

Remuneration Policy for Management and Supervisory Bodies

Securities of Krka, d. d., Novo mesto (hereinafter also Krka or the company) are traded on a regulated market. Therefore, in line with Article 294 a of the *Companies Act* (ZGD-1), Krka drafted a remuneration policy for management and supervisory bodies (Remuneration Policy). The Policy will be submitted to the Annual General Meeting (hereinafter the AGM) for approval as an advisory resolution. The Management Board is the management body of Krka and the Supervisory Board is the supervisory body of Krka.

Every year, the company submits to the AGM the Report on the remuneration paid pursuant to the Remuneration Policy. The Report is prepared in accordance with Article 294 b of the *Companies Act*. The Report contains all remunerations the company gave or owed to an individual member of the management or supervisory body within the past business year, including all benefits regardless of their form.

Management Board Remuneration Policy

1. Introduction

The Remuneration Policy is based on Krka's long-term development strategy and its ESG Policy and ESG Strategy. It encourages the Management Board to achieve the company's strategic objectives and is focused on its long-term development and sustainable operations. The Supervisory Board is involved in the adoption of the strategy (Item 6.18 of Krka's *Articles of Association*). The Management and Supervisory Boards also adopt the ESG Policy and ESG Strategy.

Remuneration of Management Board members is defined further in the document. Fixed and variable remuneration is paid in cash.

2. Fixed remuneration

Fixed remuneration is determined as a multiple of the average salary of Krka employees in the last three months. These multiples are determined by the Supervisory Board upon the appointment of the Management Board and differ based on the extent of areas of work that each member of the Management Board covers.

Multiples range from four (4) to ten (10). Multiple four (4) is used for the Worker Director and multiple ten (10) for the President of the Management Board. Multiples for other Management board members range from five (5) to nine (9) and are determined by the Supervisory Board in consideration of the actual scope of tasks. When justified, the Supervisory Board may independently determine the multiples ranging from four (4) to ten (10), while considering primarily the size of the company (balance sheet total, revenue, number of employees) and the complexity of operations (organisation, internationalisation, and complexity of products, business environment and regulations).

In accordance with internal acts, the members of the Management Board are entitled to bonuses, compensations, and other payments to which Krka employees are also entitled (years of service, continuity of service, anniversary bonuses, Christmas bonus, pay for annual leave, other bonuses, compensations, and payments in accordance with internal acts).

3. Variable remuneration

The Supervisory Board determines variable remuneration in line with the remuneration policy on the basis of the opinion of the relevant committee. Performance is evaluated based on the Krka Group consolidated data, except when performance criteria specify otherwise.

The Supervisory Board measures the Management Board performance according to financial and non-financial criteria. These encourage the Management Board to achieve the objectives specified in Krka's long-term

development strategy, Krka ESG Policy and ESG Strategy, and to be focused on long-term development and sustainable operations.

Financial criteria prompt the company to launch and sell products of maximum customer value in as many markets as possible. In terms of financial criteria, effective and efficient production and performance of other business functions are very important, as well as good working capital management and risk management.

Non-financial criteria contribute to the same objectives in the long term, and additionally to other objectives, which are stipulated by Krka ESG Policy and ESG Strategy.

All performance criteria contribute to the achievement of the company's primary objective: performing gainful activities to maximise the company's value, earn profits, and at the same time act for the benefit of the company, employees, shareholders, and social community (Item 3.2 of Krka's *Articles of Association*).

3.1. Promoting long-term business performance

Krka ESG Policy and ESG Strategy define six aspects that are most significant in the long term for Krka stakeholders and Krka, and include:

- Product quality and patient safety,
- Talent attraction and retention,
- Good leadership and governance practices,
- Accessible healthcare,
- Planet and climate change; and
- Compliance, integrity and transparency.

The successful work of the Management Board related to the above aspects contributes to achieving best possible financial criteria in the long run.

Krka ESG Policy is published on SEOnet of the Ljubljana Stock Exchange. The summary information on company's sustainable operations is published also in annual reports and websites.

Variable remuneration of the Management Board is defined on the basis of evaluation of Management Board performance in achieving financial and non-financial criteria set out in Item 3.2.

Financial criteria are used to evaluate the performance of current operations and also consider past performance in achieving financial criteria.

With regard to non-financial criteria, activities of the Management Board are awarded that will positively contribute to successful performance in the future. The Supervisory Board evaluates the work of the Management Board in this area in the context of future effects (long-term performance).

In evaluating Management Board's performance, non-financial criteria represent 35.3 % of all possible points, while the rest are financial criteria.

3.2. Criteria for determining variable remuneration

The unit of payment of variable remuneration in the six-month or one year period represents the average fixed monthly remuneration of a Management Board member.

Financial criteria ¹⁾		No. of payment units
Growth in terms of sales revenue	Compared to last year's realisation:	
	• 4.1% or more than last year	2
	• Between 0.1% and 4.0% more than last year	1.5
	• The same as last year	1
	• Up to 5% less than last year	0.5

Growth in terms of sales volume	Compared to last year's realisation: <ul style="list-style-type: none"> • 4.1% or more than last year • Between 0.1% and 4.0% more than last year • The same as last year • Up to 5% less than last year 	2 1.5 1 0.5
Growth in sales revenue compared to competitors	Krka's growth rate is the same as or higher than that of competitors.	1
Increase in cash flow from operating activities	Exceeding 90% of the last year's realisation: <ul style="list-style-type: none"> • For 91%, 0.1 salary is awarded as bonus • For 92%, 0.2 salary is awarded as bonus, etc. • If 100% of last year's cash flow is achieved or exceeded, 1 salary is awarded. 	1
Increase in operating profit	Compared to last year's realisation: <ul style="list-style-type: none"> • 2.1 % or more than last year • Between 0.1% and 2.0% more than last year • Up to 5% less than last year 	3 2 1
Return on equity compared to competitors	Krka's return on equity is higher than or at least comparable to that of competitors.	1
Dividends paid	At least in accordance with Krka's long-term development strategy	1
Total financial criteria		11
Non-financial criteria²⁾		
Product quality and patient safety	<ul style="list-style-type: none"> • Very successful • Successful • Unsuccessful 	1 0.5 0
Talent attraction and retention	<ul style="list-style-type: none"> • Very successful • Successful • Unsuccessful 	1 0.5 0
Good leadership and governance practices	<ul style="list-style-type: none"> • Very successful • Successful • Unsuccessful 	1 0.5 0
Accessible healthcare	<ul style="list-style-type: none"> • Very successful • Successful • Unsuccessful 	1 0.5 0
Planet and climate change	<ul style="list-style-type: none"> • Very successful • Successful • Unsuccessful 	1 0.5 0
Compliance, integrity and transparency	<ul style="list-style-type: none"> • Very successful • Successful • Unsuccessful 	1 0.5 0
Total non-financial criteria		6

^{1 and 2} **Definition of criteria**

Sales revenue: Net revenue from sales in the income statement for the periods compared

Sales volume: Increase in quantity of products sold (tablets, capsules, injections and other forms of finished products) for the periods compared

Growth in sales revenue compared to competitors: Krka's sales growth and sales growth of competitors compared to the previous period. The competitors' sales growth represents the average of sales growth rate recorded by generic manufacturers that publish their data on business operations and are comparable to Krka according to the Supervisory Board's evaluation. If competitors' data are not published yet, annual or six-month data from the previous period are used for Krka as well as the competitors.

Cash flow from operating activities: Cash flow from operating activities in the cash flow statement for the periods compared

Operating profit: Profit from operating activities in the income statement for the periods compared

Return on equity: Ratio between the net profit for the period observed (annualised for the half-year statements) and the value of total equity as the arithmetic mean of the value at the beginning and of the value at the end of the period observed.

Dividends paid: Is the maximum percentage of net profit attributable to majority equity holders paid for dividends each year as per Krka's long-term development strategy?

Non-financial criteria. Performance is evaluated on the basis of a written report of the Management Board. Activities that will bring results in the future are scored, and past achievements are monitored in this context.

Financial criteria are used to evaluate the current year or the six-month period (short-term performance) and the past ten calendar years (long-term performance). The evaluation applied to all Management Board members consists of 60% of the current period's performance of financial criteria and 40% of the past ten calendar years' performance.

A different approach is applied for non-financial criteria, as the impact of current activities on future results is awarded.

The Supervisory Board may adopt a resolution and thus change these ponderers so that the ponder for long-term performance amounts to 50 %.

3.3. Calculation of variable remuneration: bonus and malus

If justified, the Supervisory Board may increase (bonus) or decrease (malus) the number of units calculated based on financial and non-financial criteria by a maximum of three units and thus influences the amount of variable remuneration paid. Bonus is used if the Supervisory Board assesses that the company's operations exceed the expectations in view of the business situation. Malus is used in the case of violation of corporate compliance or risk management rules or if the Supervisory Board assesses that the company could have performed better considering the business situation.

3.4. Additional provisions with regard to variable remuneration of the President of the Management Board and Worker Director

The number of units of variable remuneration for the President of the Management Board and Worker Director is additionally adjusted. Variable remuneration of the President of the Management Board is calculated by multiplying the number of units of a Management Board member by 1.2. Variable remuneration of the Worker Director is calculated by multiplying the number of units of a Management Board member by one third.

3.5. Deferred variable remuneration

The purpose of the deferred payment of the variable part of remuneration is to increase the continuity of service of Management Board members. Therefore, the Policy specifically considers members appointed to the Management Board for the first time after the adoption of the Remuneration Policy.

A two-year deferral period applies to 50 % of variable remuneration for each business year payable to the latter. Any member sitting on the Management Board under two years is not entitled to the deferred variable payment.

For members appointed to the Management Board before the adoption of the Remuneration Policy, variable remuneration is calculated and paid based on business results for the first six months (cut-off date: 30 June of the current year), when the first part of variable remuneration for the current year is calculated and paid. This part amounts up to seven units for the President of the Management Board and up to six units for all other Management Board members, but not exceeding 50% of variable remuneration annualised on the basis of current results. The payment of remaining variable remuneration is deferred for 12 months from the above cut-off date and is determined and paid based on the actual Krka Group results for the previous financial year, whereby the audited results must be comparable to unaudited results, which served as a basis for the Supervisory Board's evaluation of the Management Board's performance during the year.

The methodology of assessment and method of calculating variable remuneration is the same for all Management Board members.

3.6. Return of variable remuneration

The company may request that variable remuneration or its proportional part be returned within three years of the payment:

- If the annual report is annulled and the reasons for the annulment relate to data or information which served as the basis for determining the variable part of remuneration; or
- On the basis of the special auditor's report which shows whether the criteria for determining the variable part of remuneration have been misapplied or whether material data or indicators have not been properly identified or taken into account.

Return of variable remuneration is made first with the offset of allocated variable remuneration that has not yet been paid.

4. Fringe benefits and other earnings

- Insurance total in the amount of the annual premium not exceeding 1/12 of the annual fixed remuneration of the relevant Management Board member.. Available are supplementary pension insurance, accident insurance, supplementary health insurance, regular life insurance without unit-linked insurance, and comparable types of insurance excluding unit-linked life insurance.
- Use of a company car, also for private purposes, valued up to €70,000 including VAT or up to €90,000 including VAT if the vehicle is environmentally friendly. The vehicle may not be replaced within three years or before it reaches at least 150,000 km, unless the Supervisory Board approves this.
- Payment of membership fees for professional associations and clubs of up to €1,500 annually.
- Comprehensive annual medical examination. If performed in a medical institution outside Slovenia, the expenses covered are comparable to the amount that would have been paid at a medical institution in Slovenia.
- Members of the Management Board are also entitled to bonuses or fringe benefits to which all Krka employees are entitled.

Krka provides members of the Management Board with sufficient fixed assets for work purposes of the company and covers their expenses and entertainment expenses, taking into account good practice in companies of comparable size and best-practice codes valid in Slovenia.

5. Relative shares of fixed and variable remuneration, and net fringe benefits and other earnings

Relative shares of these categories are not determined in advance. They are influenced by business performance, which increases the share of variable remuneration. The discretion of the Supervisory Board also has an impact on determining fixed and variable remuneration in accordance with this policy.

Relative shares are disclosed every year in the report on remuneration of management and supervisory board members in accordance with Article 294 b of the *Companies Act*.

6. Legal transactions related to remuneration and severance pays³⁾ due to early termination of term of office

Service agreements for members of the Management Board are concluded with the Supervisory Board for a statutory term of office of six years and may be terminated or recalled. Members of the Management Board have the right to terminate the agreement with a six-month notice period, unless otherwise agreed with the Supervisory Board.

The company may request that a member of the Management Board not establish a competitor company or conduct business in such a company (non-competition clause) within six months after the adoption of the resolution on their

³⁾ Additional rules on severance pay and non-competition clauses are observed when concluding agreements for terms of offices that commence after the adoption of the policy, see point 10.

recall or after the termination of the agreement. A member of the Management Board is entitled to a monthly compensation in the amount of the last monthly salary for the period to which non-competition clause applies. The payment is made in the same manner as a salary payment.

In the case of a recall of a Management Board member due to economic and business reasons (Item 4, Paragraph 2 of Article 268 of the *Companies Act*), the member receives severance pay in the amount of their 12 salaries. Upon termination of the term of office for reasons indicated under Items 1 through 3, Paragraph 2, Article 268 of the *Companies Act*, the member does not receive severance pay.

In the event of termination of the term of office due to economic and business reasons and if the member remains employed at Krka, in addition to severance pay, they also receive their current salary for another six months, and the President of the Management Board the salary for another 18 months. Upon retirement, all members receive severance pay under the same conditions as all employees in accordance with the company's collective agreement.

Members of the Management Board are entitled to voluntary supplementary pension insurance, which is available to all employees of the company under the same conditions. The amounts of payments for this insurance are limited to the maximum total annual premium that still allows the employer and the employee to be eligible for claiming tax relief. This amounts to 5.844% of the employee's annual gross salary, but not more than the absolute amount stated in the *Personal Income Tax Act*.

7. Shares, share options, and participation in profit

Shares as part of remuneration are only possible if the AGM decides so on the proposal of the Supervisory Board and in accordance with relevant conditions (Item 6.7 of Krka's *Articles of Association*).

8. Payments to Management Board members for work in subsidiaries (double terms of office)

Members of the Management Board do not receive additional payments for membership on management or supervisory bodies in subsidiaries or related companies.

9. Procedures on determining, implementing, and reviewing the Management Board remuneration policy

The AGM votes on the remuneration policy and its changes. The Supervisory Board adopts the proposal for voting at the AGM. Prior to that, it is discussed by the relevant Supervisory Board committee. The Supervisory Board is responsible for the implementation and review of the remuneration policy. Prior to that, the related materials are discussed by the relevant Supervisory Board committee. Any conflicts of interest are managed in the same manner as in other areas for which the Supervisory Board or its committees are responsible.

The Supervisory Board carries out performance evaluation with regard to financial criteria based on data provided by relevant Krka departments responsible for preparing business information. Performance evaluation with regard to non-financial criteria is made on the basis of a written report describing achievements and activities. When preparing materials, the same internal controls are used as in the preparation of other business information for the Supervisory Board. With regard to payments, the same internal controls are applied as when salaries are paid to all employees. Variable remuneration of the Management Board is accounted for as current employee benefits.

On the basis of a resolution, the Supervisory Board may determine the date, operational parameters, and procedures related to the execution of payments under the provisions of this policy.

10. Additional provisions for members of the Management Board whose terms of office commence after the adoption of the remuneration policy

Fixed monthly remuneration of the company's Management Board members who assume their position for the first time after the adoption of this Remuneration Policy may not exceed €40,000 gross; this value is to increase every two years in accordance with the consumer price index growth in recent two years (the clause is to be used for the first time two years after adopting the Remuneration Policy). Their **variable remuneration** is determined in accordance with applicable financial and non-financial criteria from this policy; nevertheless, they should not exceed 100% of fixed remuneration even if permissible under the policy. However, the remuneration of members who to be appointed to the company's Management Board for the first time may be paid in full in accordance with this Remuneration Policy if the Supervisory Board decides that this is necessary for the appointment of top experts.

Additional rules to be observed with regard to **severance pay** when concluding agreements for terms of office commencing after the adoption of the policy:

- If the term of office of a Management Board member ends before half of the term expires, severance pay amounts to nine salaries of that member.
- The amount of severance pay awarded due to early termination of the term of office may not exceed the total amount of gross fixed remuneration that a member of the Management Board would have received by the end of their term had they complete it.
- Generally, a member of the Management Board is entitled to severance pay due to early termination of their term of office only if they held the position continuously for at least one year. However, the Supervisory Board may decide that severance pay in such cases amounts to up to three salaries of this member.
- If a member of the Management Board continues to work at the company after the early termination of their term or if they are employed at its subsidiary or related company, the difference between salaries constitute the basis for the payment of severance pay, whereas the number of severance pays is the same as otherwise.
- The company may request that a member of the Management Board not establish a competitor company or conduct business in such a company within six months after the adoption of the resolution on their recall or after the termination of the agreement. A member of the Management Board is entitled to a monthly fixed compensation in the amount of 0.75 of the last monthly fixed remuneration for the period to which non-competition clause applies. The payment is made in the same manner as a salary payment.

11. Remuneration of the management and supervisory body members of companies in the Krka Group

Krka is the sole owner of the subsidiaries incorporated as limited liability companies, except in countries where this is not possible due to provisions of local legislation. Remuneration of the management body members of these companies is based on their business results, local circumstances and legislation.

Management Board members of the controlling company do not receive additional payments for their work in management bodies of the companies in the Krka Group (point 8 of the Policy).

Supervisory Board remuneration policy

The Supervisory Board contributes to compliance with a suitable development strategy, long-term development, and sustainability of the company's operations by selecting and appointing members of the Management Board and carefully supervising the company's operations and management. In accordance with the provisions of the *Articles of Association*, the Supervisory Board gives the Management Board prior approval for the adoption of the company's annual business and financial plan and its strategy. In accordance with the *Companies Act*, it also performs a number of other supervisory tasks. As per *Articles of Association*, the term of office of Supervisory Board members is five years.

Members of the Supervisory Board receive payment for performance of their function, attendance fees, and reimbursement of expenses. The amount and structure of payments is determined by an AGM resolution. The proposal for the AGM is prepared by the Supervisory Board on the basis of recommendations of good practice, thus managing the risk of conflicts of interest, and on the opinion of the relevant Supervisory Board committee.

The company applies the same internal controls for the payment of remuneration to Supervisory Board members as for payments of salaries and payments to business partners.

Supervisory Board members receive an attendance fee of €360.00 gross per member for attending the Supervisory Board meetings. Supervisory Board committee members receive an attendance fee for their participation in committee meetings. The attendance fee for committee meetings accounts for 80% of the attendance fee received for Supervisory Board meetings. The attendance fee for participating in correspondence sessions amounts to 80% of the usual attendance fee. Irrespective of the above and of the number of attendances in a financial year, each member of the Supervisory Board is entitled to receive attendance fees up until the total amount of attendance fees reaches 50% of the basic annual pay for exercising their function on the Supervisory Board. Irrespective of the above and of the number of Supervisory Board and committee meetings attended in a financial year, the Supervisory Board members who are members of one or more Supervisory Board committees are entitled to receive attendance fees up until the total amount of attendance fees received, based either on attending Supervisory Board meetings or Supervisory Board committee meetings, reaches 75% of the basic annual pay for exercising their function.

In addition to attendance fees, the Supervisory Board members receive a basic annual pay of €21,000.00 gross per member for exercising their function. The President of the Supervisory Board is entitled to additional compensation amounting to 50% of the basic pay for exercising the function of a Supervisory Board member. The Deputy President of the Supervisory Board is entitled to additional compensation totalling 10% of the basic pay for exercising the function of a Supervisory Board member.

Supervisory Board committee members receive additional compensation amounting to 25% of the basic pay for exercising the function of a Supervisory Board member. The presidents of committees are entitled to additional compensation totalling 37.5% of the basic pay for exercising the function of a Supervisory Board member. Every financial year, irrespective of the above and thus of the number of committees where an individual is a committee member or president, each Supervisory Board committee member is entitled to additional compensation for exercising their function up until the total amount of additional compensation reaches 50% of the basic annual pay for exercising the function of a Supervisory Board member. Every financial year, irrespective of the above and thus of the number of committees where an individual is a committee member or president—if the Supervisory Board member's term of office is shorter than the financial year—the Supervisory Board committee member is entitled to additional compensation for executing their function up until the total amount of additional compensation reaches 50% of the basic annual pay for exercising the function of a Supervisory Board member, taking into account payments to which they are entitled for the duration of their term of office in the financial year.

Supervisory Board members are also eligible for additional compensation for special tasks. A task is considered a special task when it is unusual, extends over a longer period of time, is more complex, and generally lasts for at least a month. With the consent of the Supervisory Board member, the Supervisory Board has the authority to assign special tasks to this member, decide on the tasks' duration and on additional compensation for performing special tasks in accordance with the resolution of the AGM. In accordance with this AGM resolution, the Supervisory

Board also has the authority to decide on additional compensation for special tasks of Supervisory Board members resulting from objective circumstances at the company. Additional compensation for special tasks is only permitted during the period when special tasks are actually performed. The Supervisory Board is exceptionally allowed to decide on such matter retrospectively (especially with regard to special tasks resulting from objective circumstances at the company), but only for the previous financial year. Members are allowed to receive annual additional compensation for special tasks, which may not exceed 50% of the basic pay for exercising the function of a Supervisory Board member, regardless of the number of special tasks performed. When determining the amount of additional compensation, the complexity of a special task is considered and the related increase in workload and responsibility. Additional compensation is calculated according to the time required to actually perform the special task.

Supervisory Board members receive a basic pay, additional compensation for exercising their function, and additional compensation for performing special tasks in equal monthly payments, to which they are entitled as long as they exercise their function and/or perform a special task. The monthly payment amounts to one twelfth of the above annual amounts. Depending on circumstances, additional compensation for special tasks may also be paid in a lump sum when the special task is completed.

The limit on total amount of attendance fees or additional compensation paid to Supervisory Board members do not affect, in any way or form, their obligation to actively participate in all Supervisory Board meetings and meetings of the committees of which they are members, and their legal liability.

The Supervisory Board members are entitled to reimbursement of travel and accommodation expenses incurred in connection with their work on the Supervisory Board up to the amount specified in the rules regulating the reimbursement of work-related expenses and other income not included in the tax base (provisions applicable to business travel and overnight accommodation on business trips). The amount that a Supervisory Board member is entitled to in accordance with the above rule has to be grossed-up so that the net payout equals actual travel expenses incurred. Mileage is determined based on distances between places calculated on the website of AMZS (Slovene national automobile association). Accommodation expenses may only be reimbursed if the distance between the permanent or the temporary residence of a Supervisory Board member or a Supervisory Board committee member and their place of work is at least 100 kilometres and if the member is not able to return to their place of residence due to unavailability of public transport or other objective reasons.

Final provisions

This remuneration policy enters into force after the voting at the AGM of 6 July 2023.