NOVARTIS

Novartis LLC Annual Report 2023

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Novartis LLC Annual Report 2023

We are a focused innovative medicines company, the first in the history of the Slovenian pharmaceutical industry.

With the help of cutting-edge technology, we support the development and production of innovative medicines to treat diseases for which there is still a high unmet treatment need.

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Introduction

Business report

In 2023, Novartis LLC ("Novartis" or the "Company") put in place key organizational structures and processes and began to operate within the Novartis Group as a focused innovative medicines business. Novartis supports the Novartis Group's four core therapeutic areas and participates in all five of its technology platforms, developing and manufacturing medicines for global supply. Our vision under the Novartis Group is to become the most reliable and valued medicines company, a goal we aim to achieve by manufacturing and delivering innovative, high-quality medicines to our patients at optimal cost, by adhering to sustainable practices, ensuring safety, and by delivering impact and excellence through innovative solutions, digitalization and process simplification.

Novartis' key areas of research and development, production and activities are as follows:

- **Biologics Technical Development Mengeš**
- **Drug Substance Bioproduction Mengeš**
- **Chemical Operations Mengeš**
- **Solids Ljubljana**
- **Novartis Corporate Center**
- **Global and local support functions**

A key milestone for the Company last year was the global spin-off of the Sandoz Group, implemented in Slovenia as a spin-off by acquisition, with the existing legal entity, Lek d.d., remaining under the Sandoz Group and the innovative medicines development and production business being spun off from Lek d.d. and acquired by Novartis. Our employees provided support in the spin-off and acquisition activities and the establishment of mutual services in accordance with the respective agreements for the Ljubljana and Mengeš operations. Through their expertise and close collaboration, they provided the legal framework, carried out the required regulatory activities, and obtained the necessary certificates and authorizations so that operations could continue under the new organization.

Despite the strong structure of the new organization and development pipeline, the macroeconomic trends in 2023 were fraught with challenges, mainly related to inflation, political instability and natural disasters, including widespread flooding in Slovenia. The low unemployment rate in Slovenia presented challenges in hiring new talent to compensate for the normal employee turnover rate and additional staff to support Novartis' growth. However, these factors did not have a significant impact on Novartis' performance.

In 2023, the Novartis Group achieved strong sales growth across multiple brands, driven significantly by the volumes produced at the manufacturing facilities and support activities at Slovenian sites. The competence, commitment and agility of our organization translated into an ability to overcome adverse external factors, to respond quickly to change and support the massive increase in market demand for our portfolio, and to effectively launch a wide range of new technologies and new products coming through the development pipeline. Novartis successfully supported a number of development projects and contributed to the first international commercial launches of the Novartis Group's key innovative medicines, namely the pediatric dosage forms of Entresto and Tafinlar, and Fabhalta.

Our innovation efforts and advances in digitalization have been recognized both internally within the Novartis Group and beyond. Our Technical Research and Development and Bioproduction employees have been awarded the Gold National Innovation Award by the Chamber of Commerce and Industry of Slovenia for their major process innovation.

Last year, the Novartis Group invested heavily in Slovenian sites, both in technical research and development and in production facilities. In addition to smaller investments enabling gradual volume growth and the launch of new products from the medicines portfolio and environmental sustainability solutions, we continued construction on the new Aseptics Ljubljana plant, the expansion of packaging capacity at the Solids Ljubljana plant, the Viral Vectors plant and the doubling of production capacity for biologics in Mengeš. We also started construction on the new Biologics Technical Development Center (BioCampus) in Mengeš.

We remain focused on achieving high quality and occupational safety standards complemented by environmental sustainability initiatives to contribute to the Novartis Group's targets of becoming carbon neutral in the coming years, reducing its water consumption by 50%, and halving the amount of waste sent for disposal compared to the 2016 baseline.

As at the date of registration of the spin-off by acquisition (July 3, 2023), Novartis began its operations with 3,401 employees. With the expansion of development, manufacturing and global activities at the Novartis Corporate Center, our headcount grew by more than 200 to a total of 3,608 employees by the end of 2023.

A key milestone for the Company last year was the global spin-off of the Sandoz Group, implemented in Slovenia as a spin-off by acquisition, with the existing legal entity, Lek d.d., remaining under the Sandoz Group and the innovative medicines development and production business being spun off from Lek d.d. and acquired by Novartis.

Within the new organization, we continued to implement the Novartis Group's best practice principles for employees to keep them motivated and committed to our mission. Through global and local initiatives such as Wellbeing, we supported them in growing their careers and nurtured their physical, mental and social wellbeing. As part of our policy of promoting a diverse and inclusive environment, we supported nine local ERGs (Employee Resource Groups) and prepared our organization for the hybrid working model and the pay and reward transparency model rolled out in Q1 2024 under the EPIC (Equal Pay International Coalition) Pledge.

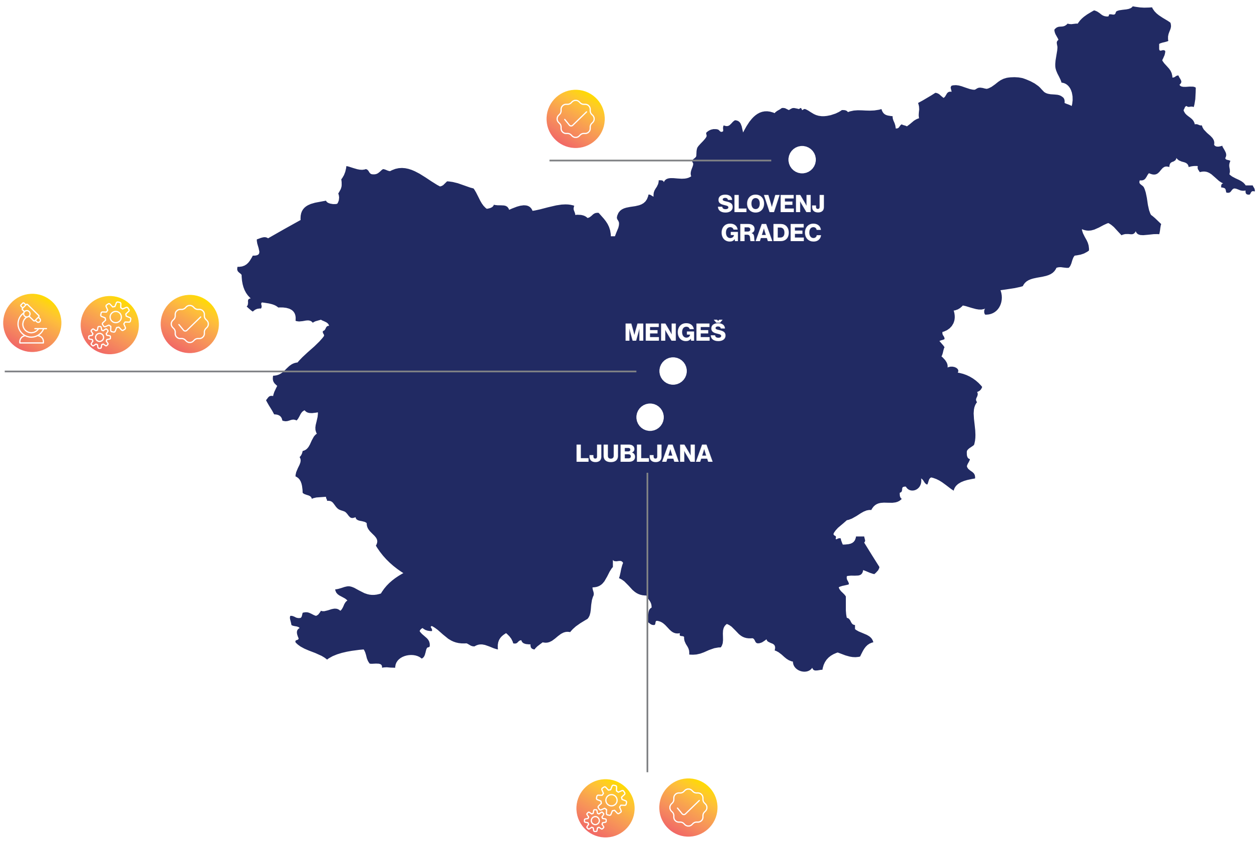
With their knowledge and culture of innovation and improvement, our employees have been and will continue to be the cornerstone of our business performance and growth. In 2024, we will continue our journey as an innovative medicines company with a steady focus on delivering new treatments for patients in Slovenia and across the globe.

Petra Štefanič

Petra Štefanič Anderluh
General Manager

Ljubljana, May 21, 2024

Novartis sites:



RESEARCH & DEVELOPMENT

PRODUCTION

GLOBAL AND LOCAL FUNCTIONS

Mission

Reimagining medicine to improve
and extend people's lives

Vision

Become the most valued and trusted
medicines company in the world.

Values

Inspired. Curious. Unbossed. Integrity.

Strategy

Deliver high value medicines that alleviate
society's greatest disease burdens through
technology leadership in R&D and novel
access approaches.

Supervisory Board's report

The Supervisory Board held one ordinary meeting in 2023, at which it adopted the Rules of Procedure of the Supervisory Board, and reviewed Novartis' operations and objectives, the risks to which it was exposed, and the impact on the Company associated with Sandoz's spin-off from the Novartis Group.

The Supervisory Board finds that Novartis has performed well despite various external and internal factors, as confirmed by the results achieved and the Company's uninterrupted operation. In addition to the continuing war in Ukraine and the related energy and economic crisis, war broke out between Israel and Palestine toward the end of 2023. The Supervisory Board finds that these international political circumstances did not have a significant impact on the Company's business. In August 2023, Slovenia suffered extensive flooding, which did not directly affect the Company's Ljubljana and Mengeš sites and did not have a significant impact on its operations. The floods affected some of the Company's employees and the surrounding area, however, and the Novartis Group responded in solidarity through donations to the Red Cross,

The Supervisory Board finds that Novartis has performed well despite various external and internal factors, as confirmed by the results achieved and the Company's uninterrupted operation.

financial aid to employees, and other forms of support. The Company was strongly affected by the Sandoz spin-off accompanied by the spin-off by acquisition under the demerger and acquisition agreement signed between Lek d.d. as the transferor and Novartis as the acquirer. Despite all this, Novartis' key priorities in 2023 were to ensure the health and safety of its employees and maintain the right conditions for the smooth production and delivery of medicines to patients.

Novartis is making significant investments in the Ljubljana and Mengeš sites, embodying and enabling the continued successful expansion of the Company's business and supporting a high level of innovation in processes and the development of new medicines. Novartis is thus making a significant contribution to the success of the global Novartis Group and realizing the long-term vision of Novartis in Slovenia.

The Supervisory Board supports the management in implementing its risk management policy and finds that Novartis was successful in 2023 in continuously implementing the internal control procedures and methods required by the US Sarbanes–Oxley Act, which is binding on the Novartis Group due to its shares being listed on a US stock exchange.

The Supervisory Board would like to take this opportunity to thank the management and all of the Company's employees for their successful execution of projects, including activities related to the spin-off, for their work and for the Company's results, which once again contributed significantly to the achievement of the Novartis Group's strategy in 2023.

Ljubljana, May 21, 2024

Jelica Zdolšek
Chair of the Supervisory Board

Technology platforms

Chemistry

Biotherapeutics

xRNA

Radioligand therapy

Gene and cell therapy

Core therapeutic areas

Cardiovascular, renal and metabolic

Oncology

Immunology

Neuroscience

Major events and investments

Spin-off by acquisition

On December 15, 2022, Novartis and Lek d.d. ("Lek") entered into a demerger and acquisition agreement, later amended by an addendum dated February 14, 2023, which was registered and became legally effective as of July 3, 2023. Under the demerger and acquisition agreement, Lek's activities relating to the development and production of innovative medicines were divested by Lek and acquired by Novartis.

Under the agreement, the Solids Ljubljana production site, BioCampus Ljubljana and the Novartis Corporate Center in Ljubljana were transferred to Novartis. The transfer also included the DS Bioproduction and ChemOps facilities as well as the Biologics Technical Development and BioCampus sites in Mengeš.

Novartis acquired properties (land, buildings and warehouses) in Ljubljana and Mengeš, movable assets (free devices, spare and replacement parts, machinery, equipment, tools, furniture, vehicles), inventories of materials, work in progress and finished goods, contracts and the relevant parts of all shared contracts, the employment relationships of staff transferred to Novartis to support the operation of the facilities transferred as part of the asset transfer, right-of-use assets and intangible assets, receivables, and loans receivable.

The spin-off by acquisition was carried out in compliance with the following laws: the Companies Act (ZGD-1), the Corporate Income Tax Act (ZDDPO-2), the Tax Procedure Act (ZDavP-2), the Value Added Tax Act (ZDDV-1), and the Employment Relationships Act (ZDR-1).

Investment in a new high-tech biologics development center in Mengeš

In early July 2023, we celebrated the start of construction on the BioCampus Biologics Technical Development Center in Mengeš, which will provide new development capabilities, including clinical manufacturing to support early-stage clinical trials of next-generation biologics.

Celebration of the investment in the BioCampus at the Novartis location in Mengeš, in the presence of Prime Minister of the Republic of Slovenia, dr. Robert Golob (in the middle).

The new center, expected to be operational in 2026, will create more than 100 new jobs for bioscience and biotechnology professionals, while supporting the development of complex biologics with new technological infrastructure and capabilities.

Novartis' business strategy fully incorporates the sustainability aspects of our business. We therefore paid great attention to energy and environmental efficiency in designing the new center. The materials used and systems put in place will, among other things, reduce the building's energy consumption, ensure thermal comfort and improve air quality.

Investment in a new aseptic production facility in Ljubljana

Novartis location in Ljubljana.

As part of the spin-off, the initial investment in the construction of a new production facility for aseptics, vials and syringes at the Company's Ljubljana headquarters was transferred to Novartis. The investment is co-funded by the Ministry of Economic Development and Technology. The new plant is expected to start operations in 2025.

It will be the first Novartis plant for the production of aseptic products in Slovenia and at the same time the only one in Novartis that will have all the technologies needed for aseptic filling of innovative Novartis products in one place. It is expected to employ around 300 employees in the final range.

Investment in a new viral vectors production facility in Mengeš

Viral vector facility in Mengeš.

In 2023, we started construction on VIFA One, a specialized facility for the production of viral vectors in Mengeš, which is expected to be completed in 2024. It will aim to support the production of cell and gene therapies, as viral vectors are a key part of these breakthrough therapies designed to treat certain gene and autoimmune diseases and cancer.

VIFA One marks Novartis' first foray into the production of viral vectors in Europe and symbolizes a significant expansion of our research and manufacturing capabilities in the biopharmaceutical sector.

The end-to-end facility will bring all processes under one roof, operating in a fully automated production environment using advanced robotics that will ensure precision and efficiency at every stage of the production process. The state-of-the-art methodology not only sets a new industry standard, but will also greatly enhance our capacity to deliver ground-breaking therapies and ensure that we meet the highest quality standards for every product we produce.

https://skan.com/en/products/isolators/robocell/

Investing in sustainable technologies

Novartis Archive

Novartis' business strategy also includes many sustainable aspects of business. In 2023, more than 30 projects were carried out at Novartis locations in Slovenia to increase energy efficiency, reduce water consumption and reduce waste. Investments in sustainable technologies in the amount of around €15 million are currently underway, the most important of which are the zero-emission turbine in Mengeš and the wastewater treatment plant in Ljubljana.

Corporate governance statement

In accordance with Article 70(5) of the Companies Act (ZGD-1),
Novartis Pharmaceutical Manufacturing LLC ("Novartis" or the "Company") hereby issues the following

Corporate governance statement:

Novartis' management and Supervisory Board hereby declare that the Company was managed in compliance with the provisions of the Companies Act (ZGD-1) and other applicable regulations binding on Novartis in the 2023 financial year.

This corporate governance statement is an integral part of the annual report for 2023.

Applicable corporate governance code

Novartis was not subject to any corporate governance code in the 2023 financial year, and the Company has not voluntarily adopted any other publicly available corporate governance code.

The primary reason for not applying a publicly disclosed corporate governance code is the fact that Novartis has a sole shareholder, i.e. Novartis Pharma AG, and is therefore part of the Novartis Group. As part of the Novartis Group, Novartis is bound by a number of internal policies of the Novartis Group that regulate matters otherwise covered by corporate governance codes, namely the relations between the Company and its shareholder, the composition, operation and remuneration of the supervisory body and the composition, operation and remuneration of members of the management body, public reporting, auditing, internal controls, and risk management.

Provisions on corporate governance are also contained in Novartis' articles of association, which is publicly available on the website of the Slovenian Business Register.

Description of the main features of the Company's internal control and risk management systems in relation to the financial reporting process

Novartis' management is responsible for maintaining the Company's books of account, selecting and implementing internal control systems, managing the Company's risks, and financial reporting on a going concern basis in accordance with applicable law and International Financial Reporting Standards.

Novartis' internal control system is designed and implemented based on the Novartis Group's internal control system. The contents and features of the system are governed by the Novartis Financial Controls Manual (NFCM), which is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework. Each year, the Company's business reports on the effectiveness of its internal controls by issuing a SOX 404 letter in accordance with the US Sarbanes–Oxley Act.

To ensure the comprehensive, effective and verifiable management of business risks, Novartis has a risk management function in place, which is responsible for coordinating risk management across the Company, ensuring that management is appropriately informed of the significant risks of individual departmental units within the Company, and advising and supporting management in managing the Company's exposures. The risk management function also establishes risk management standards, supports their consistent application, and maintains and reviews the Company's risk management system. A unified system of companywide risk assessment criteria and a reporting system at the level of individual departmental units are in place.

Information pursuant to Article 70(6) of the Companies Act

a) Novartis' share capital structure and ownership structure

Novartis has a share capital of EUR 7 500.00 consisting of a single subscribed contribution. The subscribed contribution of the sole shareholder, Novartis Pharma AG, amounts to EUR 7 500.00. The sole shareholder therefore holds a business share corresponding to 100% of the Company's share capital. The sole shareholder may, by resolution, decide to make subsequent contributions in cash or in kind.

b) Restrictions on the transfer of business shares

The sole shareholder may sell or otherwise transfer its business share, in whole or in part, to a third party.

c) Company rules on the appointment and replacement of members of the management and supervisory bodies

Novartis has one or more directors who assume responsibility for managing and representing the Company. Any restrictions on a director's powers of representation and other powers are set out in a resolution of the Supervisory Board. Directors are appointed by the Supervisory Board for a renewable fixed term of five (5) years and may be removed at any time, with or without cause. Novartis is represented jointly by two directors, or by a single director together with one authorized signatory, if appointed. The directors appoint a general manager from among themselves by a resolution. The general manager provides overall direction to the management and has other powers and responsibilities as set out in the Rules of Procedure of the Management of Novartis LLC.

The Supervisory Board consists of five or six members, three or four of whom are appointed by the sole shareholder, whereas two are elected by the works council. Members of the Supervisory Board are appointed for a term of four (4) years and may be removed in accordance with the provisions of the Companies Act, with or without cause. The Chair and Deputy Chair of the Supervisory Board are elected by the members of the Supervisory Board from among the representatives of the sole shareholder.

d) Company rules on amendments to the Articles of Association

As Novartis LLC's Articles of Association do not contain any specific provisions on amendments to the Articles of Association, the statutory provisions of the Companies Act apply to the procedure and required majority vote for the amendment of the Articles of Association.

e) Powers of members of management

Novartis is managed and represented by its management, with the Articles of Association providing that the Company is validly represented either jointly by two directors or by a single director together with an authorized signatory, unless otherwise provided for a particular transaction by law, the Articles of Association or a resolution of the sole shareholder.

Members of management may delegate individual powers and duties within their competence, including the power to represent Novartis, to individual employees of the Company or others. Members of management cannot delegate their powers in their entirety. Any delegation of powers and duties does not relieve management as a whole or individual directors of their responsibility.

Clarifications on the functioning and key powers of the sole shareholder

Novartis is managed by its sole shareholder, NovartisPharma AG. The sole shareholder puts all its decisions concerning the Company's management in writing. The sole shareholder takes decisions whenever required or deemed necessary by the sole shareholder, and in any event at least once a year to decide on the appropriation of Novartis' accumulated profits for each financial year. The sole shareholder enters resolutions in Novartis' book of resolutions as required by applicable regulations.

Novartis' Articles of Association provide that the sole shareholder decides independently on: the appropriation of distributable profits; the payment of subsequent contributions; the repayment of subsequent contributions; increases and decreases of Novartis' share capital; the appointment and removal of members of the Supervisory Board; the remuneration of members of the Supervisory Board; the appointment of the Company's auditor; the approval of annual reports if not approved by the Supervisory Board or if the Supervisory Board has delegated the decision on the approval of the annual report to the sole shareholder; the approval of transactions of the Company required to be approved by the sole shareholder pursuant to the Articles of Association or a resolution of the sole shareholder; amendments to the Articles of Association; changes of the Company's legal form; the dissolution or liquidation of the Company; and other matters as provided by the Articles of Association or by law.

Information on the composition and functioning of the Company's management or supervisory bodies

a) Composition and functioning of the management

The functioning of the management is governed by Novartis' Articles of Association and Rules of Procedure of the Management. In 2023, the management discussed matters within its area of responsibility at 21 meetings, of which 12 were ordinary and nine extraordinary.

The composition of Novartis' management during 2023 and up to the reporting date was as follows:
- **Robert Ljoljo** (from January 1, 2023 to January 19, 2023)
- **Andreja Bucik Primožič** (from January 1, 2023 to January 19, 2023)
- **Jana Petek**, Director (from January 19, 2023 to January 10, 2024)
- **Mihaela Žuran**, Director (from January 19, 2023)
- **Polonca Kuhar**, Director (from January 19, 2023)
- **Uroš Urleb**, Director (from January 19, 2023)

- **Petra Štefanič Anderluh**,
  General Manager (from January 10, 2024)
- **Marjan Novak**, Labor Director (from April 10, 2024)

b) Composition and functioning of the Supervisory Board and its committees

The Supervisory Board held one ordinary meeting in 2023, at which it adopted the Rules of Procedure of the Supervisory Board, approved the appointment of the members of the Supervisory Board, and reviewed Novartis' operations and objectives, the risks to which it was exposed, and the impact on the Company associated with Sandoz's spin-off.

Novartis' Supervisory Board was established on July 12, 2023, and in 2023 was composed as follows:

- **Jelica Zdolšek**, Chair (from July 12, 2023)
- **Petra Štefanič Anderluh**, Deputy Chair
  (from July 12, 2023 to December 22, 2023)
- **Jonathan Michael Novak**, Member
  (from July 12, 2023 to December 22, 2023)
- **Miha Thuma**, Member – employee representative
  (from September 28, 2023)
- **Sebastijan Žic**, Member – employee representative
  (from September 28, 2023 to December 14, 2023)
- **Kurt Christoph Buerki**, Member
  (from December 22, 2023)

c) Diversity policy for representation in the Company's management or supervisory bodies

Novartis respects the diversity of its employees, patients and other stakeholders and is committed to ensuring their equal inclusion in its operations. The Company also promotes gender and educational diversity in its management and supervisory bodies. In most of 2023, the management consisted of four members with the following gender composition: 25% men and 75% women.

Novartis' Supervisory Board was initially composed of three members in 2023, with 66.6% of the members being female. At the end of 2023, the same percentage of the Supervisory Board was composed of male members with an unchanged total number of members.

The Novartis Group, including Novartis, has a solid foundation for diversity, equity and inclusion in place that we build on every day to create an inspired, curious and unbossed culture. Our culture is based on integrity and on creating a diverse, safe and inclusive workplace where everyone can be themselves without fear of discrimination. As advocates and role models, we support a culture of diversity, equity and inclusion both in the workplace and in our wider environment.

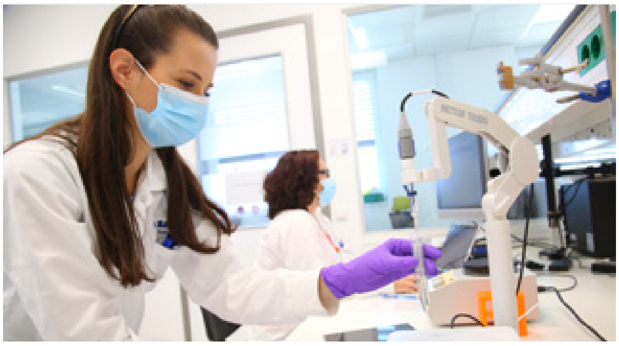
The Diversity, Equity and Inclusion initiative comprises four pillars: people with disabilities, the LGBTQI+ (Lesbian, Gay, Bisexual, Transgender, Queer and Intersex) community, cross-generational collaboration, and diverse talents.

Management Report

Key achievements in 2023

Biologics Technical Development Mengeš

In terms of its work and achievements, 2023 was a successful year for Biologics Technical Development Mengeš. The year marked the start of construction on the high-tech Biologics Technical Development Center (BioCampus).



Laboratory in Biologics Technical Development Mengeš

During the year, the unit had 39 development projects for innovative and biosimilar medicines in various stages of development, of which more than 60% were innovative biologics. In line with our strategy, in addition to implementing critical infrastructure, we made technological improvements to address the increasing complexity of biologics. Targeted development is increasingly based on informed development, enabled by the introduction and use of the latest in silico technologies. In implementing those technologies, our researchers actively contributed to shaping the regulatory landscape, which will allow for the faster registration of biologics and access to innovative medicines for patients in the future. In 2023, we also successfully completed inspections and audits and achieved all key milestones for development projects.

Our work also has a broader impact in the world of pharmaceutical technologies – last year, our employees published several papers in scientific journals, including one in Nature, which is one of the world's most influential scientific journals, having a major impact on certain topics in the industry.

Last year, we continued to optimize processes through automation and digitalization, following modern trends, implementing internally and externally developed digital solutions and seeking to automate laboratory processes wherever possible. As part of those efforts, we introduced custom-made digital solutions into our work processes with the aim of going completely paperless, which we have already achieved in our development labs. We introduced laboratory robots in the GMP (Good Manufacturing Practice) regulated environment and invested in the development and implementation of other automated solutions with the aim of speeding up processes and increasing efficiency.

Laboratory in Biologics Technical Development Mengeš

The expertise and in-depth scientific work of our employees was also recognized more broadly both within and outside the Novartis Group in 2023. Our employees at Biologics Technical Development Mengeš, together with employees from DS Bioproduction, were awarded the gold award for innovative achievements by the Chamber of Commerce and Industry of Slovenia for a process innovation that improves productivity, efficiency and flexibility in the production of biological molecules and is more environmentally sustainable. The breakthrough technology promotes competitiveness and makes biologics more accessible to a wider patient population.

We further strengthened our collaboration with business partners as well as academic and research institutions with which we have worked closely for decades. Continuous learning, creation of new knowledge and transfer of knowledge and experience to young future researchers are essential. Last year, we hosted several groups of students to familiarize them with our work and career opportunities, and our researchers gave lectures at universities. We continued to collaborate on master's theses and doctoral dissertations and participated in scientific conferences organized by local academic groups. For the fifth time, we organized an Open Academia Day in cooperation with academic institutions, further consolidating our model of collaboration with academia.

Solids Ljubljana

Storage containers in the Solids Ljubljana production site.

Coting drum in the Solids Ljubljana production site.

The Solids Ljubljana production site was significantly impacted by the Sandoz spin-off in 2023, which required process adjustments in a number of areas. Our employees supported the spin-off and acquisition activities while still remaining focused on our core mission – to deliver quality medicines for our patients.

During the year, new launches and transfers further increased the share of innovative medicines in our portfolio. After two years of production at our site, Entresto has become one of our most important products. We successfully implemented several improvements in its production process, leading to a record monthly production volume of 200 million tablets in October.

We added a second hot-melt extrusion line, which allowed us to produce a record 63 million Eucreas tablets for the first time in October. At the end of the year, we introduced two new packaging lines in the Packaging unit – one for plastic bottles, which is particularly suitable for efficiently packaging small batches, and one for blister packs.

We played a key role in the launch of the pediatric dosage form of Entresto, which is manufactured as well as packaged at our site, by validating the pediatric formulation using mini-tablet technology and launching the product in the European Union.

We also played an important role in the global launch of Iptacopan, which is packaged at our site.

Last year, we continued to introduce new innovative technologies and products:

- We produced the first development batch of Scembix in a form suitable for children. We used our mini-tablet technology, leveraging the experience gained in developing the pediatric dosage form of Entresto.
- We produced a number of development batches of the antimalarial KLU155, which incorporates a wide range of innovative technologies. This brings us ever closer to bringing the new medicine to market and helping patients, particularly in sub-Saharan Africa.
- Using new nanomilling technology, we produced validation batches of LOU064.
- Following the successful transfer of Gilenya in pediatric dosage form, we placed the product on the market for the first time. Through a complex technology transfer, our teams installed and upgraded new very low-capacity equipment (less than 5 kg of granulate).
- We commissioned a new continuous production line for solid dosage forms.

Quality and safety remain the foundation on which we consistently build our success. We successfully passed a number of audits by health authorities and customers, including a very demanding review by the Belarusian medicines agency.

Chemical Operations Mengeš

Production facility for the active pharmaceutical ingredients for innovative medicines

Production facility for the active pharmaceutical ingredients for innovative medicines

ChemOps Mengeš performed well in the turbulent year of 2023. High production capacity utilization and excellent planning of production and other business processes enabled the smooth production and supply of our active ingredients to customers. Organizational changes resulting from the Sandoz spin-off required agility from all employees, who supported the spin-off and acquisition activities while remaining focused and successfully continuing all ongoing projects aimed at increasing productivity and reducing operating costs. A total of 30 small-scale environmental projects were completed to increase energy efficiency and reduce water consumption and waste.

We launched Iptacopan in the US, confirming the successful development and commercialization of this focus product in one of Novartis' key markets.

2023 was a year of technology transfers for ChemOps Mengeš. We successfully completed the technical transfer of Kisqali and Dabrafenib, demonstrating our high level of know-how in transferring technologies from development to manufacturing. Technical transfers of Promacta, Jakavi, Ascomicin are ongoing and planned to be completed by Q3 2024. This reflects our continuous efforts to expand our product portfolio and our capabilities and expertise. With all the completed transfers, we are on track to revamp our product portfolio by the end of 2026, when innovative pharmaceuticals will make up 70% of our production.

Quality and safety remain the foundation on which we consistently build our success. In 2023, we successfully passed a Novartis Group health, safety, environment (HSE) audit.

Drug Substance Bioproduction Mengeš

Biologics drug substances production facility in Mengeš.

Manufacturing Sciences and Technologies (MS&T) laboratory in DS Bioproduction Mengeš

We successfully commissioned additional capacities at our biologics production site in Mengeš, completed eight transfers of new innovative molecules and biosimilar molecules, carried out three process validations, and produced clinical and commercial batches of several new medicines. In 2023, we produced a total of 73 batches, 30 more than in 2022. As for production expansion, we started activities to establish the first Novartis viral vector facility in Europe. We also worked intensively on an investment project to further increase (double) production capacity, set to be completed in 2024.

High utilization rates were recorded on the erythropoietin (EPO) production lines, increasing batch sizes by a factor of 1.5. Over the past year, we continued to optimize processes and successfully completed a digitalization project to implement a highly integrated system for the production and completion of electronic production reports. A record annual volume of erythropoietin was thus produced in 2023.

The year was also a busy one in terms of both internal and external audits. We successfully passed several audits by various regulatory bodies, including the US Food and Drug Administration (FDA).

Novartis Corporate Center (NOCC)

At NOCC Ljubljana, we have supported the operational activities and strategy of production sites by providing solutions in various fields such as engineering, information technology, supply chain management, training and education, finance, safety and environmental sustainability.

NOCC Inženiring has planned and implemented investments of higher values, among the largest investments in the Biocampus Mengeš Development Centre and new aseptic production in Ljubljana. We have also made full use of 3D printing to produce spare parts, where savings compared to original spare parts from suppliers can reach up to 80%.

NOCC Finance has provided continuous financial support for the most important manufacturing sites, global platforms, local and global functions within Novartis Activities, while actively supporting the financial aspects of the Sandoz division project and new financial reporting requirements.

Our team members have been recognized on numerous occasions for a proactive partnership with production teams on sites and within global functions, which also contributed to a very good average customer satisfaction rating of our services, which was carried out in Q4 2023.

In the field of DD&IT (Data Digital & IT), we have made significant progress in strengthening the technological infrastructure and user experience. We would particularly highlight the successful implementation of the spin-off project, which included large-scale upgrades of applications. Novartis' team provided a state-of-the-art operating system by building a new data center for Sandoz and reorganizing Novartis' terminal infrastructure.

Supply Chain Management has successfully completed some key lifecycle events, including transfers of medicines and finished products to brands such as Kisqali, Entresto, Mayzent, Myfortic.

In 2023, we also opened new offices in Slovenj Gradec, intended for colleagues working in Carinthia.

Global and local functions

Our **Finance** staff were the driving force behind the spin-off of the generics business, transferring numerous assets and multi-millions of values to Novartis, implementing new tools and processes, and ensuring compliance and reliable reporting with the new organizational structure of the Finance unit. In addition, we continuously supported the achievement of Novartis' successful results in 2023.

People & Organizations (P&O) employees played a key role in the spin-off process, arranging, among other things, the transfer of 3401 employees to the newly established Novartis entity and adapting internal guidelines and regulations. We developed a new Talent Value Proposition and recruited a significant number of new staff. We also defined the three strategic pillars of the Energized for Life initiative, implemented activities under the initiative and supported employees affected by the floods.

Our **Legal** staff were indispensable in all key strategic projects in 2023, most notably in

- the successful and timely implementation of the complex spin-off (including the execution of agreements governing the relationship between Novartis and Lek, and the substantive division of contracts);
- excellent cooperation with P&O and other functions in the transition of employees from Lek to Novartis;
- the adoption of more than 60 internal regulations for Novartis, auditing and the drafting of agreement templates for Novartis, and setting up the Legal intranet page and tools for managing the Company's internal processes.

The **Ethics, Risk and Compliance (ERC)** unit established ERC governance for Novartis, incorporated the requirements of the new Whistleblower Protection Act into our Speak-up process, established NEM (Novartis Emergency Management) teams at the country and site levels and introduced a new operational model for emergency management, implemented a global compliance curriculum, and launched the Ethical Business Conduct policy and the new digital platform BeSure.

In **Corporate Communications**, we focused on building and strengthening the Novartis story, took over the Novartis Slovenia LinkedIn account, launched the new corporate website www.novartis.si, launched the new Novartis brand with internal celebration events in Ljubljana and Mengeš, updated a number of corporate materials, co-organized various internal and public events, and shared our stories from within and outside the Company.

Quality assurance

In the process of incorporating the Novartis entity, we obtained the required operating licenses:

A. Medicinal product manufacturing, import and testing authorizations covering the following activities:
- Solid dosage form manufacturing
- Starting material testing, intermediate product testing, in vivo testing
- Product testing
- Placement of products on the market
- Import of intermediates and finished dosage forms

B. Active substance marketing authorization

C. Active substance import authorization

D. Medicinal product wholesale authorization

Both production sites in Ljubljana and Mengeš were also approved by the US FDA and obtained an FDA registration number (FEI #).

Novartis is committed to maintaining high quality standards, as confirmed by several successful inspections by health authorities as well as both internal and customer audits. We achieved good results in the inspections, reflecting our commitment to compliance and adherence to regulatory requirements. This has reaffirmed Novartis' commitment to consistently manufacturing and supplying products of the highest quality.

Also to be highlighted are our quality assurance efforts in support of new product launches and manufacturing capacity expansions, as the Novartis Group strives to deliver innovative new medicines that will best serve our patients. We supported key Novartis Group projects with release and stability testing, both in the US market, where the Novartis Group launched the cancer drug Iptacopan, and in the European market, where we launched a pediatric dosage form of Entresto, an effective treatment for cardiovascular diseases. We also established EU retesting for Zolgensma gene therapy.

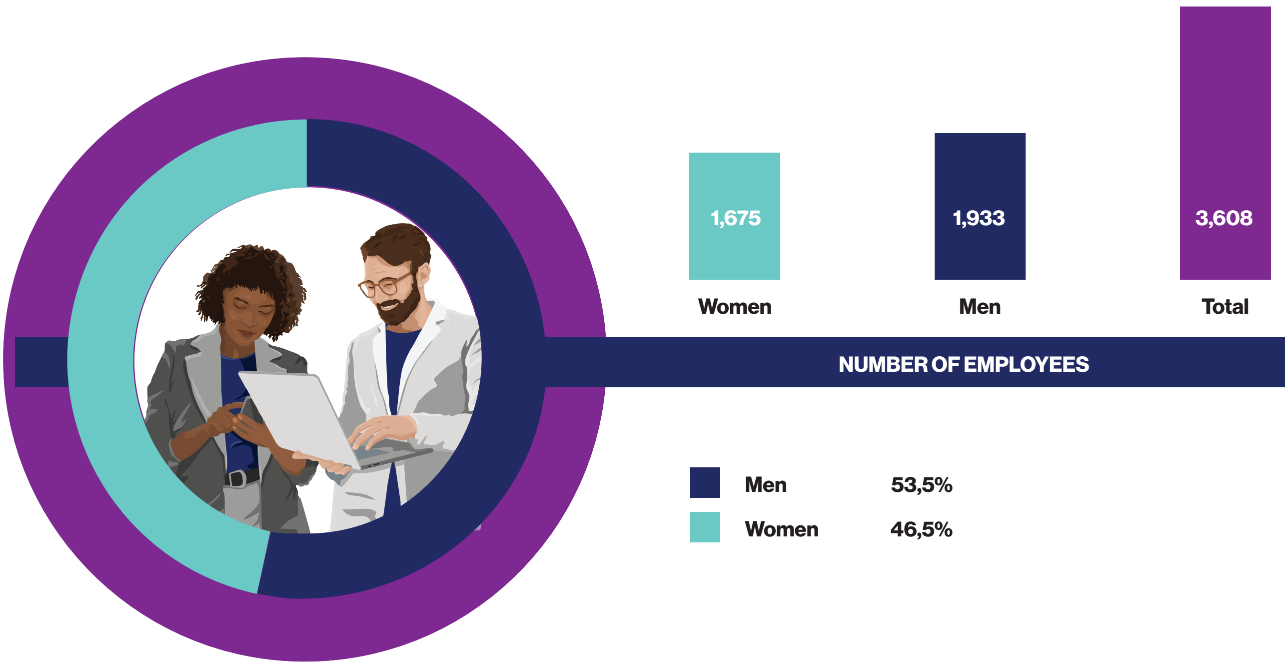
People and organization

The Company's performance and achievement of objectives are the result of the dedicated work of our employees.

Despite the changed labor market conditions, we were able to grow our staff by more than 200 in the second half of 2023 alone. Most of our hires were in Quality and Production.

As at the end of 2023, we had 3 608 employees, 92.2% of whom were on permanent contracts and 7.8% on temporary contracts. Women made up 46.5% and men made up 53.5% of our employees.

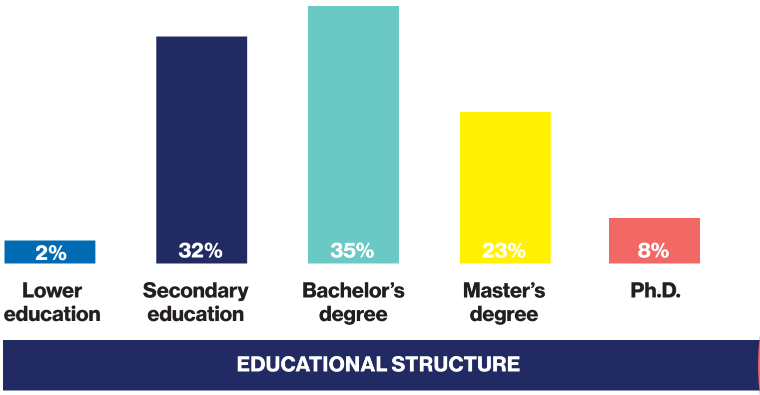
Number of employees (December 31, 2023)



Education and training at Novartis

On average, Novartis employees received 46.7 hours, or 5.8 days, of training in 2023, mainly on work processes and quality.

Employee educational structure (December 31, 2023)



Lower education	2%
Secondary education	32%
Bachelor's degree	35%
Master's degree	23%
Ph.D.	8%

Over 30% of staff hold a master's degree or a doctorate. Novartis provides employees with the opportunity to study while working and had 36 employees pursuing undergraduate studies and 14 pursuing postgraduate studies in 2023, mostly in the fields of chemistry and biotechnology.

In-service studies – Fields

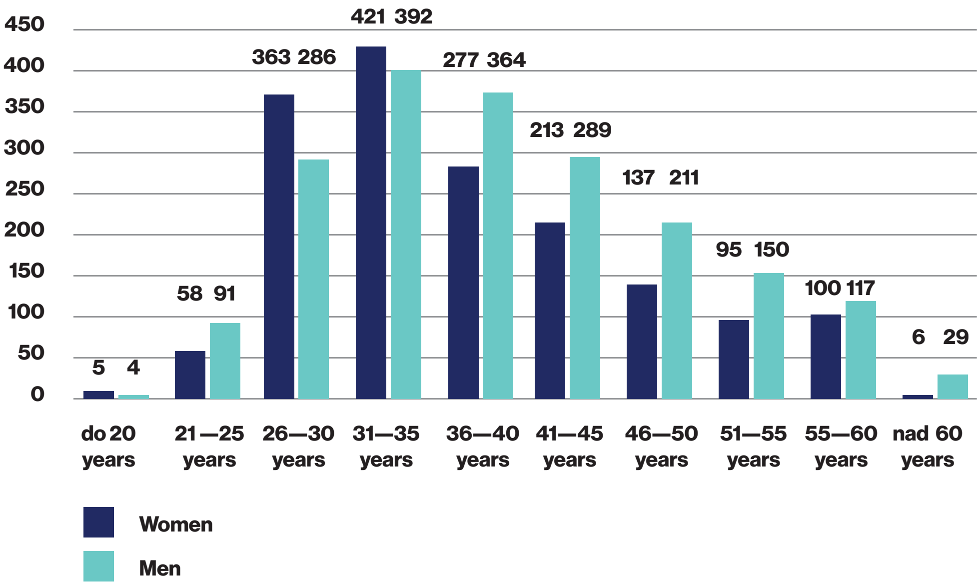
Chemistry	5/6
Biology	4/6
Finance	4/6
IT	4/6
Engineering	3/6
Construction	1/6
Eco technologies	1/6
Innovation	1/6
Logistics	1/6
Management	1/6
Pharmacy	1/6
Statistics	1/6
Procurement	1/6

Diversity, equity and inclusion (DEI)

We are proud of the range of activities carried out as part of our Diversity, Equity and Inclusion initiative, under which we have set up employee groups focusing on cross-generational collaboration, employment of people with disabilities, and the diversity of our talent. In 2023, we employed staff of 38 different nationalities.

The average age of the Company's employees in 2023 was 38 years.

Age groups by gender (December 31, 2023)



Early talent opportunities

Actively investing in early talent, Novartis awarded new company scholarships in 2023. As of the end of the year, we had 31 scholarship holders – students in the final years of science study programs. We helped secondary school and university students gain some insight into working at a pharmaceutical company through company visits, practical training and bachelor's thesis projects. In 2023, we gave 55 students an opportunity to complete our mandatory practical training and organized a summer internship. A key role in these activities was played by our internal mentors, who shared their know-how to help connect theoretical knowledge with practical skills.

BioCamp

For the 13th year in a row, we organized the Novartis BioCamp, which took place from September 10, to September 12. BioCamp is a three-day forum for top graduate and postgraduate students of science, technology and entrepreneurship from the Central European region interested in pursuing a career in the pharmaceutical industry. The theme of this year's event was "Reimagining Cancer Therapy: Cutting-edge science meets next generation technologies."

BioCamp participants gained first-hand insight into the challenges and opportunities offered by the world of research and the international business environment of the innovative pharmaceutical industry.

Wellbeing program

Through a range of activities, we seek to contribute to the wellbeing of our employees, co-create a positive company culture, and build a better and healthier working environment. As part of these efforts, we launched Energized for Life, a comprehensive wellbeing program for our employees focused on three strands: workload, mental wellbeing, and physical wellbeing. We continued to offer guided workplace exercise sessions and expanded our online exercise program, ranging from morning yoga to active breaks during the workday and weekly intensive workouts. In October, as part of Mental Health Month, we organized online training on the basics of mental health and invited employees to attend short sessions to learn about different mindfulness techniques.

The interactive two-day event entitled "How are you?" in November was attended by over 400 employees to explore the world of emotions and their impact on our wellbeing and interpersonal relationships with the help of the speakers.

Sustainability reporting, social responsibility and environmental policy

Novartis sustainability (ESG) strategy and commitments

Novartis takes a holistic approach to sustainability issues. To that end, we have put in place appropriate processes to monitor environmental, social and governance (ESG) factors. Our sustainability strategy and commitments are aligned with those of the Novartis Group.

Building trust within society is a key part of Novartis' corporate strategy and therefore key to achieving our mission of reimagining medicine to improve and extend people's lives. Our ESG efforts, which are integrated in the Company's operations as well as our supply chains, are key to creating long-term value for our stakeholders.

We are committed to becoming a sector leader in the areas where we can have the greatest impact on people and society. Through innovation, we work to integrate key ESG aspects into our core business of making medicines as widely accessible as possible to as many patients as possible around the world. Maintaining the quality and safety of our medicines is fundamental to this effort.

As a responsible company, in line with our corporate culture, we devote utmost attention to employee development, environmental sustainability and maintaining high standards of ethics and governance. We are also working continuously on improving our sustainability reporting capabilities to meet the changing demands of the markets in which we operate.

Our ESG framework

Our biggest impact is on our most material topics, driving equity in health while performing well as a responsible business.

Innovation and access to medicines	Human capital	Environmental sustainability	Ethical standards
• Pipeline of new medicines addressing unmet medical and social needs • Broad access to our medicines, including underserved populations • Dedicated global health focus	• Diversity, equity and inclusion (DEI) • Culture • Talent	• Climate • Water • Waste	• Ethics • Compliance • Human rights

Reaching as many patients as possible with our innovative medicines | **Creating sustainable social and economic impact** | **Building trust within society**

Our ESG targets are linked to our strategic priorities and help us improve equity in healthcare while creating sustainable social and environmental impact.

For more details on our performance against these targets, please see the Novartis Sustainability Report: Novartis in Society Integrated Report 2023.

Enterprise Risk Management

Our business faces significant risks and uncertainties, and we know that continued success depends on the ability to manage risk.

Enterprise Risk Management (ERM) framework is provided to obtain a holistic view of Company risks and to drive a culture of smart risk-taking.

Our business, our financial condition and our operational results could be materially adversely affected by other emerging risks and uncertainties, mostly related to geo- and socio-political threats and macroeconomic developments, as well as in general due to certain financial risks.

Those risks are as follows:

Currency risk. Changes in exchange rates between the Euro, our functional, presentation currency, and other currencies can result in increases or decreases in our reported sales revenue, costs and earnings as expressed in Euros, and in the reported value of our assets, liabilities and cash flows. The major portion of currency risk is due to fluctuations in the US dollar exchange rate; however, it is minimal. Currency risk exposure is managed in coordination with the Novartis Group. The Company ensures optimum coverage of inflows and outflows, both in terms of time and foreign currency.

Interest rate risk. The Company is exposed to interest rate risk arising primarily from long-term borrowings with variable rates. Nevertheless, the interest rate risk exposure is minimal, as it arises solely from the intragroup financing structure that is in place.

Credit risk. Credit risk is the risk of customers failing to meet their obligations as agreed. In order to manage this risk, the Company reviews the financial standing of its customers, past experiences in business relations with customers, and other indicators. On the basis of these factors, the maximum permissible exposure to a customer is determined.

Liquidity risk. Liquidity risk is the risk that the Company may not be able to settle its obligations on time or at a reasonable price. The Company actively manages its liquidity risk through the Novartis Group's centralized cash management system, which encompasses cash flow forecasting, monitoring receivables and liabilities, as well as matching inflows and outflows. Financing is provided through the Novartis Group cash pooling system.

Financial Report

The financial statements for 2023 were prepared in accordance with International Financial Reporting Standards (IFRS) and the Novartis Accounting Manual (NAM).

Statement of total comprehensive income

In 2023, Novartis generated EUR 324,061 thousand in net revenue. Other operating income amounted to EUR 6,049 thousand. Operating expenses totaled EUR 301,739 thousand.

The Company recorded EUR 28,371 thousand in profit from operating activities in 2023.

The net financial result was a loss of EUR 1,153 thousand. Finance income amounting to EUR 296 thousand included realized and unrealized foreign exchange gains and income from loans. Finance expenses totaling EUR 1,449 thousand included interest expenses on borrowings, interest on leases, and realized and unrealized foreign exchange losses.

Novartis recorded EUR 27,218 thousand in net profit before taxation for 2023. Income tax is assessed at 7.0% of net profit before taxation.

The net profit for the period amounted to EUR 25,287 thousand in 2023, for a net profit margin of 7.8% for 2023.

Independent auditor's report

KPMG

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SI-1000 Ljubljana
Slovenija

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Independent Auditors' Report

To the owner of Novartis farmacevtska proizvodnja d.o.o.

Opinion

We have audited the financial statements of Novartis farmacevtska proizvodnja d.o.o. (the »Company«), which comprise:

- the statement of financial position as at 31 December 2023;

and, for the period from 1 January to 31 December 2023:

- the statement of total comprehensive income;
- the statement of changes in equity;
- the statement of cash flows;

and

- notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants' (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2022 were not audited.

Other Information

Management is responsible for the other information. The other information comprises the »Introduction« that includes the »Supervisory Board's report«, and the »Business Report« included in the Annual Report but does not include the financial statements and our auditor's report thereon. Other information was obtained prior to the date of this auditors' report, except for the Report of the Supervisory Board, which will be available after that date.

The Independent Auditor's Report is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

KPMG

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, with respect to the Business Report, we are required to report on its consistency with the financial statements and on whether the Business Report includes the disclosures required by the Companies Act dated 4 May 2006 (Official gazette of Republic of Slovenia No. 42/2006 with amendments - hereafter referred to as »the applicable legal requirements«). Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

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- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

On behalf of audit firm

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Signed on the Slovenian original

Domagoj Vuković, FCCA
Certified Auditor
Partner

Ljubljana, 21 May 2024

The Independent Auditor's Report is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

Financial report

Novartis LLC
Financial report

Financial Statements and the Accompanying Notes for the Financial Year ended December 31, 2023

Statement of the Management

The management of Novartis LLC hereby approves the Company's financial statements for the year ended December 31, 2023 on pages 48 through 51, the accounting policies applied, and notes to the financial statements on pages 52 through 81 of this annual report.

The management is responsible for the preparation of annual financial statements that provide a true and fair view of the Company's assets and operating results for the year ended December 31, 2023.

The management certifies that appropriate accounting policies were consistently applied and that the accounting estimates were made in adherence to the principles of prudence and good management. The management furthermore certifies that the financial statements, along with the notes thereto, were prepared on a going concern basis and in accordance with applicable law and International Financial Reporting Standards.

The management is also responsible for ensuring proper accounting procedures, adopting adequate measures to protect the Company's assets, and detecting and preventing fraud and other irregularities and unlawful acts. The tax authorities may audit the Company at any time within five years after the date on which the relevant tax was to be assessed, which may result in additional tax liabilities, default interest and fines in respect of corporate income tax or other taxes or levies. The management is not aware of any circumstances that could give rise to any material liability in this respect.

Ljubljana, May 21, 2024

Management of Novartis LLC

Petra Štefanič Anderluh

Mihaela Žuran

Uroš Urleb

Polonca Kuhar

Marjan Novak

Statement of financial position

in thousand EUR	Notes	Dec 31, 2023	Dec 31, 2022
ASSETS			
Non-current assets			
Property, plant and equipment	5.	473,197	0
Right-of-use assets	6.	3,012	0
Intangible assets	7.	1,371	0
Deferred tax assets	8.	2,377	0
Other financial assets	9.	2	0
Total non-current assets		**479,960**	**0**
Current assets			
Inventories	10.	232,065	0
Trade and other receivables	11.	143,677	1
Current tax receivables		1,807	0
Cash and cash equivalents	12.	17	7
Total current assets		**377,566**	**8**
Total assets		**857,525**	**8**

EQUITY AND LIABILITIES			
Equity	13.		
Share capital		8	8
OCI reserves		-2,382	0
Retained earnings		577,727	-1
Total equity		**575,353**	**7**
Non-current liabilities			
Deferred revenue	14.	437	0
Provisions	15.	19,017	0
Lease liabilities	16.	2,011	0
Other non-current liabilities	17.	27	0
Total non-current liabilities		**21,493**	**0**
Current liabilities			
Trade and other payables	18.	165,045	1
Deferred revenue	14.	38	0
Provisions	15.	2,343	0
Borrowings	19.	87,980	0
Lease liabilities	16.	1,788	0
Current tax liabilities		3,485	0
Total current liabilities		**260,680**	**1**
Total liabilities		**282,172**	**1**
Total equity and liabilities		**857,525**	**8**

The accompanying Notes form an integral part of the financial statements.

Statement of total comprehensive income

in thousand EUR	Notes	2023*	2022
Revenue	20.	324,061	0
Other operating income	21.	6,049	0
Cost of goods sold	22.	-17,918	0
Changes in inventories of finished goods and work in progress		9,361	0
Cost of material and energy	23.	-101,392	0
Cost of services	24.	-48,159	-1
Employee benefits expense	25.	-121,147	0
Amortisation, depreciation and impairments	26.	-19,667	0
Other operating expenses	27.	-2,817	0
Operating profit		**28,371**	**-1**
Financial income	28.	296	0
Financial expenses	28.	-1,449	0
Net financial result		**-1,153**	**0**
Profit before tax		**27,218**	**-1**
Income taxes	29.	-1,932	0
Profit for the period		**25,287**	**-1**
Other comprehensive income for the period (net of tax)		**-17**	**0**
Items that will not be reclassified subsequently to profit or loss		-17	0
Actuarial gains or losses (net of tax)		-17	0
Total comprehensive income for the period		**25,270**	**-1**

The accompanying Notes form an integral part of the financial statements.

Statement of cash flows

in thousand EUR	**2023**	**2022**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	25,286	-1
Adjustments for:		
Amortisation, depreciation and impairments	18,248	0
Gain on disposal of property, plant and equipment	-2,063	0
Impairment of property, plant and equipment and intangible assets	628	0
Impairment and write-off of trade receivables	873	0
Impairment of inventories	-11,161	0
Non-cash post-employment benefit expense	711	0
Financial income	632	0
Financial expenses	1,079	0
Corporate income tax	1,931	0
Change in operating assets and liabilities		
Change in Inventories	9,892	0
Change in Trade and other receivables	-40,338	0
Change in Other non-current liabilities	-10	0
Change in Trade and other payables	5,354	1
Interest paid	-1,076	0
Income taxes paid	-625	0
Net cash inflow from operating activities	**9,361**	**0**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**-102,747**	**0**
Proceeds from sale of property, plant and equipment	2,911	0
Government grants received for property, plant and equipment	3,437	0
Purchase of intangible assets	-232	0
Net cash outflow from investing activities	**-96,631**	**0**
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows from the payment of share capital	0	8
Proceeds from borrowings	336,005	0
Repayments of borrowings	-248,699	0
Payments of lease liabilities	-26	0
Net cash outflow from financing activities	**87,280**	**8**
Net change in cash and cash equivalents	10	7
Cash and cash equivalents at the beginning of the period	7	0
Effects of exchange rate changes on cash and cash equivalents	0	0
Cash and cash equivalents at the end of the period	**17**	**7**

The accompanying Notes form an integral part of the financial statements.

Statement of changes in equity

in thousand EUR	Share capital	Capital reserves	OCI reserves	Retained earnings	Total equity
Total equity at December 31, 2021	**0**	**0**	**0**	**0**	**0**
Payment of the share capital	8				
Profit for the period	0	0	0	-1	6
Total comprehensive income for the period	**0**	**0**	**0**	**-1**	**6**
Total equity at December 31, 2022	**8**	**0**	**0**	**-1**	**6**
Profit transfered from demerger	0	0	-996	552,442	551,445
Profit for the period	0	0	0	25,287	25,287
Other comprehensive income for the period (net of tax)	0	0	-1,386	0	-1,386
Total comprehensive income for the period	**0**	**0**	**-1,386**	**25,287**	**22,905**
Total equity at December 31, 2023	**8**	**0**	**-2,382**	**577,728**	**575,353**

The accompanying Notes form an integral part of the financial statements.

Notes to the financial Statements

1. Reporting entity

Novartis Pharmaceutical Manufacturing LLC ("the Company") is a Company domiciled in Slovenia. Its registered office is at Verovškova 57, 1000 Ljubljana, Slovenia. The Company's financial statements have been prepared for the year ended December 31, 2023.

The company was founded in August 2022. On December 15, 2022, the companies Novartis d.o.o. and Lek d.d. concluded the Agreement on division and takeover, amended by the annex dated February 14, 2023, which entered into force on the date of registration of the court register on July 3, 2023 and on the basis of which the activity of the division for innovative medicines was transferred from the transferring company Lek d.d. to the acquiring company Novartis d.o.o..

The sole shareholder is Novartis Pharma AG, headquartered in Switzerland, which is wholly owned by Novartis AG Switzerland. Novartis Pharma AG, in its capacity as a controlling company, prepares a consolidated annual report, which is available at www.novartis.com.

The company's bodies are the general assembly, the supervisory board and the management. The general director is Petra Štefanič Anderluh and the president of the supervisory board is Jelica Zdolšek.

2. Significant accounting policies

The Company consistently applied the accounting policies set out below for all periods presented in the financial statements. The preparation of financial statements requires the management to make certain estimates and judgements that impact the carrying values of assets and liabilities at the reporting date and the reported amounts of income and expenses for the period ended.

2.1 Basis of preparation

a) Compliance with IFRS

The separate financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee. IFRS are issued by the International Accounting Standards Board (IASB) and adopted by the EU.

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRS, with additional disclosure when necessary, is to result in financial statements that achieve a fair presentation.

b) Historical cost conventions

The financial statements have been prepared on a historical cost basis.

c) Going concern assumption

The financial statements have been prepared on the assumption that the Company's operations will continue indefinitely, as the management has no intention of terminating the operations. The Company operates with a profit, has adequate resources and access to financial resources, which enables it to continue operating in the foreseeable future.

d) New and amended standards adopted by the Company

Accounting standards and amendments and explanatory notes to existing standards applicable from January 10, 2023, inclusive and approved by the EU:

Accounting Standards and Amendments Mandatorily Effective from January 10, 2023

Following new standards, amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU apply from January 10, 2023:

- **IFRS 17 – Insurance Contracts: :** IFRS 17 introduces an internationally consistent approach to the accounting for insurance contracts. Prior to IFRS 17, significant diversity has existed worldwide relating to the accounting for and disclosure of insurance contracts, with IFRS 4 permitting many previous (non-IFRS) accounting approaches to continue to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes. The new standard takes the view that insurance contracts combine features of a financial instrument and a service contract, and that many generate cash flows that vary substantially over time.

- **Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2):** In February 2021, the IASB issued amendments to IAS 1, which change the disclosure requirements with respect to accounting policies from 'significant accounting policies' to 'material accounting policy information'. The amendments provide guidance on when accounting policy information is likely to be considered material. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. As IFRS Practice Statements are non-mandatory guidance, no mandatory effective date has been specified for the amendments to IFRS Practice Statement 2.

- **Definition of Accounting Estimates (Amendment to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors):** In February 2021, the IASB issued amendments to IAS 8, which added the definition of Accounting Estimates in IAS 8. The amendments also clarified that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from correction of prior period errors. The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

- **Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12):** In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability being recognised simultaneously (e.g. a lease in the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability which at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

- **International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12):** In December 2021, the Organisation for Economic Co-operation and Development (OECD) published Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS (Pillar Two model rules). In March 2022, the OECD released commentary and illustrative examples that elaborate on the application and operation of the rules and clarify certain terms. Stakeholders raised concerns with the IASB about the potential implications on income tax accounting, especially accounting for deferred taxes, arising from the Pillar Two model rules. The stakeholders emphasised an urgent need for clarity given the imminent enactment of tax law to implement the rules in some jurisdictions. In response to stakeholder concerns, the IASB proposed amendments to IAS 12 Income Taxes. It issued Exposure Draft International Tax Reform—Pillar Two Model Rules (Proposed Amendments to IAS 12) on January 9, 2023. Given the urgent requirement for clarity, a shorter comment period of 60 days was provided. The IASB issued the final Amendments (the Amendments) International Tax Reform – Pillar Two Model Rules on May 23, 2023. The Amendments introduce a temporary exception to entities from the recognition and disclosure of information about deferred tax assets and liabilities related to Pillar Two model rules. The Amendments also provide for additional disclosure requirements with respect to an entity's exposure to Pillar Two income taxes.

Standards, amendments and interpretations valid from January 1, 2023 did not result in significant changes of the financial statements.

Accounting standards and amendments to the existing accounting standards issued by the IASB and adopted by the EU, but not yet effective

The following new standards issued by the IASB and adopted by the EU were already issued as of the date of these financial statements but were not yet effective:

- **Lease Liability in a Sale and Leaseback (Amendment to IFRS 16):** The Amendments provide a requirement for the seller-lessee to determine 'lease payments' or 're' vised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. The Amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The Amendments also provide guidance on characteristics of supplier finance arrangements.

Accounting standards and interpretations issued by the IASB but not yet adopted by the EU

The IFRSs, as adopted by the EU, do not significantly differ from regulations adopted by IASB, except for the following new accounting standards and amendments to the existing accounting standards:

- **Classification of Liabilities as Current or Non-Current (Amendment to IAS 1):** The IASB issued amendments to IAS 1 - Classification of Liabilities as Current or Non-current in January 2020, which have been further amended partially by amendments Non-current Liabilities with Covenants issued in October 2022. The amendments require that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement for at least twelve months after the reporting period. As a result of the COVID-19 pandemic, the Board deferred the effective date of the amendments by one year to annual reporting periods beginning on or after January 1, 2024.

- **Amendment – Non-current Liabilities with Covenants (Amendment to IAS 1):** Subsequent to the release of amendments to IAS 1 Classification of Liabilities as Current or Non-Current, the IASB amended IAS 1 further in October 2022. If an entity's right to defer is subject to the entity complying with specified conditions, such conditions affect whether that right exists at the end of the reporting period, if the entity is required to comply with the condition on or before the end of the reporting period and not if the entity is required to comply with the conditions after the reporting period. The amendments also provide clarification on the meaning of 'settlement' for the purpose of classifying a liability as current or non-current.

- **Supplier Finance Arrangements (Amendment to IAS 7 and IFRS 7):** On May 25, 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures (the Amendments). These Amendments arose as a result of a submission received by the IFRS Interpretations Committee (the Committee) about the presentation requirements for liabilities and associated cash flows arising out of supply chain financing arrangements and related disclosures. In December 2020, the Committee published an Agenda Decision Supply Chain Financing Arrangements—Reverse Factoring that addressed this submission based on the requirements in IFRS Accounting Standards existing at that time. During this process, the feedback from stakeholders indicated limitations of the then existing requirements to address important information needs of users to understand the effects of supplier finance arrangements on an entity's financial statements and to compare one entity with another. In response to this feedback, the IASB undertook a narrow-scope standard setting, leading to the Amendments. The Amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The Amendments also provide guidance on characteristics of supplier finance arrangements.

- **Lack of Exchangeability (Amendment to IAS 21):** On August 15, 2023, the IASB issued Lack of Exchangeability which amended IAS 21 The Effects of Changes in Foreign Exchange Rates (the Amendments). The Amendments arose as a result of a submission received by the IFRS Interpretations Committee (the Committee) about the determination of the exchange rate when there is a long-term lack of exchangeability. IAS 21, prior to the Amendments, did not include explicit requirements for the determination of the exchange rate when a currency is not exchangeable into another currency, which led to diversity in practice. The Committee recommended that the IASB develop narrow-scope amendments to IAS 21 to address this issue. After further deliberations, the IASB issued an exposure draft of the proposed žamendments to IAS 21 in April 2021 and the final amendments were issued in August 2023. The Amendments introduce requirements to assess when a currency is exchangeable into another currency and when it is not. The Amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency. The amendments are effective for annual periods beginning on or after January 1, 2025. Earlier application is permitted.

Entity assesses that initial application of new accounting standards and amendments to the existing standards will not have material impact on the financial statements.

2.2 Foreign currency

a) Functional and presentation currency
The items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates. Thus, the Company's functional currency and presentation currency is the Euro and, accordingly the financial statements have been compiled in Euros.

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates effective on the date of a transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss. Revenue and expenses denominated in a foreign currency are translated into the Euro at the middle exchange rate of the Novartis effective on the date of a transaction, which does not essentially deviate from the European Central Bank exchange rate. Exchange gains or losses arising from a translation increase the financial income or financial expenses.

Assets and liabilities denominated in a foreign currency are translated into the Euro at Novartis' exchange rate effective on the reporting date, which does not essentially deviate from the European Central Bank exchange rate. Exchange gains or losses arising from a translation are recorded under financial income or financial expenses.

2.3 Property, plant and equipment

a) Recognition and measurement

Property, plant and equipment are measured at historical cost, less accumulated depreciation and provision for impairment. The cost of an item of PPE that are capitalized includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with an item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The component approach requires each element of a larger item of property, plant and equipment with a cost significant to the total cost to be separately identified and depreciated.

Property, plant and equipment are assessed for impairment whenever there is an indication that the statement of financial position carrying amount may not be recoverable (refer to Chapter 2.10).

The gain or loss on disposal of an item of PPE is determined by comparing the proceeds from the disposal with its carrying amount and is recognised in the profit or loss (other operating income/expenses).

b) Depreciation
Property, plant and equipment are depreciated on a straight-line basis in the profit or loss over their estimated useful lives.

The estimated useful lives for PPE for the current and comparative periods are as follows:

PPE	**Useful life**
Land	-
Buildings	40 years
Building appliances	20 years
Machinery and equipment	3 to 20 years
Computer equipment	3 to 5 years

The useful lives for PPE are reviewed annually.

2.4 Intangible assets

An intangible asset is defined as an identifiable non-monetary asset without physical substance. With regard to their useful life, intangible assets are divided into:

- Intangible assets with a finite useful life
- Intangible assets with an indefinite useful life

Intangible assets mainly relates to software. An intangible asset is recognised at cost on acquisition. A subsequently intangible asset with a finite useful life is amortised on a straight-line basis over its useful life and impaired whenever there is an indication of impairment.
The estimated useful lives of intangible assets for the current and comparative periods are 3 years (33%).

2.5 Leases

As lessee, the Company assesses whether a contract contains a lease at inception and upon the modification of a contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to the lease and non-lease components on the basis of the relative standalone price.

The Company recognises a right-of-use asset and a coresponding lease liability for all arrangements in which it is a lessee, except for leases with a term of 12 months or less (short-term leases) and low-value leases. Short-term and low-value leases are recognised as an operating expense (cost of service) on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the future lease payments. The lease term includes the period of any lease extension that in management's assessment is highly probable to be exercised by the Company. The lease payments are discounted using the interest rate implicit in the lease or, if not readily determinable, the incremental borrowing rate. The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever there is a change to the lease terms or expected payments under the lease.

Right-of-use assets are initially recognised at cost, which includes the amount of the initial measurement of the lease liability, initial direct costs, rent payments made on or before the lease commencement date, less lease incentives received and valuation costs that will be incurred when dismantling or removing the asset that is the subject of the lease, restoring the place where it is located, or returning the asset to the condition as required by the terms of the lease. The right to use the asset is subsequently amortized evenly from the beginning of the lease until the end of its useful life or until the end of the lease, if it is shorter than the useful life. Right-of-use assets are assessed for impairment whenever there is an indication that the statement of financial position carrying amount may not be recoverable.

In arrangements where the Company is the lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. A lease is classified as a finance lease when under the terms of the lease substantially all the risks and rewards of ownership are transferred to the lessee. Other leases are treated as operating leases. Lease payments received under operating leases are recognised on a straight-line basis over the lease term in profit or loss as revenue.

2.6 Investments and other financial assets

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included in the statement of cash flows as a component of cash and cash equivalents.

2.7 Inventories

Inventories are assets that are intended for sale during the ordinary course of business, are in the process of being produced for sale, or are in the form of material/spare parts to be consumed/ used in production. In the statement of financial position, inventories are measured at the lower of cost and net realisable value.

Inventories of materials and merchandise are carried at standard price. Standard price comprises the purchase price of material, import duties, other nonrefundable purchase taxes and other direct costs of procurement. Purchase price variances are initially booked to inventory afterwards they are realised to profit or loss over the inventory turnover period.

Inventories of finished goods and work in progress are valued at standard prices, which include direct material costs, direct labour costs, direct service costs, depreciation and indirect production costs which, include: quality control costs and quality management cost, costs for material handling, production overhead, under normal use of the production assets. Production order variances are not booked to inventory but expensed when they occur.

The consumption of inventories (except spare parts) is recorded using the FIFO method.

Spare parts are initially recognised at costs of purchase, carried as inventory and recognised in profit and loss as consumed using the moving weighted average method.

A decrease in the value of inventories of materials is disclosed as an increase in cost of materials, while a decrease in the value of inventories of products and merchandise is disclosed as an increase in operating expenses. Normal and abnormal waste and deficits incurred by the Company are disclosed as a decrease in inventories and as an increase in operating expenses. The value of surpluses is disclosed as an increase in inventories and as a decrease in operating expenses.

Provisions are made when there in uncertainty regarding of inflow of economic benefits. The Company when recognising slow/no mover provisions considers forecasted sales or production requirement. If for particular material there is no demand over the next 12 months and/or the expiry date has expired the slow/no mover provision is recognised in the cost of merchandise sold or in the cost of material and energy.

2.8 Trade and other receivables

Trade receivables that do not contain a significant financing component are recognised initially at their fair value. If the receivables are expected to be settled in one year or less, they are classified as current assets. If not, they are shown as non-current assets.

The Company recognises the revaluation of impairment receivables on the basis of expected credit losses over the entire period. Adjustments to the value of receivables are made for those receivables whose enforceability is doubtful or disputed. They are formed as follows:

- for receivables that are due for more than 180 days, an adjustment of 100% of the value of this receivable is made;
- In the event of known facts that increase the risk of receivables to be recovered, an adjustment of the value of receivables is formed for an individual buyer in the amount of at least 30% of the total value of receivables from this buyer.

The adequacy of the amount of adjustment of the value of receivables already formed shall be checked at least quarterly.

If the claim cannot be recovered and all recovery possibilities have been exhausted, such claim shall be declared irrecoverable and definitively written off. The irrecoverability of receivables must be evident from the relevant documentation.

2.9 Impairment

Non-financial assets
At each reporting date, the Company shall review the carrying amount of the company's non-financial assets to determine whether there are indications of impairment. If such indications exist, the asset's recoverable amount is estimated.

An impairment loss is recognised when the residual carrying amount of the asset or cash-generating unit exceeds its recoverable amount. Impairment is recognised in profit or loss. An impairment loss is reversed if the reversal of an impairment loss is objectively linked to an event that occurred after the impairment loss was recognised.

2.10 Government grants

Grants from governments or similar organizations are recognised at the fair value when there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Grants that compensate the Company for expenses incurred are initially recognised as deferred revenue and later recognised in profit or loss as other operating income on a systematic basis in the same periods in which the expenses are recognised.

Government grants obtained for construction activities, including any related equipment, are deducted from the gross acquisition cost to arrive at the statement of financial position carrying value of the related assets.

2.11 Employee benefits

a) Pension obligations

The Company makes payments to mandatory pension funds on behalf of its employees in the ordinary course of business through salary deductions, as required by law. All contributions made to the mandatory pension funds are recorded as a salary expense when incurred.

The Company enables its employees to participate in the collective pension insurance scheme for the purpose of receiving additional pension at retirement. The Company pays a monthly premium equal to the legally defined percentage of 5.844% of an employee's gross salary or an annual amount not exceeding EUR 2,903.66.

b) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial position date are discounted to their present value.

c) Employee benefits

The Company recognises a provision for employee benefits (jubilee awards and one-off retirement payment) evenly over the period in which the benefit is earned based on actual years of service. Employee benefits are split in the statement of financial position as non-current and current provisions. The long-term employee benefit is determined annually by an independent actuary using assumptions as to the likely number of staff to whom the benefit will be payable, estimated benefit cost, and the discount rate. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions of jubilee awards are charged to the income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions of one-off retirement payments are charged to equity.

Defined employment and other benefit obligations include the present value of employment benefits on retirement and jubilee awards. They are recognised based on an actuarial calculation approved by the management. An actuarial calculation is based on the assumptions and estimates applicable at the time of the calculation, and these may differ from the actual assumptions due to future changes. This mainly refers to determining the discount interest rate, the estimate of employee turnover, the mortality rate estimate and the salary increase estimate. Defined benefit obligations are sensitive to changes in the said estimates because of the complexity of the actuarial calculation and the item's long-term nature.

d) Shares compensation

The Company rewards executive employees with cash-settled stock awards in Novartis Pharma AG. Employees are entitled to the award three years after the award, if they are still employed by the Company after three years have passed. The Company recognizes the liability at fair value in profit or loss among labor costs in the period in which employees become entitled to payment. The Company remeasures the fair value of the liability at each reporting date and at the settlement date, with any change in fair value recognized in profit or loss for the period.

2.12 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision should be used for the expenditures for which the provision was originally recognised.

The Company currently recognises provision for legal settlements, liability claims, fees and expenses and employee benefits (refer to Note 2.11).

Legal provisions should be established for settlements at the point in time when it is more likely than not (i.e. in excess of a 50% probability) that, based on a past event, a payment will be made and it can be reliably estimated regardless of the amount of that expenditure and timeframe.

2.13 Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. Trade and other liabilities are initially recognized at their fair value, that is when the Company becomes a party to the contract in relation to the instrument. Later, they are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when these liabilities are eliminated or changed. The Company derecognizes trade and other liabilities if the obligations specified in the contract have been fulfilled, annulled or expired.

Trade and other payables also include accrued liabilities for different categories. Accrued liabilities are established for all unpaid expenditures incurred prior to the end of the period whether an invoice has been received or not. Expenditure is incurred when title to the goods received passes to the Company or when services have been provided to the Company. Accruals for revenue deductions are established for rebates and discounts on individual transactions contractually agreed with customers. Accruals are based on best estimation considering past experience, required conditions for rebates, and any other relevant facts available at the time of the financial statement's preparation.

2.14 Borrowings

Borrowings are initially recognised on the day they arise at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

The Company derecognises borrowings when the obligations specified in the contract have been discharged, cancelled, or have expired. Financial assets and liabilities are offset, and the net amount is disclosed in the statement of financial position, when and only when the Company has an official enforceable right to settlement of the amounts, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.15. Income taxes

Income taxes are recognised in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination, if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at the increased 22 % tax rate valid from 1 January 2024 onwards, and are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right offset current tax receivable against current tax liabilities, and when the deferred income taxes assets and liabilities related to income taxes are levied by the same taxation authority and there is an intention to settle the balances on a net basis.

2.16 Revenue

Revenue on the sale of Company's products and services is recognised when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods and services to the customer, substantially all of which is at the point in time of shipment to or receipt of the products by the customer or when the services are performed. The amount of revenue to be recognised is based on the consideration the Company expects to receive in exchange for its goods and services. If a contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price for each performance obligation.

Revenue is shown net of value-added tax, returns, rebates and discounts.

Cash discounts are offered to customers to encourage prompt payment and are recorded as revenue deductions at the time the related sales are recorded.

Where a Company's terms of trade allow for refunds or credit upon return of goods and the Company can reasonably estimate expected future returns, a provision for estimated returns is established simultaneously with recording of sales, taking into account historical experience and other relevant factors. If the Company cannot reasonably estimate the expected future returns, revenue is only recorded when there is evidence of consumption or when the right of return has expired.

In special circumstances, all revenue recognition conditions as listed in previous paragraphs might not be fulfilled (i.e. exceptional sales – bridging stock; existence of right of return; agreed Incoterms resulting in the passage of control to the buyer at a later/soonest stage after the handover of the goods; payment terms extended…), therefore revenue recognition should be deferred.

2.17 Financial income and financial expenses

Financial income comprises interest income, gains on the disposal of financial assets, reversal of impairment losses and exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Financial expenses comprise interest expense on borrowings, impairment losses recognised on financial assets, interest expense on lease liabilities, income expenses arising on provisions for retirement benefits and jubilee premiums, and exchange loss.

2.18 Determination of fair value

In numerous cases, the Company's accounting policies (including measurement of impairment) and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The Company determined fair values for measurement and reporting purposes using the hierarchy described below. Where further clarifications in relation to the assumptions made in determining fair values are required, these are given in the notes relating to the individual asset or liability.

Fair value is determined on the basis of inputs that are categorized into three levels of hierarchy:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access on the measurement date.

- **Level 2:** inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The Company for inputs at this level uses quoted prices for similar assets or liabilities in active markets.

- **Level 3:** unobservable inputs for the asset or liability. At this level, the Company uses inputs such as financial forecasts (e.g. of cash flows or profit or loss) developed using the Company's own data, if there is no reasonably available information indicating that market participants would use different assumptions.

Due to the short-term nature of the current trade receivables and payables, including loans given and borrowings, their carrying amount is assumed to be the same as their fair value. The same applies for cash and cash equivalents. The book value of lease liabilities is a reasonable approximation of fair value. All non-financial assets and liabilities are measured using the historical cost conventions.

Table below presents method of measurement separately for each financial position line items:

Statement of financial position items	Financial/Non-financial asset or liability	Method of measurement
Non-current assets		
Property, plant and equipment	Non-financial asset	Purchase cost
Right-of-use assets	Non-financial asset	Purchase cost
Intangible assets	Non-financial asset	Purchase cost
Deferred tax assets	Non-financial asset	Non-discounted value measured at tax rates
Other financial assets	Financial asset	Fair value (purchase cost)
Current assets		
Inventories	Non-financial asset	Purchase cost
Trade and other receivables		
Trade receivables	Financial asset	Amortised cost
Other receivables	Non-financial asset	Historical value or estimated value
Current tax receivables	Non-financial asset	Non-discounted value measured at tax rates
Cash and cash equivalents	Financial asset	Historical value
Non-current liabilities		
Deferred revenue	Non-financial liability	Historical value or estimated value
Deferred tax liabilities	Non-financial liability	Non-discounted value measured at tax rates
Provisions		
- jubilee awards and termination benefits upon retirement	Non-financial liability	Present value of estimated future payments based on actuarial calculation
- other provisions	Non-financial liability	Present value of future settlements
Lease liabilities	Financial liability	Present value of future lease payments
Other non-current liabilities	Non-financial liability	Historical value or estimated value
Current liabilities		
Trade and other payables		
Trade payables	Financial liability	Amortised cost
Other payables	Non-financial liability	Historical value or estimated value
Borrowings	Financial liability	Amortised cost
Current tax liabilities	Non-financial liability	Non-discounted value measured at tax rates

3. Financial risk management

This note explains the Company's exposure to financial risks and how these risks could affect the Company's future financial performance.

The Company is exposed to market risk, which is primarily related to foreign currency exchange rates and interest rates, as well as to credit and liquidity risk. The Company's risk management policy is aligned with Novartis Group risk management policies. Risks are identified, evaluated and managed in close co-operation with the Group Treasury of Novartis.

Risk	Exposure arising from	Measurement	Upravljanje
Market risk – foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in Euro	Sensitivity analysis	Natural hedging
Market risk - interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Adjusting the ratio of fixed to variable rate financial debt
Credit risk	Trade receivables	Aging analysis	Diversification of credit limits Receivables insurance
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Cash pooling Intragroup borrowing facilities

3.1 Market risks

a) Foreign exchange risk

The Company is exposed to foreign currency exchange movements. Fluctuations in the exchange rates between the Euro and other currencies can have an impact on both the Company's results of operations, including reported sales and earnings, as well as on the reported value of assets, liabilities and cash flows. This in turn may affect the comparability of period-to-period results of operations.

Currency risk exposure is managed in coordination with the Novartis Group. Based on the estimated risk exposure, a strategy has been adopted with the aim to hedge against changes in the exchange rates of those currencies in which the Company conducts business. The Company ensures optimum coverage of inflows and outflows, both in terms of time and foreign currency. The remaining risk is hedged using other techniques. The Company does not use any forward contracts.

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in the reporting currency Euro, was as follows:

	Dec 31, 2023				Dec 31, 2022			
in thousand EUR	EUR*	USD	CHF	Other	EUR*	USD	CHF	Other
Trade and other receivables	139,496	612	2,503	1,066	1	0	0	0
Trade and other payables	-161,472	-2,027	-324	-1,222	-1	0	0	0
Statement of financial position exposure	**-21,976**	**-1,415**	**2,179**	**-156**	**0**	**0**	**0**	**0**

* EUR is the functional currency and does not represent exposure to foreign currency risk.

As shown in the table above, the Company is primarily exposed to changes in EUR/USD and EUR/CHF exchange rates. The sensitivity of profit or loss to changes in exchange rates arises mainly from US-dollar and Swiss francs denominated payables. A 10% change in the exchange rate of the Euro against the US dollar or Swiss franc as at December 31, 2023 would have increased or decreased profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

As of December 31, 2023, trade and other receivables, in addition to amounts in EUR, USD and CHF, also consist of amounts in SGD (Singapore dollar) in RON (Romanian leu), of which the highest SGD amount is equivalent to EUR 1,048 thousand. As of December 31, 2023, trade and other payables, in addition to amounts in EUR, USD and CHF, also consist of amounts in the currencies of GBP SGD in RON, of which the highest amount is GBP equivalent to EUR 1,220 thousand.

	Impact on net income	
in thousand EUR	Dec 31, 2023	Dec 31, 2022
EUR/USD exchange rate – increase 10%	124	0
EUR/USD exchange rate – decrease 10%	-163	0
EUR/CHF exchange rate – increase 10 %	-113	0
EUR/CHF exchange rate – decrease 10%	-489	0

b) Interest rate risk

The Company's main interest rate risk arises from long-term borrowings with variable rates, which expose the Company to cash flow risk. Nevertheless, the interest rate risk exposure is low, mainly due to the intragroup financing structure in place. The Company addresses its net exposure to interest rate risk mainly through the ratio of its fixed rate financial debt to variable rate financial debt contained in its total financial debt portfolio. The Company does not use any hedging instruments for managing interest rate risk.

The Company's exposure to interest rate risk at the end of the reporting period was as follows:

	Carrying amount	
in thousand EUR	Dec 31, 2023	Dec 31, 2022
Fixed rate instruments		
Financial assets	0	0
Financial liabilities	-87,980	0
Total	**-87,980**	**0**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Interest rates – increase by 100 bp	-879.8	0
Interest rates – decrease by 100 bp	879.8	0

3.2 Credit risk

Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed. To manage this risk, the company has adopted a credit management policy that is aligned with the global guidelines of the Novartis group. Within this framework, the company regularly assesses the financial reliability of customers, taking into account their financial position, past experience and other factors. In the assessment, the company uses customer credit reports, customer financial statements and country credit ratings. Based on these factors, the credit limit of each customer is determined, which represents the maximum permissible exposure to the customer. In the case of exceeding the credit limit, a matrix is used to confirm it, which is compiled based on the amounts and function of the confirmer. Payment terms vary by country and customer, usually between 7 and 120 days. When managing credit risk, the company follows its guidelines that immediate action should be taken in the event of non-payment (from a warning to stopping deliveries as the most severe form of reducing losses from credit risk).

The carrying amounts of trade receivables represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Trade receivables		
From 3rd party customers	29,332	0
From related companies	53,959	0
Total	**83,291**	**0**

The largest customer represents 51% of trade receivables as of December 31, 2023 and 65% of revenue in 2023. The second largest customer represents 46% of trade receivables on December 31, and 12% of revenue in 2023.

Trade receivables from related companies are deemed to be low-risky, payments are received regularly and on time. Receivables from related companies are not due and no bad debt provision has been made to the value of receivables as of December 31, 2023.

Ageing of trade receivables from 3rd party customers at the reporting date:

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Not due	**29,318**	**0**
Due	**14**	**0**
Due 0 – 30 days	1	0
Due 31 – 90 days	0	0
Due 91 – 180 days	13	0
Due more than 180 days	24	0
Allowances for receivables	-24	0
Total	**29,332**	**0**

According to the Novartis Group policy, 100% bad debt provision is booked when receivables are due for more than 180 days, unless it can be reasonably justified that no risk of loss exists for an overdue receivable (refer to the Note 2.8).

The movement of the bad debt provision of receivables:

in thousand EUR	2023	2022
Balance at January 1	**0**	**0**
Transfer from demerger	23	0
Additions	1	0
Utilization	0	0
Balance at December 31	**24**	**0**

3.3 Liquidity risk

Liquidity risk is defined as the risk that the Company could not be able to settle or meet its obligations on time or at a reasonable price. The Company actively manages its liquidity risk through the Novartis Group centralized cash management system, which encompasses cash flow forecasting, monitoring receivables and liabilities, as well as matching inflows and outflows. Financing is provided through the Group cash pooling system, where the Company has two borrowing facilities at its disposal – a long-term loan and short-term cash pool position. Therefore, the Company has no bank overdrafts facilities and does not use any liquidity risk mitigation strategies.

Book values of financial liabilities (liabilities and loans) represent the greatest exposure to liquidity risk. The largest exposure to liquidity risk on the reporting date was:

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Operating liabilities	**87,092**	**1**
to third parties	86,505	1
to related companies	587	0
Loans received	**87,980**	**0**
by related companies	87,980	0
Obligations arising from leases	**3,799**	**0**
to third parties	3,799	0
Total	**178,871**	**1**

Trade payables from related companies are deemed to be non-risky. The company pays regularly and in accordance with the payment deadlines, as the company participates in the system of settlement of claims and liabilities between related companies. The company is also part of the centralized cash management system of the Novartis group (»cash pooling system«).

Maturity of business liabilities to third parties on the reporting date (contractual cash flows):

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Not due	78,418	1
Due 1 – 30 days	7,114	0
Due 31 – 90 days	375	0
Due more then 91 days	598	0
Total	**86,505**	**1**

Maturity of lease liabilities at the reporting date (contractual cash flows):

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Up to 1 year	1,557	0
1 to 2 years	2,177	0
2 to 3 years	180	0
3 to 4 years	100	0
4 to 5 years	30	0
Total	**4,044**	**0**

3.4 Capital management

In managing its capital, the Company focuses on maintaining a strong financial position. The capital structure is constantly monitored and managed in coordination with the Novartis Group. The net debt to equity ratios at December 31, were as follows:

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Net debt	91,762	0
Total equity	575,353	6
Net debt to equity ratio	**15.95%**	**0**

4. Spin-off by acquisition

On the basis of the entry of the demerger by acquisition, the distribution of financial statements between the companies Lek d.d. and Novartis d.o.o. was made on July 3, 2023:

Statement of financial position

in thousand EUR **July 3, 2023**	**Total**	**Lek d.d.**	**Novartis LLC**
ASSETS			
Non-current assets			
Property, plant and equipment	526,994	134,502	392,492
Right-of-use assets	2,602	25,018	3,584
Intangible assets and goodwill	342,481	340,913	1,568
Deferred tax assets	3,661	1,591	2,070
Financial investments in subsidiaries	2,092	2,092	0
Other long-term receivables	22	22	0
Other financial assets	857	855	2
Total non-current assets	**904,710**	**504,993**	**399,717**
Current assets			
Inventories	580,351	349,555	230,796
Trade and other receivables	247,695	143,187	104,507
Cash and cash equivalents	222	222	0
Total current assets	828,268	492,965	335,303
Total assets	**1,732,978**	**997,958**	**735,020**
EQUITY AND LIABILITIES			
Equity			
Share capital	48,402	48,402	0
Capital reserves	375,595	375,595	0
OCI reserves	-1,790	-794	-996
Retained earnings	839,130	286,688	552,442
Total equity	**1,261,337**	**709,891**	**551,445**
Non-current liabilities			
Deferred revenue	447	0	447
Provisions	34,038	15,510	18,529
Lease liabilities	22,563	20,327	2,236
Other non-current liabilities	37	0	37
Total non-current liabilities	**57,086**	**35,836**	**21,250**
Current liabilities			
Trade and other payables	375,936	216,615	159,321
Deferred revenue	38	0	38
Provisions	1,317	600	717
Borrowings	30,203	29,509	694
Lease liabilities	6,686	5,215	1,471

Current tax liabilities	374	292	82
Total current liabilities	**414,555**	**252,231**	**162,324**
Total liabilities	**471,641**	**288,067**	**183,574**
Total equity and liabilities	**1,732,978**	**997,958**	**735,020**

5. Property, Plant & Equipment Movements

The company did not have tangible Fixed assets in 2022.

	Land	Buildings	Production plant and equipment	Other plant and equipment	PPE under construc-tion	Total
COST						
Balance at Jan 1, 2023	**0**	**0**	**0**	**0**	**0**	**0**
Transfer from demerger	**19,747**	**348,381**	**463,499**	**115,507**	**140,341**	**1,087,476**
Transfer from PPE under construction	118	3,093	6,888	1,680	-11,780	0
Additions	27	286	6,656	1,950	90,391	99,310
Disposals	0	-634	-12,475	-1,475	0	-14,584
Balance at Dec 31, 2023	**19,893**	**351,126**	**464,569**	**117,661**	**218,953**	**1,172,202**
ACCUMULATED DEPRECIATION						
Balance at Jan 1, 2023	**0**	**0**	**0**	**0**	**0**	**0**
Transfer from demerger	**0**	**219,082**	**382,728**	**93,174**	**0**	**694,984**
Depreciation charge	0	4,995	9,064	3,070	0	17,129
Disposals	0	-378	-12,087	-1,271	0	-13,736
Impairment charge	0	0	586	42	0	628
Balance at Dec 31, 2023	**0**	**223,699**	**38,290**	**95,015**	**0**	**699,004**
NET BOOK VALUE						
Balance at Jan 1, 2023	**0**	**0**	**0**	**0**	**0**	**0**
Balance at Dec 31, 2023	**19,893**	**127,427**	**84,278**	**22,646**	**218,953**	**473,197**

No item of property, plant and equipment is pledged as security.

Commitments for purchases of property, plant and equipment amounted EUR 133,046 thousand at December 31, 2023.

The gross carrying amount of fully depreciated property, plant and equipment is EUR 442,726 thousand at December 31, 2023.

6. Right-of-use assets movements

The company did not have Right of use assets in 2022.

in thousand EUR	Land	Buildings	Machinery and equipment	Vehicles	Total
COST					
Balance at Jan 1, 2023	**0**	**0**	**0**	**0**	**0**
Transfer from demerger	83	3,918	319	627	4,946
Additions	0	194	693	87	974
Disposals	0	-764	-601	-17	-1,381
Balance at Dec 31, 2023	**83**	**3,348**	**411**	**697**	**4,539**
ACCUMULATED DEPRECIATION					
Balance at Jan 1, 2023	**0**	**0**	**0**	**0**	**0**
Transfer from demerger	28	960	80	295	1,362
Depreciation charge	13	562	37	79	690
Disposals	0	-509	0	-16	-525
Balance at Dec 31, 2023	**41**	**1,012**	**116**	**357**	**1,527**
NET BOOK VALUE					
Balance at Jan 1, 2023	**0**	**0**	**0**	**0**	**0**
Balance at Dec 31, 2023	**41**	**2,336**	**295**	**340**	**3,012**

Commitments for leases not yet commenced amounted EUR 0 thousand at December 31, 2023 (there were no such commitments).

Cash outflows for leases

in thousand EUR	2023	2022
Payments of lease liabilities	661	0
Payments of interest	46	0

Interest on lease liabilities amounted to EUR 46 thousand in 2023.

7. Intangible Assets Movements

The company did not have Intangible assets in 2022.

in thousand EUR	Long-term property rights	Intangible assets in course of acquisition	Total
COST			
Balance at Jan 1, 2023	**0**	**0**	**0**
Transfer from demerger	**2,804**	**530**	**3,334**
Additions		232	232
Disposals	-31	0	-31
Balance at Dec 31, 2023	**2,773**	**761**	**3,535**
ACCUMULATED AMORTISATION			
Balance at Jan 1, 2023	**0**	**0**	**0**
Transfer from demerger	**1,766**	**0**	**1,766**
Amortisation charge	429	0	429
Disposals	-31	0	-31
Balance at Dec 31, 2023	**2,163**	**0**	**2,163**
NET BOOK VALUE			
Balance at Jan 1, 2023	**0**	**0**	**0**
Balance at Dec 31, 2023	**610**	**761**	**1,371**

8. Deferred tax assets and liabilities

in thousand EUR	Balance at Dec 31, 2022	Recognised in profit or loss	Recognised in equity	Recognised in other compre-hensive income	Balance at Dec 31, 2023
Transfer from demerger	0	0	2,070	0	2,070
Deferred tax assets	0	290	0	17	307
Total - net	**0**	**290**	**2,070**	**17**	**2,377**

The company does not show deferred tax liabilities on December 31, 2023.

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Property, plant and equipment	622	0
Provisions for retirement benefits and jubilee awards	1,754	0
Total - net	**2,377**	**0**

Deferred taxes are calculated based on temporary differences by using the liability method and the 22% tax rate.

Unrecognised deferred tax assets

in thousand EUR	Gross amount Dec 31, 2023	Tax effect Dec 31, 2023	Gross amount Dec 31, 2022	Tax effect Dec 31, 2022
Unused tax relief	**159,131**	**35,009**	**0**	**0**

Deferred tax assets have not been recognised for the unused part of tax incentives for investments in equipment and in research and development, because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom. Balance of unrecognised deferred tax assets at December 31, 2023 is EUR 35,009 thousand.

9. Other financial assets

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Other shares and interests in entities	2	0
Total	**2**	**0**

Other shares represent the share in company IEDC Business School Bled.

10. Inventories

in thousand EUR	Gross Dec 31, 2023	Provisions Dec 31, 2023	Net Dec 31, 2023	Net Dec 31, 2022
Material	99,768	-5,232	94,536	0
Work in progress	135,235	-5,886	129,348	0
Products	7,515	-43	7,472	0
Merchandise	708	0	708	0
Total	**243,226**	**-11,161**	**232,065**	**0**

Inventories were written down in the amount of EUR 1,767 thousand. Due to the write down of inventories, profit or loss for the period was lower by EUR 445 thousand. The difference in the amount of EUR 1,322 thousand was charged against provisions for inventories created in previous periods. The Company recognized slow/no mover provision in the amount of EUR 11,161 thousand.

Based on inventory count at the end of 2023, inventory surplus in the amount of EUR 186 thousand and inventory deficit in the amount of EUR 181 thousand were recognised.

On 31 December 2023, the carrying amount of inventories did not exceed their net realisable value.

Inventories are not pledged as security for liabilities.

11. Trade and other receivables

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Current trade receivables from Novartis group entities	53,959	0
Current trade receivables (3rd party and Novartis group)	29,332	0
Other current receivables	60,386	1
Total	**143,677**	**1**

Current trade receivables (3rd party)

in thousand EUR	Gross Dec 31, 2023	Allowance Dec 31, 2023	Net Dec 31, 2023	Net Dec 31, 2022
Current trade receivables from domestic customers (3rd party)	29,355	-24	29,331	0
Current trade receivables from foreign customers (3rd party)	1	0	1	0
Total	**29,356**	**-24**	**29,332**	**0**

Other current receivables

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Prepayments	53,290	0
Deferred costs	422	0
Contract assets	5,335	0
Other current receivables from the state	3,142	0
Other	5	0
Total	**62,193**	**0**

Prepayments include prepayments for property, plant and equipment, inventories and for other assets.

Deferred costs represent costs of services invoiced but not yet rendered.

Other current receivables from the state refer mostly to receivables for VAT and to sick leave refund claims.

Contract assets include rendered services to the entities in the Novartis Group in the amount of EUR 5,224 thousand at December 31, 2023.

Movement in the allowance (provision) for doubtful trade receivables

in thousand EUR	2023	2022
Transfer from demerger	**23**	**0**
Additions	1	0
Balance at December 31	**24**	**0**

12. Cash and cash equivalents

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Cash at bank	17	7
Total	**17**	**7**

13. Equity

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Share capital	8	8
OCI reserves	-2,382	0
Retained earnings	577,727	-1
Total	**575,353**	**7**

Share capital
The Company' share capital authorised, issued and fully paid-up amounts to EUR 7,5 thousand. There were no changes in the share capital in 2023.

OCI reserves
OCI reserves include actuarial gains and losses in respect of long-term employee benefits (refer to Note 2.11).

Retained earnings
Retained earnings comprise retained earnings from previous period, which was transfered to the company from demerger from Lek d.d. and profit for the period.

Accumulated profit for the year 2023

in thousand EUR	2023	2022
Balance at January 1	**-1**	**0**
Transfer from demerger	552,441	0
Profit for the period	25,287	-1
Balance at December 31	**577,727**	**-1**

14. Deferred revenue

in thousand EUR	Other deferred revenue	Total
Balance at Dec 31, 2022	**0**	**0**
Transfer from demerger	486	0
Additions	9	0
Releases	19	0
Balance at Dec 31, 2023	**476**	**476**
Non-current	437	437
Current	38	38

Other deferred revenue includes mostly revenue from the establishment of a building right, which relates to a longer period.

15. Provisions

in thousand EUR	Provisions for retirement benefits	Provisions for jubilee awards	Total
Transfer from demerger	**14,066**	**5,180**	**19,246**
Additions	617	372	989
Used during year	205	238	443
Balance at Dec 31, 2023	**15,881**	**5,480**	**21,360**
Non-current	14,420	4,597	19,017
Current	1,460	882	2,343

Provisions for employee benefits are based on actuarial calculation of estimated future payments for each employee by taking into account the costs of employee benefits on retirement and the costs of all expected jubilee awards until retirement. Calculation was accounted for under the following assumptions:

- employee turnover, depending mainly on the employees' age;
- mortality rate based on the mortality tables of the Slovenian population for 2007 year;
- time of retirement based on minimal conditions as specified in laws of the Republic of Slovenia;
- gross salary of an employee for October month based on 160 working hours;
- estimated 6.5% increase in salaries in 2024 and 3.0% from 2025 onwards;
- amounts of retirement payments and jubilee awards as defined by internal acts;
- 3.20% discount interest rate.

16. Lease liabilities

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Non-current lease liabilities	2,011	0
Current lease liabilities	1,788	0
Total	**3,799**	**0**

All lease liabilities are shown in euros.

The interest rate is determined according to the type of asset and the duration of the lease. The applied interest rates for new leases in 2023 are between 2.0% and 3,1%. The weighted average interest rate is 2,4% in 2023.

All leases that were transfered with demerger from Lek to Novartis were transfered at the same conditions.

Maturity analysis

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Less than one year	1,788	0
Between one and two years	1,649	0
Between two and three years	209	0
Between three and four years	118	0
Between four and five years	36	0
After five years	0	0
Total lease liabilities	**3,799**	**0**

Maturity analysis of lease liabilities payments (contractual cash flows)

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Less than one year	1,557	0
Between one and two years	2,177	0
Between two and three years	180	0
Between three and four years	100	0
Between four and five years	30	0
After five years	0	0
Total	**4,044**	**0**

17. Other non-current liabilities

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Other non-current liabilities	27	0
Total	**27**	**0**

Other non-current liabilities represents mostly employee related accruals and provisions.

18. Trade and other payables

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Current trade payables to Novartis group entities	587	0
Current trade payables (3rd party)	86,505	1
Other current payables	77,954	0
Total	**165,045**	**1**

Current trade payables to Novartis group entities consist only of payables to foreign group entities.

Current trade payables (3rd party)

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Current trade payables to domestic suppliers (3rd party)	52,753	1
Current trade payables to foreign suppliers (3rd party)	33,752	0
Total	**86,505**	**1**

Trade payables include regular purchases and purchases of property plan and equipment.

Other current payables

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Payables to employees	40,808	0
Payables to state	6,837	0
Payables from advances	5,200	0
Payables for goods and services not yet invoiced	11,878	0
Accrued costs and accruals for revenue deductions	13,231	0
Total	**77,954**	**0**

Payables for goods and services not yet invoiced include payables for goods already supplied and services already provided, for which invoices had not been received by the end of the reporting period.

Accrued costs and accruals for revenue deductions

in thousand EUR	Dec 31, 2023	Dec 31, 2023
Accrued costs for unused vacation	6,008	0
Accrued costs for services	5,797	0
Other accrued costs	1,426	0
Total	**13,231**	**0**

Accrued costs include accrued costs for received services from the entities in the Novartis Group in the amount of EUR 141 thousand at December 31, 2023.

Accrued costs for services mainly refer to calculated transport costs and calculated payments based on shares.

Shares compensation

Other current liabilities include remuneration liabilities with shares to be settled in cash to employees (see note 2.11).

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Shares compensation	4,089	0
Total	**4,089**	**0**

The costs of rewards in the form of shares comensation part of employee benefit expenses amounted to EUR 4,089 thousand in 2023.

19. Borrowings

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Borrowings from other related entities	87,980	0
Total	**87,980**	**0**

Borrowings from other related entities include liability arising from the cash pooling with the company Novartis Investments S.a.r.l. at the interest rate EUR €STER + 25 BPS, CHF SARON + 25 BPS or USD SOFR + 25 BPS at December 31, 2023. The amount consists of borrowings in the amount of EUR 86,686 thousand, USD 1,140 thousand and CHF 153 thousand at December 31, 2023.

No Company's assets were pledged as security for borrowings.

20. Revenue

Disaggregation of revenue from contracts with customers

in thousand EUR	2023	2022
Revenue from the sale in domestic market to Novartis group entities	**70,872**	**0**
- of which sale of products and services	70,872	0
Revenue from the sale in foreign market to Novartis group entities	**211,299**	**0**
- of which sale of products and services	197,958	0
- of which sale of merchandise and material	13,341	0
Revenue from the sale in domestic market to others (3rd party)	**13,256**	**0**
- of which sale of products and services	12,647	0
- of which sale of merchandise and material	609	0
Revenue from the sale in foreign market to others (3rd party)	**28,634**	**0**
- of which sale of products and services	28,634	0
Total	**324,061**	**0**

The Company generates revenue primarily from the development, production and sale of pharmaceutical products.

Revenue in the amount of EUR 282,171 thousand were generated within the Novartis Group in 2023.

Revenue is recognized when the Company fulfills performance obligations or at the moment the customer obtains control of the promised asset.

Contract balances

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Trade receivables	83,291	0
Contract assets	5,335	0
Total	**88,626**	**0**

The contract assets are transferred to trade receivables when the rights become unconditional. This occurs when the Company issues an invoice to customer.

21. Other operating income

in thousand EUR	2023	2022
Reversal of provisions	510	0
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets	2,063	0
Capitalized own products and own services	3,379	0
Other	96	0
Total	**6,049**	**0**

22. Cost of merchandise sold

in thousand EUR	2023	2022
Cost of merchandise sold	**17,918**	**0**
Total	**17,918**	**0**

Cost of merchandise sold in an amount of EUR 13,674 thousand is related to purchasing within the Novartis Group in 2023.

23. Cost of material and energy

in thousand EUR	2023	2022
Cost of material	72,859	0
Cost of energy	20,373	0
Other cost of material	8,159	0
Total	**101,392**	**0**

Cost of material and energy is fully related to purchasing outside the Novartis Group in 2023.

24. Cost of services

in thousand EUR	2023	2022
Transportation services	2,424	0
Rents and warehousing	636	0
Refund of work-related costs	1,138	0
Maintenance	11,138	0
Hired personnel	6,284	0
Intellectual services, IT, research studies and co-operation	21,337	1
Advertising and entertainment costs	712	0
Bank and insurance costs	86	0
Other services	4,404	0
Total	**48,159**	**1**

Cost of services in the amount of EUR 14,387 thousand was incurred within the Novartis group entities in 2023. The costs shown under Other services relate to the cost of services rendered from subsidiaries, security costs and local registration fees.

Transactions with audit companies

The cost of audit of the annual report amounted to EUR 126.5 thousand. The company was not obliged to audit in 2022.

25. Employee benefits expense

in thousand EUR	2023	2022
Salaries	88,598	0
Pension contributions	10,816	0
Social security contributions	7,824	0
Other employee benefits expense	13,909	0
Total	**121,147**	**0**

The average number of employees, calculated from working hours in 2023 was 3,317.

Remuneration of Management Board Members and employees under individual employment

in thousand EUR	Remunerations of Management Board Members	Remunerations of Supervisory Board Members	Earnings of employees under individual employment contracts to which the Collective Agreement does not apply
Fixed earnings	324	0	1,920
Variable earnings	6	0	48
Options and other benefits	0	0	47
Refund of work-related expenses	2	0	18
Insurance premiums	6	0	43
Other additional payments	24	3	64
Total	**362**	**3**	**2,141**

No other receivables due from and liabilities due to the respective groups of persons are recorded.

26. Amortisation, depreciation and impairments

in thousand EUR	2023	2022
Depreciation and amortisation	18,248	0
Impairment of property, plant and equipment, intangible assets and assets held for sale	624	0
Impairment and write-off of trade receivables	873	0
Total	**19,745**	**0**

No claims against the Novartis Group company were written off in 2023.

27. Other operating expenses

in thousand EUR	2023	2022
Loss on disposal of property, plant and equipment and intangible assets	110	0
Taxes and levies	1,643	0
Donations and other financial helps	479	0
Other	586	0
Total	**2,817**	**0**

Other operating income includes mostly income from capitalized own products and sale of property, plant and equipment.

28. Financial income and financial expenses

in thousand EUR	2023	2022
Financial income from loans to other entities	41	0
Financial income from trade receivables from other entities	255	0
Total financial income	**296**	**0**
Financial expenses for borrowings from Novartis group entities	1,045	0
Financial expenses for lease liabilities	46	0
Financial expenses for trade payables to other entities	359	0
Total financial expenses	**1,449**	**0**
Net financial result	**-1,153**	**0**

Financial income from loans to other entities includes realised and unrealised exchange gains.

Financial income from trade receivables from other entities includes only realised and unrealised exchange gains.

Financial expenses for borrowings from Novartis group entities include interest expenses in the amount of EUR 1,034 thousand and exchange difference in the amount of EUR 11 thousand.

Financial expenses for trade payables to other entities include interest on payables in the amount of EUR 46 thousand and exchange differences in the remaining amount.

29. Income taxes

in thousand EUR	2023	2022
Income tax	2,221	0
Deferred tax	-290	0
Total income taxes	**1,932**	**0**

Numerical reconciliation between actual and theoretical income taxes		
Profit before tax	**27,218**	**-1**
Theoretically assessed tax (2023: 19%)	5,172	0
Non-taxable income		
Non-deductible expenses	1,147	0
Increase in tax base	-259	0
Decrease in tax base	-56	0
Tax relief	-3,782	0
Release of unused differences between tax base and carrying value		
Other	18	0
Effect of change of tax rate for deferred tax (19% -> 22%)	-308	0
Income taxes	1,932	0
Effective tax rate	**7.1%**	**0.0%**

30. Off balance sheet assets and liabilities

in thousand EUR	Dec 31, 2023	Dec 31, 2022
Liabilities from guarantees	5,568	0
Inventories	4,686,357	0
IM	4,445,021	0
SDZ	241,335	0
Total	**4,691,924**	**0**

Off-balance-sheet assets and liabilities relate to given customs and excise guarantees and stocks of materials received for processing (toll manufacturing).

31. Events after the reporting period

The company does not detect any significant events from the end of the financial year to the date of adoption of the annual reports.