranging from four to ten times the average.

The criteria for determining the variable remuneration for the President of the Management Board and other Management Board members are the same and comply with the long-term operational guidelines because they are based on the Krka Group development strategy. Krka's performance evaluation incorporates financial criteria, accounting for eleven of the seventeen-point score in the calculation of the variable remuneration. The criteria include: (a) Growth in sales revenue and sales volume; (b) Growth of sales revenue compared to competitors; (c) Increase in cash flows from operating activities; (d) Increase in operating profit; (e) Return on equity compared to competitors; and (f) Dividend payments. Krka's *ESG Policy* (a summary version is available on the SEOnet of the Ljubljana Stock Exchange) outlines six areas crucial for both Krka's stakeholders and Krka in the long term: (a) Product quality and patient safety; (b) Attracting and retaining talent; (c) Good leadership and governance practices; (d) Accessible healthcare; (e) Planet and climate change; and (f) Compliance, integrity and transparency. According to the *ESG Policy*, non-financial criteria account for six out of seventeen points in determining the variable remuneration component for Management Board members.

The score has a linear effect on the variable remuneration. 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. The Supervisory Board can adjust the long-term performance weights to a 50% ratio. Variable remuneration is not directly contingent upon the duration of the term in office.

The Human Resource Committee and the Supervisory Board evaluate the Management Board's performance twice a year, based on written and verbal reports from the Management Board. In 2023, independent members sat on the two bodies in line with the criteria from the *Corporate Governance Code for Listed Companies*. The Management Board does not conduct self-assessments.

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

The *Remuneration Policy for Management and Supervisory Bodies* sets down the conditions for payment deferral and remuneration claw-back.

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.

Strengthening good practice in Supervisory Board performance

The Supervisory Board conducted a regular annual self-assessment in 2023 using the methodology of the Slovenian Directors' Association, as part of which it considered the assessment matrix revised in compliance with the *Corporate Governance Code for Listed Companies* in force since 1 January 2022. 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 the Supervisory Board's performance was close to the highest standards. Following the 2023 self-assessment, members resolved to enhance 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 during the March meeting.

Screening of related party transactions

In accordance with ZGD-1 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 2023. No transaction requiring a decision by the Supervisory Board was concluded in 2023.

Corporate events

In 2023, the Supervisory Board attended the AGM, while individual members also attended corporate events organised by the Company. The Company celebrates its 70th anniversary in 2024, which will be marked by corporate events.

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 ensuing sections detail the Committees' work.

Audit Committee

In 2023, the Audit Committee met six times and deliberated 29 agenda items. The President of the Audit Committee is Mojca Osolnik Videmšek, and its members are Dr Matej Lahovnik, Dr Boris Žnidarič, 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.

Borut Jamnik chaired the Audit Committee until 6 July 2023, when he resigned from his position on Krka's Supervisory Board due to taking up another role elsewhere. On 19 July 2023, Mojca Osolnik Videmšek was elected President of the Audit Committee and Dr Boris Žnidarič a new committee member.

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 had the right to attend the meetings at his discretion. The Supervisory Board Secretary attended all meetings. In 2023, two representatives of the audit firm KPMG also attended two meetings: the audit partner and audit coordinator of the annual report.

The Audit Committee dedicated most of its time in 2023 to the items stated below.

Annual report

The Committee discussed the *2022 Annual Report of Krka and the Krka Group*, the auditor's report, and the 2022 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 KPMG 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 15 March 2023, the Committee was also briefed on the auditor's statement of independence, where the independence of the audit firm KPMG and the audit team of KPMG 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 2023, no specific accounting or financial issues or significant deviations from past practice were identified.

External auditor cooperation

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

In compliance with the resolution passed by the AGM, KPMG is to audit the Company and the Krka Group 2022, 2023, and 2024 annual reports. In September 2023, the Audit Committee and KPMG started preparing to audit the *2023 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 key focus areas. They met on 6 September 2023, reviewed the draft audit plan and the composition of the audit team at KPMG, and agreed on which individual focus areas would undergo further review. The Head of Internal Audit also attended the meeting. The Management Board members were not present.

Krka's departments and the new auditor diligently prepared in advance for the commencement of the preliminary audit, which began in autumn 2023 and continued into the upcoming audit.

Approval of additional non-audit services by external auditor

In compliance with Krka's *Protocol for the Preliminary Approval of Non-Audit Services*, the Audit Committee approved a non-audit service, which involved reviewing the remuneration for management and supervisory bodies in 2022. KPMG prepared this service for the 29th AGM of 6 July 2023.

KPMG 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.

Cooperation with internal auditors

The Audit Committee discussed several topics related to the internal audit in 2023. In March 2023, they reviewed the 2022 Internal Audit performance report. In her annual report, the Head of Internal Audit reported on audits of processes in Analytics Development; managing Promotional Material Preparation and Digital Marketing; sales in Region West Europe and Region Overseas Markets; and managing IT; Hazardous Materials Warehouse; Environmental Protection; QA APIs and QA Incoming Materials; and API R&D. Internal Audit audited subsidiaries and representative offices in North Macedonia, Spain, Belarus, Greece, France, Sweden, Hungary, and Terme Krka (Slovenia). The department also rendered consultation services, including corporate governance and sustainable operations. 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 2023. During that period, the department audited processes in Pharmaceutical Development; Utilities; Marketing Applications and Analytics; and sales in Region Central Europe. They also audited business operations of subsidiaries and representative offices in Kazakhstan, Bosnia and Herzegovina, Mongolia, Albania, and Kosovo. The internal auditor based in the Russian Federation had completed one extensive inspection and was finalising another.

Internal auditors identified no significant non-compliances or deviations. The Audit Committee had no comments on the Internal Audit performance report for 2022 and their performance report for the first half of 2023.

The Committee also discussed the Internal Audit 2024 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. Given the favourable experience with Internal Audit and the quality of their work, Committee members opted not to alter any bases for the internal auditors's work in 2024. However, they recommended that Internal Audit intensify monitoring of energy and utility supply risks, receivables collection, inventory management, quality control, digitalisation, personnel recruitment and retention, and sustainability of operations.

Furthermore, in 2023, the Audit Committee proposed to the Supervisory Board to award performance bonuses to the Head of Internal Audit for 2022 and for the first half of 2023.

Risk management and internal controls

The Audit Committee regularly discussed financial risks in particular. As regards currency risk, they focused on the Russian rouble, given Krka's significant exposure to it. The Committee also monitored credit and liquidity risks at every meeting.

Internal controls and other measures adequately managed the risks. Further information on this topic is available in the section covering cooperation between the Committee and internal auditors.

Human Resource Committee

In 2023, the Human Resource Committee met three times and deliberated 10 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 had the right to attend the meetings in line with the *Rules of Procedure of the Management Board*.

Proposal for appointment of new Supervisory Board member, shareholders' representative

Borut Jamnik served as a member of the Supervisory Board until 6 July 2023, when he resigned on statutory grounds, having assumed another role outside Krka. The Supervisory Board, therefore, acted on the motion drafting recommendations from Appendix 3A to the *Corporate Governance Code for Listed Companies*, and authorised the Committee to take all steps to that end. The Supervisory Board approved a candidate competency profile and procedural rules for finding, evaluating and nominating 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 *Corporate Governance Code for Listed Companies* for evaluating nominee impartiality; (d) All recommendations from Article 12 of the said *Code* concerning the selection of the supervisory board nominees; and (e) Criteria from the *Rules of Procedure of the Supervisory Board* and the Company's *Diversity Policy*.

Nominee documentation was to include: (a) a statement evidencing that the nominee meets the competency profile criteria; (b) a certificate issued by the Slovenian Directors' Association evidencing that the nominee is qualified to sit on a supervisory board or an equally valid document; (c) a statement of independence, which all members of a supervisory board must sign; and (d) a curriculum vitae. The nominee provided all requested explanations to the Supervisory Board and its Nomination Committee.

The Supervisory Board agreed with the Committee and proposed Luka Cerar, who met all the required criteria, for election by the AGM. The 29th AGM of 6 July 2023 endorsed 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. Pursuant to this, the AGM is required to decide by way of a consultative resolution on remuneration policy for management and supervisory bodies at least once every four years or following significant changes. It was passed by consultative voting at the 29th AGM in 2023. Further information on the policy is available in the description of the Supervisory Board's work.

Management Board remuneration – drafting proposals for Supervisory Board

The Committee evaluated the work of the Management Board twice: for the entirety of 2022 and the first half of 2023. They applied financial and non-financial performance criteria described in the subsection on the work of the Supervisory Board under '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 sound performance in 2022 and the first half of 2023.

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 *Corporate Governance Code for Listed Companies*.

The Management Board regularly attended all Supervisory Board meetings in 2023. 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 twice discussed the Management Board's 2023 performance as a separate agenda item. Management Board performance was evaluated based on a model further described in the subsection on the Supervisory Board's work. 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 ensured timely collection of all necessary data, reports, and information, enabling the Supervisory Board to carry out its duties effectively. The Management Board promptly and effectively addressed the resolutions of the Supervisory Board. Between meetings, the President of the Supervisory Board and the President of the Management Board maintained communication, engaged in consultations, and jointly reviewed various topics. Throughout 2023, the Management and Supervisory Boards collaborated effectively, ultimately benefiting the Company. We assessed the Management Board's performance in 2023 as successful.

The Supervisory Board members discussed numerous areas from this report and supervised Krka's operations diligently throughout the year. We, therefore, assessed our performance as successful. In accordance with the obligation set down in the *Articles of Association* (Item 6.18), we examined the Company's 2024 business plan and the updated development strategy for the next five-year period, subsequently endorsing them.

All members remained independent in their work in 2023. In line with the recommendations in the *Corporate Governance Code for Listed Companies*, we completed statements of independence, which Krka published on its website alongside the CVs of the Supervisory Board members. Should a conflict of interest arise, the *Supervisory Board Rules of Procedure* take precedence. A member must refrain from voting in such cases, while the Supervisory Board may also take other steps.

Krka allocated €368,606 for the work of the Supervisory Board and its committees (remuneration, attendance fees, travel expenses, other expenses) in 2023, whereas €367,547 were spent. In 2023, Krka paid €7,699 in membership fees to the Slovenian Directors' Association. In addition, Krka spent a total of €8,884 on the *IxtlanBoard* application lease fees. No other expenses were payable to external contracting partners or consultants.

Approval of the annual report and proposal for appropriation of 2023 distributable profit

The Supervisory Board discussed the contents of the 2023 Annual Report at two Supervisory Board meetings and two Audit Committee meetings. Furthermore, the Supervisory Board and Audit Committee discussed the 2023 preliminary business results forecast at their meeting of 24 January 2024.

The Supervisory Board and the Audit Committee discussed at their respective meetings of 13 March 2024 the draft 2023 annual report and the unaudited financial statements of Krka and the Krka Group. The statutory audit firm, KPMG, reported to the Audit Committee three times on the findings and 2023 audit procedures.

Supervisory Board and Audit Committee members received the draft 2023 Annual Report and the audited 2023 financial statements of Krka and the Krka Group on 26 March 2024. They discussed them at their respective meetings of 3 April 2024. Statutory auditors, KPMG, reported to the Committee and the Supervisory Board.

The 'Corporate governance statement' forms a part of the 2023 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 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 Krka and the Krka Group 2023 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 with regard to the draft annual report, the independent auditor's report, and the Audit Committee report, it unanimously approved the 2023 Annual Report at its meeting of 3 April 2024. 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 2023, the Company generated profit of €294,481,380.06, of which €13,922,553.48 was allocated to reserves for treasury shares and €0.00 to other profit reserves. The remaining profit of €280,558,826.58 and the retained earnings of €101,381,119.42 comprised the distributable profit, which amounted to € 381,939,946.00 as at 31/12/2023.

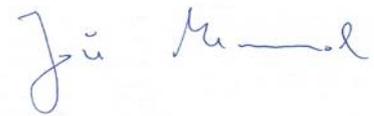
The Management Board and the Supervisory Board proposed to the AGM that distributable profit be appropriated as follows:

- Dividends €231,157,215.00, or €7.50 gross per share;
- Other profit reserves €75,391,365.50 and
- Retained earnings €75,391,365.50.

The proposal was drawn up with consideration given to the number of treasury shares as at 2 April 2024. As the number of treasury shares is subject to change, the number of shares paying dividends is disclosed on the day of the AGM. The total allocation for dividends, other profit reserves, and retained earnings will be adjusted accordingly.

Conclusion

Based on our assessment, Krka, along with its Management and Supervisory Boards, demonstrated very good performance in 2023. Skilled and motivated employees embodied the corporate values of speed and flexibility at Krka, effectively navigating market changes and seizing additional opportunities. Krka generated record sales figures in 2023 and delivered a consistent output of quality, efficacious, and safe products. The Management Board is strategising for expanded operations in 2024, with our expectation that over 100 million people will receive treatment with Krka's medicines in 2024.



Jože Mermal
President of the Supervisory Board