NOVARTIS

Novartis LLC Annual Report 2024

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Novartis LLC Annual Report 2024

This version of the annual report is a translation from the original, which was prepared in the Slovenian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the annual report takes precedence over this translation.

Novartis LLC Annual Report **2024**

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.

Purpose

Reimagine medicine to improve and extend people's lives.

Vision

To 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 research and development and novel access approaches.

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Introduction

Report of the Management Board

In 2024, Novartis continued its operation as a fully focused innovative medicines company with the vision of becoming the most trusted and valued medicines company in the world. Based on its redefined strategy aiming at four key therapeutic areas and five technology platforms, Novartis achieved outstanding sales results based on the growth of its key brands in multiple markets last year.

At Novartis in Slovenia, we take care of more than half of the strategically most important innovative medicines from Novartis in various phases of research, development and production. Novartis LLC played a key role in delivering the 2024 Novartis results by supporting activities for many important brands and supplying a significant share of volume from Slovenian production sites. The knowledge, competencies and agility of the Slovenian organization enabled the implementation of new technologies, numerous product transfers and a corresponding volume growth. Biologics Technical Development in Mengeš supported 47 different development projects. The operations part of Novartis LLC enabled the worldwide launch of the product Fabhalta, as well as the launch of pediatric formulations of Entresto, Vijoice and Tafinlar to key markets. Expertise in innovative medicines and innovation achievements were also validated externally by the receipt of the gold national award for innovation in the area of biologic medicines presented by Slovenian Chamber of Commerce.

Novartis continued its extensive investment program in Slovenian sites in 2024. Several investments with a total value of EUR 236 million were allocated to grow the Development and Operations footprint and will enable an increase in development and production capacities, the establishment of new technologies, and stronger support for new products. The biggest ongoing investments are in the Aseptics facility in Ljubljana, the Multipurpose Chemical production facility in Menges, and the Technical Research and Development Center BioCampus in Mengeš. An important achievement was the ramping up of the disposable fed batch (DFB) facility extension and the start of a continuous manufacturing production line for Solids technologies. We have also begun operation of a high-tech viral vector production facility, which will strengthen our presence in the field of cell and gene therapies and triggered investment for peptides production, enabling the manufacturing of radioligand medicine in Slovenia.

Besides the expansion of the business, Novartis LLC intensified its external engagement in the Slovenian environment. At the end of last year, we signed an agreement with the University of Ljubljana on strategic cooperation, which provides a foundation for partnership in developing a talent pool within the study programs and research projects. The agreement affirms our commitment to connecting the business and academic environments with the aim of developing employee skills and promoting growth and innovation. Novartis has also strengthened its cooperation with Slovenian academic and research institutions by participating in various events and projects, as well as by organizing its own events that promote the exchange of knowledge and best practice, such as Novartis Research Day with the Academy, the scientific event BioCamp, and SciNovate events.

We continue to follow our corporate commitment to maintain strong compliance in work safety and quality, and to support environmental sustainability objectives. At Novartis LLC we have launched over 20 initiatives for energy efficiency as well as a green mobility program. Several ongoing initiatives in various areas will support our environmental sustainability plans to achieve carbon neutrality in our operations in 2025, reaching net zero status by 2040, and attaining water neutrality and achieve a 30% reduction in waste disposal by 2030 (compared to the 2022 baseline).

Macroeconomic trends in 2024 improved and were much more favorable for the business and our production competitiveness compared to the previous year. Inflation in 2024 was 2.0%, and the price of energents stabilized despite the political crises in Ukraine and the Middle East. The unemployment rate in Slovenia was relatively low, at 4.1% which presented a challenge in the recruitment of candidates with specific technical profiles. Novartis engagement plans and early career promotion programs are in place to compensate for the usual attrition rate and enable additional staffing needed to support the Company's growth.

Novartis LLC started 2024 with 3,610 employees, and due to volume growth, new investments and the expansion of activities in Novartis Corporate Center and other Global functions, the number of employees increased by 274 to reach a total of 3,884 by year end. We established the new organizational units Ljubljana Aseptics, VIFA One production, TRD Clinical production, and the Cell Line Engineering and Characterization Department as part of global Biomedical Research. Within our organization, we have consistently adhered to the Novartis principles of good employee practices, ensuring our associates remain motivated and engaged. This includes their development plans and career growth, as well as supporting their physical, mental and social wellbeing through initiatives like Wellbeing. We promoted engaging, diverse and inclusive environments, supported

Engineers at Novartis in Slovenia are responsible for managing investments and numerous projects.

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nine local Employee Resource Groups, and implemented pay transparency under the EPIC Pledge initiative in Q1 2024. Additionally, we have continued our social responsibility efforts by donating to Mengeš Primary School and UNICEF's "How do you feel" project.

In the coming year, we will continue to deliver new medical treatments to our patients across the world. We will grow our organizational and portfolio footprint, implement new technology solutions, and continue our journey as an innovative medicines company. We will further foster knowledge, innovation and continuous improvements as the cornerstone of business success and the future growth of Novartis.

Ljubljana, April 14, 2025

Management Board in 2024:

- **Jana Petek, M.Sc.,** General Manager (to January 10, 2024)
- **Mihaela Žuran, M.Sc.,** Director (to June 30, 2024)
- **Prof. Uroš Urleb, Ph.D.,** Director (to April 11, 2025)
- **Polonca Kuhar,** Director
- **Neža Golob, M.Sc.,** Director from July 1, 2024
- **Marjan Novak, M.Sc.,** Director from April 10, 2024
- **Petra Štefanič Anderluh, Ph.D.,** General Manager from January 10, 2024
- **Špela Jalen, Ph.D.,** Director from April 11, 2025

Petra

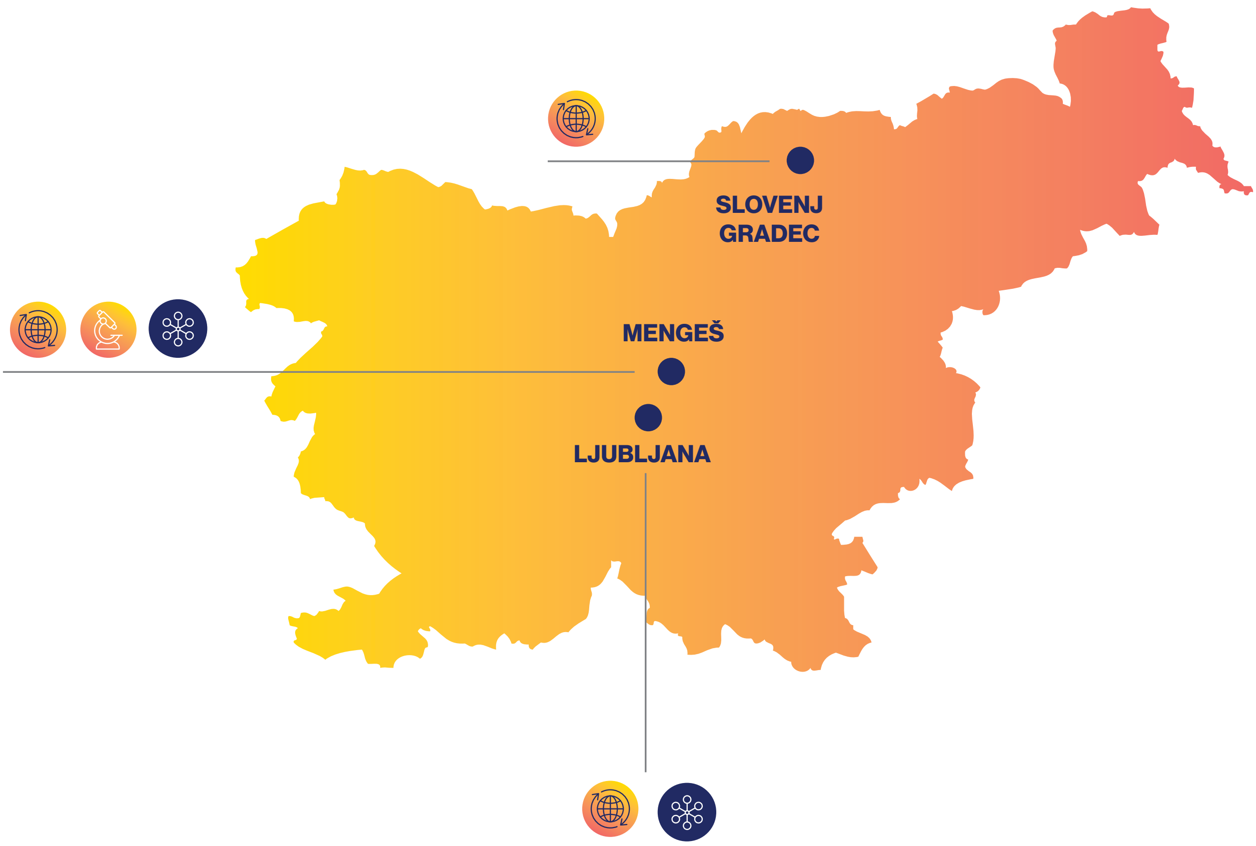
Petra Štefanič Anderluh, Ph.D.
General Manager

Novartis LLC sites:

Business support services

Development

Operations



Supervisory Board's report

During the 2024 financial year, the Supervisory Board performed its duties with utmost diligence in accordance with the law, the Company's statues, and its own terms of reference. In the following, I describe the Supervisory Board's work in 2024 on behalf of its members.

The Supervisory Board convened an extraordinary meeting in January, during which new members of the Board of Directors were appointed and the composition of the Supervisory Board was updated. This included the appointment of a chairperson, a vice-chair, and the Workers' Director based on the nomination by the Workers' Council. Additionally, the Supervisory Board approved the amended By-Laws to align with the changes to the Articles of Association of Novartis LLC, dated December 22, 2023. This involved modifications in the number of members of the Supervisory Board and other changes. Aside from the extraordinary meeting, the Supervisory Board also held four ordinary meetings and one correspondence meeting. During these meetings, operations and objectives, the risks to which Novartis was exposed, and the impact on the Company of different projects in the areas of Manufacturing, Development and IT system changes in the regulatory environment, were thoroughly reviewed. Very tight monitoring of the potential impact on the Company associated with the recent Sandoz spin-off from the Novartis Group in 2023 was performed.

In 2024, the Supervisory Board reviewed the Novartis LLC report within the statutory deadline and considered the auditor's report, in which the auditor KPMG Slovenija, podjetje za revidiranje, d.o.o. concluded that the financial statements that form part of the annual report fairly present, in all material respects, the financial position of Novartis LLC and its profit or loss and cash flows in accordance with the International Financial Reporting Standards as adopted by the European Union. We had no comments on the auditor's work or its report.

The Supervisory Board finds that Novartis LLC has performed well despite various external and internal factors, as demonstrated by the results achieved and the Company's uninterrupted operation. In addition to the continuing conflicts in Ukraine and Israel/Palestine, and uncertainty following the US elections, the Supervisory Board finds that these geopolitical circumstances did not have a significant impact on the Company's business. 2024 represented the first year for Novartis as a pure innovative medicines company, and the Supervisory Board finds that there was no major impact on business and operations after 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.

The key priorities for Novartis in 2024 continued to be ensuring the health and safety of its employees and maintaining the right conditions for the reliable production and delivery of medicines to patients.

The key priorities for Novartis in 2024 continued to be ensuring the health and safety of its employees and maintaining the right conditions for the reliable production and delivery of medicines to patients.

Novartis LLC continues to make significant investments in the Ljubljana and Mengeš campuses, 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 LLC is thus making a significant contribution to the success of the global Novartis Group and realizing the long-term vision of Novartis in Slovenia.

Implementation of a new Enterprise Resource Planning (ERP) system was kicked off in early 2024 that will, with new ways of working, enable standardization, simplification and innovation in customer, supplier and workforce collaboration.

The Supervisory Board supports the management in implementing its risk management policy and recognizes that Novartis was successful in 2024 in consistently 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 successfully executing their projects, including all activities that contributed to a strong year for Novartis as a pure innovative medicines company, for their hard work and for the Company's results, which once again contributed significantly to the achievement of the Novartis Group's strategy in 2024.

Jelica Zdolšek, M.Sc.
Chair of the Supervisory Board

Ljubljana, April 14, 2025

Key therapeutic areas

Cardiovascular, renal and metabolic

Oncology

Immunology

Neuroscience

Technology platforms

Chemical technology

Biotherapeutics

xRNA

Radioligands

Gene and cell therapy

Corporate governance statement

Pursuant to Paragraph 6 of Article 70 of the Companies Act (hereinafter referred to as ZGD-1), Novartis Pharmaceutical Manufacturing LLC (hereinafter referred to as Novartis or the Company) hereby submits the following

Governance Statement:

The Management Board and the Supervisory Board of Novartis declare that in the 2024 financial year the management of Novartis was managed in compliance with the provisions of the Companies Act (ZGD-1) and other applicable regulations that are binding for Novartis.

This governance statement is an integral part of the 2024 Novartis Annual Report.

Applicable corporate governance code

Novartis was not subject to a corporate governance code in the 2024 financial year, nor did Novartis voluntarily decide to apply any other publicly announced corporate governance code.

The reason for not applying a published corporate governance code is the fact that Novartis had only one shareholder, i.e. Novartis Pharma AG, and is therefore part of the Novartis Group. As part of the Novartis Group, Novartis is bound to comply with a large number of Novartis Group internal policies that regulate the contents in corporate governance codes, such as relations between the Company and the shareholder, the composition, operation and remunerations of the supervisory body, the composition, operation and remunerations of members of the management body, public reporting, auditing, the internal controls system, and risk management.

In addition to the code, the corporate governance provisions are also contained in the Novartis Articles of Association, which is publicly available on the website of the Slovenian Business Register.

Description of the main characteristics of internal control and risk management systems in the Company in relation to the financial reporting procedure

The Management Board of Novartis is responsible for maintaining accounting records, selecting and utilizing internal control systems and risk management in the Company, and for financial reporting on a going concern basis in compliance with International Financial Reporting Standards as adopted by EU and applicable legislation.

Novartis designs and implements its internal control system as part of the Novartis Group's internal control framework. The content and features of the system are governed by the Novartis Financial Controls Manual (NFCM), which are based on the COSO model (The Committee of Sponsoring Organizations of the Treadway Commission). Each year, the Company's Management Board 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, professional and verifiable management of operating risks, a risk management function has been established in Novartis, which is responsible for coordinating risk management throughout the Company: adequately informing the Management Board on relevant risks in individual organizational units of the Company, providing advice and support to the Management Board in managing the Company's exposure, and coordinating its risk management. 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 organizational units are in place.

Information under Paragraph 6 of Article 70 of ZGD-1

a) Structure of share capital of Novartis and the ownership structure

The share capital of Novartis is EUR 50,000,000.00, consisting of one share capital contribution. The share capital of the sole shareholder, Novartis Pharma AG, amounts to EUR 50,000,000.00 and gives the sole shareholder a business interest representing 100% of the share capital of Novartis. The sole shareholder may, by resolution, decide to make subsequent contributions in cash or in kind.

b) Restrictions on the transfer of a business share

The sole shareholder may sell or otherwise transfer their 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 manage and represent Novartis with personal responsibility. 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 by two directors jointly or by one director together with one procurator, if appointed. The directors appoint a general manager from among themselves by way of a resolution. The Chief Executive Officer provides overall direction to the Management Board and has other powers and responsibilities as set out in the Novartis Corporate Governance Code.

The Supervisory Board has three members, two of whom are appointed by the sole shareholder of Novartis and one of whom is elected by the Novartis Workers' 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

The Articles of Association of Novartis do not have any specific provisions governing amendments to the Articles of Association. The procedure of amending the Articles of Association and the required majority in decision-making are therefore subject to the provisions of ZGD-1.

e) Powers of the Management Board members

The Management Board manages, represents and acts on behalf of Novartis. The Articles of Association stipulate that the Company shall be represented by two directors jointly, or one director together with the authorized signatory. Members of the Management Board may delegate specific powers and tasks within their respective areas of responsibility, including to represent Novartis, to individual Novartis employees or other persons. Members of the Management Board cannot delegate their powers in their entirety. Any delegation of powers and duties does not relieve the Management Board as a whole or individual directors of their responsibility.

Clarifications on the functioning and key competences of the sole shareholder

Novartis is managed by the sole shareholder, Novartis Pharma AG. The sole shareholder takes all its decisions concerning the management of Novartis in writing. The sole shareholder takes a decision whenever required or deemed necessary, and in any event at least once a year, for the purpose of allocating the balance sheet profit of Novartis for each financial year. The sole shareholder enters in the Novartis resolution book the sole shareholder's decisions required by the regulations to be entered in the resolution book.

The Novartis Articles of Association provides that the sole shareholder has sole discretion over: allocation of the balance sheet profit; the payment of subsequent contributions; the repayment of subsequent contributions; the increase and decrease of the share capital of Novartis; the appointment and removal of members of the Supervisory Board; the remuneration of members of the Supervisory Board; the appointment of the auditor; the adoption of the annual report, if the Supervisory Board has not approved it or has left the decision on the adoption of the annual report to the sole shareholder; consent to Novartis operations as required by the Articles of Association or decision by the sole shareholder; amendments to the Articles of Association; corporate status changes; the dissolution or liquidation of Novartis; and other matters provided for in the Articles of Association or by law.

Information on the composition and functioning of the management or supervisory bodies

a) Composition and functioning of the Management Board

The Management Board's activities are governed by the Novartis Articles of Association and the Novartis LLC Corporate Governance Code. In 2024, the Management Board of the Company discussed the topics within its area of responsibility at 33 meetings, of which 20 were ordinary meetings, three extraordinary meetings, and 10 correspondence meetings.

In 2024, the Novartis Management Board was composed as follows:

- **Jana Petek, M.Sc.,** General Manager (from January 1, 2024 to January 10, 2024)
- **Mihaela Žuran, M.Sc.,** Director (from January 1, 2024 to June 30, 2024)
- **Polonca Kuhar, Director** (from January 1, 2024 to December 31, 2024)
- **Prof. Uroš Urleb, Ph.D.,** Director (from January 1, 2024 to December 31, 2024)
- **Petra Štefanič Anderluh, Ph.D.,** General Manager (from January 10, 2024 to December 31, 2024)
- **Marjan Novak, M.Sc.,** Director (from April 10, 2024 to December 31, 2024)
- **Neža Golob, M.Sc.,** Director (from July 1, 2024 to December 31, 2024).

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

The Supervisory Board held six meetings in 2024, including four ordinary, one extraordinary and one correspondence meeting.

The Novartis Supervisory Board was established on July 12, 2023 and was composed as follows in 2024:

- **Jelica Zdolšek, M.Sc.** – President (from January 1, 2024 to December 31, 2024)
- **Miha Thuma,** Member – Workers' Representative (from January 1, 2024 to December 31, 2024)
- **Christoph Kurt Buerki, M.A.** – Member (from January 1, 2024 to December 31, 2024)

c) Applicable policy of diversity regarding representation in the Company's management or supervisory bodies

Novartis respects the diversity of its employees, patients, and other stakeholders, and strives to ensure their equal inclusion in its operations. The Company also promotes gender and educational diversity in its management and supervisory bodies. In 2024, the Management Board consisted mainly of four members (Q1) or five members (Q2, Q3 and Q4), with gender representation as follows: 25% men and 75% women (Q1), and 40% men and 60% women (Q2, Q3 and Q4). In 2024, the Supervisory Board of Novartis was composed of three members, 66.6% of whom were male.

The Novartis Group, including Novartis LLC, 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: Disabled people, the LGBTQI+ community, Cross-Generational Collaboration and Diverse talents.

Business report

Key achievements of Business units in 2024

2024 was the first full year Novartis operated as a focused innovative medicines company since the demerger of its generics division in 2023. In Slovenia, we made a significant contribution to the overall success of Novartis and to its excellent business performance, strengthening our position as one of the key sites within Novartis. In 2024, we grew in number and ended the year with more than 3,800 employees. We introduced new technologies, processes and ways of working across the organization, increased production volumes and made progress on ongoing investments. We enriched our work culture through various activities and initiatives such as Employee Resource Groups (ERG), Diversity, Equity and Inclusion (DEI) and Wellbeing. We also increased our focus on our external environment: we strengthened our relations with external stakeholders, especially academia and decision-makers, and our presence in the media and at external events.

Development

Biologics Technical Development Mengeš

Recipients of the Golden National Award for Innovation, awarded by the Chamber of Commerce and Industry of Slovenia

We use state-of-the-art digital methods and tools, which are increasingly replacing traditional experimental approaches in drug development.

Biologics Technical Development Mengeš is conducting technical development of biological medicines for the safe production of active ingredients and finished products for subsequent pre/clinical testing.

Over the past year, Biologics Technical Development Mengeš has been intensively preparing for the launch of one of the key R&D investments in recent years: the new Center for Technical Development of Biologics (BioCampus). This introduces new development capabilities to Slovenia, including clinical manufacturing to support early phase clinical trials of next-generation biologics, which means a requirement for new skills and the introduction of new work processes. With the investment in the new center, expected to be operational in early 2026, Novartis will strengthen its role in the development of innovative medicines in Slovenia, while the Mengeš site remains the largest industrial hub for modern biotechnology in the country, supporting the development and production of Novartis biologics.

In 2024, we expanded our portfolio of research and development of innovative biologics, while building capacity and expertise. Among other things, we strengthened our technical portfolio and project management department and started setting up new laboratories to test the biological activity of molecules under the Good Manufacturing Practice

(GMP) system. We introduced new ways of working, and in the early development of biologics we managed to significantly reduce development times, which is an important contributor to bringing new medicines to the market faster.

We continued to implement state-of-the-art digital methods and tools that are increasingly replacing traditional experimental approaches in drug research and development, enabling the faster and more efficient development of complex, innovative biologics. We regularly use mechanistic and statistical models, machine learning and applications developed using artificial intelligence in our development process.

We placed great emphasis on a culture of innovation and scientific excellence. In 2024, our employees were also recognized as some of the best innovators in our country. The Slovenian Chamber of Commerce and Industry awarded Novartis with a gold national award for its innovative technology that enables the discovery and removal of critical protein impurities in biologics, thereby making a significant contribution to improving the safety and efficacy of biologics and to faster and broader access to biologics for patients worldwide.

We further strengthened our cooperation with Slovenian academic and research institutions by participating in various scientific events and projects and by organizing our own events that promote the exchange of knowledge and good practice, such as the Novartis Research Day with the Academy, the BioCamp scientific event, and SciNovate events. We are particularly proud of our contribution to the signing of the strategic partnership between Novartis in Slovenia and the University of Ljubljana; the benefits of cooperation between the academic sector and industry are certainly mutual, while they also open the doors for Slovenian academic and research institutions to cooperate with Novartis in breakthrough innovation projects on a global scale. Our work has also had an impact in the wider world of pharmaceutical science – last year, our employees presented their work at renowned scientific conferences and published several papers in high-profile scientific journals such as Nature Gene Therapies.

We are constantly developing and strengthening our culture of diversity, inclusion and innovation, introducing new ways of working, improving collaboration and promoting the wellbeing of our colleagues through a range of initiatives and activities. We are focusing on the Diversity, Equity and Inclusion initiative. We are particularly proud of our very successful collaboration with Zavod Most, a training and employment institute for people with disabilities and other vulnerable groups, through which we successfully integrated 15 people with disabilities into our work environment. They carry out office work and activities related to work in the laboratories, across all our areas of operation.

Operations

Solids Ljubljana

Solids Ljubljana manufactures and packages medicines in solid dosage forms in six different finished product pharmaceutical forms: coated and uncoated tablets, capsules and gastro-resistant capsules with pellets, micro-pellets and granules.

2024 was the year of transition to the innovative medicines portfolio for the Ljubljana Solids site. We focused on improving the production efficiency of Entresto, one of the most strategically important Novartis medicines for the treatment of heart failure. We increased the quantities produced by 50% compared to the previous year. We set up and started regular production on a dry granulation line and a new tablet coating machine, which significantly increased our production capacity and efficiency for Entresto – resulting in record production of over 2.7 billion tablets. In doing so, we have remained focused on our core mission – to provide quality medicines for our patients.

Overall, our production encompassed 8.4 billion pcs, while production complexity increased by 3% compared to 2023. We packed 95.5 million final packaging units, 12% more than in 2023, and innovative medicines accounted for almost 57% of all packaging orders.

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 an extremely challenging inspection by the US Food and Drug Administration (FDA) earlier this year.

In addition, our employees supported extensive process optimization activities for Kisqali for the treatment of early breast cancer, another of the most strategically important Novartis medicines.

Packaging line at Ljubljana Solids

Tablet press in the Solids Ljubljana production

We successfully introduced several improvements in the production process. We started trial production on a continuous production line, which represents a significant advance in our production technology, allowing for more streamlined and innovative production processes. We built an extension in the packaging line and installed and qualified three additional blister packing lines. We also introduced a new Print on Demand (PoD) packaging machine, which represents a major milestone in packaging innovation.

Solids Ljubljana also incorporates the Health, Safety and Environment (HSE) organizational unit. We successfully completed the regular annual audit to re-certify the ISO 45001 and 14001 certificates already obtained by Novartis in Slovenia. The cross-functional team in Slovenia, including the Sustainability Reporting, HSE, Technical Services and People & Organization teams, demonstrated a high level of professionalism and collaboration and provided high quality reporting in the area of environmental sustainability, society and governance (ESG), which also contributed to the positive outcome of the internal audit. A strong focus was placed on high-risk activities and the work permit system, combined with field inspections to ensure compliance with Novartis programs. We increased the safety culture by promoting vital safety rules on a monthly basis and by providing practical training.

Chemical Operations Mengeš

At ChemOps Mengeš, drug substances (DS) for medicines are produced based on chemical synthesis and classical fermentation . A variety of technologies are used in production, including fermentation, chemical synthesis, cold chemistry, hydrogenation, preparative HPLC purification and lyophilization.

At ChemOps Mengeš, we successfully closed challenging year 2024 above expectations in terms of financial results. Good planning and coordination of production processes kept production lines highly utilized, ensuring smooth production and the delivery of DS to our customers. With the re-certification of NOSSCE (Novartis Operational Standards for Supply Chain Excellence), we confirmed our commitment to supply chain excellence and joined our other Slovenian sites.

We continued the transformation of our product portfolio. We successfully completed the transfer of three innovative DS: Promacta, Ascomicin and Jakavi. The latter transfer was extremely challenging as, in addition to the complex production, intense activity was required in the area of analytics transfer, where the entire data package had to be adapted to our internal standards. The completed transfers were immediately followed by registration activities. A number of verification inspections were very successful and were completed without major deviations. In addition, a decision was taken in 2024 to allocate the production of Scemblix (to start in 2025) and peptide technology for the production of precursors for breakthrough radioligand therapies to ChemOps Mengeš.

In 2024, we once again demonstrated the high quality of our work. We successfully completed all our quality and safety audits, proving that safety and quality are the cornerstones on which we build our innovation story. As part of our application for Mengeš as a production site, we also successfully passed the Brazilian ANVISA audit for the first time.

In 2024, we established a Site Management Unit within ChemOps Mengeš, which is responsible for the smooth operation and development of the sites in Ljubljana and Mengeš. We provide maintenance services for internal users and tenants. We updated a number of service contracts with external partners and introduced an automated system for the collection, distribution and accounting of costs.
2024 was also marked as an extremely strong investment year for the entire Mengeš site. Four major projects continued to be implemented on the site: the biologics development facility, the multi-purpose manufacturing facility, the energy facility, and the business partner manufacturing building. The high dynamics on site required tailored logistics to smoothly support operations and investment projects.

Facility for the production of active ingredients for innovative medicines

Facility for the production of active ingredients for innovative medi-cines

We also focused on the environmental sustainability of the sites. A new Green Transition Strategy is being prepared. Additionally, we led the internal Employee Resource Group (ERG) Green Team, which organized activities to promote sustainable mobility, such as cycling workshops, the promotion of alternative means of transport and the introduction of an e-bike rental station.

In Mengeš, we are setting up state-of-the-art production of the latest Novartis innovative small molecules, as well as ensuring development and good customer service at both sites. Working closely with the local community, we are strengthening the reputation of Novartis in Slovenia.

Bioproduction Mengeš

Manufacturing Sciences and Technologies (MS&T) Laboratory at Bioproduction Mengeš

Production of active substances for biologics in Mengeš

Bioproduction Mengeš produces active substances for biologics for clinical and commercial use. The unit produces therapeutic proteins, various forms of monoclonal antibodies and viral vectors.

2024 was a busy year in Bioproduction Mengeš. We successfully ramped-up the disposable fed batch (DFB) extension as planned in a short period of time. This resulted in an increase of production capacity by more than 50%. In total we produced 122 batches, 46 more than in 2023. In addition to the capacity increase, we worked on improving process yields on all commercial products, achieving record outputs. The Slovenian health authority JAZMP verified the DFB extension and approved two new products for production: Tislelizumab and Adalimumab. We completed three validations for Denosumab, Adalimumab, and Aflibercept. Additionally, two new innovative molecules were transferred and successfully produced at our DFB facility.

Our mission is also to digitalize our production plants; therefore we are prioritizing implementation of the Manufacturing Execution System (MES), which was implemented in two out of the three commercial processes. In the meantime, we also finalized the construction of a state-of-the-art viral vector facility and started the tech transfer of the first product on the line with the first ramp-up batches successfully being manufactured. Lastly, we performed the fourth consecutive NOSSCE re-certification.

Our work was also recognized within the Novartis Operation network, where our team won first place in the category "Culture in Action" for the Multifunctional project team creating substantial savings by dual-sourcing GMP consumables. Additionally, together with the Technical Development team, we won the gold national award for innovation from the Chamber of Commerce of Slovenia.

Ljubljana Aseptics

Filling line for filling the syringes.

Filling line for filling the syringes.

In 2024 we established a new production unit, Ljubljana Aseptics, which is integrated into the organizational structure of Novartis LLC. We set up an integrated organizational structure within the production unit, with 48 employees in place at the end of the year.

The Ljubljana Aseptics unit will manufacture and package aseptic products – medicines, mainly in liquid or lyophilized form, which are filled into syringes or vials during the manufacturing process.

Construction of the new production facility in Ljubljana is progressing as planned. In 2024, we continued to install and qualify production capacity. The plant includes **two production units:**

- **Packaging:** Setting up modern assembly and packaging lines for needle guard syringes that meet the latest regulatory standards and ensure maximum efficiency.
- **Filling and visual inspection:** A state-of-the-art isolator filling line, with ancillary equipment to enable aseptic filling of syringes. Equipment used to carry out manual visual inspection was purchased.

The completion of qualification and the start-up of the production lines at Packing is scheduled for September 2025, when the packaging of commercial batches is planned to start. In the Filling unit, the start of filling of commercial batches is planned for early 2027.

Establishing the new Ljubljana Aseptics production unit also increased recruitment of experts in engineering, quality, manufacturing science and technology (MS&T), supply and production, and project management. We will continue to increase recruitment gradually in the coming years.

ESO Slovenia – External Supply Operations

External Supply Operations (ESO) Slovenia is part of the global ESO unit that is responsible for the management of all Novartis (external) suppliers, which are either providing materials used in our production sites or are suppliers producing medicines as contracting manufacturers for Novartis.

Quality Lab Services

In Quality Lab Services (QLS), testing and quality management is carried out, including supplier management, license management and other centralized activities. We test entry materials for several Novartis manufacturing and development units.

Novartis LLC stays committed to high quality standards and its compliance to the current GMP regulation. We hosted numerous audits and inspections in 2024, including those by the US FDA, Slovenian JAZMP, Brazilian ANVISA, and various customers.

FDA inspection that was on site in Ljubljana for two weeks and it was for the first time conducting preapproval inspection of six products, in addition to carrying out a general GMP inspection at the same time.

One regular GMP audit in Mengeš as well as several JAZMP verification audits were conducted in 2024 for new drug substance productions in the drug substance sites in Mengeš, at packaging extension in Ljubljana and at a new warehousing location.

The outcomes were successful and, where needed, sufficient corrective and preventive actions have been put in place. This demonstrates the Company's commitment to maintaining high standards and addressing any issues promptly.

Moreover, Novartis LLC consistently tracked the Key Quality Indicators of its manufacturing sites and warehouses, and Development Potential challenges were addressed immediately, reflecting the Company's focus on continually monitoring and enhancing quality metrics. As part of this commitment, the Quality and Management Manual was updated to include detailed instructions for Quality Council review activities, ensuring that quality management processes are comprehensively documented and consistently followed.

The implementation and approval of a new warehouse for Cargo-Partner, the introduction of new data loggers, and the tender process for selecting a domestic transport provider are some of the key activities undertaken. Several initiatives, investments and technical transfers were supported in 2024 to enable growth of the innovative medicines portfolio as well as implementation in upcoming years. Novartis LLC works very closely with the Development organization in transferring innovative drug substances and products to our manufacturing facilities.

Overall, all activities underscore Novartis LLC's dedication to maintaining the highest quality standards across all areas of our operations, investments, development and warehouse management and transportation, as well for future oriented projects.

Novartis Corporate Center (NOCC) Ljubljana

NOCC Ljubljana acts as a hub for technical activities and provides support to Novartis manufacturing sites. It provides expertise in GMP and pharmaceutical compliance, together with knowledge and experience from constant contact with manufacturing processes.

At NOCC Ljubljana we supported the operational activities and strategy of the manufacturing sites by providing services in various areas such as engineering, information technology, supply chain management, finance, manufacturing science and technology, indirect sourcing, safety, and environmental sustainability.

In the context of implementing these functions, three investment projects to establish new production sites were at the forefront in 2024: the production of aseptic products in Ljubljana, the production of viral vectors in Mengeš, and the technical development center for biologics in Mengeš. At the same time, we launched a multi-year project to upgrade the digitalization of business processes at the level of Novartis as a whole.

In 2024, the NOCC Engineering team supported investments in more than 240 projects at home and around the world – from small retrofits of existing lines to the design and construction of new production and development facilities. Major investments include the construction of an aseptic production facility in Ljubljana, a production facility for viral vectors, a center for the technical development of biologics, and a multi-purpose production facility in Mengeš. One of the most important investments was in the field of radioligand therapies in Mengeš, where the team planned a small-scale production plant for the synthesis of radioligands, involving an innovative drug for the treatment of prostate cancer.

In the area of DD&IT (Data, Digital & IT), the team successfully deployed and commissioned IT infrastructure and application solutions for the aseptic production project in Ljubljana.

To support the company's growth, we invested heavily in server and network infrastructure, with a significant number of new computers being commissioned, both for end-users and to support production processes. We also commissioned several artificial intelligence (AI) tools, and a training program has been developed for employees to help them effectively implement AI tools in their daily work. More than 1,000 users in Slovenia and abroad took part in the educational activities, which were designed not only to improve problem-solving skills but also to foster a culture of continuous learning and innovation. The team also networked and developed its environment outside the company: it actively participated in the Economic Strategic Council for Digitalization at the Chamber of Commerce and Industry of Slovenia, was an active participant in university and career events, and provided mentoring and internships for students to develop young potential.

In Supply Chain Management, we successfully managed a number of projects related to specific phases of the product lifecycle for different platforms and production sites. Among other things, we managed strategic projects for Slovenian production sites, such as product transfers from other units to Solids Ljubljana. We were also involved in the first product transfers from the aseptic production plants in Stein and Schaftenau to the newly established aseptic production site in Ljubljana. To support the development of new skills and career opportunities, the ASCEND (Accelerating Supply Chain Excellence and Development) rotational program was established for employees.

In the Manufacturing Science and Technology (MS&T) unit, we contributed to the successful establishment of the new sites for the production of aseptic products in Ljubljana and for the production of viral vectors in Mengeš; at the end of the year, we reached an agreement to participate in the project for the construction of a technical development center for biologics in Mengeš. The year was also marked by another two standout activities. The first was the implementation of a continuous production line in Solids Ljubljana; the second was environmental care, with priority on two projects: a project to optimize the occupancy of transport pallets, which has a direct impact on reducing the energy required for storage and transport, and a project to reuse lead containers for the storage and transport of radiopharmaceuticals.

In the GxP Training and Learning team, we supported more than 21,000 Novartis employees in 39 units in their day-to-day activities, delivering a total of 9,834 training plans, 32,484 training sessions and 134 audits and reviews.

The NOCC Finance Ljubljana team this year continued to provide its finance services to support the most important production sites, global platforms, and local and global functions. This effective support has been made possible by a team of employees whose primary focus this year has been on harnessing the potential of new technologies. It focused on simplifying processes through standardization and automation, using artificial intelligence to achieve greater accuracy in financial reporting and, as a result, improve operational efficiency.

In 2024, the Indirect Procurement Unit worked with internal and external stakeholders to find solutions to optimize costs and procurement processes and was involved in the implementation of investment projects. To support production sites in achieving their objectives, we carried out several procurement tenders and cross-functional workshops to identify projects and ideas for cost optimization. In the field of sustainability, we have entered into agreements with a number of strategic partners to achieve environmental sustainability benchmarks that reflect the ambition to make the Novartis supply chain carbon neutral by 2030.

Business support services
(Global and local functions)

People & Organization

The People & Organization team started the year with the introduction of pay transparency, which gives employees access to salary ranges and external benchmarking. As one of the first companies in Slovenia to introduce pay transparency, we received the HR&M Project of the Year award. In the first quarter of the year, we implemented a new human resources (HR) system, WorkDay, which replaced the existing HR applications and helps employees find information and perform HR tasks faster.

In 2024, we recruited a significant number of new employees, who were offered a refreshed onboarding program. We developed various training programs for managers and employees, and we are continuing with the three strategic pillars of the Wellbeing initiative, which contributes to employee wellbeing, co-creating a positive company culture and creating a better working environment.

HR&M project of the year 2024: Introducing pay transparency at Novartis

Finance

For our Finance team, the first half of 2024 was notable for its reporting milestones. We completed the first annual report for Novartis LLC for 2023. This followed the successful completion of the first internal audit in the area of Environmental Sustainability, Social and Governance (ESG) in cooperation with key departments, demonstrating the strength of our processes, while striving for continuous improvement. The second half of the year was focused on the intensive planning phase of the project to implement a new ERP system. We participated in cross-functional workshops and developed a number of user requirements related not only to accounting topics but also to all the processes that require our involvement. We also played the role of an important business partner, supporting new business models that have contributed to the company's growth.

Legal Affairs

In 2024, there were many important projects and activities where Legal Affairs played a key role by providing legal support. We would like to highlight the amendment of the Collective Agreement for Novartis LLC regarding the regulation of performance remuneration and the right to disconnect, the drafting of the internal Innovation Policy, the management and provision of expert legal advice on a number of pending projects and contractual matters related to the day-to-day operations of Novartis LLC and to the spin-off of our generic division in 2023, our tenants, and the various external collaborations and legal proceedings that affect our business.

Ethics, Risk and Compliance

In Ethics, Risk and Compliance (ERC), we continued to focus on our employees and strengthening the company culture in 2024. We aimed to achieve this through the Ethical Culture Plans unit, ERC Days and Tiny Habits of Ethical Leadership workshops, as well as SpeakUp, ListenUp sessions for leaders. With the aim of strengthening risk management and resilience at our sites, the team has also paid a lot of attention to the activities related to crisis management preparation and converting them from theory into practice through Business continuity management and Novartis Emergency Management. To reinforce the Novartis commitment to the ethical use of data and technology, we adopted and implemented a new global policy for this, and successfully completed the first internal Novartis data protection review conducted for Novartis LLC in Slovenia.

Corporate Affairs

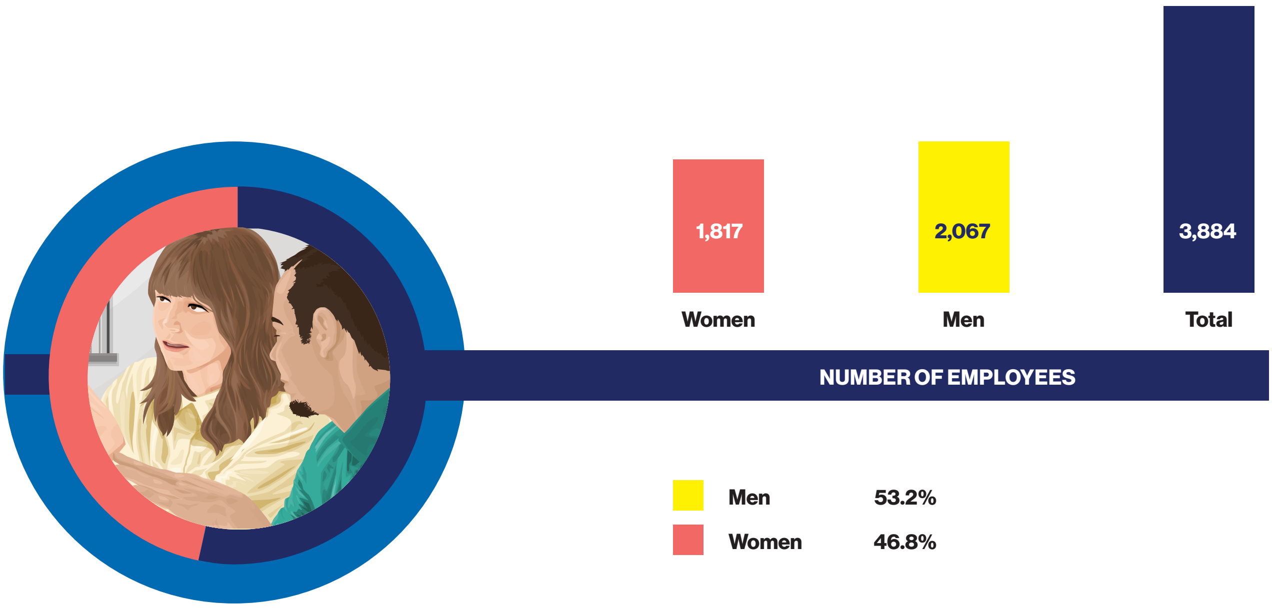
In Corporate Affairs, which includes Corporate Communications and Public Affairs, we continued to strengthen visibility and recognition of Novartis as the only pharmaceutical company involved in the development and production of innovative medicines in Slovenia. We strengthened relations with key stakeholders and contributed to discussions and policy development to create a supportive environment for investment and innovation.

Employees

The success and achievement of the Company's objectives is the result of the dedicated work of our employees.

2024 was full of new beginnings and new collaborations. In 2024, our organization recruited more than 560 new employees. Of these, most were recruited in the fields of production and quality. By the end of 2024, the company had 3,884 employees, 92% of whom were permanent and 8% temporary. 46.8% of employees were female and 53.2% were male.

Number of employees on December 31, 2024

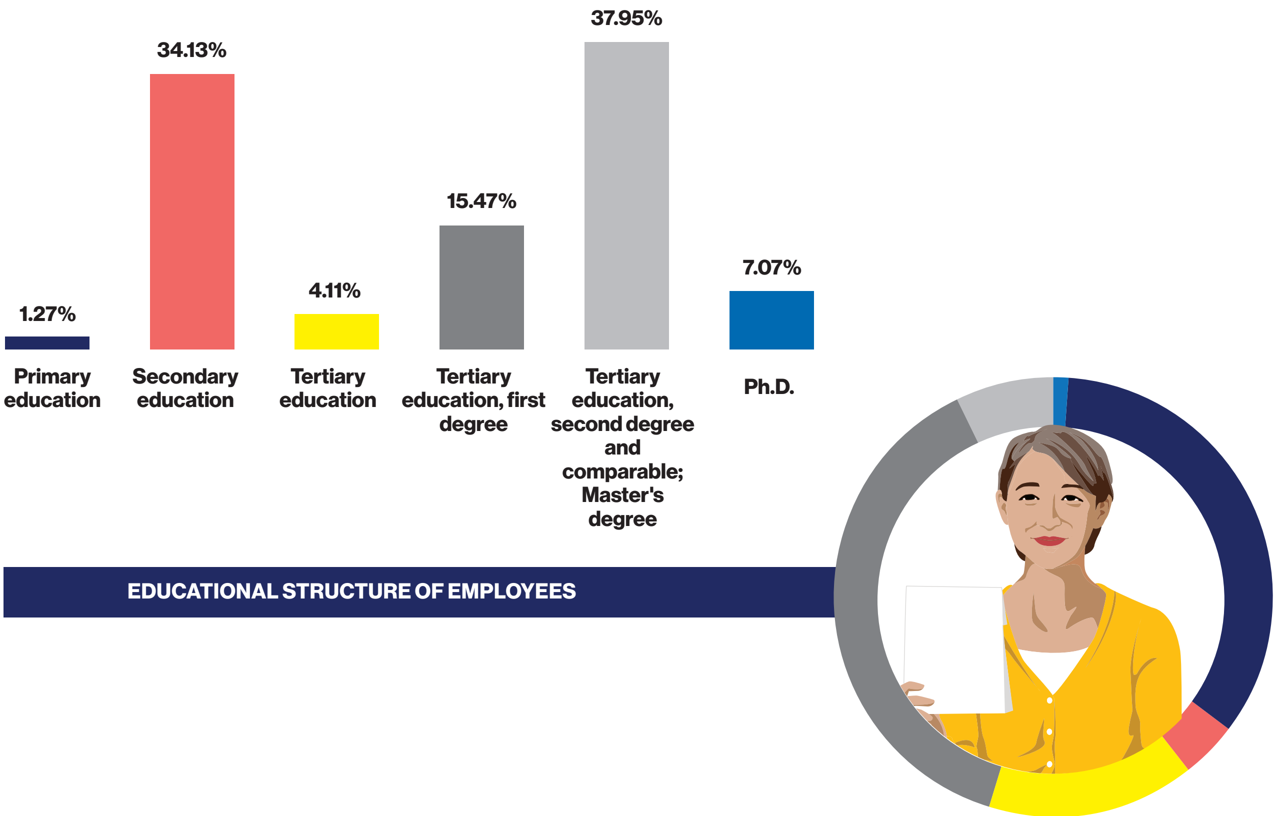


Training at Novartis LLC

On average, a Novartis employee received 51.4 hours of training in 2024, mainly in the areas of work processes and quality.

We delivered a number of training courses for staff, including the M1 program for managers, attended by 74 new managers, and a new training program for in-house trainers to mentor new employees, which was attended by 307 employees. In addition, employees participated in a variety of training programs designed to meet their diverse needs and interests. Employees chose learning content that suited their career goals and interests.

Educational structure of employees as of December 31, 2024



Study while working

As part of the career development of its employees and the company's development, Novartis also supports the development of skills and competences through on-the-job training. A total of 24 employees are involved in study while working, mainly at postgraduate and undergraduate level. The courses of study are diverse and support different areas of the Novartis business, including pharmaceuticals, chemistry, biotechnology, engineering, computer science, finance and management.

Diversity, Equity and Inclusion (DEI)

In 2024, we raised the flag for the first time for Disability Pride Month to raise awareness of the importance of an inclusive and diverse society

We are proud of the range of activities carried out under the Diversity, Equity and Inclusion initiative.

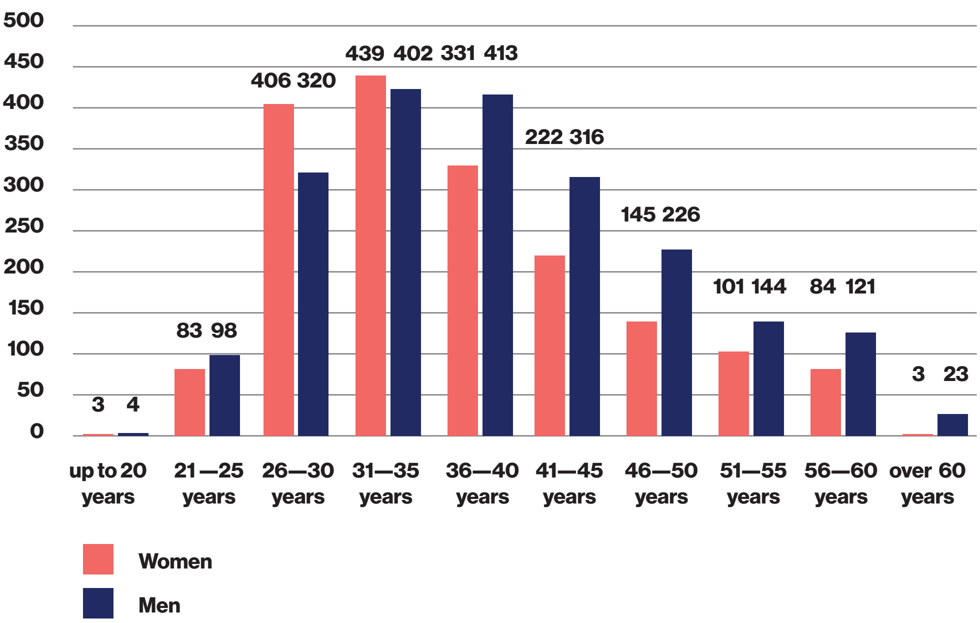
In 2024, we took on employees from 38 different nationalities.

The average age of the company's employees in 2024 was 38.1 years.

We continued to set up and empower Employee Resource Groups (ERGs). They aim to promote a diverse and inclusive workplace where all employees feel valued and supported. Resource groups provide an environment for employees to connect, share experiences and advocate for their needs and interests. By promoting cultural awareness, professional development and community participation, they help to create a more equitable and collaborative working environment.

The following areas are actively addressed by ERGs: gender identity and sexual orientation (LGTBQI+), cross-generational collaboration, Novartis international associates, persons with disabilities, wellbeing, environmental topics, and operational excellence. Employees are actively invited to join a resource group to build business impact locally and globally and to create a sense of belonging to our company.

Age groups by gender on December 31, 2024



Opportunities for early talent

Novartis LLC is investing in building early talent and in 2024 awarded new HR scholarships. As of the end of the year, we had 32 scholarship holders – students in the final years of science study programs. We provided students an insight into working in a pharmaceutical company through company visits, practical training and degree course work. In 2024, 79 students were given the chance to complete their mandatory practical training and summer internships. Of particular importance is the work of in-house mentors, whose expertise has helped link theoretical knowledge with practical skills.

Regional BioCamp

Participants of BioCamp 2024

BioCamp is a well-established regional talent attraction event, which we organized for the 14th time last year. It brings together around 35 of the best students in STEM (Science, Technology, Engineering and Mathematics) and business, as well as eminent scientists, experts and business leaders from Novartis and external organizations. The event is a cross-functional project involving employees from development, manufacturing, talent acquisition, People & Organization, corporate communications and commercial activities. In 2024, Novartis employees from Austria joined the event as co-organizers.

BioCamp is a strategic investment addressing workforce diversity and medium-term employment needs at key Novartis sites in Slovenia and Austria. The event provides a robust talent pool with diverse backgrounds in terms of nationality, education and skills. It strengthens cross-functional collaboration to attract top talent with specific skills. It also builds the company's brand identity and reputation in the market, which is key to positioning Novartis as a potential employer.

Participation in the event is perceived as both recognition and motivation for all Novartis employees involved. It provides an opportunity to showcase the company culture and encourages cross-functional and cross-site networking, making an important contribution to building bridges within the organization.

BioCamp 2024, which took place from September 22 to 24 in Bled, Slovenia, with the theme “Reimagine Medicine with RLTs”, was a resounding success. It included 35 shortlisted candidates from 8 countries and 13 nationalities, 12 speakers from Novartis, people from academia, physicians, and 40 employees who supported the event.

Wellbeing

Through numerous activities during the year we contributed to the wellbeing of our employees, co-creating a positive company culture and creating a better working environment. So we offered our employees a comprehensive wellbeing program, divided into three areas: mental wellbeing, physical wellbeing, and workload management. We continued to offer guided workout sessions in the workplace with our Wellbeing ambassadors, ran a high-profile physical wellbeing promotion campaign at all locations, provided lectures about smoking and healthy eating, and continued to offer online exercise classes and gym access at our Ljubljana location. Throughout the year, short weekly meetings were also available for colleagues to learn about different mindfulness techniques. In October, which is Mental Health Month, we focused on this important segment of wellbeing through a variety of activities. The “How are you?” event explored the emotions and struggles of children and adolescents, bringing this important topic closer to the minds of our colleagues.

Workout sessions in the workplace

Sustainability reporting, social responsibility and environmental policy

Sustainability (ESG) strategy and commitments at Novartis LLC

Building trust in society is a key part of the Novartis corporate strategy and key to achieving our mission of reimagining medicine to improve and extend people's lives. Our efforts to monitor environmental, social and governance (ESG) factors, which we integrate holistically into the company's operations as well as into our supply chains, are key to creating long-term value for our stakeholders.

Our commitment is to become an industry leader in the areas where we can have the greatest impact on people and society. Through innovation, we are working to integrate key aspects of ESG into our core business, i.e. making medicines as widely available 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 sustainability objectives are linked to our strategic priorities.

Our ESG framework

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

Innovation and access to medicines

- Developing new medicines that address societal needs
- Widespread access to our medicines
- Particular focus on global health

People

- Culture
- Inclusion
- Talent

Environmental sustainability

- Climate
- Nature

Ethical

- Ethics
- Compliance
- Human rights

Creating a sustainable impact

Sustainability reporting

At Novartis LLC, we address sustainability issues in a holistic way. To this end, we put in place appropriate processes to monitor ESG factors. Our sustainability strategy and commitments are aligned with the Novartis strategy, and reporting by indicators is consolidated at Group level. All Novartis entities are assessed annually by the global ESG team, taking into account their contribution to the Novartis bottom line in terms of greenhouse gas emissions, water consumption, waste, energy consumption and total number of full-time employees. The sum of the countries that contribute the most to these ESG indicators, together accounting for approximately 80% of the Novartis ESG score, which includes Novartis LLC, has local ESG reporting processes in place. The scope is reviewed at least once a year or after any significant change in operations.

For a more detailed overview of reporting and achieving targets, see the Novartis Sustainability Report: Novartis in Society Integrated Report 2024.

Enterprise Risk Management

Enterprise Risk Management

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

An integrated 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 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 borrowing with variable rates.

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 Performance

In 2024, Novartis generated EUR 669,652 thousand in net revenue. Other operating income amounted to EUR 1,072 thousand. Operating expenses totaled EUR 603,083 thousand.

The Company recorded EUR 67,641 thousand in profit from operating activities in 2024.

The net financial result was a loss of EUR 6,532 thousand. Finance income amounting to EUR 477 thousand included realized and unrealized foreign exchange gains and income from loans. Finance expenses totaling EUR 7,009 thousand included interest expenses on borrowings, interest on leases, and realized and unrealized foreign exchange losses.

Novartis recorded EUR 61,110 thousand in net profit before taxation for 2024. Income tax is assessed at 8.2% of net profit before taxation.

The net profit for the period amounted to EUR 56,077 thousand in 2024, for a net profit margin of 8.4% for 2024.

Financial report

Financial Report of Novartis LLC

Financial Statements and the Accompanying Notes thereto for the Financial Year ended December 31, 2024

Management Board statement

The Management Board approves the financial statements of Novartis LLC for the year ended December 31, 2024, as presented on pages 48 to 51 of the Annual Report, and the accounting policies applied and notes to the financial statements, as presented on pages 52 to 87.

The Management Board 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, 2024.

The Management Board 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 Board 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 the International Financial Reporting Standards.

The Management Board 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 following 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 Board is not aware of any circumstances that could give rise to any material liability in this respect.

Ljubljana, April 14, 2025

Management of Novartis LLC

Petra Štefanič Anderluh, Ph.D.

Neža Golob, M.Sc.

Špela Jalen, Ph.D.

Polonca Kuhar

Marjan Novak, M.Sc.

Independent auditor's report

KPMG

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Independent Auditor's 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 2024;

and, for the period from 1 January to 31 December 2024:

- the statement of profit or loss and other 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 2024, 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 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 auditor's report, except for the Report of the Supervisory Board, which will be available after that date.

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.

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.

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 on the other information that we have obtained prior to the date of this auditor's report, 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.

Other Reporting Responsibilities Related to Other Information – Business Report

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 the 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.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit we are required to report if we have identified material misstatements in the Business Report. We have nothing to report in this regard.

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

Management is responsible for the preparation of the 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.

Auditor's 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 auditor's 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,

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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;
- 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 auditor's 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 auditor's 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, 14 April 2025

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.

Statement of Financial position

in thousand EUR	Notes	Dec 31, 2024	Dec 31, 2023
ASSETS			
Non-current assets			
Property, plant and equipment	4.	636,432	473,197
Right-of-use assets	5.	10,468	3,012
Intangible assets and goodwill	6.	1,004	1,371
Deferred tax assets	7.	3,378	2,377
Other financial assets	8.	7	2
Other non-current receivables	9.	62,972	44,661
Total non-current assets		**714,260**	**524,620**
Current assets			
Inventories	10.	318,755	232,065
Trade and other receivables	11.	79,214	99,016
Current tax receivables		0	1,807
Cash and cash equivalents	12.	2	17
Total current assets		397,970	332,905
Assets held for sale			
Total assets		**1,112,231**	**857,525**

EQUITY AND LIABILITIES			
Equity	13.		
Share capital		50,000	8
OCI reserves		-4,516	-2,382
Retained earnings and current year result		583,812	577,727
Total equity		**629,296**	**575,353**
Non-current liabilities			
Deferred revenue	14.	369	437
Provisions	15.	23,887	19,017
Lease liabilities	16.	8,461	2,011
Other non-current liabilities	17.	10	27
Borrowings	19.	150,000	0
Total non-current liabilities		**182,726**	**21,493**
Current liabilities			
Trade and other payables	18.	201,017	165,045
Deferred revenue	14.	10,013	38
Provisions	15.	3,188	2,343
Borrowings	19.	81,059	87,980
Lease liabilities	16.	2,597	1,788
Current tax liabilities		2,335	3,485
Total current liabilities		**300,208**	**260,680**
Total liabilities		**482,935**	**282,172**
Total equity and liabilities		**1,112,231**	**857,525**

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

Statement of profit and Loss and other comprehensive income

in thousand EUR	Notes	2024	2023*
Revenue	20.	669,652	324,061
Other operating income	21.	1,072	2,669
Cost of merchandise sold	22.	-25,353	-17,918
Changes in inventories of finished goods and work in progress		81,880	9,361
Cost of material and energy	23.	-226,963	-101,392
Cost of services	24.	-124,507	-48,159
Employee benefits expense	25.	-255,730	-117,768
Amortisation, depreciation and impairments	26.	-42,763	-19,667
Other operating expenses	27.	-9,646	-2,817
Operating profit		**67,641**	**28,371**
Financial income	28.	477	296
Financial expenses	28.	-7,009	-1,449
Net financial result		**-6,532**	**-1,153**
Profit before tax		**61,110**	**27,218**
Income taxes	29.	-5,033	-1,932
Profit for the period		**56,077**	**22,287**
Other comprehensive income for the period (net of tax)		**-2,134**	**-17**
Items that will not be reclassified subsequently to profit or loss		-2,134	-17
Actuarial gains or losses (net of tax)		-2,134	-17
Total comprehensive income for the period		**53,943**	**25,270**

*Financial period from July to December 2023.

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

Statement of cash flows

in thousand EUR	2024	2023*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	56,077	**25,287**
Adjustments for:		
Amortisation and depreciation	42,490	18,247
Gain/Loss on disposal of property, plant and equipment	245	-1,954
Impairment of property, plant and equipment and intangible assets	405	628
Impairment / (Reversal of impairment) and write-off of trade receivables and prepayments	-769	1
Impairment of inventories	9,520	11,161
Change in Provisions	3,581	711
Financial income	0	-113
Financial expenses	6,260	1,125
Corporate income tax	5,033	1,932
Change in operating assets and liabilities		
Change in Inventories	-96,210	-12,431
Change in Trade and other receivables	2,308	-39,078
Change in Other non-current liabilities	-17	-10
Change in Trade and other payables	45,185	5,668
Interest paid	-4,848	-1,079
Income taxes paid	-5,378	-625
Net cash inflow from operating activities	**63,881**	**9,470**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-206,353	-102,747
Proceeds from sale of property, plant and equipment	920	2,802
Government grants received for property, plant and equipment	1,924	3,437
Purchase of intangible assets	-564	-232
Net cash outflow from investing activities	**-204,073**	**-96,740**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	1,100,597	336,005
Repayments of borrowings	-958,739	-248,699
Payments of lease liabilities	-1,681	-26
Net cash outflow from financing activities	**140,177**	**87,280**
Net change in cash and cash equivalents	-15	10
Cash and cash equivalents at the beginning of the period	17	7
Cash and cash equivalents at the end of the period	**2**	**17**

*Financial period from July to December 2023.

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

Statement of changes in equity

in thousand EUR	Share capital	OCI reserves	Retained earnings	Total equity
Total equity at December 31, 2022	**8**	**0**	**-1**	**6**
Earnings transfered with demerger	**0**	**-996**	**552,442**	**551,445**
Profit for the period	0	0	25,287	25,287
Other comprehensive income for the period (net of tax)	0	-1,386	0	-1,386
Total comprehensive income for the period	**0**	**-1,386**	**25,287**	**23,901**
Total equity at December 31, 2023	**8**	**-2,382**	**577,727**	**575,353**
Transfer of retained earnings to share capital	49,993	0	-49,993	0
Profit for the period	0	0	56,077	56,077
Other comprehensive income for the period (net of tax)	0	-2,134	0	-2,134
Total comprehensive income for the period	**0**	**-2,134**	**56,077**	**53,943**
Total equity at December 31, 2024	**50,000**	**-4,516**	**583,812**	**629,296**

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, 2024.

The company was founded in August 2022. On December 15, 2022, the companies Novartis LLC and Lek d.d. concluded the Agreement on division and takeover, amended by the annex dated February 14, 2023, which entered into force 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 LLC).

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 manager is Petra Štefanič Anderluh, Ph.D. and the president of the supervisory board is Jelica Zdolšek, M.Sc.

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.

The financial performance for the year 2023 is only for the period commencing in July and ending in December 2023.

2.1 Basis of preparation

a) Compliance with IFRS

The 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

New standards, amendments and new interpretations, issued by IASB and adopted by EU with an effective date from January 1, 2024

As of January 1, 2024, the following new standards, amendments to existing standards and new clarifications issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

Non-current Liabilities with Covenants and classification of liabilities as current or non-current (Amendments to IAS 1): Classification of Liabilities as Currentor Non-current and Non-current Liabilities with Covenants (Amendments to IAS 1 - Presentation of Financial Statements), published in 2020 and 2022 respectively, clarify that the classification of liabilities as current or noncurrent is based solely on an entity's right to defer settlement for at least 12 months after the reporting noncurrent at the reporting date. However, disclosure about covenants is now required to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

The amendments also clarify that the transfer of an entity's own equity instruments is regarded as settlement of a liability, in certain circumstances. If a liability has any quity conversion options, they generally affect its classification as current or noncurrent (e.g. if the conversion option is bifurcated as an embedded derivative from the host debt), unless these conversion options are recognized as equity under IAS 32, Financial Instruments: Presentation.

Lease Liability in a Sale and Leaseback (amendments to IFRS 16): Amendment requires a sellerlessee to account for variable lease payments that arise in a sale-and-leaseback transaction as follows.

- On initial recognition, include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognized.

Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation of IFRS 16 in 2019.

Supplier finance arrangements (amendments to IAS 7 and IFRS 7): Amendment requires an entity (the buyer) to disclose qualitative and quantitative information about its supplier finance arrangements, such as terms and conditions – including, for example, extended payment terms and security or guarantees provided.

Amongst other characteristics, IAS 7 explains that a supplier finance arrangement provides the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date.

The standards, amendments and clarifications valid from January 1, 2024 have not lead to significant changes in the financial statements.

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

At the date of approval of these financial statements, IASB issued the following amendments to existing standards adopted by the EU, but which have not yet been effective but will have effective date annual periods beginning on or January 1, 2025.

Lack of exachangeability Amendment to IAS 21, The Effects of Changes in Foreign Exchange Rates): Amendment applies when one currency cannot be exchanged into another. This may occur, for example, because of government-imposed controls on capital imports and exports, or a limitation on the volume of foreign currency transactions that can be undertaken at an official exchange rate. The amendments clarify when a currency is considered exchangeable into another currency, and how an entity estimates a spot rate for currencies that lack exchangeability. The amendments introduce new disclosures to help financial statement users assess the impact of using an estimated exchange rate.

New standards and amendments to the existing standards issued by the IASB but not yet adopted by the EU

Currently, IFRS as adopted by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards and changes to existing standards.

New standards and amendments to the existing standards issued by the IASB but not yet adopted by the EU with the effective date annual periods beginning on or after January 1, 2026:

Annual Improvements Volume 11 (Amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7): Annual improvements provide a mechanism for the IASB to efficiently issue a collection of minor amendments to the Accounting Standards. In accordance with the IASB's due process as described in the IFRS Foundation Due Process Handbook, annual improvements are limited to changes that either clarify the wording in an Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements in the Accounting Standards.

The proposed improvements are packaged together in one document. This cycle of annual improvements addresses the following:

Accounting Standard	Subject of amendments
IFRS 1 First-time Adoption of International Financial Reporting Standards	Hedge accounting by a first-time adopter
IFRS 7 Financial Instruments: Disclosures	Gain or loss on derecognition
Guidance on implementing IFRS 7 Financial Instruments: Disclosures	Introduction
	Disclosure of deferred difference between fair value and transaction price
	Credit risk disclosures
IFRS 9 Financial Instruments	Derecognition of lease liabilities
	Transaction price
IFRS 10 Consolidated Financial Statements	Determination of a 'de facto agent'
IAS 7 Statement of Cash Flows	Cost method

Contracts Referencing Naturedependent Electricity (previously Power Purchase Agreements) (Amendments to IFRS 9 and IFRS 7): Amendments were implemented to improve the reporting by companies of the financial effects of nature-dependent electricity contracts that are often structured as power purchase agreements (PPAs).

Nature-dependent electricity contracts assist companies to secure their electricity supply from wind and solar power sources. Since the amount of electricity generated under these contracts may vary based on uncontrollable factors related to weather conditions, current accounting requirements may not adequately capture how these contracts affect a company's performance. In response, the IASB has made targeted amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures to improve the disclosure of these contracts in the financial statements.

The amendments include:
- Clarifying the application of the 'own-use' requirements;
- Permitting hedge accounting if these contracts are used as hedging instruments; and
- Adding new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows.

Early application of the amendments is permitted. However, for certain jurisdictions the amendments must be endorsed prior to application.

Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7): Amendmends clarify financial assets and financial liabilities are recognized and derecognized at settlement date except for regular way purchases or sales of financial assets and financial liabilities meeting conditions for new exception. The new exception permits companies to elect to derecognize certain financial liabilities settled via electronic payment systems earlier than the settlement date.

They also provide guidelines to assess contractual cash flow characteristics of financial assets, which apply to all contingent cash flows, including those arising from environmental, social, and governance (ESG)-linked features.

Additionally, these amendments introduce new disclosure requirements and update others.

New standards and amendments to the existing standards issued by the IASB but not yet adopted by the EU with the effective date annual periods beginning on or after January 1, 2027:

Subsidiaries without Public Accountability: Disclosures (amendments to IFRS 19): IFRS 19 is a voluntary standard that applies to entities without public accountbility, but whose parents prepare consolidated financial statements under IFRS Accounting Standards.

For in-scope companies, IFRS 19 simplifies disclosures on various topics, including leases, exchange rates, income taxes, statement of cash flows, etc.

If elected, IFRS 19 is expected to reduce the cost of preparing in-scope financial statements while maintaining the usefulness of those financial statements for stakeholders.

Presentation and Disclosure in Financial Statements (amendments to IFRS 18): IFRS 18 replaces IAS 1, which sets out presentation and base disclosure requirements for financial statements. The changes, which mostly affect the income statement, include the requirement to classify income and expenses into three new categories – operating, investing and financing – and present subtotals for operating profit or loss and profit or loss before financing and income taxes.

Further, operating expenses are presented directly onthe face of the income statement – classified either by nature (e.g. employee compensation), by function (e.g. cost of sales) or using a mixed presentation. Expenses presented by function require more detailed disclosures about their nature

IFRS 18 also provides enhanced guidance for aggregation and disaggregation of information in the financial statements, introduces new disclosure requirements for management-defined performance measures (MPMs)* and eliminates classification options for interest and dividends in the statement of cash flows.

*Non-GAAP measures that meet the definition of MPMs will be subject to the disclosure requirements.

The company assumes that the introduction of new standards and changes to existing standards during the period of initial application will not have a significant impact on the financial statements of the company.

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 2.9).

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

By using a certain asset, the Company uses the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing. The useful lives of property, plant and equipment will periodically be revised to reflect any changes in circumstances since the previous estimate. Changes in estimate, if any, will be reflected prospectively in a revised depreciation charge over the remaining, revised useful life.

Thus, when determining the useful life of an asset, it's crucial to not only consider the expected physical utilization but also the accelerated development of new technologies in the industry could impact the useful life of an asset.

2.4 Intangible assets and goodwill

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

a) Intangible assets other than goodwill

Intangible assets other than goodwill mainly relates to patents and 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 from 2 to 3 years.

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. Net realisable value is the estimated selling price in the ordinary course of business at the reporting date, less sales expenses and other possible administrative expenses usually connected with the sales.

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. Monitoring and recording of deviations from standard prices is satisfied by valuation of stocks at actual purchase prices.

The method of measuring inventory costs is with the help of the standard cost method, which approximates the purchase value of the used material or production costs through the accounting of deviations. 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. In the case of major deviations from the actual production costs, only these are capitalized and released according to inventory turnover. The standard costs are regularly reviewed and, in the event of changes or new circumstances, also corrected accordingly.

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, which mostly reflects the transaction price, and are classified as financial assets measured at amortized cost. 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

Provisions for losses on financial assets are recognised, equating to expected credit losses ("ECLs") over the entire useful life of the asset.

Significant increases in credit risk on a financial asset are assumed if more than 180 days have elapsed from the due date. A financial asset is generally considered to be in default if it is unlikely that the borrower will pay the liabilities.

Assessment for potential credit impairment of financial assets is undertaken at each reporting date. A financial asset is deemed credit-impaired if one or more events detrimental to the estimated future cash flows of the financial asset occur.

From the gross carrying amount of the assets, provisions for ECLs on financial assets at amortised cost are deducted.

When there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof, the gross carrying amount of a financial asset is written off.

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.

Employee benefit obligations and other earnings include the present value of retirement severance payments and jubilee awards. These are recognized based on an actuarial calculation approved by management. The actuarial calculation is based on assumptions and estimates valid at the time of calculation, which may differ in the future from the actual assumptions applicable at that time. This primarily relates to the determination of the discount rate, employee turnover estimates, employee mortality rates, and projected salary growth. Due to the complexity of the actuarial calculation and the long-term nature of these obligations, defined benefit obligations are sensitive to changes in these estimates.

d) Shares compensation

The Company rewards executive employees with equity-settled, share-based payments in Novartis Pharma AG. Grants are awarded based on the fulfilment of certain performance criteria. These shares typically have a vesting period of three years. The Company recognizes the liability at fair value in profit or loss under employee benefits expense over the vesting 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

The Company recognises loans and advances, bank overdrafts, operating liabilities and other liabilities among non-derivative financial liabilities. These financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised costs 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, dividend 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. Dividend income is recognised in profit or loss on the date when the shareholder's right to receive payment of the dividend is established.

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
Financial investments in subsidiaries	Financial asset	Purchase cost
Other financial assets	Financial assets	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

2.19 Key estimates

As a key estimate, the company identifies the useful life of Property, plant and equipment.

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

By using a certain asset, the Company uses the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing. The useful lives of property, plant and equipment will periodically be revised to reflect any changes in circumstances since the previous estimate. Changes in estimate, if any, will be reflected prospectively in a revised depreciation charge over the remaining, revised useful life.

Thus, when determining the useful life of an asset, it's crucial to not only consider the expected physical utilization but also the accelerated development of new technologies in the industry could impact the useful life of an asset.

2.20 Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Borrowing costs that cannot be directly attributable to acquisition, construction or production of qualifying asset, are capitalised applying a capitalisation rate. Capitalisation rate is weighted average of borrowing costs applicable to the general borrowings, excluding borrowing costs that are directly attributable for acquisition of qualifying asset, until substantially all the activities necessary to prepare that asset for its intended use or sale are completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during the period.

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	Management
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, primarily due to fluctuations in the US dollar exchange rate and also due to fluctuations in exchange rates in some local markets, where the exposure is minor. 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, 2024				Dec 31, 2023			
in thousand EUR	EUR*	USD	CHF	Other	EUR*	USA	CHF	Other
Trade and other receivables	134,502	714	6,411	559	139,496	612	2,503	1,066
Trade and other payables	-188,632	-7,866	-3,798	-720	-161,472	-2,027	-324	-1,222
Statement of financial position exposure	**-54,131**	**-7,152**	**2,612**	**-161**	**-21,976**	**-1,415**	**2,179**	**-156**

* 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, would have increased (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, 2024, trade and other receivables, in addition to amounts in EUR, USD and CHF, also consist of amounts in SGD and in RON, of which the highest SGD amount is equivalent to EUR 552 thousand (as of December 31, 2023 RON and SGD, of which the highest SGD amount is equivalent to EUR 1,048 thousand). As of December 31, 2024, 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 714 thousand (as of December 31, 2023 GBP, SGD and RON, of which the highest GBP amount is equivalent to EUR 1,220 thousand).

	Impact on net income	
in thousand EUR	**Dec 31, 2024**	**Dec 31, 2023**
EUR/USD exchange rate – increase 10%	602	124
EUR/USD exchange rate – decrease 10%	-853	-163
EUR/CHF exchange rate – increase 10%	-68	-113
EUR/CHF exchange rate – decrease 10%	-531	-489

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, 2024**	**Dec 31, 2023**
Variable rate instruments		
Financial assets	0	0
Financial liabilities	-231,059	-87,980
Total	**-231,059**	**-87,980**

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, 2024**	**Dec 31, 2023**
Interest rates – increase by 100 bp	-23,106	-8,798
Interest rates – decrease by 100 bp	23,106	8,798

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 financial assets (receivables and loans) represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

in thousand EUR	**Dec 31, 2024**	**Dec 31, 2023**
Trade receivables		
From 3rd party customers	30,331	29,332
From related companies	42,741	53,959
Total	**73,073**	**83,291**

The largest customer represents 53% of trade receivables as of December 31, 2024 (51% as of December 31, 2023) and 74% of revenue in 2024 (65% in 2023). The second largest customer represents 41% of trade receivables on December 31, 2024 (35% as of December 31, 2023) and 24% of revenue in 2024 (28% 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, 2024.

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

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Not due	**30,308**	**29,318**
Due	**23**	**14**
Due 0 – 30 days	6	1
Due 31 – 90 days	17	0
Due 91 – 180 days	0	13
Due more than 180 days	5	24
Allowances for receivables	-5	-24
Total receivables	**30,331**	**29,332**

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	2024	2023
Balance at Jan 1	**24**	**0**
Asset transfer under common control reorganization (demerger)	0	23
Additions	0	1
Utilization	0	0
Reversal	-19	0
Balance at December 31	**5**	**24**

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, 2024	Dec 31, 2023
Operating liabilities	**94,403**	**87,092**
to third parties	90,436	86,505
to related companies	3,967	587
Loans received	**81,059**	**87,980**
by related companies	81,059	87,980
Obligations arising from leases	**11,058**	**3,799**
to third parties	11,058	3,799
Total	**186,520**	**178,871**

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, 2024	Dec 31, 2023
Due 0 – 30 days	90,289	78,418
Due 31 – 90 days	131	7,114
Due 91 – 180 days	12	375
Due more than 180 days	4	598
Total	**90,436**	**86,505**

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

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Up to 1 year	2,937	1,557
1 to 2 years	1,372	2,177
2 to 3 years	1,286	180
3 to 4 years	1,208	100
4 to 5 years	1,088	30
More than 5 years	4,775	0
Total	**12,665**	**4,044**

Other financial liabilities are short-term liabilities and do not bear interest.

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, 2024	Dec 31, 2023
Net debt	242,115	91,762
Total equity	629,296	575,353
Net debt to equity ratio	**38.47%**	**15.95%**

4. Property, Plant & Equipment Movements

in thousand EUR	Land	Buildings	Production plant and equipment	Other plant and equipment	PPE under construction	Total
COST						
Balance at Jan 1, 2023	**0**	**0**	**0**	**0**	**0**	**0**
Asset transfer under common control reorganization (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**
Asset transfer under common control reorganization (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**	**380,290**	**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**

in thousand EUR	Land	Buildings	Production plant and equipment	Other plant and equipment	PPE under construction	Total
COST						
Balance at Jan 1, 2024	**19,893**	**351,126**	**464,569**	**117,661**	**218,953**	**1,172,202**
Transfer from PPE under construction	613	34,154	68,422	10,492	-113,680	0
Additions	131	5,568	22,429	6,109	170,191	204,429
Disposals		-819	-8,964	-5,848	0	-15,632
Balance at Dec 31, 2024	**20,637**	**390,029**	**546,456**	**128,414**	**275,463**	**1,360,999**
ACCUMULATED DEPRECIATION						
Balance at Jan 1, 2024	**0**	**223,699**	**380,290**	**95,015**	**0**	**699,004**
Depreciation charge	0	11,996	20,139	7,490	0	39,625
Disposals	0	-489	-8,554	-5,424	0	-14,467
Impairment charge	0	5	312	88	0	405
Balance at Dec 31, 2024	**0**	**235,211**	**392,187**	**97,169**	**0**	**724,567**
NET BOOK VALUE						
Balance at Jan 1, 2024	**19,893**	**127,427**	**84,278**	**22,646**	**218,953**	**473,197**
Balance at Dec 31, 2024	**20,637**	**154,818**	**154,269**	**31,245**	**275,463**	**636,432**

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

Capital commitments for purchases of property, plant and equipment amounted EUR 173,550 thousand at December 31, 2024.

As of December 31, 2024, out of the total purchase value of purchases of property, plant and equipment in the register amounting to EUR 1,085.5 million, there are assets of EUR 381.6 million (35%) that have been fully depreciated. Among these, there are assets worth 9.1 million EUR, the lifespan of which will be aligned in 2025 with the periods reported for internal group purposes (the periods will be extended).

All assets in the register are reviewed annually as part of the annual physical count of fixed assets to determine whether they are still in use. For assets no longer in use, it is decided whether a write-off is required, or whether there is an anticipated future use, in which case the asset is impaired.

Considering the extensive investments in the renovation of buildings and new equipment, resulting in high values for assets under construction, we expect that the assets that have been fully amortised will gradually be removed from the register.

Borrowing cost in amount EUR 1,606 thousand were capitalized at annual interest rate of 4%.

In 2024, items of property, plant and equipment were acquired in the amount of EUR 1,376 thousand from other related parties within the Novartis Group (EUR 0 thousand in 2023).

The largest projects under Property, Plant, and Equipment under construction currently include the construction of new manufacturing facilities in Ljubljana and two others in Menges. The Ljubljana facility is scheduled to become operational in January 2026. The two Menges facilities are expected to start their operation in 2025.

Property, plant and equipment under construction include EUR 6,542 thousand in government grants, which reduce the acquisition cost of fixed assets. As part of the demerger on July 3, 2023, EUR 1,181 thousand was transferred, with an additional EUR 3,437 thousand received in 2023. In 2024, the company received a further EUR 1,924 thousand in grants. The grant was awarded by the Republic of Slovenia – Ministry of Economic Development and Technology. There are no unfulfilled conditions and contingencies attached to grants received.

5. Right-of-use assets movements

in thousand EUR	Land	Buildings	Machinery and equipment	Vehicles	Total
COST					
Balance at Jan 1, 2023	**0**	**0**	**0**	**0**	**0**
Asset transfer under common control reorganization (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**
Asset transfer under common control reorganization (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**

in thousand EUR	Land	Buildings	Machinery and equipment	Vehicles	Total
COST					
Balance at Jan 1, 2024	**83**	**3,348**	**411**	**697**	**4,539**
Additions	107	8,644	0	667	9,419
Disposals	-1	0	-3	-249	-253
Balance at Dec 31, 2024	**189**	**11,993**	**408**	**1,116**	**13,705**
ACCUMULATED DEPRECIATION					
Balance at Jan 1, 2024	**41**	**1,012**	**116**	**357**	**1,527**
Depreciation charge	78	1,491	121	244	1,934
Disposals	0	0	0	-224	-224
Balance at Dec 31, 2024	**119**	**2,504**	**237**	**378**	**3,237**
NET BOOK VALUE					
Balance at Jan 1, 2024	**41**	**2,336**	**295**	**340**	**3,012**
Balance at Dec 31, 2024	**69**	**9,489**	**171**	**738**	**10,468**

in thousand EUR	Other expenses on leases 2024	2023
Expense on short-term leases	24	0
Interest expense on lease liabilities	363	46

in thousand EUR	Cash outflows for leases 2024	2023
Payments of lease liabilities	1,681	661
Cash outflows for short-term and low-value leases	24	0
Payments of interest	363	46

6. Intangible Assets Movements

in thousand EUR	Long-term property rights	Intangible assets in course of acquisition	Total
COST			
Balance at 1 Jan 2023	**0**	**0**	**0**
Asset transfer under common control reorganization (demerger)	**2,804**	**530**	**3,334**
Additions	0	232	232
Disposals - decrease	-31	0	-31
Balance at 31 dec 2023	**2,773**	**761**	**3,535**
ACCUMULATED AMORTISATION			
Balance at Jan 1, 2023	**0**	**0**	**0**
Asset transfer under common control reorganization (demerger)	**1,766**	**0**	**1,766**
Amortisation charge	429	0	429
Disposals	-31	0	-31
Balance at 31 dec 2023	**2,163**	**0**	**2,163**
NET BOOK VALUE			
Balance at 1 Jan 2023	**0**	**0**	**0**
Balance at 31 dec 2023	**610**	**761**	**1,371**

in thousand EUR	Long-term property rights	Intangible assets in course of acquisition	Total
COST			
Balance at 1 Jan 2024	**2,773**	**761**	**3,535**
Transfer from intangible in course of acquisition	**759**	**-759**	**0**
Additions	386	178	564
Disposals - decrease	-163	0	-163
Balance at 31 dec 2024	**3,755**	**180**	**3,935**
ACCUMULATED AMORTISATION			
Balance at 1 Jan 2024	**2,163**	**0**	**2,163**
Amortisation charge	**932**	**0**	**932**
Disposals	-163	0	-163
Impairment charge	0	0	0
Balance at 31 dec 2024	**2,932**	**0**	**2,932**
NET BOOK VALUE			
Balance at 1 Jan 2024	**610**	**761**	**1,371**
Balance at 31 dec 2024	**823**	**180**	**1,004**

Intangible assets include licenses and software. The highest value is represented by licenses for Manufacturing Execution Systems.

7. Deferred tax assets and liabilities

in thousand EUR	Balance at Dec 31, 2023	Recognised in profit or loss	Recognised in other comprehensive income	Balance at Dec 31, 2024
Deferred tax assets	2,377	1,002	0	3,378
Deferred tax liabilities	0	0	0	0
Total - net	**2,377**	**1,002**	**0**	**3,378**

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Property, plant and equipment	1,493	622
Provisions for retirement benefits and jubilee awards	1,655	1,754
Other provisions	229	0
Total - net	**3,378**	**2,377**

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, 2024	Tax effect Dec 31, 2024	Gross amount Dec 31, 2023	Tax effect Dec 31, 2023
Unused tax relief	**161,851**	**35,607**	**159,131**	**35,009**

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, 2024 is EUR 35,607 thousand.

8. Other financial assets

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Other shares and interests in entities	7	2
Total	**7**	**2**

Other shares and interests in entities

in thousand EUR	Gross	Allowance	Net Dec 31, 2024	Net Dec 31, 2023
Other shares and interests in domestic entities (measured at purchase cost)	7	0	7	2
Total	**7**	**0**	**7**	**2**

Other shares represent the share in the Center of Excellence for Integrated Approaches in Protein Chemistry and Biology and the Biotech Hills Institute.

9. Other non-current receivables

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Other non-current receivables	62.972	44.661
Total	**62,972**	**44,661**

Other non-current receivables include prepayments for property, plant and equipment.

10. Inventories

in thousand EUR	Gross Dec 31, 2024	Provisions Dec 31, 2024	Net Dec 31, 2024	Gross Dec 31, 2023	Provisions Dec 31, 2023	Net Dec 31, 2023
Material	108,393	-8,339	100,055	99,768	-5,232	94,536
Work in progress	213,040	-11,751	201,290	135,235	-5,886	129,348
Products	18,002	-591	17,411	7,515	-43	7,472
Merchandise	0	0	0	708	0	708
Total	**339,436**	**-20,681**	**318,755**	**243,226**	**-11,161**	**232,065**

Inventories were written down in 2024 in the amount of EUR 5,846 thousand (EUR 1,767 thousand in 2023) . Due to the write down of inventories, profit or loss for the period was lower by EUR 4,047 thousand in 2024 (EUR 445 thousand in 2023). The difference in the amount of EUR 1,799 thousand in 2024 (EUR 1,322 thousand in 2023) was charged against provisions for inventories created in previous periods. The Company recognized slow/no mover provision in 2024 in the amount of EUR 20,681 thousand (EUR 11,161 thousand in 2023).

Based on inventory count at the end of 2024, inventory surplus in the amount of EUR 456 thousand (EUR 186 thousand in 2023) and inventory deficit in the amount of EUR 652 thousand (EUR 181 thousand in 2023) were recognized.

On December 31, 2024, 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, 2024	Dec 31, 2023
Current trade receivables from Novartis group entities	42,741	53,959
Current trade receivables (3rd party)	30,331	29,332
Other current receivables	6,141	15,726
Total	**79,214**	**99,016**

Current trade receivables from Novartis group entities

in thousand EUR	Gross Dec 31, 2024	Allowance Dec 31, 2024	Net Dec 31, 2024	Gross Dec 31, 2023	Allowance Dec 31, 2023	Net Dec 31, 2023
Current trade receivables from foreign Novartis group entities	42,741	0	42,741	53,959	0	53,959
Total	**42,741**	**0**	**42,741**	**53,959**	**0**	**53,959**

Current trade receivables (3rd party)

in thousand EUR	Gross Dec 31, 2024	Allowance Dec 31, 2024	Net Dec 31, 2024	Gross Dec 31, 2023	Allowance Dec 31, 2023	Net Dec 31, 2023
Current trade receivables from domestic customers (3rd party)	30,336	-5	30,331	29,355	-24	29,331
Current trade receivables from foreign customers (3rd party)	0	0	0	1	0	1
Total	**30,336**	**-5**	**30,331**	**29,356**	**-24**	**29,332**

Other current receivables

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Prepayments	320	8,629
Deferred costs	0	422
Accrued revenue	4,391	5,335
Other current receivables from the state	1,430	1,335
Other	0	5
Total	**6,141**	**15,726**

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

Deferred costs represent costs of services invoiced but not accrued revenue assets include rendered services to Novartis Pharma AG in the amount of EUR 4,391 thousand at December 31, 2024 (EUR 5,335 thousand at December 31, 2023).

Movement in the allowance (provision) for doubtful trade receivables

in thousand EUR	2024	2023
Balance at January 1	**24**	**0**
Asset transfer under common control reorganization (demerger)	0	23
Additions	0	1
Reversal	-19	0
Balance at December 31	**5**	**24**

12. Cash and cash equivalents

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Cash at bank	2	17
Total	**2**	**17**

13. Equity

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Share capital	50,000	8
OCI reserves	-4,516	-2,382
Retained earnings	583,812	577,727
Total	**629,296**	**575,353**

Share capital

The company's share capital amounts to EUR 50,000 thousand as of December 31, 2024. In 2024, the company's share capital increased from EUR 7,500 to EUR 50,000 thousand from retained earnings to share capital.

Capital reserves

The Company has no capital reserves.

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. in 2023 and profit for the period.

Accumulated profit for the year 2024

in thousand EUR	2024	2023
Balance at January 1	**577,727**	**-1**
Transfer under common control reorganization (demerger)	0	552,442
Transfer to share capital	-49,993	0
Profit for the period	56,077	25,287
Total	**583,812**	**577,727**

14. Deferred revenue

in thousand EUR	Other deferred revenue	Total
Balance at Jan 1, 2023	**0**	**0**
Liability transfer under common control reorganization (demerger)	486	486
Additions	9	9
Releases	-19	-19
Balance at Dec 31, 2023	**476**	**476**
Additions	9,975	
Releases	-69	-69
Balance at Dec 31, 2024	**10,382**	**10,382**
Non-current	369	369
Current	10,013	10,013

Other deferred revenue includes revenue from the establishment of a building right, which relates to a longer period and received advance payments for services not yet provided.

15. Provisions

in thousand EUR	Provisions for retirement benefits	Provisions for jubilee awards	Other provisions	Total
Balance at Dec 31, 2023	**15,881**	**5,480**	**0**	**21,360**
Non-current	14,420	4,597	0	19,017
Current	1,460	882	0	2,343
Balance at Jan 1, 2024	**15,881**	**5,480**	**0**	**21,360**
Additions	1,460	882	3,761	6,104
Used during year	-577	-320	-1,674	-2,571
Reversed during the year	0	0	-5	-5
Actuarial gains or losses	2,134	52	0	2,186
Balance at Dec 31, 2024	**18,898**	**6,094**	**2,083**	**27,075**
Non-current	18,130	5,757	0	23,887
Current	768	337	2,083	3,188

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 the period July-September; month based on 160 working hours;
- estimated 5.0% increase in salaries in 2025 and 3.0% from 2026 onwards;
- amounts of retirement payments and jubilee awards as defined by internal acts;
- 3.40% discount interest rate.

16. Lease liabilities

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Non-current lease liabilities	8,461	2,011
Current lease liabilities	2,597	1,788
Total	**11,058**	**3,799**

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 2024 are between 3.41% and 4.56% (in 2023 between 2% and 3,1%). The weighted average interest rate is 4.9% in 2024 (2.4% in 2023).

Maturity analysis

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Less than one year	2,597	1,788
Between one and two years	1,092	1,649
Between two and three years	1,043	209
Between three and four years	1,002	118
Between four and five years	917	36
After five years	4,406	0
Total lease liabilities	**11,058**	**3,799**

Maturity analysis of lease liabilities payments (contractual cash flows)

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Less than one year	2,937	1,557
Between one and two years	1,372	2,177
Between two and three years	1,286	180
Between three and four years	1,208	100
Between four and five years	1,088	30
After five years	4,775	0
Total	**12,665**	**4,044**

17. Other non-current liabilities

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Other non-current liabilities	10	27
Total	**10**	**27**

Other non-current liabilities represents security deposit received for the lease.

18. Trade and other payables

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Current trade payables to Novartis group entities	3,967	587
Current trade payables (3rd party)	90,436	86,505
Other current payables	106,614	77,954
Total	**201,017**	**165,045**

Current trade payables to Novartis group entities

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Current trade payables to foreign Novartis group entities	3,967	587
Total	**3,967**	**587**

Current trade payables to Novartis Pharma AG are EUR 3,900 thousand at December 31, 2024 (EUR 373 thousand at December 31, 2023).

Current trade payables (3rd party)

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Current trade payables to domestic suppliers (3rd party)	53,266	52,753
Current trade payables to foreign suppliers (3rd party)	37,170	33,752
Total	**90,436**	**86,505**

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

Other current payables

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Payables to employees	45,463	40,808
Payables to state	7,450	6,837
Payables from advances	0	5,200
Payables for goods and services not yet invoiced	26,451	11,878
Accrued costs and accruals for revenue deductions	27,250	13,231
Total	**106,614**	**77,954**

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, 2024	Dec 31, 2023
Accrued costs for unused vacation	6,502	6,008
Accrued costs for services	19,566	5,797
Other accrued costs	1,181	1,426
Total	**27,250**	**13,231**

Accrued costs include accrued costs for received services from Novartis Pharma AG in the amount of EUR 12,261 thousand at December 31, 2024 (EUR 141 thousand at December 31, 2023).

Shares compensation

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Shares compensation	5,375	4,089
Total	**5,375**	**4,089**

Granted in year	Number of shares	Value at Dec 31, 2024 in thousand EUR
2022	22,944	2,040
2023	33,914	1,793
2024	31,966	1,542
Total	**88,824**	**5,375**

Granted in year	Number of shares	Value at Dec 31, 2024 in thousand EUR
2021	19,371	1,766
2022	24,031	1,460
2023	34,056	863
Total	**77,458**	**4,089**

The cost of share-based compensation as part of employee benefit expenses amounted to EUR 5,375 thousand in 2024 (EUR 4,089 thousand in 2023). On December 13, 2024, all cash-settled awards were changed to equity-settled awards. The effect on the Profit & Loss statement of this recalculation was EUR 310 thousand. No further remeasurement was made due to the fact that historically, the share did not change significantly; therefore, the volatility was not considered material. After the vesting period, Novartis is invoiced the amount, thereby making it a liability for Novartis LLC.

19. Borrowings

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Non-current borrowings from related entities	150,000	0
Current borrowings related entities	81,059	87,980
Total	**231,059**	**87,980**

Current borrowings from other related entities include liability in the amount of EUR 80,303 thousand 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, GBP SONIA +25 BPS or USD SOFR + 25 BPS at 31 December 2024 (EUR €STER +25 BPS, CHF SARON + 25 BPS or USD SOFR + 25 BPS at 31 December 2023). The amount consists of borrowings in the amount of EUR 78,898 thousand, USD 880 thousand, GBP 150 thousand and CHF 356 thousand at December 31, 2024 (EUR 86,686 thousand, USD 1,140 thousand and CHF 153 thousand at December 31, 2023). Current borrowings also comprise of EUR 756 thousand liabilities for interest payment to Novartis Pharma AG.

As of December 31, 2024, the company has a long-term loan received from the associated company Novartis Pharma AG in the amount of EUR 150,000 thousand. The applicable interest rate for 2024 is 6-month EURIBOR + 25 BPS. The loan matures on December 19, 2029.

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

Contractual obligations for loan

in thousand EUR	Dec 31, 2024
for year 2025	4,080
for year 2026	4,080
for year 2027	4,080
for year 2028	4,080
for year 2029	154,080
Total	**170,400**

Reconciliation of movement of liabilities to cash flows arising from financing activities

in thousand EUR	Borrowings	Lease liabilities
Balance at Jan 1, 2023	0	0
Liability transfer under common control reorganization (demerger)	693	**3.706**
Cash transaction		
Loan disbursement	336,912	0
Loan repayment	249,605	0
Lease payments	0	-689
Interest paid	0	-46
Total Cash transactions	**586,517**	**-735**
Non-cash transactions		
FX valuation	21	0
New lease	0	1,028
Disposal	0	0
Interest expense	0	46
Capitalized borrowing cost	0	0
Total non-cash transactions	**21**	**1,074**
Balance at Dec 31, 2023	**87,980**	**3,799**
Cash transaction		
Loan disbursement	1,100,597	0
Loan repayment	-958,739	0
Lease payments	0	-1,681
Interest paid	-6,080	-363
Total Cash transactions	**135,779**	**-2,044**
Non-cash transactions		
FX valuation	465	0
New lease	0	8,959
Disposal	0	-19
Interest expense	5,230	363
Capitalized borrowing cost	1,606	0
Total non-cash transactions	**7,301**	**9,303**
Balance at Dec 31, 2024	**231,059**	**11,058**

20. Revenue

Disaggregation of revenue from contracts with customers

in thousand EUR	2024	2023*
Revenue from the sale in domestic market to Novartis group entities	**87**	**70.872**
- of which revenue from sale of merchandise and material	0	0
- of which revenue from sale of products	0	26,561
- of which revenue from toll manufacturing	0	34,518
- of which revenue from development services	0	9,794
- of which revenue from other services	87	0
Revenue from the sale in foreign market to Novartis group entities	**509,570**	**211,299**
- of which revenue from sale of merchandise and material	25,399	13,341
- of which revenue from sale of products	141,359	65,326
- of which revenue from toll manufacturing	123,855	24,533
- of which revenue from development services	106,488	62,357
- of which revenue from other services	112,468	45,742
Revenue from the sale in domestic market to others (3rd party)	**159,686**	**13,256**
- of which revenue from sale of merchandise and material	61	609
- of which revenue from sale of products	44,309	1,084
- of which revenue from toll manufacturing	86,323	3,265
- of which revenue from other services	28,992	8,298
Revenue from the sale in foreign market to others (3rd party)	**310**	**28,634**
- of which revenue from sale of merchandise and material	308	0
- of which revenue from sale of products	0	3,349
- of which revenue from toll manufacturing	0	25,285
- of which revenue from other services	2	0
Total	**669,652**	**324,061**

*Financial period from July to December 2023.

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

In 2024 revenue in the amount of EUR 474,157 thousand was generated with Novartis Pharma AG (EUR 210,820 thousand in 2023) and EUR 35,500 thousand with other related parties within the Novartis Group (EUR 71,351 thousand in 2023).

Development costs are not capitalized as they are entirely invoiced to Novartis Pharma AG with a markup.

Revenue from sale of other services to Novartis group entities includes services such by providing solutions in various fields such as engineering, information, technology, supply chain management, training and education, finance, safety and environmental sustainability.

Contract amounts

in thousand EUR	Dec 31, 2024	Dec 31, 2023
Trade receivables	73,073	83,291
Accrued revenue	4,391	5,335
Total	**77,464**	**88,626**

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

21. Other operating income

in thousand EUR	2024	2023*
Reversal of provisions	5	510
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets	96	2,063
Reversal of impairment of trade receivables and prepayments	769	0
Other	202	96
Total	**1,072**	**2,669**

*Financial period from July to December 2023.

The reversal of impairment of prepayments refers to realized refunds for sick leave over 30 days.

22. Cost of material sold

in thousand EUR	2024	2023*
Cost of material sold	**25,353**	**17,918**

*Financial period from July to December 2023.

Cost of material sold in an amount of EUR 84 thousand is related to purchasing from Novartis Pharma AG (EUR 138 thousand in 2023) and EUR 24,918 thousand to purchasing from other related parties within the Novartis Group (EUR 13,536 thousand in 2023) in 2024.

23. Cost of material and energy

in thousand EUR	2024	2023*
Cost of material	187,217	72,859
Cost of energy	26,860	20,373
Other cost of material	12,886	8,159
Total	**226,963**	**101,392**

*Financial period from July to December 2023.

Cost of material in an amount of EUR 80 thousand is related to purchasing within the Novartis Group in 2024.

24. Cost of services

in thousand EUR	2024	2023*
Transportation services	6,480	2,424
Rents and warehousing	4,516	636
Refund of work-related costs	2,857	1,138
Maintenance	25,812	11,138
Hired personnel	14,887	6,284
Intellectual services, IT, research studies and co-operation	61,167	21,337
Advertising and entertainment costs	1,431	712
Bank and insurance costs	332	86
Other services	7,024	4,404
Total	**124,507**	**48,159**

*Financial period from July to December 2023.

Cost of services in the amount of EUR 29,288 thousand was incurred with Novartis Pharma AG (EUR 11,609 thousand in 2023) and EUR 1,470 thousand with other related parties within the Novartis group (EUR 2,778 thousand in 2023) in 2024.

Transactions with audit companies

The cost of audit of the annual report amounted to EUR 127 thousand.

25. Employee benefits expense

in thousand EUR	2024	2023*
Salaries	141,380	85,219
Pension contributions	56,923	10,816
Social security contributions	29,059	7,824
Other employee benefits expense	28,368	13,909
Total	**255,730**	**117,768**

*Financial period from July to December 2023.

In 2024, the company capitalized its internally generated products and services valued at 8,025 thousand EUR (3,379 thousand EUR in 2023), reducing employee benefits expenses. These internally generated products and service are engineering hours.

Remuneration of Management Board Members and employees under individual employment

in thousand EUR	Remunerations of Management Board Members	Earnings of employees under individual employment contracts to which the Collective Agreement does not apply
Fixed earnings	791	4,624
Variable earnings	11	84
Options and other benefits	464	2,565
Refund of work-related expenses	5	44
Insurance premiums	16	117
Other additional payments	14	231
Total	**1,301**	**7,666**

In 2024 EUR 3,6 thousand was paid to external members of the Supervisory Board.

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

26. Amortisation, depreciation and impairments

in thousand EUR	2024	2023*
Depreciation and amortisation	42,355	18,248
Impairment of property, plant and equipment and intangible assets	405	624
Impairment and write-off of trade receivables	3	873
Total	**42,763**	**19,745**

*Financial period from July to December 2023.

27. Other operating expenses

in thousand EUR	**2024**	**2023***
Loss on disposal of property, plant and equipment and intangible assets	341	110
Taxes and levies	7,588	1,643
Donations and other financial helps	172	479
Other	1,545	586
Total	**9,646**	**2,817**

*Financial period from July to December 2023.

Other operating expenses include mostly taxes and levies and loss on disposal of property, plant and equipment.

28. Financial income and financial expenses

in thousand EUR	**2024**	**2023***
Financial income from loans to other entities	0	41
Financial income from trade receivables from Novartis group entities	87	0
Financial income from trade receivables from other entities	390	255
Total financial income	**477**	**296**
Financial expenses for borrowings from Novartis group entities	5,700	1,045
Financial expenses for lease liabilities	363	46
Financial expenses for trade payables to Novartis group entities	29	0
Financial expenses for trade payables to other entities	917	359
Total financial expenses	**7,009**	**1,449**
Net financial result	**-6,532**	**-1,153**

*Financial period from July to December 2023.

Finanical income from Novartis Pharma AG amounts to EUR 3 thousand in 2024 (EUR 2 thousand in 2023).

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

Financial expenses for borrowings from Novartis group entities in 2024 include interest expenses in the amount of EUR 5,230 thousand (EUR 1,034 thousand in 2023) and exchange difference in the amount of EUR 471 thousand (EUR 11 thousand in 2023).

Financial expenses from Novartis Pharma AG amount to EUR 1,121 thousand in 2024 (EUR 4 thousand in 2023).

Financial expenses for trade payables to other entities include mostly realised and unrealised exchange gains.

Borrowing cost in amount EUR 1,606 thousand were capitalized at annual interest rate of 4%.

29. Income taxes

in thousand EUR	2024	2023*
Income tax	6,034	2,221
Deferred tax	-1,002	-290
Total income taxes	**5,033**	**1,932**

Numerical reconciliation between actual and theoretical income taxes		
Profit before tax	**61,110**	**27,218**
Theoretically assessed tax 2024: 22% (2023: 19%)	13,444	5,172
Non-taxable income	-170	0
Non-deductible expenses	3,704	1,147
Increase in tax base	13	-259
Decrease in tax base	-1,189	-56
Tax relief	-9,955	-3,782
Release of unused differences between tax base and carrying value	0	0
Other	-814	18
Effect of change of tax rate for deferred tax (19% -> 22%)	0	-308
Income taxes	**5,033**	**1,932**
Effective tax rate	**8.2%**	**7.1%**

*Financial period from July to December 2023.

A Minimum Tax Act was published in the Official Gazette of the Republic of Slovenia on December 22, 2023 (No. 131/2023) that incorporates into Slovenian law EU Directive 2022/2053 of the EU Council of December 15, 2022. This Directive aims to ensure a global minimum tax rate for multinational enterprise groups and large-scale domestic groups in the European Union, based on the Global Anti-Base Erosion Rules (GloBE rules) adopted within the OECD framework (known as Pillar II). The new regulation on Pillar II applies to fiscal years starting from December 31, 2023 respectively from January 1, 2024, for calendar year entities. Novartis d.o.o. is in scope for the Minimum tax Act. Accordingly, the relevant calculations have been performed to ensure compliance.

For the year 2024 the Company concluded the available amounts of substance-based income exclusion positively impacted the final Minimum tax calculation, resulting in no no liability for the Minimium tax.

30. Off balance sheet assets and liabilities

in thousand EUR	2024	2023
Liabilities from guarantees	7,492	5,568
Inventories:	8,522,434	4,686,357
- IM	8,330,804	4,445,021
- SDZ	178,104	241,335
- Consignment	13,525	0
Total	**8,529,926**	**4,691,924**

31. Events after the reporting period

The company has not identified any significant events between the end of the financial year and the date of the issuance of the annual report.