



Living a healthy life.

2015 ANNUAL REPORT



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Krka, d. d., Novo mesto

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INTRODUCTION

Statement by the President of the Management Board

Dear Shareholders, Business Partners and Employees,

It is customary at the end of the calendar year to include our current business efforts in plans for the future, as we did at the end of 2015. We adopted a new five-year development strategy for the Krka Group in which we focused not only on established therapeutic areas, but also on entering new fields to a much greater extent than so far. We also connected certain key business functions in a way that will make our vertically integrated business model even more effective. I believe that this will provide solid foundations for our independent development.

Business environment and business performance

The situation in pharmaceutical markets last year was challenging and uncertain. Perhaps it has never been more so for years. Public health care and medicinal product buyers have been economising, economic circumstances are generally not improving, and the devaluation of certain local currencies continued. We are in daily contact with buyers in six sales regions that include more than 70 markets, where more than 45 million of patients are treated with our products every day.

Product and service sales revenues totalled €1,165 million

In 2015, the Krka Group generated €1,165 million in revenues from the sales of products and services, 2% less than the year before. Operating profit amounted to €199 million, and net profit to €158 million. Both figures were lower than in 2014, even though we pursued cost optimisation very carefully. In 2014, we recorded foreign exchange losses arising from particularly unfavourable exchange rate differences in certain currencies, especially at the end of the year. In 2015, however, the devaluation of foreign currency rates resulted in lower sales revenue, reduced operating profit, and consequently in slightly lower net profit.

We sell our products in 70 countries

Region East Europe has remained Krka's largest sales market so far. Last year, the Region's product sales amounted to €327 million, one fifth lower than in 2014. Product sales in the Russian Federation, our key and largest individual market, totalled €225 million. The value expressed in euros was 20% below the 2014 figure due to the low average local currency exchange rate, yet the sales expressed in the Russian rouble saw a good 6% increase. The Russian Federation remains an important market for Krka because the Russians hold our product brands in high regard, and because we have the status of a domestic manufacturer there. These two facts give us an advantage over competitors.

A 22% sales increase in Western European markets

Region West Europe saw the largest increase in sales, 22%, reaching €306 million, especially due to our new advanced products and the implementation of the Krka marketing-and-sales network over the years. With many products, we ranked among the leading generic manufacturers in this region. Krka recorded two-digit growth rates in almost all individual markets.

In Region Central Europe, Krka sold products worth €280 million, a 3% increase compared to 2014. Sales increased in all markets in the region except the Czech Republic. In Poland, Krka's largest market in the region, sales rose by 8%.

In the markets of Region South-East Europe, product sales amounted to €140 million, a 10% decline compared to 2014. The decline primarily resulted from price reductions in both key markets, Romania and Croatia, as well as in Serbia.

For the first time in the past three years, sales rose in Slovenia, totalling €80 million, a 2% rise in the sale of products and services.

In Region Overseas Markets, sales were strong, reaching €32 million, 24% growth compared to 2014.

New products

We invested €115 million in research and development in 2015. Krka obtained marketing authorisations for 24 new products in 58 dosage forms and strengths. Not only new products, but established ones also matter when we enter new markets. We obtained 560 new marketing authorisations under various authorisation procedures for prescription pharmaceuticals, non-prescription products and animal health products.

24 new products

Krka's advanced capacities for organic growth

Krka's business operations are vertically integrated, which means that Krka develops and manufactures raw materials and finished products, and then also markets and sells them. Funds for vertically integrated operations are secured by good business performance. We intend to follow this course also in the future. In autumn 2015, we adopted a reviewed business strategy for the period from 2016 to 2020. According to our strategy, we should attain at least 5% average sales growth in terms of quantities annually, and new products should account for at least one third of total sales. It remains our aim to grow mainly organically, but we also intend to consider any interesting opportunities for take-overs.

Investments in Krka's own capacities are vital for organic growth. Last year, we opened the Notal 2 plant, our largest investment to date, worth €200 million. The Notal 2 plant manufactures solid dosage forms: tablets and capsules. We completed the Sinteza 1 plant for the production of active pharmaceutical ingredients. The investment was worth €85 million. We have twenty investment projects in progress in Slovenia, Croatia and the Russian Federation. They will increase our production capacities by more than one third. This will increase the annual tablet and capsule production volume from nearly 13 billion to more than 17 billion. We are also investing in our research-and-development infrastructure. Preparation works for the construction of a €54 million research-and-control centre began at the end of June 2015.

Gross dividend increased by 19%

High dividend yield

We followed the policy of constantly increasing dividends also in 2015. Shareholders received €2.50 gross per share, or 19% more than the year before. We allocated almost fifty per cent of profit generated in 2014 to dividends. I would like to take this opportunity to apologise to the shareholders once more for all the inconveniences caused by the void resolutions of the 20th annual general meeting.

The market price of Krka shares increased by 9% in 2015.

We are a socially responsible company

Last year, the Krka Group had 10,564 employees, 1% more than in 2014. The employees are relatively young and highly educated. An average Krka employee is 39 years old. Of all Krka employees, 55% hold at least a university degree, and of all employees, 64% are women. We encourage the international mobility of employees. More than fifty per cent of Krka employees work abroad.

Athletes, cultural workers, artists, and charity organisations regard Krka as a sponsor which likes to participate in good projects. Krka also allocates considerable funds to providing health-care institutions with equipment. Many employees volunteer throughout the year. The company has over 1,300 blood donors, and several Krka employees are members of non-profit associations and organisations.

Our plans for the future

Considering the business situation, I believe that our 2016 plans are optimistic, but can be achieved. According to our plans, sales will grow in terms of quantity and value, profit will amount to €160 million, and a similar amount will be allocated to investments. I believe that we will meet our objectives, because we have our own know-how, advanced manufacturing capacities, and loyal, dedicated and highly-skilled employees. Also, we launch many new products every year, often as the first supplier.

Our company is financially stable. I would like to thank all our employees and members of the Supervisory Board for their contribution to our performance in 2015, as well as the buyers of our products and services and our shareholders for the trust placed in us.



Jože Colarič
President of the Management Board and CEO

2015 Report of the Supervisory Board

Dear Shareholders and Stakeholders,

In 2015, the Supervisory Board members met at six regular Supervisory Board meetings and held two correspondence sessions. The Supervisory Board committees had ten meetings. At meetings, we diligently and responsibly monitored the operations of the Krka Company and Krka Group, evaluated the work of the Management Board, kept under review the opinions of the external expert public about Krka, took part in preparing for the Annual General Meeting and improved our practices in accordance with the recommendations of good practice. The operations and activities conducted by the Supervisory Board in 2015 are described below.

The work of the Supervisory Board

On 21 June 2015, the five-year term of office of the shareholder representatives in the Supervisory Board ended. Until that day the Supervisory Board had the following members: Jože Lenič MSc, President of the Supervisory Board, Matjaž Rakovec, Deputy President of the Supervisory Board, Prof. Julijana Kristl, Vincenc Manček, Mojca Osolnik Videmšek and Assoc. Prof. Sergeja Slapničar, while the employee representatives were Franc Šašek, Deputy President of the Supervisory Board, Dr. Mateja Vrečer and Tomaž Sever MSc.

At the 21st Annual General Meeting a new Supervisory Board was elected for a term of five years, which started on 20 August 2015. The members of the new Supervisory Board are: Prof. Julijana Kristl, Jože Mermal as Deputy President of the Supervisory Board, Matej Pirc as President of the Supervisory Board, Andrej Slapar, Simona Razvornik Škofič and Anja Strojín Štampar MSc, MBA. The employee representatives are Franc Šašek, Deputy President of the Supervisory Board, Dr. Mateja Vrečer and Tomaž Sever MSc.

The members of the Supervisory Board hold qualifications in different areas and have diverse work experience across different age groups, and are of both genders. This diverse composition of the Supervisory Board allows for productive discussions and the making of sound decisions based on the members' opinions. Krka's Supervisory Board has four women and five men, aged 39 to 63, who are experts in pharmacy, chemistry, law, economics, organisational sciences and management.

The work and decision-making of the Supervisory Board is based on the objectives of the Krka Company and the Krka Group. Meetings offer an opportunity for board members to voice their opinions and concerns, while working to reconcile any differences in opinion in order to pass unanimous resolutions.

Also in 2015, Board members had all the necessary data, reports and information available to them. They received the materials promptly, approximately one week before a meeting. Krka's services helped organise the meetings, promptly implemented improvements and offered organisational support to the Supervisory Board.

In 2015, all members attended all Board meetings. Generally only members of the Supervisory Board, members of the Management Board and the Secretary to the Supervisory Board attend all meetings. If necessary, but most definitely when adopting the annual report, certified auditors from an external auditing company also attend.

In the 52 items on its agenda in 2015, the Supervisory Board discussed Krka's past and current operations, the development strategy for the period from 2016 to 2020 and detailed plans for 2016; was promptly informed about human resources, investments, products and implementation of the current strategy; discussed regulatory and related quality assurance risks; followed expert opinions about Krka and compared Krka's operations with that of its competitors, and kept up to date with new developments in the Company, the pharmaceutical industry and the business environment. Through a self-evaluation according to the methodology of the Slovenian Directors' Association, the Supervisory Board strengthened the good practice of its operations in 2015.

The matters most discussed by the Supervisory Board in 2015 were:

The Annual Report Within the statutory time frame, the Supervisory Board thoroughly examined the 2014 report of the Company and the Krka Group, and discussed the auditor's report, in which the auditor Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana found that the financial statements which form part of the Annual Report gave a true and fair

view of the financial position of the Krka Company and Krka Group, their operating profit, cash flow and changes in equity. The Board had no comments about the auditor's work or the report. The Board also compiled and adopted a report on its work in 2014 and, together with the Management Board, drew up the Krka Statement of Compliance with the *Corporate Governance Code* and the *Code of Best Practice for Warsaw Stock Exchange Listed Companies*. Krka's 2014 Annual Report won the award for best annual report in the category of large companies in a competition organised by the Slovenian business daily *Finance* and an award for business operations analysis and plans.

Interim results The Supervisory Board regularly reviewed the first-quarter, half-year and nine-month reports of the operations of the Krka Company and Group. The Audit Committee considered the accounting and financial aspects of the interim results and reported to the Supervisory Board on all interim operational results.

Supervising the operations of subsidiaries in the Krka Group The members were informed about the business model and operations of large subsidiaries, especially with the updated book value of Krka's investments in them, the number of employees, control and supervisory bodies, and in terms of operating data, especially the value of inventories, assets, equity, operating income and operating expenses, as well as the subsidiaries' operating profit and net operating profit.

Long- and short-term operating plans of the Krka Group The Supervisory Board considered the operating plan of the Krka Company and Group for 2016, in which the Board presented the sales by region and product group for the Krka Group and explained the sales plan by market. The members were informed about the planned investments in R&D, purchasing fixed assets and investments, the employment plan and projections of the income statement and the statement of financial position, as well as with relevant notes to financial statements. All the relevant data regarding the Krka Company were attached.

The Supervisory Board considered the updated Krka Group development strategy for the period 2016–2020. The Management Board updates the strategy every two years. The Strategy gives a detailed description of the current situation and trends in pharmaceutical markets, Krka's strategy and goals in individual areas of operation, its advantages and market risks, opportunities and other major risks. It also includes a plan of investments and new product launches and registrations.

Calling and holding the Annual General Meeting Together with the Management Board, the Supervisory Board drafted the agenda and discussion topics for the AGM, and prepared a proposal for the distribution of accumulated profit. The Board proposed that the AGM discharge the Management and Supervisory Board from liability for 2014.

The five-year term of office of members of the Supervisory Board ended in June 2015, so the Board prepared a proposal for the AGM regarding the appointment of Supervisory Board members and shareholder representatives for a new five-year term of office. A nomination committee advised the board on seeking and nominating the most appropriate candidates. The work of the committee is described below.

The Board proposed to the AGM that Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana be appointed the auditors for 2015.

Investments The Management Board regularly reports to the Supervisory Board about all of the Group's major investments from the first-quarter, half-year, nine-months and annual operating reports. Once annually, the Management Board prepares a detailed overview of all large investments. In 2015, the members discussed information about the completed investment Notal 2, Krka's major investment in the production of solid pharmaceutical dosage forms, the start of production in the new Sinteza 1 plant in Krško, the new plant for the production of solid pharmaceutical dosage forms Krka Rus 2 in the Russian Federation, the successful start of the production line for Septotele Total lozenges in Ljutomer, the new investment in the fourth development and control centre and a planned increase in development and production capacities for the production of oncology solid dosage forms in Krka's Jastrebarsko plant in Croatia. The Management Board reported in detail to the Supervisory Board about the work, deadlines and cost of each stage.

Risks Whenever considering interim reports, the Management Board reported to the Supervisory Board about the information on markets with temporarily increased risks. In 2015, these were especially the Russian Federation and Ukraine. The President of the Management Board regularly reported to the Supervisory Board on managing the risk pertaining to the Russian rouble. As far as the foreign exchange risk is concerned, Krka is most exposed to fluctuations in the Russian rouble.

The Management Board described the procedure, scheduled deadlines and risks of patent- and related disputes in which Krka is a party for individual products and markets.

Along with the updated development strategy, the Management Board also updated and presented the risk register – a comprehensive presentation of all possible risks and measures for risk reduction at the level of the Krka Group to the Supervisory Board. Based on the information in the reports by the Supervisory Board, Audit Committee and Internal Audit, the Supervisory Board monitored internal controls, internal audit activities, the compliance of business operations and risk management, and established their suitability.

Business trends in the pharmaceutical industry and analytical reports on Krka During 2015, Krka was followed by 11 financial analysts, seven of whom were foreign. The Supervisory Board was informed of their findings, assessments of the fair value of Krka shares, advantages, opportunities, disadvantages and risks with respect to Krka's operations. The Board also discussed current, relevant information from the pharmaceutical industry.

Benchmarking Krka's performance with comparable companies Twice in 2015, the Supervisory Board compared the Krka Group's performance with other leading generic pharmaceutical companies. According to the available data, the Board compared Krka's business operations with five competitors best comparable in terms of sales regions and product groups. It especially compared the sales, their structure by region and groups of products, gross profit, EBIT, EBITDA, profit before tax and profit over period, margins, ROE and ROA indicators, a presentation of cost structure, data from cash flow statements, indicators related to shares and other frequently used business measures.

The Works Council report on worker participation in management The President of the Works Council reported to the Supervisory Board on worker participation related to the conditions for the operation of the Works Council, the fulfilment of employer's participation duties, the success of cooperation of workers' representatives in the Company's bodies and assessment of the situation in the field of employees' salaries and their personal satisfaction. The board assessed that the working conditions of worker representatives were good and that employees greatly trusted the management. Agreements between worker representatives and the management were respected, and cooperation was good. Based on regular direct contact with employees, the President of the Works Council assessed that Krka employees are very satisfied with Krka's operations and management.

Internal Audit In 2015 the amendment to *Companies Act (ZGD-1)* led to changes regarding the internal auditing activities in companies, while increasing the responsibility of the Supervisory Board in this area. For this reason the Supervisory Board reviewed the updated *Internal Audit Charter* of Internal Audit and their annual plan of work for 2016 and concurred with them. The Audit Committee reported on both acts.

Areas of current interest In 2015, the Supervisory Board received information about human resources, investments, products, and about the implementation of the strategy when each interim report was released. These were considered in more detail once a year.

The work and remuneration of the Management Board The Supervisory Board regularly monitored the work of the Management Board, and particularly closely twice a year when setting the variable amount of the members' salaries pursuant to the *Rules*. The variable amount is calculated according to a model that considers quantitative and qualitative indicators and which the Supervisory Board prepared based on good practice. The variable amount is paid in two parts: the first part at the end of the second quarter according to the interim performance results, and the second at the end of the year depending on annual performance. According to all indicators, the Management Board worked well. Quantitative indicators primarily include sales growth (also in relative terms in view of comparable pharmaceutical companies), increases in cash flows from operations, as well as operating profit and return on equity in comparison with the competitors. Qualitative indicators include activities in new indication areas, the implementation of new requirements related to quality, regulatory and other areas, entry into new markets, new product launches, social corporate responsibility such as volunteering, humanitarian work, sponsorship, and Krka's reputation, as well as investor relations and public relations.

Shares and shareholding structure Krka's shares are listed on the Ljubljana and Warsaw stock exchanges, so the Krka Company complies with the rules of both. Every quarter, the Supervisory Board received current information about the stock and reviewed the report on the acquisition of treasury shares, the current shareholding structure and the Company's share price. The Board was also informed about the calendar of closed trading windows when persons with access to insider information are not allowed to trade in Krka's shares.

Strengthening the good practice of Supervisory Board operations The Supervisory Board adopted updated rules of procedure for the Supervisory Board, Audit Committee and Human Resource Committee. The updates were based on amended legislation and good practice recommendations.

Appointing members of the Management Board The Management Board ended its six-year term of office at the end of 2015. The Supervisory Board completed all the procedures for appointing the Board for the next term of office for the period from 2016 to 2021 and prepared the criteria for selecting members of the Management Board. In addition to the legal requirements and good practice recommendations, the Supervisory Board defined the specific knowledge and skills required to work in the pharmaceutical industry, required qualifications, experience and personal competences. Based on these measures, the President of the Management Board and CEO prepared a proposal for the Management Board for the following period of office. Members of the Supervisory Board agreed with the proposals and unanimously appointed the following members of the Management Board for the 2016–2021 term of office: President of the Management Board Jože Colarič and members Aleš Rotar, Vinko Zupančič, David Bratož and Milena Kastelic, Worker Director.

The Supervisory Board also regularly discussed **other current matters** related to Krka and the industry.

Krka's events In addition to the Annual General Meeting and the ceremony for the traditional annual Krka Prizes awarded for the best undergraduate and post-graduate research work, the members attended business and social events organised by Krka, such as the opening ceremonies upon the completion of large investment projects: the new plant for chemical synthesis Sinteza 1 in Krško and the Notal 2 plant for the production of solid pharmaceutical dosage forms in Novo mesto, both of which are Krka's largest investment projects in recent years.

The work of Supervisory Board committees

The Supervisory Board appointed the Audit Committee and the Human Resources Committee, which deal in detail with accounting, auditing, finance and human resource issues. The committees report to and advise the Supervisory Board, while decision-making remains under the authority of the Supervisory Board. The Supervisory Board also appointed the nomination committee to help with the selection of Supervisory Board members, and shareholder representatives for the term of office 2015–2020.

Audit Committee

The Audit Committee sat six times during the year, four times in the former and twice in the new composition. The Committee discussed 28 items on the agenda. The Committee is presided over by Simona Razvornik Škofič. The members are Jože Mermal, Tomaž Sever, Franc Šašek and Borut Šterbenc. Borut Šterbenc is an outsourced accounting expert and is not a member of the Supervisory Board. The other committee members are members of the Board.

The committee invited the President of the Management Board and the member of the Management Board responsible for accounting and controlling, and the head of Internal Audit to all its meetings. The President of the Supervisory Board may attend meetings at their own discretion. The Secretary of the Supervisory Board attends all the meetings. Three meetings were also attended by representatives of the audit company Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana.

The matters most frequently discussed by the Audit Committee in 2015 are described below:

Annual Report The Committee considered the Annual Report of the Krka Company and the Krka Group for 2014, the auditor's report and the Supervisory Board report for 2014 and proposed that the Supervisory Board adopt them. The auditing partner and coordinator of the external auditor Ernst & Young reported on the 2014 audit procedures to the members of the committee three times.

Interim results Whenever considering interim reports, the audit committee primarily discussed these with regard to accounting and finance and reported about them to the Supervisory Board. In 2015, no accounting or financial particularities or changes to past practice were established.

Accounting policies and co-operation with the external auditor The committee regularly monitors the implementation of external audit procedures and works closely with the external auditor, who regularly reports to the Audit Committee on the findings of the Audit Committee in relation to the performed audit.

The Audit Committee draws up a proposal of the selection of the auditing company to audit business results. The proposal is discussed by the Supervisory Board and the auditor is named by the AGM. Consistent with good practice, the president and the members of the committee met with the auditing company. Together with the auditing company, they defined the areas that had to be carefully reviewed during the regular audit. The Committee was informed about the composition of the auditing team and their planned activities and schedule before the audit.

Internal auditing The Auditing Committee regularly works with Krka's Internal Audit, especially regarding sharing information about the main issues related to internal auditing in a way that enables monitoring of the efficiency and success of internal controls, internal auditing and risk management systems. In 2015, it discussed the report on the work of Internal Audit for 2014, the report on the external audit on quality and the 2014 report on self-evaluation by Internal Audit. It also discussed the report on the work of the Internal Audit for the period from January to June 2015, learned about the updated *Internal Audit Charter* and the 2016 Internal Audit annual plan and proposed that the company's Supervisory Board to give consent.

Financial risks Whenever considering interim reports the Management Board reported information to the Supervisory Board about markets with temporarily increased risks. In 2015, these were the Russian Federation and Ukraine in particular. The President of the Management Board regularly reported to the Committee on protecting the rate risks of the Russian rouble, the foreign currency to which Krka is most subjected. Along with the updated development strategy the Management Board also updated and presented the risk register, which contains a comprehensive presentation of all possible risks and measures for risk reduction at the level of the Krka Group, and informed the Audit Committee.

Annual General Meeting The Audit Committee discussed the appointment of the auditor for the 2015 financial year and suggested that at the AGM the Supervisory Board propose the audit company Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana as the auditor.

Current issues The Audit Committee regularly reviewed other information relevant from the accounting and financial aspect and risks. It specified current issues with regard to current events or proposals by Committee members.

Strengthening the good practice of the Auditing Committee In 2015 the Committee conducted a self-evaluation according to the methodology of the Slovenian Directors' Association.

Human Resources Committee

The audit committee sat four times during the year, twice in the former and twice in the new composition. The Committee discussed 12 items on the agenda. It is presided over by Andrej Slapar. The members are Julijana Kristl, Anja Strojín Štampar and Mateja Vrečer. The Committee invited the President of the Management Board and the member of the Management Board responsible for accounting and controlling, and the secretary of the Supervisory Board. The President of the Supervisory Board may attend meetings at his own discretion.

Management Board remuneration The Committee also proposed to the Supervisory Board the amount of the performance bonus of the President of the Management Board and its members for 2014 and the first half of 2015 based on quantitative and qualitative measures of success.

Appointing members of the Management Board The Management Board ended its six-year term of office at the end of 2015. The Committee helped the Supervisory Board complete all the necessary procedures for appointing the members of the Management Board for the following period of office 2016–2021. It discussed the proposal for appointing the members of the Board as prepared by President Jože Colarič and recommended to the Supervisory Board of the Krka Company to name the members of the Management Board in accordance with the President's proposal. The Supervisory Board agreed to the proposals and unanimously appointed the following members of the Management Board for the 2016 to 2021 term of office: President of the Management Board Jože Colarič and members Aleš Rotar, Vinko Zupančič, David Bratož and Milena Kastelic, Worker Director.

Nomination Committee

Krka's Supervisory Board ended their five-year term of office in June 2015. The members followed the recommendations of the *Corporate Governance Code* and appointed the Nomination Committee as a committee to assist in the selection of candidates for the Supervisory Board, shareholders' representatives, for a five-year term of office.

The main task of the Nomination Committee, which met three times, was to propose suitable candidates for the new Supervisory Board. The candidates were selected by the current Supervisory Board, who then submitted their proposal to the AGM for final approval.

Evaluation of the work of the Management and Supervisory Boards

In accordance with current legislation and good practice, in particular the *Corporate Governance Code*, the recommendations of the Slovenian Directors' Association and the *Code of Best Practice for Warsaw Stock Exchange Listed Companies*, the Supervisory Board comprehensively monitored Krka's management and operations throughout 2015.

The Management Board attended all meetings of the Supervisory Board, except on one occasion when one of the members of the Management Board could not attend the meeting. In the name of the Company, the President answered questions posed by the members of the Supervisory Board and ensured that relevant reports were prepared. Other members of the Management Board participated, if necessary, by giving explanations regarding their professional area. The President of the Management Board and the President of the Supervisory Board communicated and consulted each other even when there were no meetings.

Krka's professional services organised meetings, made prompt technical improvements and provided administrative and organisational support to the Supervisory Board. The Supervisory Board members were presented with all the necessary data, reports and information, and the Management Board prepared extended or additional reports at their request. They received the materials approximately one week before the meeting.

The Supervisory Board considered the work of the Management Board twice a year as a separate agenda item when setting the performance bonus based on eight performance measures. The Supervisory Board promptly assessed the work of the Management Board by discussing interim results, comparing Krka's operations with competitors and considering external analysts' opinions about Krka. The Management Board was fully committed to the best possible performance and results of the Company and Group and co-operated with the Supervisory Board in an exemplary manner in 2015.

The Supervisory Board also paid considerable attention to the continuous improvement of its work. In May 2015, it engaged in the fifth consecutive self-assessment according to the methodology of the Slovenian Directors' Association, and conducted activities defined by an action plan. The operations of the Supervisory Board were of the highest standards, with the same evaluation as the year before. The Supervisory Board regularly monitored conflicts of interest. In accordance with the *Corporate Governance Code*, members completed statements on independence, which Krka published to demonstrate that all the members of the Board are independent. Should a conflict of interests occur, the *Rules of Procedure of the Supervisory Board* stipulate that the Board may resolve the matter by preventing a particular member from voting on an agenda item.

The budget, allocation for the work of the Supervisory Board and its committees in 2015 was €239,550, whereas €215,792 was spent. In addition, €7,000 was spent on membership in the Slovenian Directors' Association in 2015, while other costs such as for external advisers were not accrued.

Approval of the Annual Report and proposal for the allocation of the 2015 accumulated profit

The Supervisory Board discussed the 2015 Annual Report at two Supervisory Board meetings and three Audit Committee meetings.

At the meeting of 20 January 2016, the certified auditor Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana reported to the Audit Committee **on the findings of the pre-audit and the 2015 audit procedures**.

The Draft Annual Report of Krka and the Krka Group for 2015 was considered by the Supervisory Board and the Audit Committee at their meetings of 2 March 2016.

The members of the Supervisory Board and the Audit Committee received the **proposed clean copy of the 2015 Annual Report** on 22 March 2016 and reviewed it at their meetings on 30 March 2016. The representatives of the certified auditor reported to the Committee and the Supervisory Board.

Based on the proposed copy of the Annual Report, the auditor's report and the Audit Committee review, the Supervisory Board found the Management Board's Annual Report to be a true and fair account of the events, which presents a comprehensive view of the operations of the Krka Company and the Krka Group in 2015 and provides extended information that was otherwise sent to the Board throughout the financial year. As the Supervisory Board had no comments or reservations in that regard, it unanimously approved the 2015 annual report at a meeting of 30 March 2016. **The Annual Report was thereby formally adopted in accordance with Article 282 of the Companies Act and Krka's Articles of Association.**

Together with the Annual Report, the Supervisory Board also approved the **proposal for the allocation of accumulated profit**. In 2015, the Krka Company achieved a net profit of €146,262,482.75 EUR, of which €9,394,417.44 EUR was appropriated to reserves for treasury shares, and €0.00 to other revenue reserves. The remaining net profit of €136,868,065.31 and the retained net profit of €50,040,356.18 EUR comprise the accumulated profit, which on 31 December 2015 stood at €186,908,421.49.

The Management Board and the Supervisory Board proposed to the AGM that the accumulated profit be allocated as follows:

- dividends: €85,958,768.15 EUR, or €2.65 gross per share;
- other revenue reserves: €50,474,826.67;
- retained earnings: €50,474,826.67;

The proposal was drawn up by considering the number of treasury shares on 30 March 2016, when the Supervisory Board confirmed the 2015 Annual Report and together with the Management Board prepared a proposal for the allocation of accumulated profit. As the number of treasury shares changes, the number of shares entitled to dividends is revealed on the day of the AGM, and the total amount to be allocated to dividends, other revenue reserves and retained earnings are adjusted accordingly.

Conclusion

The Supervisory Board members assess Krka's operations in 2015 as strong, successful and reliable. Krka is continuously improving its operations. The Company's business and financial operations remain stable. Krka regularly pays out dividends, invests in new capacities and products, and recruits new employees. It offers a cutting-edge range of products, which it markets in over 70 markets. Partnership and trust are two of the Company's most important values.



Matej Pirc
President of the Supervisory Board

Financial highlights of the Krka Group

In € thousand	2015	2014	2013	2012	2011
Revenues	1,164,607	1,191,614	1,200,827	1,143,301	1,075,627
EBIT ¹	199,434	276,953	227,588	192,308	211,561
EBITDA	306,742	374,535	321,732	282,276	298,747
Net profit	158,185	166,161	172,766	159,839	162,735
Non-current assets (year-end)	986,598	1,008,830	973,954	926,000	863,865
Current assets (year-end)	822,606	786,915	785,930	700,748	670,162
Equity (year-end)	1,405,984	1,351,899	1,332,611	1,240,521	1,139,754
Non-current liabilities (year-end)	110,982	125,421	128,833	145,362	155,092
Current liabilities (year-end)	292,238	318,425	298,440	240,865	239,181
R&D expenses	115,393	108,370	97,235	101,102	92,932
Investments	95,889	173,721	157,268	153,288	109,713
RATIOS	2015	2014	2013	2012	2011
EBIT margin	17.1%	23.2%	19.0%	16.8%	19.7%
EBITDA margin	26.3%	31.4%	26.8%	24.7%	27.8%
Profit margin (ROS)	13.6%	13.9%	14.4%	14.0%	15.1%
Return on equity (ROE) ²	11.5%	12.4%	13.4%	13.4%	14.8%
Return on assets (ROA) ³	8.8%	9.3%	10.2%	10.1%	10.8%
Liabilities/Equity	0.287	0.328	0.321	0.311	0.346
R&D expenses/Revenues	9.9%	9.1%	8.1%	8.8%	8.6%
NUMBER OF EMPLOYEES	2015	2014	2013	2012	2011
Year-end	10,564	10,499	10,048	9,461	8,948
Average	10,532	10,284	9,783	9,197	8,789
SHARE INFORMATION	2015	2014	2013	2012	2011
Total number of shares issued	32,793,448	32,793,448	35,426,120	35,426,120	35,426,120
Earnings per share (EPS) in € ⁴	4.86	5.07	5.24	4.80	4.85
Dividend per share in €	2.50	2.10	1.61	1.50	1.40
Closing price on LJSE at the end of the period in €	65.20	59.60	60.00	50.00	52.90
Price/Earnings ratio (P/E)	13.41	11.75	11.46	10.41	10.91
Book value in € ⁵	42.87	41.22	37.62	35.02	32.17
Price/Book value (P/B)	1.52	1.45	1.60	1.43	1.64
Market capitalisation in € thousand (31 Dec.)	2,138,133	1,954,490	2,125,567	1,771,306	1,874,042

¹ The difference between operating income and expenses

² Net profit/Average shareholders' equity in the year

³ Net profit/Average total assets in the year

⁴ Profit attributable to equity holders of the parent/Average number of shares issued in the year, excluding treasury shares

⁵ Equity as at 31 Dec/Total number of shares issued

ID card of the Krka Group

Information on the controlling company

Krka, d. d., Novo mesto	
Registered office	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
Telephone	+386 (7) 331 21 11
Fax	+386 (7) 332 15 37
E-mail	info@krka.biz
Website	www.krka.si
Core business	Manufacture of pharmaceutical preparations
Business classification code	21.200
Year established	1954
Registration entry	1/00097/00, District Court of Novo mesto
Tax number	82646716
VAT number	SI82646716
Company ID number	5043611000
Share capital	€54,732,264.71
Total number of shares issued	32,793,448 ordinary registered no-par value shares

The Krka Group consists of the controlling company, Krka d. d., Novo mesto, two subsidiaries in Slovenia, i.e. Terme Krka, d. o. o., Novo mesto and Farma GRS, d. o. o., and 28 subsidiaries outside Slovenia. Farma GRS is the sole owner of six micro companies. The Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals and non-prescription products), animal health products, and health resort and tourist services.

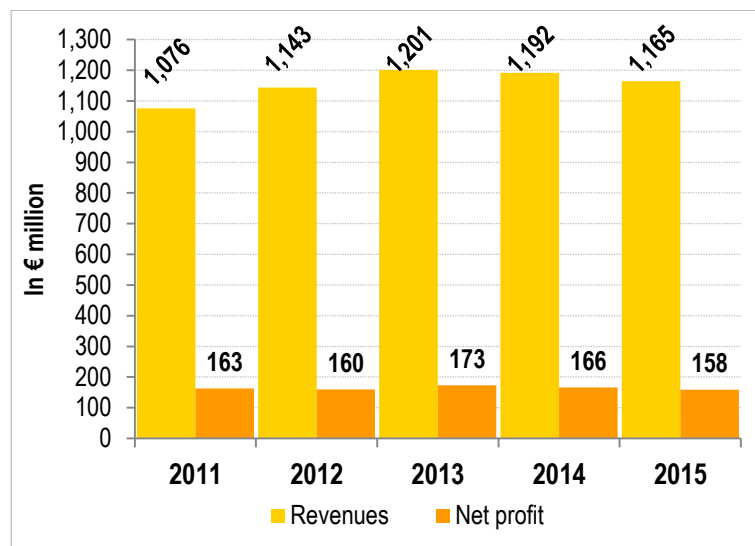
Production takes place in the controlling company in Slovenia and in Krka subsidiaries in the Russian Federation, Poland, Croatia and Germany. In addition to production, these subsidiaries, apart from Krka-Rus in the Russian Federation, deal with marketing and sales. Other subsidiaries outside Slovenia deal with the marketing and/or sales of Krka products and do not have production capacities.

Terme Krka, d. o. o., Novo mesto deals with health resort and tourist services. It operates through the following branches: Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec, Hotel Krka in Novo mesto, and Talaso Strunjan. Terme Krka is also the majority owner of Golf Grad Otočec, d. o. o.

Krka Group business model

Krka is one of the world's leading generic pharmaceutical companies. Its registered office is in Slovenia. Krka has over 60 years of experience in the industry.

Revenues and profit for the last five years



Krka is the leader in the Slovenian market and significantly present in the generic pharmaceutical markets of Eastern, Central and South-Eastern Europe, and in the past few years more and more in the markets of Western Europe. We have been strengthening our presence in overseas markets, as we wish to exploit further the sales potential in the Middle East, Far East, Africa and the Americas. Please see *Marketing and Sales* for further information about Krka's markets.

Our production and distribution facilities are in Slovenia, the Russian Federation, Poland, Croatia and Germany.

Business orientation

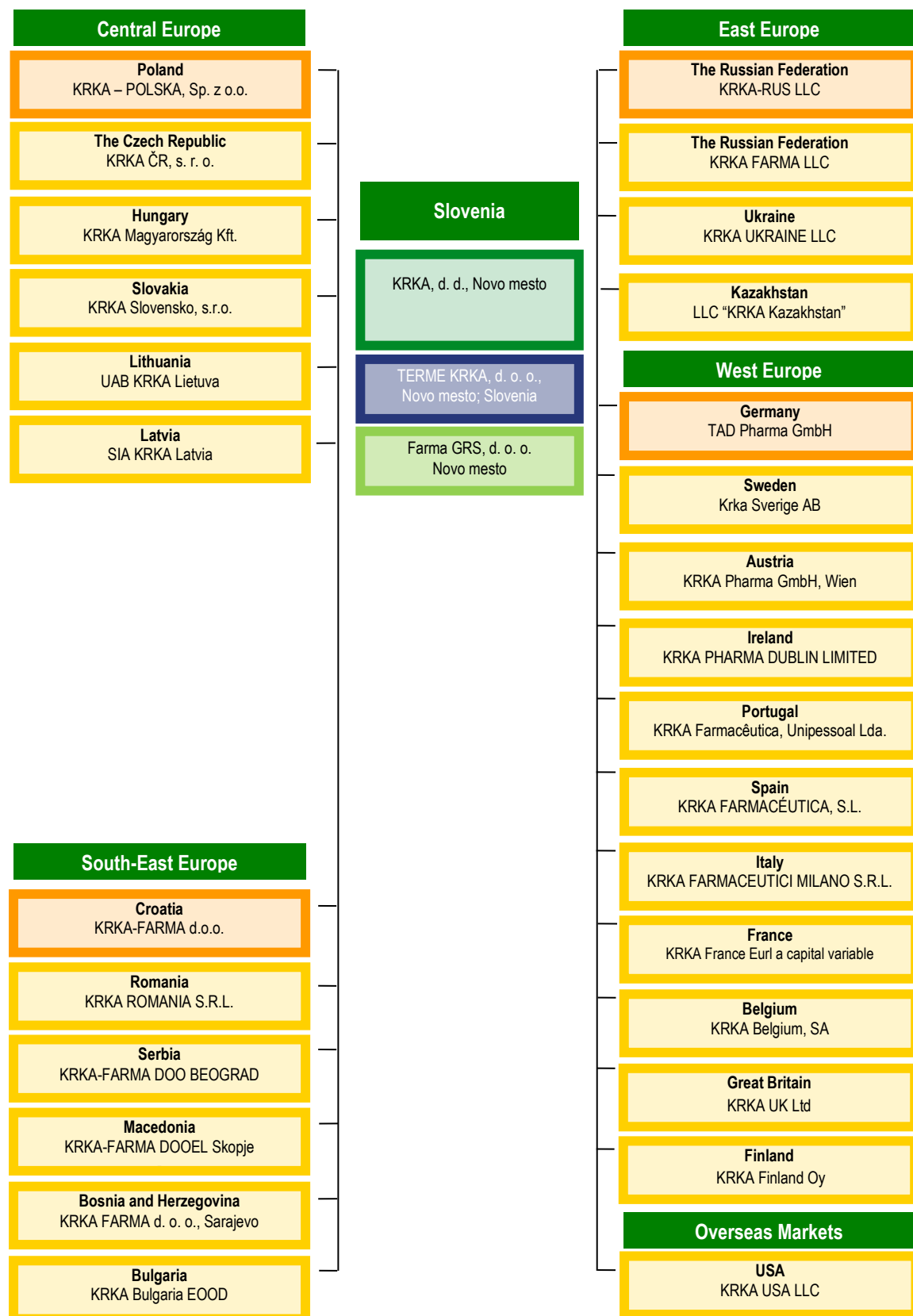
Our modern pharmaceutical production and the vertically integrated business model permit us to provide patients in more than 70 countries with a wide range of safe, high-quality and effective prescription pharmaceuticals, non-prescription products and animal health products. Krka's portfolio primarily contains solid dosage pharmaceutical forms. The Company's range is supplemented by the health resort and tourist services of Terme Krka. For further information about Krka's products and services, please refer to section *Marketing and Sales*.

We focus on generic prescription pharmaceuticals marketed under Krka's own brands. Our main therapeutic groups include pharmaceuticals for cardiovascular diseases, alimentary and metabolic diseases and for the central nervous system. We have been entering new therapeutic areas (oncology medicines, anti-virus medicines), and in selected areas also with non-prescription products.

By establishing our own companies and by mergers in selected markets, we have been expanding the marketing-and-sales network, thus attaining market shares. Our objective is to strengthen the Krka Group's market position in Europe and in the markets of Central Asia, as well as to enter new high-potential markets.

In order to increase the competitive advantage of our product portfolio, Krka allocates a large portion of its revenues to research and development. Krka has more than 170 new products in the pipeline. A large share of revenue is generated by sales of new products, i.e. products launched in different markets in the past five years.

Krka Group organisation chart



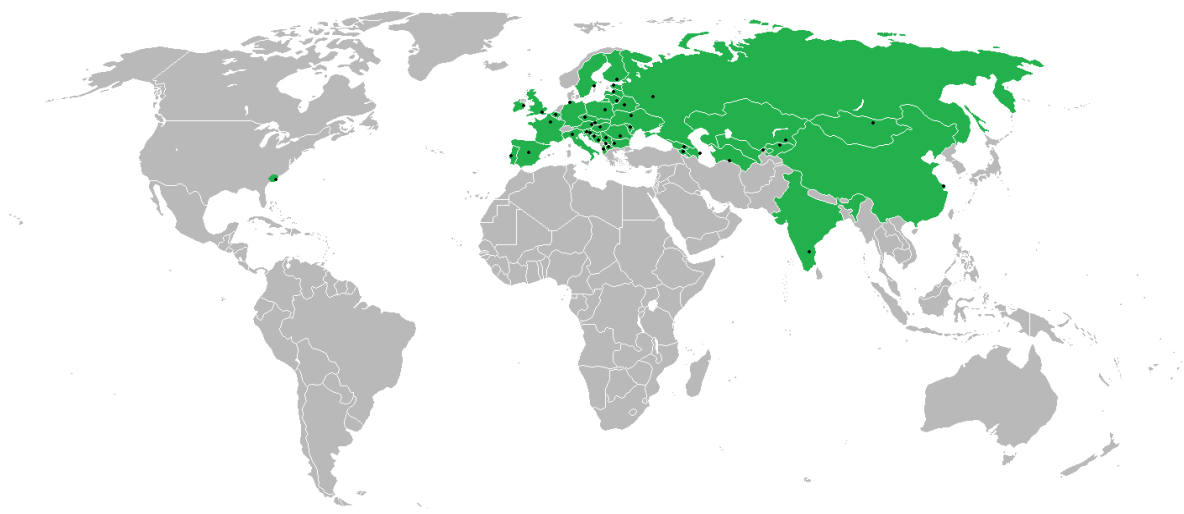
The chart includes companies in operation on 1 January 2016.

Production and distribution companies
Health resort and tourist services company

Other subsidiaries outside Slovenia
The EU project: research and development company

Abbreviated company names are used below.

Krka companies and representative offices around the world



Overview of significant events and awards in 2015

Events

- At its meeting on 21 January, Krka's Supervisory Board appointed the current Krka's President of the Management Board and CEO Jože Colarič for a new six-year term of office. The Board also instructed the President to prepare a proposal for appointing members of the Management Board by the end of November 2015.
- In February, we organised the traditional annual worker assemblies, where the President of the Management Board and CEO informed employees of the Krka Group's operating results of the past year. Assemblies help to keep employees informed and satisfied.
- We held a meeting with Novo mesto residents living in the immediate vicinity of our factory. We presented Krka's operations, the 2014 business results, our investment and business plans, and achievements in environmental protection.
- For the ninth consecutive time, we arranged a gathering with local sponsored parties whose main sponsor is Krka.
- For the fourth consecutive time, we organised a socially responsible campaign, Krka's Week of Charity and Volunteering, which involved nearly 1,200 employees participating in various charity events under the slogan 'Charity Is Also a Part of Us'.
- At a ceremony on Krka Awards Day, we conferred plaques to those employees who celebrated their many years of service, best employees and best managers, as well as those who made the most useful proposals and improvements.
- Marketing Awards were conferred on the best Krka Group Marketing employees for the 17th consecutive year. The most successful employees in the area of regulatory affairs were also awarded.
- In June, we began building the fourth development and control centre, worth €54 million. This is a major investment in development and quality assurance.
- At the 21st Annual General Meeting of the Company, the proposed dividend per share of €2.50 gross was approved. New members, shareholder representatives, were appointed to the Supervisory Board. Matej Pirc, Jože Mermal, Andrej Slapar, Simona Razvornik Škofič, Prof. Julijana Kristl, and Anja Stojin Štampar MSc, MBA.
- At the end of August, trial production started in the new plant in Ljutomer on production lines for producing new generation Krka lozenges.
- As part of the 45th Krka Prizes, we awarded the best secondary school research projects and the best undergraduate and post-graduate research projects.
- In October, we officially opened the new plant for the production of active pharmaceutical ingredients Sinteza 1. The investment is worth €85 million and gives Krka new capacities for managing the entire process from development to the production of raw materials and finished products.
- In October, Krka successfully passed the 20th audit of its integrated management system conducted by the Slovenian Institute of Quality and Metrology (SIQ). The auditors inspected six management systems adapted to the requirements of various standards (ISO 9001, ISO 14001, HACCP, BS OHSAS 18001, ISO/IEC 27001 and *Directive on medical devices 93/42/EC*).
- At Krka's central location at Ločna in Novo mesto, the Notol 2 production plant for solid pharmaceutical dosage forms, with which we have put into effect our philosophy of the vertically integrated business model, was officially opened in November. The investment, worth €200 million, will enable the production of 4.5 billion tablets and capsules a year.

- At its meeting on 18 November, the Supervisory Board decided that, in addition to the President of the Management Board and CEO Jože Colarič, Dr. Aleš Rotar, Dr. Vinko Zupančič, David Bratož and Worker Director Milena Kastelic be appointed to Krka's Management Board for the term of office from 1 January 2016 to 31 December 2021.
- Krka is the only company in Slovenia that examines and approves the knowledge and skills required to acquire the national vocational qualification (NVQ) certificates for the pharmaceutical industry. At the end of 2015, we awarded vocational qualification certificates for a production process worker in the pharmaceutical industry to 67 employees who had successfully completed their training.
- We also organised a traditional meeting of the proposers of the best useful proposals and improvements. Encouraging inventive work has become a system which comprises an increasing number of employees from different business units. Last year, we rewarded 648 proposals and improvements, proposed by 464 employees.
- In 2015, we rewarded Krka's best volunteers, and once again thanked all the long-standing blood donors.

Prizes and awards

- The Excellence in Marketing Awards were conferred for the first time at the 2015 Slovenian Marketing Conference held in Portorož, Slovenia. Krka won first prize in the category of large B2B (business-to-business) companies.
- At a ceremony held by the Slovenian daily *Dnevnik*, Krka received the 2014 Golden Thread Award for the best employer in the category of large companies. The socially responsible campaign, Krka's Week of Charity and Volunteering, was among the three finalists for the Golden Practice Award, an award for projects marked with organisational leaps forward and collective progress.
- The Chamber of Commerce of Dolenjska and Bela Krajina awarded Krka three golden and four silver awards for best innovations. Farma GRS, d. o. o. was awarded a golden award for the development of processes for the preparation and isolation of ivabradine pharmaceutical salts and their use in pharmaceutical forms, Krka, d. d., Novo mesto for an optimised procedure of synthesis of the active ingredient and the medicinal product in the form of capsules for treating the central nervous system and for developing various forms of active ingredient and their use in pharmaceutical forms for the treatment of schizophrenia. Farma GRS, d. o. o. received the silver awards for an innovative procedure for preparation processes of the active ingredient and medicine for the treatment of Parkinson's disease; for the development of film-coated tablets with a fixed-dose combination of two active ingredients used in treating elevated blood pressure; and for developing procedures for the production of the active ingredient and pharmaceutical forms for treating depression and stress urinary incontinence, as well as for the development of the folding box which proves that the medicine is in its original packaging.
- To mark the occasion of Innovation Day, the Slovenian Chamber of Commerce and Industry conferred on Farma GRS, d. o. o. golden awards for two innovations – for the development of different forms of the active ingredient and their use in pharmaceutical forms for treating schizophrenia (Farma GRS, d. o. o.) and for the development of procedures for preparing and isolating ivabradine pharmaceutical salts and their use in pharmaceutical formulations (Farma GRS, d. o. o.).
- The 2015 *Corporate Reputation* survey conducted by Kline & Partner, which included 60 of the most prominent companies in Slovenia, once again showed that Krka is the most reputable Slovene company. Leadership excellence, clear vision and a quality product range were the factors contributing most to Krka's renown. Krka is also the most attractive company for investors.
- At the 2015 Management Education and Training conference, Krka received the TOP 10 award for the eleventh consecutive time, and was therefore once again among the ten Slovenian companies that invest most in employee knowledge, education and training.

- At this year's competition for the best annual report of 2014 organised by the Slovenian business daily *Finance*, Krka received the main award for the best annual report in the category of large companies for the third consecutive year. We were also awarded for the best annual report of the business operations analysis and plans.
- In Poland, the non-prescription product Bilobil was awarded the consumer's choice award for a good brand in the category of medicinal products for improving memory and concentration.

Events after the accounting period

- Since 1 January 2016, the company Krka, d. d., Novo mesto has had a new management board with a term of office until 31 December 2021. In addition to the President of the Management Board and CEO Jože Colarič and Worker Director Milena Kastelic, Dr. Aleš Rotar, Dr. Vinko Zupančič and David Bratož are also members of the Management Board.
- From the beginning of 2016 to 4 February 2016 (followed by the closed period until the annual report is published), we acquired 29,900 treasury shares worth €1,838,131. The balance of treasury shares totals 356,177 (i.e. 1.086% of total shares).
- On 25 February 2016 Krka informed the public that Krka's subsidiary Krka Sverige AB in Stockholm (hereinafter Krka Sverige) received the decision of the Maritime and Commercial Court in Copenhagen in the alleged patent infringement case of patent EP 1 020 461 in Denmark brought against Krka Sverige by the companies AstraZeneca in Sweden and AstraZeneca in Denmark (hereinafter AstraZeneca).

Patent EP 1 020 461 protects the active ingredient esomeprazole with high optical purity, which is the reason the medication containing this active ingredient is supposed to have better pharmacological effects. The active ingredient esomeprazole as such is not protected by patent. The medicine marketed by Krka Sverige in Denmark does not contain the active ingredient esomeprazole with high optical purity. Regardless of this fact, the Maritime and Commercial Court in Copenhagen decided that by selling its product in Denmark Krka Sverige allegedly infringed the patent of AstraZeneca because crystals of high optical purity esomeprazole appeared at some stage in the reaction mixture during the production process of the active ingredient esomeprazole by Krka.

Therefore, the Maritime and Commercial Court in Copenhagen found that this infringement by Krka Sverige had caused damages to AstraZeneca in Denmark in the amount of DKK 50 million (€6.7 million). The first instance decision by the Maritime and Commercial Court is not final, so Krka Sverige will not pay any compensation until the decision becomes final. Krka Sverige will appeal the decision, as it is of opinion that the Court's decision contradicts the patent interpretation of the European Patent Office and contradicts established legal practice in the European Union when deciding on such patents (known as "Swiss type claims").

Krka published statements on the dispute regarding esomeprazole in Denmark on 15 January 2010 and 11 April 2013.

BUSINESS REPORT

Corporate Governance Statement

Krka's principles of corporate governance are based on a two-tier system in which the Management Board manages the company and is in turn controlled by the Supervisory Board. Corporate governance is based on the legislation of the Republic of Slovenia, Slovenian and international good practice, the Company's publicly available *Corporate Governance Policy* and its internal acts.

The Company's governing bodies are the:

- Annual General Meeting;
- Supervisory Board; and
- Management Board.

Annual General Meeting

Pursuant to provisions of the *Slovenian Companies Act*, the Annual General Meeting is the Company's highest body. This is where shareholders participate in the Company's governance and where all fundamental and statutory decisions are taken. Each share, except for treasury shares, represents one vote at the general meeting. Krka has only one share class: ordinary no-par value shares.

The Management Board calls an Annual General Meeting (AGM) once a year, at least one month before the due date. The complete materials for each AGM may be accessed at the company's registered office from the day of the call.

All shareholders entered in the shareholder register on the record date published in the notice have the right to attend the AGM and vote. The same applies to their representatives and proxies.

At the AGM, the Management Board provides shareholders with all the information required to assess the agenda, taking into account all legal or other restrictions on the disclosure of information.

At the 21st AGM of 20 August 2015, the shareholders:

- received information about the annual report for 2014, the remuneration of Management and Supervisory Board members, the auditor's report, and the report of the Supervisory Board on its verification and approval of the 2014 Annual Report;
- adopted a resolution on the appropriation of accumulated profit for 2014;
- discharged the Management and Supervisory Boards from liability in 2014;
- appointed the auditor for 2015;
- elected members to the Supervisory Board, shareholders' representatives, for a five-year term of office: Prof. Julijana Kristl; Jože Mermal; Matej Pirc; Andrej Slapar; Simona Razvornik Škofič, and Anja Strojín Štampar MSc, MBA.

According to the financial calendar for 2016, this year's AGM will take place on 7 July. The call for the AGM and the proposed resolutions, the place of the meeting and eligibility conditions will be published in the Ljubljana Stock Exchange's SEOnet system, the Warsaw Stock Exchange ESPI system, the *Delo* newspaper, and on the Krka website.

Supervisory Board

The Supervisory Board supervises the company's operations and business management, and selects and appoints members of the Management Board. The body meets at least four times a year.

Its **composition** is stipulated by the company's *Articles of Association*. It is composed of nine members: six are elected by the Annual General Meeting, and three employee representatives are elected by the Krka Works Council. The president of the Supervisory Board is always elected from among board members appointed by the AGM. Members are appointed for a five-year term and may be reappointed. Since the term of office of the previous board members came to a close, the 21st

AGM elected the current Board for a five-year term of office, starting on 20 August 2015. In accordance with the *Corporate Governance Code*, a Nomination Committee was formed to advise on the selection of members.

The Supervisory Board's performance complies with legislation, the recommendations of professional associations, especially the Slovenian Directors' Association, and other good practice recommendations, particularly the *Slovenian Corporate Governance Code*.

The current Supervisory Board was elected in 2015 for a five-year term.

The remuneration, reimbursement and other benefits of Supervisory Board members do not directly depend on the company's performance and are disclosed in the financial report under the Note entitled 'Related Party Transactions'. In addition to attendance fees, members receive fixed amounts for exercising their functions according to the resolutions of the 16th AGM.

Members report to the company and competent institutions on any acquisitions or disposals of company shares. Krka makes the information public. Under 'Related Party Transactions' in the financial report we disclose how many Krka **shares** are held by Supervisory Board members.

Members of the Supervisory Board pursue the company's objectives in their work, and must subordinate any personal interests or interests of third parties to them. All members have completed the questionnaire on conflicts of interest, which is available on the Krka website. Members' conduct in cases of **conflicts of interest** is defined in the *Rules of Procedure of the Supervisory Board*, available at <http://www.krka.biz/en/for-investors/documents/corporate-governance-documents/>.

The composition and operations of the Board and its committees in 2015 are presented in its report.

Shareholder representatives

Matej Pirc

President of the Supervisory Board

Matej Pirc, born in 1977, is from Kranj. He graduated in economics. He enrolled his post-graduate studies at the University of Maribor, Faculty of Law, in the field of tax law, and at the University of Maribor, Faculty of Economics and Business, in the fields of accounting and audit. He worked as a senior manager in the Mercator Group both in the controlling company and in subsidiaries in the countries of South-Eastern Europe and gained experience in managing the supporting functions of a large international trading system, primarily in the following areas: finance, accounting, controlling, investment and development, IT, human resources, legal and general affairs, managing development, and liquidity and financial risk management.

From May 2013 until April 2014, he was a member of the Management Board of Slovenska odškodninska družba (SOD) restitution fund. From April 2014 until October 2015, he managed Slovenski državni holding (SDH, Slovenian Sovereign Holding) and was responsible for capital asset management, company restructuring, availability of assets, denationalisation, settling liabilities under various laws, and other related areas.

He has also been the President of the Supervisory Board of GEN energija, d. o. o.

Jože Mermal

Deputy President of the Supervisory Board

Jože Mermal, born in 1954, is from Ljubljana. He graduated in economics. He has been successfully managing the BTC Company for 22 years. He has worked in various important positions since 1978. He initiated and managed the project of restructuring and transforming public warehouses into a successful, dynamic and rapidly expanding company that has also become one of the largest business, shopping, sports and entertainment centres: BTC City.

He has received several awards for his work, among others the Manager of the Year in 1997 and the Primus Award for excellence in communication in 2001 by the Slovenian Public Relations Society. He has avidly supported culture and received the title of the Cultural Patron of the Year in 2011. In 2013, the Municipality of Ljubljana conferred the Marjan Rožanc Award on Mermal for achievements in sports. His visionary management and creativity in the BTC Company earned him the Vision Manager Award, which is conferred by public relations experts from South-Eastern Europe. In 2014, the Slovenian Chamber of Commerce and Industry awarded him for exceptional business and entrepreneurial

achievements in the category of large companies for the year 2013. The BTC company itself has received several important awards and has been integrated in various projects in its wider environment.

Jože Mermal has held several important managerial and supervisory positions in professional and other associations and sports organisations.

Andrej Slapar

President of the Human Resources Committee

Andrej Slapar, born in 1972, is from Ljubljana. He holds a degree in law. In May 2013, he became President of the Management Board of Zavarovalnica Triglav. He has been a member of its Management Board since 2009.

He manages and directs the work of the Management Board and its services (Management Board Office, Legal Office, Internal Audit Department, Corporate Communication Department, and Compliance Office), the Life Insurance Development and Actuarial Department, and the Non-Life Insurance Development and Actuarial Department. He is in charge of the Life Insurance Division, the Corporate Accounts Division, senior management staffing, Arbitration, Nuclear Pool GIZ and the Supplemental Health Insurance Division. He also represents Zavarovalnica Triglav in the Council of the Slovenian Insurance Association.

He is Chairman of the Supervisory Board of Pozavarovalnica Triglav Re, d. d. Ljubljana, a member of the Supervisory Board of Abanka Vipava, d. d., and Chairman of the Council of the Slovenian Insurance Association.

Simona Razvornik Škofič

President of the Audit Committee

Simona Razvornik Škofič was born in 1971 and holds a degree in economics. Her first job was at Paloma, d. d., Sladki Vrh in the export department. Since 1995, she has worked at Slovenian Sovereign Holding (Slovenski državni holding, d. d.; former Slovenska odškodninska družba, d. d., restitution fund) as a senior manager at the Capital Asset Disposal Department, where she manages and is engaged in sales groups for the disposal of capital assets held by the Republic of Slovenia and Slovenian Sovereign Holding. Until 2013, Simona Razvornik Škofič was a senior adviser in the Capital Asset Management Department, where she managed assets in the form of shares and equity stakes held in companies. She also monitored and analysed the business operations of the companies in the portfolio. As a representative of equity, she has been a member of Supervisory Boards of the following companies: Astra, tehnična trgovina, d. d., Ljubljana; TP Prehrana, d. d., Maribor; Intes, d. d., Maribor; TUB Swaty, d. d., Maribor; Kompas International, d. d.; and Tosama, d. d. Until July 2015, she was a Supervisory Board member of Slovenian Sovereign Holding as an employees' representative.

Anja Strojín Štampar MSc, MBA

Anja Strojín Štampar MSc, MBA, born in 1973, is from Ljubljana. After graduating from the Faculty of Law at the University in Ljubljana, she was employed by the High Court in Ljubljana. In 1999, she passed the state examination in law and was employed as an expert assistant by the department of commercial law at the District Court in Ljubljana. In 2001, she completed her post-graduate studies and was employed by Kapitalska družba, where she first acted as an independent legal advisor, and then managed its Legal Department between 2002 and 2007. Since then, she has continued her career as an attorney at law. From November 2007 until March 2009, she was the Head of the Commercial and International Law Department for attorneys at law Miro Senica in odvetniki. In July 2009, she was appointed to the Management Board of Kapitalska družba. In May 2014, the Supervisory Board of Kapitalska družba appointed her to the Management Board for another term. On 1 December 2015, she joined the Management Board of Slovenian Sovereign Holding responsible for the disposal of capital assets, legal affairs, denationalisation and the settlement of liabilities.

She completed her post-graduate studies in international business law (LL.M.) at the McGill University in Montreal, Canada, and gained her MSc title in 2002. In 2004, she also graduated in French and general linguistics from the Faculty of Arts at the University of Ljubljana. In 2014, she completed the international MBA programme, management and organisation, at the Faculty of Economics at the University of Ljubljana. She has acquired experience in corporate management, setting up and developing work processes, and business process management by holding senior corporate positions for more than 10 years. She participated in the foundation of Zaprti vzajemni pokojninski sklad za javne uslužbence (ZVPSJU, Closed Mutual Pension Fund for Civil Servants) and Kritni sklad Sklada obveznega dodatnega pokojninskega zavarovanja (KS SODPZ,

Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund), from which Kapitalska družba has been paying for occupational pensions since 2013. She has been an active member of supervisory boards in various Slovenian private and public companies, and among others, between 2009 and 2013 chaired the Supervisory Board of Aerodrom Ljubljana, d. d. She has been a member in various work teams of the Slovenian Directors' Association and participated in drafting recommendations on corporate governance good practice.

She has authored several expert articles on insurance, pension fund management, supplementary pension insurance, corporate management and corporate law, and given lectures at several seminars.

Prof. Julijana Kristl

Prof. Julijana Kristl, born in 1953, is from Ljubljana. She holds a PhD in pharmaceutical sciences. In 1977, she was employed by the Faculty of Pharmacy at the University of Ljubljana. She upgraded her knowledge in the pharmaceutical industry, at the University of Geneva, and elsewhere. She conducts research, lectures on all three cycles of university education, heads several commissions and committees and participates in them. Her research focuses on modern active substance delivery systems, nanotechnology, biomaterials and biomedical evaluation. She is the author of more than 150 articles in renowned international journals, and three patents. She has been a guest lecturer at universities in Lyon, Berlin, Bonn, Pisa, Cagliari and elsewhere.

In her career, she has held a range of leadership and organisational positions: Vice-Dean (1991–1995); Head of the Chair of Pharmaceutical Technology; Dean of the Faculty of Pharmacy at the University of Ljubljana for two terms (1999–2003); Vice-Rector at the University of Ljubljana for two terms (2005–2013); and since June 2014, President of the Management Committee of the Faculty of Pharmacy. She is a member of the American Chemical Society (US), Controlled Release Society (US), Association de pharmacie galenique industrielle (France), other associations, and editorial boards of the *Journal of Drug Delivery Science and Technology*, *Journal of Biomedical Nanotechnology*, and *European Journal of Pharmaceutics and Biopharmaceutics*. She is a peer reviewer for more than 30 international scientific journals with an impact factor ranking. Due to her wide recognition and renown in the scientific community, she frequently assesses doctoral dissertations and research projects in Slovenia and at foreign universities and agencies.

Her expertise covers planning, and the development and assessment of medicinal products. She also has experience in obtaining marketing authorisations.

Employee representatives

Franc Šašek

Deputy President of the Supervisory Board

Born in 1967, Franc Šašek is a graduate of organisational sciences. He joined Krka in 1984. Before 2000, he worked as a technologist, as the Head of the Technical and Technological Preparations Department, and Head of Section. Since 2001, he has served as a Senior Specialist in Engineering and Technical Services in the area of maintenance and project management. In 2004, he was actively engaged in implementing the business process management system (SAP) as the project group leader for maintenance and was later appointed process owner for maintenance in Krka responsible for the system's implementation, development and optimisation, a position he retained while the system was being installed in Krka's subsidiaries. Since 1999, he has also worked in quality assurance as a certified quality officer, quality trainer and registered internal quality auditor. He is jointly responsible for the development and maintenance of the integrated quality system.

In 2009, he underwent training for supervisory and management board members at the Slovenian Directors' Association.

He was elected president of the Krka's Works Council for the 2009 to 2013 term and again for the 2014 to 2018 term, and assumed his position on the Supervisory Board for a second term on 21 June 2014.

Dr. Mateja Vrečer

Dr. Mateja Vrečer was born in 1966. She has worked for Krka since 1990. She started as a pharmaceutical engineering graduate. She passed the certification examination in pharmaceutical engineering, obtained her master's degree, and

gained a doctorate in pharmaceutical science. She first worked in Research and Development, where she prepared technical documentation for proposed new products. After their approval, she managed processes leading to marketing authorisations and product launches in Slovenia. Since 1997, she has been engaged in quality management, and was appointed Deputy Director of Quality Management. Since March 2007, she has also served as the Head of International Quality Assurance. In September 2011, she was appointed Director of Quality Management.

She was an employee representative on the Krka Supervisory Board in the 2005–2009 and 2009–2014 terms. In June 2014, she was re-elected as an employee representative for her third term of office.

Tomaž Sever MSc

Tomaž Sever was born in 1967. After graduating as a mechanical engineer, he acquired a master's degree in management and organisational sciences. He has been a Krka employee since 1995. He is now Deputy Director of Sales and Director of Region Central Europe, charged with the following tasks: market research, proposing and developing Krka's presence in individual markets, defining sales supply, proposing pricing strategies for individual markets, collaborating in planning sales activities, designing, developing and managing distribution channels, and collaborating on the creation of sales networks abroad. Before joining Krka, he worked for IBM Slovenia from 1992 to 1995, where he was initially a sales representative for information systems, and later led information system installation projects.

He was a member of the Krka Supervisory Board as an employee representative already in the 2005–2009 term, was re-elected for another five-year term of office in 2009, and started his third term as an employee representative in June 2014.

Management Board

The Management Board **tasks** are to:

- manage the Company and make business decisions directly and independently;
- adopt the Company's development strategy;
- ensure appropriate risk management; and
- act with the reasonable care and diligence of a good and honest manager and protect the Company's business secrets.

The Management Board **is composed** of five members:

- president of the Management Board;
- three members; and
- a worker director who represents the employees' interests regarding human resource and social issues.

The term of office of Management Board members is six years, with the possibility of re-appointment.

The Management Board's operational functions and assignment of duties are defined by the *Rules of Procedure of the Management Board*. The body's operating approach is to co-ordinate opinions and take decisions by consensus. In line with the *Rules of Organisation* and the *Rules of Procedure of the Management Board*, Management Board members also have executive management tasks. Every Management Board member is responsible for a certain number of organisational units, which permits direct co-operation between the Management Board and the executive directors.

The following company bodies support the Management Board's work:

- Board of Directors;
- Sales Committee;
- Development Committee;
- Quality Committee;
- Investment Committee;
- Human Resource Committee;
- Information Technology Committee;
- Economics and Finance Committee; and
- Corporate Identity Committee.

The committees bring together experts from individual sectors in Krka. They prepare business policies and strategic guidelines by individual areas and also have some decision-taking responsibilities relating to the implementation of annual plans.

Emoluments, reimbursements and other benefits for Management Board members are defined in work contracts drawn up between the Supervisory Board and individual Management Board members. The Supervisory Board adopts the *Rules Defining the Bonus Element of Management Board Remuneration*, and also determines the remuneration for Management Board members. In accordance with the *Corporate Governance Code*, the Supervisory Board adopted a *Management Board Remuneration Policy* in 2010. The Supervisory Board amends or updates both documents in the light of business circumstances.

Payments to Management Board members are made **in cash** and are presented in financial statements under the Note 'Transactions with Related Persons', which also discloses the **ownership of Krka shares** by Management Board members.

Members of the Management Board and persons related to them report to the Company and competent institutions about any acquisition or disposal of shares of the Company or associated companies they may make. Krka makes this information public.

Management Board members must disclose any **conflicts of interest** to the Supervisory Board and notify other Management Board members. Members of the Management Board do not act as members of the management or supervisory bodies of unrelated companies during their term of office for Krka.

Members of the Management Board

At the end of 2015, the six-year term of office ended for the Management Board under the leadership of Jože Colarič, composed of Zvezdana Bajc, Aleš Rotar, Vinko Zupančič and Danica Novak Malnar, Worker Director. The following is a presentation of the newly constituted Management Board, which will also be led by Jože Colarič. Their new six-year term of office commences on 1 January 2016.

Jože Colarič

President of the Management Board and CEO

Jože Colarič was born in 1955 in Brežice. After graduating from secondary school in Novo mesto, he studied at the Faculty of Economics in Ljubljana, and graduated in 1979.

He has worked for Krka since 1982, starting in the Finance Sector, where he was first Head of Foreign Currency Payments, and then Assistant Director. In 1989, he took charge of exports within the Import-Export Sector, and two years later became Deputy Director of Import-Export.

In early 1993, he was appointed Deputy Chief Executive for Marketing and Finance, and in September of the same year also became Director of Marketing and Sales.

In 1997, he was appointed to the Management Board. In the following year, the Supervisory Board appointed him Deputy President of the Management Board, and in 2002, acknowledged him as a future president of the Management Board, making him responsible for proposing candidates for the new Management Board team.

At its meeting of 12 July 2004, the Supervisory Board appointed him President of the Management Board and Chief Executive Officer. His five-year term of office began on 1 January 2005. The Supervisory Board appointed him President of the Management Board at their meeting of 21 January 2009 for another six-year term of office, commencing on 1 January 2010.

Under his management, Krka has developed into a leading generic pharmaceutical company and built solid foundations for growth. Jože Colarič runs the company by focusing on Krka's in-house knowledge, new product development, annual investments, recruitment and regular dividend pay-outs. On 21 January 2015, the Supervisory Board unanimously appointed Colarič President of the Management Board for another six-year term of office, commencing on 1 January 2016.

At their meeting of 18 November 2015, the Supervisory Board unanimously approved the Management Board proposed by Jože Colarič for the term of office from 2016 to 2021.

Dr. Aleš Rotar

Member of the Management Board and Director of Pharmaceutical R&D and Production

Aleš Rotar was born in 1960 in Zadar, Croatia. He graduated in pharmacy from the Ljubljana Faculty of Natural Sciences and Engineering in 1984, and earned a master's degree seven years later. In 1993, he gained an international MBA from IEDC, Brdo. He acquired a doctorate from the Faculty of Pharmacy in 2000.

He started working at Krka in the Stability Department in 1984. In 1991, he became Head of Pharmaceutical Technology, and two years later Head of Pharmaceutical Development within Research and Development. In 1998, he was appointed Deputy Director of Research and Development and in 1999 became the director of that sector.

He was appointed to the Management Board in 2001. He began his second term on 31 July 2002, and was reappointed for the period from 31 July 2007 to 31 December 2009. He has been Director of Research and Development since 2002. At its meeting of 29 July 2009, the Supervisory Board re-appointed him to the Management Board for a further six-year term of office, starting on 1 January 2010. Aleš Rotar has contributed significantly to know-how and the establishment of business functions relating to research and development at Krka. Because of his good performance and following a proposal by Jože Colarič, the Supervisory Board unanimously appointed Aleš Rotar to the Management Board for a new term of office from 2016 to 2021.

Dr. Vinko Zupančič

Member of the Management Board and Director of API Development, Production and Supply Chain

Vinko Zupančič was born in 1971 in Novo mesto. He completed his secondary education in Novo mesto. He graduated from the Faculty of Pharmacy in 1996 and gained a master's degree in pharmacy. He passed a certification examination in pharmacy in 1998, and earned a doctorate from the Faculty of Pharmacy in 2010.

He joined Krka in 1997 as an intern in Warehousing and Transport of Product Supply. In 1998, he became a warehouse technologist and then a senior warehouse technologist. In 2000, he assumed the job of assistant to the head of Warehouse and Transport Services, and in 2002, became Deputy Head of the Supply Chain. On 1 February 2004, he was appointed director of Krka's representative office in Bangalore, India. He returned to Krka in Slovenia on 1 July 2005 and became Head of the Supply Chain. He was appointed Deputy Director of Product Supply on 1 December 2008, and Director of Product Supply on 1 January 2010.

On 29 July 2009, the Supervisory Board appointed him to the Management Board for a six-year term, commencing on 1 January 2010. Krka manufactures most of the active pharmaceutical ingredients and raw materials it requires, which is the company's great competitive advantage. Vinko Zupančič has made a key contribution to the success of this strategy. Following a proposal from Jože Colarič, at their meeting of 18 November 2015, the Supervisory Board unanimously appointed Vinko Zupančič to the Management Board for a new term of office from 2016 to 2021.

David Bratož

Member of the Management Board

David Bratož was born in 1976 in Novo mesto. He holds a degree in economics. After secondary school in Novo mesto, he enrolled at the Faculty of Economics at the University of Ljubljana, where he graduated in finance in 2000.

He began his career at Krka in 2001 in the Finance Department, where he was responsible for several major projects. In 2003, he began working in Sales, Region Central Europe, with a focus on the Polish market. Owing to his good performance, he was appointed Director of Krka-Polska in 2007, where he managed operations in marketing, sales, production and distribution. Two years later, he was appointed the president of the Board of Directors.

Bartož and his team worked together to make Krka-Polska one of the largest and most successful Krka subsidiaries. Under his leadership, Krka-Polska developed into one of the largest and most successful Krka's subsidiaries, doubling its sales,

quantity and range of manufactured products. The subsidiary currently employs more than 900 people. Krka-Polska and David Bratož have received several awards during his management.

David Bratož is familiar with all the business functions of a big company. Following a proposal from Jože Colarič, the Supervisory Board at its meeting of 18 November 2015 unanimously appointed David Bratož to the Management Board for a term of office from 2016 to 2021.

Milena Kastelic

Member of the Management Board, Worker Director; Head of Semi-Solid, Liquid and Other Products; and Head of Bršljin Department

Milena Kastelic, born in 1968 in Novo mesto, holds a degree in food technology. After graduating from secondary school in Novo mesto in 1986, she enrolled at the Biotechnical Faculty at the University of Ljubljana. In 1991, she won the Prešeren Award for students for her undergraduate diploma thesis, 'Evaluation of glucoamylase activity in yeast *Saccharomyces diastaticus*'. In 1993, she completed training in work design at the REFA Association in Germany.

She has been employed at Krka since 1992. Throughout her career, her work has focused on herbs, herbal medicines and non-prescription products. She completed her traineeship in the Auxiliary Medicinal Products and Herbs Programme with an assignment on the technology of drying plant-based raw materials. She worked as a production technologist for five years, and in 1996, she became the Head of the Plant for the Production of Herbal Medicines, today's Bršljin Department which she still manages today. Milena Kastelic is also Head of Semi-Solid, Liquid and Other Products.

As Krka's internal auditor, she has contributed to improving business processes in the company for 15 years. This function gave her the opportunity to become familiar with other organisational units, the importance of close connections between them, and the results of cooperation.

Milena Kastelic is well-trusted by employees, so the Works Council proposed her as the new Worker Director at the 15th regular meeting of 28 September 2015, and the Supervisory Board unanimously appointed her to the Management Board for the term of office from 2016 to 2021.

Management and Supervisory Board Diversity Policy

Krka's *Corporate Governance Policy* includes a commitment to prevent discrimination. According to the *Policy*, all Krka employees must have equal opportunities, regardless of gender, race, colour, age, medical condition or disability, religious, political or any other beliefs, trade union stewardship, national or social origin, family status, financial condition, sexual orientation, or other personal particulars. The company has not adopted any independent policies to govern additionally the management and supervisory body structures in terms of gender, age, level of education, or other personal particulars.

Governance of the Krka Group

The Krka Group comprises the controlling company Krka and subsidiaries in Slovenia and beyond. Krka is generally the sole owner of the subsidiaries, which are organised as limited liability companies.

Uniform rules on governance, organisation and operation are applied to all companies in the Krka Group, unless required otherwise by local legislation. The controlling company defines the strategies and operational objectives of all individual companies in the Krka Group and monitors the implementation of plans. To ensure cohesive management and supervision across the Group, the Management Board of the controlling company also acts as the annual general meeting of all subsidiaries. Individual Management Board members are also members of the supervisory boards or boards of directors of the subsidiaries, but are not additionally paid for this.

Krka applies the principles of functional leadership. This means the business function in the controlling company manages the business function in a subsidiary. In this way, Krka ensures that the objectives are met in practice. The supervision of everyday operations in subsidiaries is carried out by means of regular reports, while the 'function covers function' principle means that specialist staff members from Krka are in daily contact with their colleagues in the subsidiaries.

Internal audit

Internal auditors carry out their tasks in the Krka Group on the basis of medium-term and annual work plans and in accordance with the standards: *International Standards for the Professional Practice of Internal Auditing*, *Generally Accepted Accounting Principles*, *Code of Ethics*, *Internal Audit Mission and Definition*.

In compliance with the 2015 annual plan, seventeen regular internal audits were carried out by using COSO (The Committee of Sponsoring Organisations of the Treadway Commission) methods.

*Contribution to
fraud risk
management*

These methods are globally recognised and serve as the basis for comprehensive risk management. Internal auditors use them to assess the fulfilment of audit objectives in several categories: operations, reporting and compliance with the regulations for each audit field.

The said methods were used in internal audits that reviewed the project management of new product development, pharmaceutical production, sales, industrial property, technical support to processes, information technologies, and certain other supporting processes. Regular internal audits were also conducted in several subsidiaries and representative offices abroad. Internal auditors provided consultations in accordance with the aforementioned standards. Their contribution to the management of fraud risk should be mentioned; internal auditors were engaged in drawing up basic documents governing this area.

Internal auditors gave assurances that the audited fields and processes had a functioning and effective internal control system in place to achieve the objectives in those fields. However, as there was room for improvement, they made recommendations, categorised them by individual risk levels and regularly verified their implementation. In 2015, they introduced application software supporting key internal audit activities.

The internal auditors also work with external auditors, certified information system auditors (CISA), the Supervisory Board's Audit Committee and the Supervisory Board. In 2015, in accordance with the amended legislation governing the internal auditing, the Supervisory Board approved the updated *Internal Audit Charter* and Internal Audit work plan for the upcoming period.

Internal controls and risk management relating to financial reporting

The Krka Group has established internal controls, i.e. guidelines and procedures that it implements at every level of operation to manage risk related to financial reporting. The purpose of internal controls is to ensure the reliability of financial reporting, and compliance with the applicable legislation and other internal and external regulations. The implementation of standard information systems in subsidiaries and the development of business information systems improve the efficiency of accounting data exchange between the subsidiaries and the controlling company, and hence also control of information.

Accounting controls are based on the principles of veracity and segregation of duties, transaction controls, accuracy of accounting records, reconciliation of accounting balances and the actual balance, separation of recordkeeping from payment transactions, professionalism of the accounting staff and independence. Accounting controls are closely linked to information technology controls, which, among other things, ensure restrictions and the supervision of access to networks, data and applications, and the completeness and accuracy of data capture and processing. Authorised external agents also verify the compliance of operations and the existence of the requisite controls within information systems on an annual basis.

We manage risks related to the consolidated financial statements of the Krka Group by directing the accounting activities and their supervision in the subsidiaries and by auditing the annual financial statements of all subsidiaries in the Krka Group.

External audit

The certified auditing company Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana, audits the financial statements of the controlling company and the consolidated financial statements of the Krka Group. In relation to the

performed audit, the external auditor reports its findings to the Management Board, Supervisory Board and the Audit Committee of the Supervisory Board.

Transactions between the Krka Company and the auditing company Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana, and transactions between companies within the Group and individual auditing companies are disclosed in the notes to the Financial Statements 'Transactions with Auditing Companies'.

Corporate Governance Code compliance statement

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declare that in 2015 individual members of the Management and Supervisory Boards, and the Management and Supervisory Boards as bodies of a listed company acted in compliance with the principles of governance for listed companies and worked to ensure their implementation within the Company.

Krka complied with all provisions of the *Corporate Governance Code* in force since 8 December 2009 which were drawn up and adopted unanimously by the Ljubljana Stock Exchange, the Slovenian Directors' Association, the Managers' Association of Slovenia and are published on the website of the Ljubljana Stock Exchange.

Krka also complied with most provisions of the code relating to companies listed on the Warsaw Stock Exchange, i.e. the *2016 Best Practice for GPW Listed Companies*. The discrepancies are explained in a separate document, which is published in the dissemination system of the Warsaw Stock Exchange.

Novo mesto, 30 March 2016



Jože Colarič
President of the Management Board and
CEO



Matej Pirc
President of the Supervisory Board

Krka Group development strategy

Mission, vision and values

MISSION

Living a healthy life.

VISION

We are consolidating our position as one of the leading generic pharmaceutical companies in the world.

VALUES

Speed and flexibility

Partnership and trust

Creativity and efficiency

In November 2015, the Krka Management Board adopted the Krka Group's development strategy for the period from 2016 to 2020, and presented it to the Supervisory Board.

The achievement of strategic objectives is measured at three levels: the Group, each product group, and business function. The Group's performance criteria are monitored by the Management Board, while criteria at the level of product and service groups and business functions are monitored by the relevant committees. The guiding principle in managing the system of criteria is to increase the competitiveness of the Group as a whole and also of individual companies within the Group.

Key strategic objectives until 2020

To attain at least 5% average annual growth in sales in terms of volume.

To ensure, in addition to organic growth, growth with acquisitions and long-term partnerships (including joint ventures).

To allocate a few hundred million euros for take-overs of interesting and available companies in the five-year strategic period.

To ensure that new products account for at least one third of total sales.

To launch the selected product portfolio in our target markets as the first generic pharmaceutical company.

To strengthen the competitive advantage of our product portfolio.

To maintain the largest possible share of vertically integrated products.

To improve the cost-effective use of all assets.

To increase product cost-effectiveness.

To improve all business functions in innovative ways.

To maintain independence.

Key strategies until 2020

To focus primarily on European and central Asian markets.

To maximise the sales potential in all sales regions (Slovenia, South-East Europe, East Europe, Central Europe, West Europe, Overseas Markets).

To strengthen our presence in key markets (Slovenia, Croatia, Romania, Ukraine, Russian Federation, Poland, Hungary, Czech Republic, Slovakia, West Europe), focus on key customers and key products.

To establish and strengthen our presence in Western European markets by operating through our own marketing-and-sales companies and by marketing products under our own brands.

To strengthen the pharmaceutical and chemical industries and increase the range of prescription products in three key therapeutic areas (medicines for the treatment of cardiovascular diseases, the alimentary tract and metabolism, and the central nervous system) while entering new therapeutic areas (oncology, anti-virus medicines, similar biological medicines) and expanding the range of non-prescription products in the selected therapeutic areas.

To enhance vertical integration from development through to product manufacture.

To ensure a permanent supply of incoming materials, and optimise purchasing by continually reducing purchase prices.

To expand production and development beyond Krka.

To develop generic medicines and prepare marketing authorisation documents before the expiry of the patent on the original medicine.

To strengthen all kinds of connections with external institutions and companies in the field of development.

To increase investments in production and development capacities and infrastructure.

To seek possibilities of acquiring local pharmaceutical companies, plan take-overs and mergers and various kinds of long-term business arrangements (joint ventures) in selected markets in order to comply with the primary objective of attaining market shares and entering new therapeutic fields.

To reduce the impact of financial and economic risks on the Krka Group's operations.

To pursue a dividend-increase policy, whereby up to 50% of the consolidated profit of major shareholders generated in the year before is allocated to dividends in consideration of the Group's financial requirements for investments and mergers in each year.

To be open to new business connections (networking) with high potential in relevant projects.

To strengthen the professional and cost synergy of the Krka Group, and maximise the utilisation of competitive advantages in the business environments in which Krka companies operate abroad.

To enhance the internationalisation of all business functions by maintaining English and Russian as the key languages of communication throughout the Group.

To engage enterprise- and goal-oriented internal human resources.

To meet our economic, social and environmental responsibilities to the environments in which we operate.

To operate in accordance with the principles of business excellence and thereby strengthen the identity and positive public image of the Krka Group.

Fulfilment of objectives in 2015

Sales of products and services reached €1.165 billion, which was less than the initially planned €1.260 billion. In terms of volume, sales increased by more than 3% in comparison to the year before. The lower sales value was the result of the lower average exchange rate of the Russian rouble in 2015 in comparison to the 2014 average, which is why the sales value expressed in euros in the Russian Federation was 20% lower than in 2014, while sales expressed in the Russian rouble increased by more than 6%. Sales also declined in Ukraine due to the contracting pharmaceutical market and in some other larger markets, Romania, and the Czech Republic.

The largest sales region was Region East Europe. The Russian Federation remained the most important individual market.

Sales in markets outside Slovenia amounted to 93.1% (according to the plan: 94%).

Prescription pharmaceuticals remained the most important product group, accounting for more than 83.4% of total sales (we planned over 81%).

Profit for the year totalled €158 million, slightly below 2014, when it was €166 million.

The number of employees in Slovenia and abroad increased by 0.6%, or below the projected 4% increase, because some of the planned new recruitments in units abroad were conducted through employment agencies.

We used €96 million for investments intended especially for increasing and adjusting production and research-and-development capacities and infrastructure, less than the projected €165 million, because a portion of investments (mainly supply of equipment) was transferred to 2016. The total amount, including liabilities for investments following the concluded contracts, is €159 million.

Krka Group business objectives for 2016

Sales of products and services are estimated at €1,210 million.

Sales outside Slovenia are expected to account for 93% of total sales.

Prescription pharmaceuticals remain the most important product group, comprising 83% of overall sales.

A profit of €160 million is planned.

The number of employees is projected to grow in Slovenia and abroad by a good 4%.

According to the plan, €162 million will be allocated to investments, primarily to expand and modernise production, research-and-development capacities and infrastructure.

The business plan for 2016 originates from the Krka Group development strategy 2016-2020 and was prepared in October 2015. It is based on expectations, assessments, projections and other data that the Management Board had available at the time. The Management Board believe that the projections are suitable; however, it cannot ensure that they will actually be realised. If business conditions in 2016 differ significantly from the projections, operating results may also be different from the plan. Risk factors include ongoing uncertain conditions in certain Krka's markets, fluctuating foreign exchange rates, additional restrictive measures of health policies in certain countries, the implementation of various forms of marketing and sales levies, originators' activities reflected in price policy adjustment in view of available generic pharmaceuticals and generic product launches in the markets, increasing price erosion and standardisation of prices of generic products, an increasing presence of low-cost competitors, tightening of the regulatory environment caused by changing and increasing regulatory demands in markets, which will affect the maintenance of the existing product range and the possibility of developing new products and, consequently, costs of development. Krka does not commit regularly to review the above-mentioned risk factors related to future operations in this way.

Macroeconomic forecast for 2016

We expect the macro-economic situation in Krka's key markets to remain challenging in 2016. International operations and the vertically integrated business model, however, will support the stable performance of Krka also in the future.

2016 macroeconomic forecast in figures

Country	Growth in pharmaceutical market (%)	Projected value of pharmaceutical market in € million at wholesale prices	FX rate (currency/EUR)
Slovenia	5	550	euro zone
Croatia	0	845	7.6
Romania	2	2,760	4.5
Russian Federation	-5	11,850	85
Ukraine	0	2,440	28
Poland	3	5,550	4.3
Hungary	2	2,127	310
Czech Republic	1	1,750	27
Western Europe	-1.5	191,000	primarily euro zone

Sources for pharmaceutical market forecasts: internal forecasts; Sources for foreign exchange rates: bank reports, internal forecasts.

The macroeconomic projections below were summarised primarily according to the external analysts.

Slovenia

In 2015, economic growth strengthened in Slovenia and reached 2.7%. Annual growth in 2016 is forecast to slow slightly and reach approximately 2.3%. Exports will remain the dominant growth drivers. Trends in private consumption and investments are expected to be positive, even though still not considerable. According to projections, unemployment will decline, but nevertheless remain above 8.5%. Key risks for the Slovenian economy will be related to the international economic environment, especially the risk of slowing economic growth in Slovenian key business partners and the risk of the further erosion of international financial markets.

In 2016, we estimate the sales value of pharmaceuticals at approximately €550 million, or 5% more than the year before.

Croatia

In 2015, Croatia recorded a 1.5-per-cent annual increase in GDP. This is the first time the country has recorded positive trends since 2008. The 2016, growth rate is estimated at 1%. The main problems of the Croatian economy remain poor export competitiveness, the rigid business environment, ineffective labour market, and increasing public debt. The new government is expected to deal with these problems, but positive results will not be seen in 2016. It is also expected that the government and the central bank will not change the exchange rate policy in any way. The exchange rate will remain stable, presenting only slight seasonal fluctuations, which will not exceed those in the past years.

The Croatian pharmaceutical market in 2016 is estimated at €845 million, i.e. approximately the same as in the year before.

Romania

In 2015, the Romanian economy recorded favourable trends, with annual growth exceeding 3.5%, which is expected to remain the same in 2016. Also, Romania encountered strong deflationary pressure in 2015, especially in the second half of the year. The central bank further reduced interest rates and implemented a stimulative monetary policy. In 2016, Romania plans to reduce VAT. This is expected to encourage private consumption, but it will at the same time pose the risk of growing inflation. Lower VAT poses a risk to the stability of public finances and fulfilment of promises made by the government to foreign lenders.

The Romanian pharmaceutical market contracted in 2015, but is expected to grow again in 2016 by 2% to reach approximately €2.76 billion, the same as in 2014.

The Russian Federation

Challenging economic circumstances are expected to persist in 2016. In 2015, GDP fell by 3.7%. This was primarily due to the slump in oil prices, economic sanctions of certain countries against the Russian Federation, and the Russian Federation's retaliation. Sanctions will be applied at least in the first half of 2016. According to expectations, the Russian economy will see at least a further 0.5% decrease in 2016. The trend is expected to continue in 2017.

The Russian Federation saw the record price growth in 2015, with a mid-year inflation rate of 17%. At the end of the year, annual inflation was 12.9%. At the end of 2014, the central bank intervened by increasing the key interest rate, which gradually decreased through 2015. In the last quarter of the year, slumping oil prices further increased uncertainty in the Russian economy, so the central bank stopped reducing interest rates. It will continue to reduce the rate in 2016 if oil prices increase.

The value of the domestic currency expressed in euros fell by 10% in 2015. In order to maintain revenues, keep public finances relatively stable and the economy competitive despite the sharp decrease in oil prices, the Russian authorities allowed a devaluation of the domestic currency. Oil prices in 2016 are expected to have the greatest impact on the value of the Russian rouble.

We expect the value of the Russian pharmaceutical market to grow by up to 10% in the local currency at most. The market in euros is estimated at approximately €11.9 billion, 5% less than in 2015.

Ukraine

Last year was extremely challenging for the Ukrainian economy. According to estimates, the economy saw more than a 12% drop. The central bank devalued the domestic currency in order to keep the domestic economy competitive and to settle liabilities to creditors. The domestic currency value expressed in euros saw a 27% decline. Unfavourable macroeconomic circumstances in the country resulted from loosening the strong economic bond with the Russian Federation and establishing tighter economic relationships with Europe. This transition will continue in the years to come. The economy is also projected to decline in 2016. Ukraine will further depend on external funding, primarily by the International Monetary Fund. The noticeable deterioration in the macroeconomic situation in the country is forecast to slow down gradually in 2016.

Given the economic conditions in the country and forecasts by independent analysts, we expect the pharmaceutical market to stabilise in 2016. The decrease in the pharmaceutical market's value represented in the domestic currency and also in euros will stop; the market value is expected to amount to €2.44 billion.

Poland

In 2015, Poland recorded 3.5% GDP growth. This was due to the increase in private consumption and investments. A similar growth rate is expected in 2016. Unemployment rate has been on a downward trend since 2012 and a further drop is expected in 2016, reaching 9%. The Polish central bank was fighting deflation most of the year because of falling energy prices and prices in key Polish export markets. It gradually reduced the key interest rate to a record low of 1.5%. Inflation is expected to be positive again in 2016, but will not reach the target value of the central bank. In 2016, no further important monetary measures are expected from the central bank.

Given the expected 3% growth, the value of the Polish pharmaceutical market will reach approximately €5.55 billion.

Hungary

In 2015, Hungary recorded slightly lower economic growth of 2.8% compared to 2014. According to the 2016 projections, the slow-down will continue, with growth reaching approximately 2%. Private consumption will continue to have a positive effect on the national economy. After a positive trend for a few years, the contribution of investments will be negative. The inflow from the European investment funds will decrease. Growth will also be hindered by a gradual reduction in the indebtedness of the country, which started in 2015 and is projected for the next few years. Hungary, similarly to its neighbours, also recorded a sharp drop in inflation in 2015, with the highest deflation pressure in the middle of the year. The central bank responded to the drop in prices with a stimulative monetary policy. In the second half of the year, the

negative inflation trend stopped. Slight growth in prices is forecast for 2016, but will not require the central bank to intervene yet.

We expect the Hungarian pharmaceutical market to grow by 2% in 2016, and its value to reach €2.13 billion.

The Czech Republic

The GDP of the Czech Republic went up by 4.2%, the highest growth since 2008 and more substantial than in Poland or Hungary. Two basic contributors to the favourable trend were investments and a substantial increase in private consumption. In 2016, growth is expected to attain a slightly lower figure of approximately 2.5 per cent. Unemployment will continue to fall in 2016. It is estimated at 4.6%. This is still more than before the onset of the crisis in 2008. The Czech Republic is one of the few Central European countries that did not record a drop in prices in 2015. The last time that the central bank lowered the interest rate to 0.05% was in 2013 to control falling inflation. Now the central bank uses interventions in the foreign currency market as an instrument for balancing inflation. This instrument used by the central bank to control prices, which also prevents strengthening of the domestic currency, will remain in force in 2016.

The Czech pharmaceutical market is expected to grow by 1% and its value to reach approximately €1.75 billion.

Western Europe

Western Europe presented unstable growth of approximately 1.5% in 2015. There are still big differences in the indebtedness of the private and public sectors from country to country, and therefore also in opportunities for economic growth and lower unemployment. Hence, the measures of the ECB do not have the same effect in all countries. In March 2015, the purchase of state-owned debt securities was used as an unconventional monetary measure to increase liquidity in the European banking sector. Furthermore, this measure reduced the borrowing costs of the critical European countries. It contributed to the partial stabilisation of public finances, but did not yield the required results in increasing economic growth and reducing the deflationary pressure. So at the end of the year, the ECB extended the measure until March 2017. In 2016, a slight increase in economic growth is expected, but it will probably not exceed 2%. In 2016, inflation will attain positive figures, but will remain below the target level set by the central bank. This is why analysts forecast the possibility of launching additional stimulating measures by the ECB in the second half of 2016.

We expect the value of the Western European generic market to reach €39 billion in 2016, which is a 3% increase compared to last year. The total value of the Western European pharmaceutical market is projected to decline by 1.5% to €191 billion.

Risk management

The Krka Group regularly monitors its exposure to various forms of risk and adopts measures to manage those risks.

Risk management requires various approaches adjusted to specific types of risk. The Krka Group manages risks by applying the principle of functional leadership, which means that the business function in the controlling company manages and supervises the same business function in all subsidiaries, thus ensuring uniform risk management. The organisational units of the controlling company manage risks in the Krka Group. The types of risk they manage are related to their work, so they are familiar with them and employ suitably qualified personnel.

Risk management is based on the *Risk Register*, which is updated at least every two years. It was last updated in November 2015, and includes a complete list of risks and corrective measures in the Group, and the business continuity management system, with descriptions of unexpected circumstances and potential incidents, along with solutions for keeping our key processes operational and uninterrupted.

Below is a summary of individual risks, their management and exposure.

BUSINESS RISK			
Risk area	Description of risk	Risk management method	Exposure
Research and development	Ineffectiveness of development processes; inadequacy of regulatory procedures and supply of new products	Detailed planning of development projects and management of regulatory procedures	Moderate
Marketing and sales	Unfavourable situations in markets and inadequacy of marketing processes	Responding to changing business conditions in markets, and adapting sales and marketing activities in those markets	Moderate
Intellectual property protection	Infringement of intellectual property rights of third parties or unjustified use of Krka's intellectual property	Monitoring patent processes, consistent respect for the intellectual property of others, and forming provisions for potential damages	Moderate
Quality assurance	Inadequacy of incoming materials for the production process; inadequate quality of production, development, and finished products	Precise implementation of systematically itemised quality control procedures at all development and production process milestones	Moderate
Investment projects	Incorrect decisions on investing in production and other capacities, and implementation of investments	Permanent control of the implementation of all project phases, plan monitoring, systematic selection of contractors	Moderate
Human resources	Fluctuations of key and qualified personnel (recruiting and retaining personnel) and social dialogue with employees	Systematic work with key personnel, the remuneration system, employee development, permanent education and training, measuring the organisational culture and climate	Moderate
Legal matters	Inadequate legal support to all operating processes	Engagement of Legal Affairs in all legal issues of the Group, cooperation with external legal experts	Moderate
Environmental protection	Hazardous substance spills and emissions	Permanent control of emissions and separation of non-compliant water and solvents	Moderate

OPERATIONAL RISKS AND BUSINESS CONTINUITY			
Risk area	Description of risk	Risk management method	Exposure
Availability of critical resources for production and sales of key products	Unplanned stoppages and unavailability of key resources for production and sales of finished products (employees, buildings and equipment, materials, media supply, information)	Business continuity management system, business impact analysis, requirement for the availability of critical resources and services, risk analysis for each area; measures to reduce consequences and improving process resilience against disturbance	Moderate
Product supply	Untimely supplies of finished products and ineffective utilisation of production capacities	Supply chain planning and providing adequate production capacities	Moderate
Quality assurance	Losing a pharmaceutical manufacturing licence	Compliance with regulatory demands and implementation of all GMP measures in the Company's critical processes	Moderate
Technical services	Inadequate supplies of production media to processes and unsuitability of technical maintenance, and risks related to environment protection	Redundant power supply resources, robust demand planning for media supply, redundant capacities, and planned maintenance processes, the best available techniques for reducing impacts on the environment	Moderate
Information technology	Business process disruption due to a disruption in information resources	Independent security checks and preventive measures to rectify disruption; threat assessment and security plan	Moderate
Employees	Accidents or injuries in the workplace; an unplanned increase in absences	Measures based on workplace risk assessments, employee interchangeability	Moderate
Protection of property	Alienation and destruction of property	Threat assessments and security plan	Moderate
FINANCIAL RISKS			
Risk area	Description of risk	Risk management method	Exposure
Foreign exchange risk	Potential financial losses due to unfavourable changes in exchange rates	Financial market tracking; cooperating with leading global financial institutions; following the latest practices in hedging against foreign exchange risks; occasional use of financial instruments; natural hedging	High
Interest rate risk	Unfavourable interest rate changes	Monitoring interest rate changes; negotiations with credit institutions; hedging with appropriate financial instruments	Low
Credit risk	Customers defaulting on payment resulting in receivable write-off accrual	Calculating credit ratings; limiting maximum exposure to individual customers; active management of receivables; utilising payment insurance instruments and hedging for receivables with a credit insurance company	Moderate
Liquidity risk	Inadequate liquid assets for settling financial and operating liabilities	Credit lines agreed in advance and planned liquidity requirements; cash pooling	Moderate
Risk of damage to property	Damage to property caused by natural disasters and other accidents	Systematic risk assessment for buildings; taking measures in accordance with fire prevention studies; arranging appropriate insurance	Moderate
Risk of claims for damages and civil actions	Claims for damages by third parties due to loss events caused accidentally by the Company's activities, property or products placed on the market	Insurance policies covering civil, employer and ecological liability; product liability insurance; clinical trials liability	Moderate

Risk of financial losses due to business interruption	Financial damage related to the interruption of production due to damage to property	Insurance of labour costs, amortisation and depreciation, other business costs and operating profit, and technical and organisational measures to reduce the impact of business interruption	Moderate
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Business risks

Research and development risk

Krka's finished products must be of high quality, safe and effective. The required properties must be confirmed by relevant research studies and data. Risks in this area include research and development risks, as well as technological and technical risks. We mitigate these by introducing contemporary approaches and methods, and by exploiting in-house and acquired knowledge and experience in research and development.

We reduce these risks in the early stages of development by process updates, the introduction of modern technologies and adjustments to regulatory demands. The vertically integrated model of development and production allows us to control the entire course of development and production from a raw material through to the finished product.

Regulatory risk management, which concerns changes in legislation and their interpretation, begins at the early stages of developing a new product and continues throughout its life cycle. Together with regulatory bodies, Krka assesses its development solutions for each product and the planned content of marketing authorisation documents through official consultative mechanisms. This reduces the risk of encountering potential problems or even failure during marketing authorisation and extension procedures. We are also engaged in working groups of various industry associations in order to participate actively in drafting legislative amendments in this field.

Sales and marketing risk

The Krka Group has a broad marketing-and-sales network, as it sells its products in more than 70 countries around the world. It operates in a variety of geopolitical and macro-economic conditions, as well as in legal and competitive environments. It is therefore exposed to different sales and marketing risks of varying intensities.

In individual markets, our key advantages over the competition are a quick response to changed business conditions and a prompt adjustment of sales and marketing activities. With our in-house services and by using independent data sources, we continuously monitor market conditions (especially competing generic producers and the local pharmaceutical industry), the legal frameworks for marketing pharmaceuticals, systemic pricing arrangements, and government reimbursements for pharmaceuticals (in some countries, partly based on statutory co-funding by medicine suppliers; the so-called claw-back requirement).

We monitor the risks arising from entering new markets, lowering prices of medicines in compliance with local regulations, and changing prescribing practises. We pay special attention to risks related to individual market environments and economies, and risks associated with each customer, in particular the risk of their insolvency or bankruptcy, risks related to payment terms, and other risks related to compliance with contractual provisions. Foreign currency risks and their impact on sales expressed in euros in markets where sales are conducted in local currencies, especially in the Russian Federation and Kazakhstan, have been recognised as major risks. We continuously monitor market conditions, analyse them, and adjust payment terms if necessary, and in critical cases also arrange hedging against default on payments. We systematically monitor the satisfaction level of direct and indirect customers. We monitor sales at the primary level (sales to direct consumers, primarily wholesalers) and at the secondary level (wholesalers' sales to final consumers, mainly pharmacies), and optimise inventories throughout the distribution chain.

We regularly evaluate the market potential of individual therapeutic groups and the products within them. We use a range of external data sources and our own market research and analyses to monitor global, regional and local trends and, based on these, we design a product portfolio which we will market. We monitor the efficiency of our marketing strategies and tactics with performance indicators, and exert systematic control over marketing activities, which we plan and analyse in cycles. We give special attention to organising and supervising the work of employees in the marketing network. Our employees regularly undergo training and we frequently examine their qualifications, skills, and how familiar they are with

instructions for work. When marketing our products, we consistently comply with the legislation and ethical norms related to advertising pharmaceuticals and in this regard also provide comprehensive training to our employees.

Intellectual property risk

Respect for the intellectual property rights of third parties, especially patent-related rights, is the basic principle of Krka Group operations. We therefore start the development of a new product by analysing the scope of property rights related to the new product, and determine which solutions are protected. We define and direct our development work on the basis of these findings, and assess whether the solutions produced by our own development infringe the applicable rights of third parties. The current situation and any potential changes in the patent protection are monitored throughout a product's development up to its launch.

If we believe that patents have been granted to third parties without proper grounds, which means that the subject of a patent is not actually an invention (the solution is not new or does not include an inventive step), and when such patents might hinder our work, we use the available legal remedies to cancel such patents. This prevents holders of such patents from filing actions against us for infringement. Despite these measures, if a patent holder considers that Krka has infringed its rights and takes legal action against Krka, we form appropriate provisions for potential damages.

If we believe that the results of our research work are new and innovative, we apply for patent protection.

The same method of risk management applies to distinguishing marks and industrial designs, and to other relevant intellectual property rights.

Quality insurance risk

The Krka Group monitors quality assurance risks in all its production companies from the aspects of product quality risk, product safety risk, and risk to Group operations. We apply well-known methods to evaluate risks, and implement them in accordance with good manufacturing practice requirements (*ICH Q9 Quality Risk Management*).

Product quality is defined during the development stage of a product and specified in the marketing authorisation documentation. We follow standard procedures and requirements throughout the production process, from the purchase of incoming materials to product manufacture and final quality control, and ensure that the pharmaceutical product manufacturing complies with relevant quality standards and the product's marketing authorisation documentation. When the product is already in the market, the pharmacovigilance system is used to establish, evaluate and respond to new findings on adverse effects and other safety aspects of medicines.

Finished product quality assurance is a primary activity that involves various elements.

- We focus on the suitable quality of incoming materials (i.e. active ingredients, excipients, and packaging materials) and perform risk analyses to classify material- and supplier-related risks. Based on this, we design plans and requirements for supplier and contractor approval.
- We ensure the compliance of our production and control equipment and production rooms by qualification and validation procedures of equipment, production rooms, production environment, processes, computer systems, data integrity, cleaning and calibration of instruments, as well as maintenance procedures in order to prevent undesirable effects on the production process and product quality.
- The monitoring and documenting of all processes and procedures along with the implementation of controls are crucial in product quality assurance. We therefore regularly examine, overhaul and upgrade them, and ensure that any necessary process changes are made correctly.
- We ensure compliance with standard procedures applied to the production and control of pharmaceuticals through the regular training of our employees on proper quality and work procedures.
- We ensure product compliance and conformity with the requirements of local legislation and EU GMP principles by controlling production processes, intermediate products, bulk products, finished products and the production environment.
- We prevent future non-compliance in the event of non-compliant products (deviations, complaints) by applying control mechanisms, tests and investigations of the causes, as well as by taking preventive and corrective measures.

In connection with quality assurance, we assess the risks related to retaining production licences and GMP certificates, and other management systems applied in Krka production units for every quality assurance element separately.

We regularly and systematically review the quality assurance system in every Krka Group production unit by both external (agency inspections, partner audits, and audits by certified bodies) and internal (internal audits, audits) verification. Where required, we introduce improvements and thus continuously upgrade the quality system and effectively manage quality related risks.

Investment project risk

Investment project risks primarily include risks related to planning investments and their value, the purchase of equipment, execution of works, schedules and changes to the original plan. We reduce these risks by implementing a system for selecting contractors and for regularly reviewing them. We supervise all execution phases. We review the compliance of contractual documentation from legal and accounting viewpoints. We examine whether potential changes are justified and what impact they could have on costs and schedules. We constantly monitor costs, i.e. regular costs and those incurred by later changes to a project.

Human resource risk

We pay special attention to key personnel crucial for attaining the objectives of the Krka Group, who are also much solicited by our competitors.

We regularly plan and monitor the training and development of our employees and at the same time assign new responsibilities to them in their work, encourage them to take on new duties and delegate them to new job positions. We offer them a range of other incentives to foster their loyalty to the Group and minimise employee turnover.

Another way to manage the risk related to the lack of professionals in the market is by offering scholarships and grants to students. This approach provides us with the potential new employees we require to meet our strategic, development and sales plans. Due to the lack of suitably qualified workers in the labour market, we systematically educate and train our employees to acquire national vocational qualification certificates.

Legal risk

The Legal Affairs department of the Krka Group is responsible for the legal protection and legality of operations. It is involved in all matters that require such involvement, constantly follows new developments in legislation, prepares and reviews contracts, produces internal acts, engages in resolving disputes and participates in resolving particular issues arising from the Group's operations.

Environmental protection risk

Certain extraordinary events, including hazardous material spills, fire, prolonged blackouts, certain machinery and appliance breakdowns etc., might have a negative impact on the environment. Therefore, it is important to reduce the risk of their occurrence as much as possible. However, if they occur, appropriate measures must be taken. Krka applies a procedure for recognising extraordinary events. It recognises and evaluates any potential extraordinary events and provides the related set of measures and actions in the event of an emergency. In this way, we reduce the possibility of any such event and ensure the implementation of effective measures by using new technologies, technical measures, preventive examinations and maintenance of equipment, training and exercising employees for emergencies.

In 2015, we recorded no extraordinary events with a negative impact on the environment.

Operational risks and business continuity

Availability of critical resources to ensure the production and sales of key products

Major emergencies and disasters that stop the production and sales of products could compromise the existence of the Krka Group. We analyse their impact on operations to estimate the criticality of processes and risks to operations. We apply effective measures to protect employees, property and other key resources, and to prevent emergencies and disasters. We

have designed action plans and disaster relief measures for emergencies, as well as measures to reduce direct damage and operations in extraordinary circumstances until normal operations can be restored.

Product supply risk

We constantly monitor the supply market, suppliers and prices of raw materials. We plan our inventories and keep contingency stocks in order to ensure uninterrupted access to the materials required to manufacture finished products. We apply the adopted criteria to assess and select our suppliers and regularly audit them. In addition to the guaranteed quality, we primarily focus on the competitiveness and reliability of supplies when selecting our contractual partners, whose supplies we audit and control regularly.

Raw material inventories are planned according to sales forecasts. Inventory levels are checked regularly, and contingency stocks are held for strategically important raw materials.

We follow good warehousing and manufacturing practices in warehousing incoming materials, bulk products and finished products. To deal with major disasters, our raw material and finished product warehousing systems allow us to keep goods in several dislocated warehouses.

We follow good manufacturing practices in production processes and make sure that the production environment is suitable. We ensure the reliability and high quality operation of production equipment through regular and preventive maintenance.

We plan the optimum utilisation of production capacities and measure production efficiency. In this respect, we implement measures for continuous process improvement. We meet product demand by purchasing new equipment and making new investments; we increase production capacities and ensure that key products are made at several plants in order to avoid potential disasters.

We guarantee the timely supply of finished products by keeping every phase of product supply under control. We regularly check finished product availability, their shelf lives, and planned dispatch dates.

Technical service risk

Technical service risks include risks related to utility media supply, the reliability and availability of technical systems, metrology and environmental protection.

In order to provide an uninterrupted supply of electric power, we have put in place a redundant electric power system and a diesel-powered generator for critical processes. We continuously follow the situation in the electric power market and make partial purchases. We use natural gas to generate thermal power, and extra-light fuel oil as a back-up fuel, of which we keep extra stocks.

The supply of drinking water is provided by the public utility from two pumping stations.

We mitigate risks related to the inadequate production and distribution of power and process media (electricity, steam, heating water, compressed air, refrigerant and river water, pharmaceutical and process water) by critical equipment redundancy, robust system planning, computer control, quality control of process utilities, regular preventive maintenance and system testing, and keeping critical spare parts in stock. Employees undergo regular training, and their skills and qualifications are regularly tested.

We regularly carry out preventive and planned maintenance of air-conditioning systems. Our maintenance team is well organised and trained for immediate intervention in the event of failure. The team uses a central control system to rapidly issue alerts and detect failures. It also keeps adequate inventories of spare parts. Non-critical equipment is dispersed to ensure that a single breakdown does not have a major impact on production capacities. Critical equipment is duplicated. All air-conditioning and power supply systems of systemic information technology premises are duplicated, have security systems in place, and are regularly tested for any potential failures.

We mitigate risks related to reliability and availability of technical systems by continuously monitoring performance, preventive checks, servicing, improvements to equipment, and introducing new maintenance approaches. Failures and

breakdowns are rectified according to planned procedures and instructions. In order to remedy breakdowns promptly and effectively, we have our own qualified maintenance teams and an inventory of spare parts, which is regularly checked and replenished. The employees who monitor and maintain technical systems undergo regular training. Their qualifications and skills are regularly tested.

We ensure the reliability and availability of technical systems with our own facilities and employees, as well as contracted external partners.

We regularly carry out measurements, calibrations and maintenance of weighing equipment.

We mitigate environment-related risks by applying the best available technologies in manufacturing, warehousing and storage of waste water and waste air, and with our own fire brigade qualified to intervene in emergencies.

Information technology risk

We manage information security risks by the information security management system, certified according to the ISO 27001 standard. Krka applies established methods to specify the criticality of information resources. The methods depend on criticality assessments of processes and information resources. The principal information resources include individual information services and applications. Their criticality level is summarised from all infrastructural elements on which the information service or application depends. Another method for threat detection involves independent security inspections of our information infrastructure.

We have identified threats and risks to all critical information resources. The Management Board has approved all acceptable risks and measures for the elimination of unacceptable risks. To account for major disasters, we have implemented duplicated computer capacities in back-up system rooms (i.e. the Disaster Recovery Centre), and the daily storage of data back-up copies at an appropriately distant location.

In order to further reduce risks related to information security, over the past two years we have introduced advanced tools such as intrusion detection and intrusion prevention systems (IDS/IPS), a security information and event management (SIEM) system, vulnerability management, etc. We pay special attention to personal data protection.

As an international group, we are obliged to manage personal data in conformity with the national legislation of all countries where our subsidiaries and representative offices are located.

Employee risk

In relation to occupational health and safety, we use our own methods to assess the probability of a specific incident and its consequences, as well as any probable health implications for individual posts. Risks are assessed periodically, and security measures are taken to keep them at acceptable levels. In addition to assessing risks in a specific workplace, we also assess the risks related to individual technological procedures.

Identifying key employees and their potential in all work processes enables us to ensure the replacement of employees in key job positions. The training and recruitment methods applied in all organisational units enable quick exchange of employees posted in similar positions if a shortage of employees should occur in a certain organisational unit due to major absences or increased work load.

Protection of property

The exposure of our buildings and property is subject to regular and systematic assessments. Based on these assessments, we draw up a security plan which includes technical security measures and actions to be taken in order to prevent emergencies and act appropriately if they occur.

Financial risk

Foreign exchange risk

The Krka Group performs in diverse international markets and is exposed to foreign exchange risks in certain markets. Also in 2015, currency exchange rates had negative effect on the business performance of the Krka Group.

The exposure to fluctuation in the exchange rate of the Russian rouble has remained the Group's principal foreign exchange risk. Eighty per cent (80%) of foreign exchange losses presented in the 2015 income statement were accrued due to unfavourable exchange rate fluctuations of the Russian rouble.

During the year, the exchange rate was volatile. In the first quarter of the year, the value of the Russian rouble expressed in euros rose by 16%. It was rising also at the beginning of the second quarter. In June, however, the rouble's value fell to the initial value recorded in the second quarter. In the third quarter, its value decreased by a further 15%, followed by the 9% slump in the last quarter. At the end of 2015, the value of the rouble expressed in euros was 10% lower than at the beginning of the year.

The primary cause for the decrease in the value of the rouble was the downturn in oil prices. Other factors impacted its value as well, among them geopolitical circumstances, economic sanctions of certain countries against the Russian Federation, and the Russian Federation's retaliation, as well as macroeconomic circumstances in the Russian market.

Unfavourable currency fluctuations in countries whose economies depend on ties with the Russian Federation or oil prices caused 10% of foreign exchange losses. In 2015, the Kazakh tenge and Ukrainian hryvnia saw the sharpest declines in the value of the currency expressed in euros. The tenge plummeted by 42%, and hryvnia by 27%. The organised financial markets provide no hedging instruments for these currencies.

Other foreign exchange differences were accrued due to the unfavourable fluctuations of other currencies, but their impact on the Krka Group's performance was low.

In 2015, we changed the foreign currency risk management policy. Changes were necessary because of the changed and volatile situation in the market of energy commodities, with a direct impact on the value of the Russian rouble and other currencies in the area. At times of increased uncertainty in foreign currency markets in the second half of the year, we occasionally mitigated the risk posed by the volatile rouble with forward contracts. We generated financial income totalling €16.5 million by hedging. This put in balance more than half of foreign exchange losses accrued by the Krka Group due to the slump in the rouble.

The total foreign exchange losses of the Krka Group amounted to €35 million. Taking into account €16.5 million net financial income accrued by hedging, the total balance amounted to €-18.5 million.

Our risk management policy yielded good results in 2015. If full hedging had been arranged for the Russian rouble, or if no hedging had been applied, the total balance would have been even less favourable. Total financial result (exchange rate differences and hedging effect) would have been, in the event of total hedging of the Russian rouble or in the event of non-hedging of the currency risk, even less favourable. If the hedging instruments had been used throughout the entire year, the annual financial income from hedging the rouble would have almost entirely been nullified by the cost of annual insurance. If, on the other hand, no hedging instruments had been applied, the Group would have reported net exchange rate losses in the profit or loss with no impact of the hedging instruments.

	31 Dec 2014	31 Dec 2015	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation*
RUB	72.34	80.67	53.41	81.44	68.07	7.15	10.5%
HRK	7.66	7.64	7.53	7.73	7.61	0.05	0.7%
RON	4.48	4.52	4.40	4.54	4.45	0.03	0.7%
PLN	4.27	4.26	3.97	4.37	4.18	0.08	2.0%
CZK	27.74	27.02	27.02	28.41	27.28	0.27	1.0%
HUF	315.54	315.98	296.62	322.39	310.00	5.12	1.7%
UAH	19.23	26.18	17.62	34.08	24.35	2.40	9.9%
RSD	120.96	121.67	117.72	123.69	120.64	0.87	0.7%

* Standard deviation to mean value ratio

Interest rate risk

In 2015, the Krka Group was not exposed to changes in reference interest rates, because all non-current loans had been settled, and the Group did not obtain any new non-current loans last year.

Credit risk

The credit control process involves obtaining credit ratings for clients to which the controlling company and subsidiaries make product sales worth an annual €100,000 or more, and regular, dynamic monitoring of customer payment discipline. At the end of the last year, more than 93% of receivables payable by the Krka Group's buyers were included in the process of credit control.

Compared to the beginning of 2015, total receivables payable by buyers decreased at the end of the year. This resulted in part from the revaluation of receivables due to the depreciation of local currencies, primarily the Russian rouble. At the end of 2015, the amount of overdue receivables remained within the normal scope acceptable for Krka. Krka believes that the payment discipline of buyers did not change.

Our policy of hedging receivables remained unchanged in the reporting period.

At the end of the year, more than 80% of receivables payable by buyers from the Russian Federation had been secured with a credit insurance company. The total value of receivables payable by the Russian buyers in the local currency rose in the first quarter of the year due to the one-time extension of payment terms and due to the increase in sales prices in the rouble. It remained stable later in the year.

Approximately one half of receivables payable by Ukrainian buyers are hedged with bank guarantees or credit insurance coverage. We recorded slightly extended terms of payment in the Ukrainian market because companies have difficulty accessing foreign currencies.

Approximately one half of total receivables payable by end buyers to the Krka Group are hedged by credit insurance coverage or financial instruments. Our policy of hedging receivables remained unchanged in 2015.

In 2015, Krka recorded no significant write-offs of overdue receivables payable by buyers, and no increase in problematic receivables payable.

Liquidity risk

Krka has earned a good reputation among business partners due to its financial discipline, investments in growth, operations financed with its own financial assets, and stable performance without significant fluctuations. In 2015, the Krka Group's exposure to liquidity risk was low.

Krka, the controlling company, manages liquidity risk centrally for all subsidiaries, implements cash management, plans cash requirements of the Group companies, and provides them with funds on favourable terms. Due to growing competitiveness among banking service providers, in 2015 Krka managed to further reduce costs related to payment transactions and documentary operations with banks in several subsidiaries abroad.

In 2015, we started implementing the project of targeted cash pooling in Krka subsidiaries operating in markets of the European Union. The project will ensure more transparent liquidity management in subsidiaries, increase the effectiveness of Group cash management, reduce bank charges, and prepare the foundation for centralising the settlement of liabilities. Please see liquidity ratios in the table below. Liquidity ratios were stable and presented good values.

The exposure of the Krka Group to liquidity risk in 2015 was low.

Liquidity ratios of the Krka Group

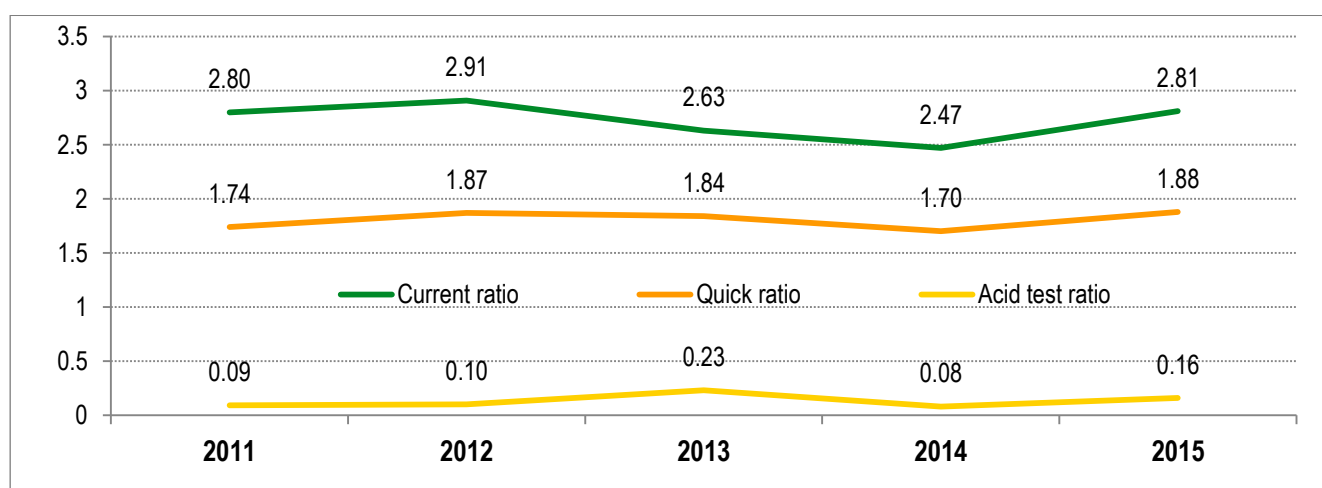
Liquidity ratios	2015	2014	2013	2012	2011	5-year average
Current ratio	2.81	2.47	2.63	2.91	2.80	2.72
Quick ratio	1.88	1.70	1.84	1.87	1.74	1.81
Acid test ratio	0.16	0.08	0.23	0.10	0.09	0.13
Receivables turnover ratio	2.38	2.31	2.74	2.83	2.71	2.59

Current ratio = Current assets/Current liabilities

Quick ratio = (Current assets – Inventories)/Current liabilities

Acid test ratio = (Investments + Cash and cash equivalents)/Current liabilities

Changes in liquidity ratios of the Krka Group



Property, liability and business interruption insurance

Property, liability and business interruption insurance provide for optimal financial and legal protection at the Krka Group level and ensure long-term stable product supply, growth and financial power. Insurance is important to Krka also for managing risks related to new investment planning and implementation, as projects may be carried out without disruptions and objectives met within the deadlines. We adjust the scope of insurance to sales trends and tangible asset growth, and maintain high technical and organisational standards in the area of prevention. In 2015, Krka did not apply any changes to its insurance policy.

In 2015, Krka passed audits by the leading international reinsurance companies.

Krka holds insurance policies from domestic and foreign insurance companies. It reviews the competitiveness of insurance companies every year, and did so in 2015 as well. In comparison to the year before, Krka further reduced the insurance premium total by inquiries and negotiations, even though total coverage increased. When selecting insurance companies, we consider in particular the quality of coverage, premium rates, references and any requirements of local legislation.

In 2015, the leading international reinsurance companies carried out a risk assessment of the Krka's central site in Ločna, Novo mesto. They expressed a favourable opinion about the high level of risk management and damage reduction measures.

The measures applied in 2015 substantially contributed to the reduction of insurance premiums.

Investor and share information

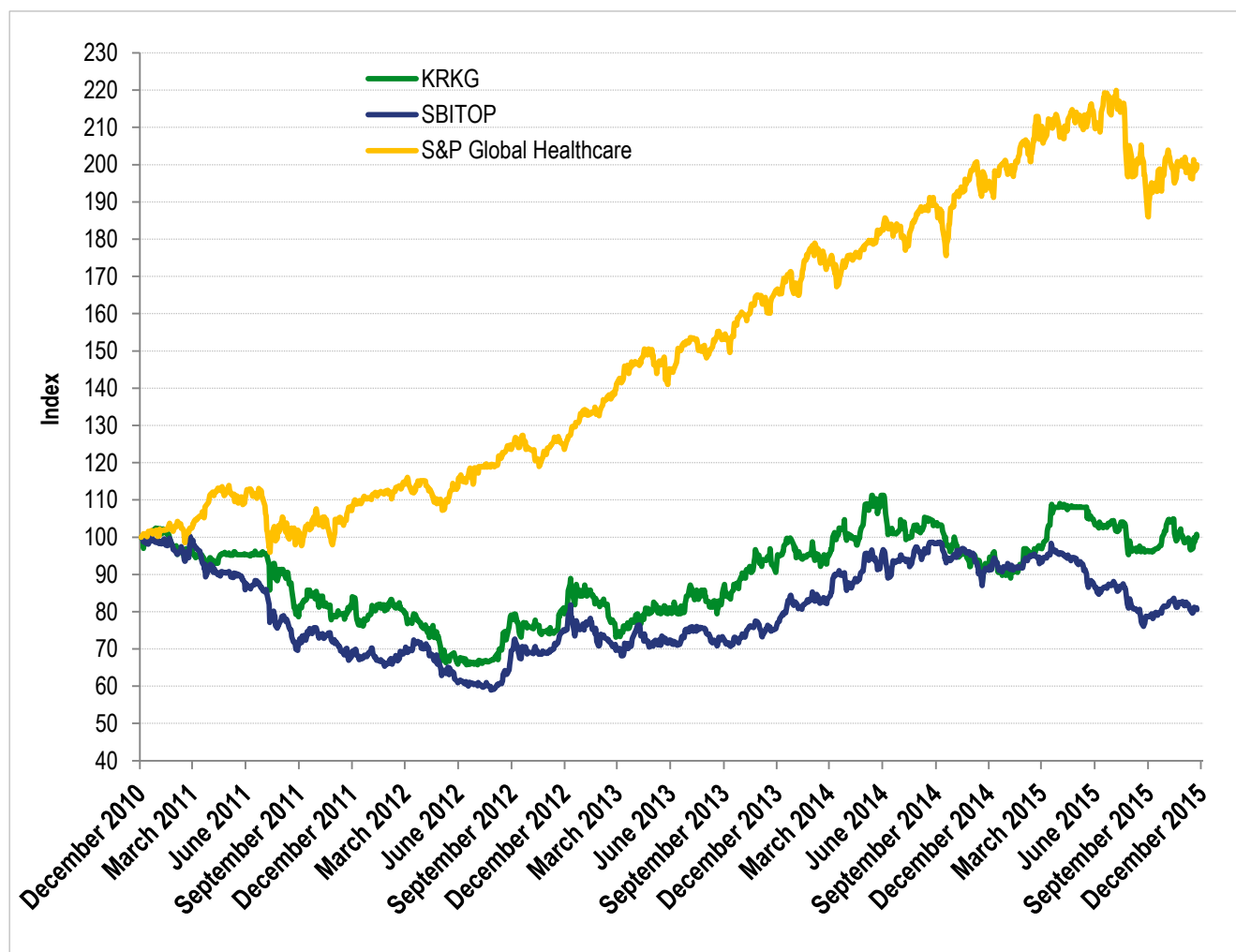
Shareholder return

Krka share price

€	2015	2014	2013	2012	2011
Year high	68.65	70.00	61.00	52.70	64.48
Year low	56.03	55.00	46.05	41.40	49.00
31 December	65.20	59.60	60.00	50.00	52.90
Annual increase (%)	9	-1	20	-5	-16

In 2015, the Krka share price increased by 9%. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) decreased by 11%.

Krka share price performance in comparison with selected share indices (beginning of 2011 = 100)



In the past five years, the Krka share price has outperformed the SBITOP blue-chip index, but failed to follow the S&P Global Healthcare index, which has outperformed the Krka share price.

Dividend policy

The Annual General Meeting decides on the proposed dividend amount. The pay-out generally commences 60 days after the Annual General Meeting. In 2015, we allocated 49% of the consolidated profit attributable to parent equity holders generated in 2014 for the pay-out of dividends; gross dividend per share increased by 19%.

In compliance with the five-year strategy adopted at the end of 2015, in the said period we will allocate up to 50% of the consolidated profit attributable to parent equity holders generated in the year before for dividends by also considering Krka's financial requirements in a particular year for investments and take-overs.

Krka dividends accounted for 49% of consolidated profit. Gross dividend per share increased by 19%.

	2015	2014	2013	2012	2011
Earnings per share ¹ (€)	4.86	5.07	5.24	4.80	4.85
Gross dividend per share ² (€)	2.50	2.10	1.61	1.50	1.40
Dividend pay-out ratio ³ (%)	49.3	40.1	33.5	31	28
Dividend yield ⁴ (%)	3.8	3.5	2.7	3.0	2.6

¹ Profit of the year attributable to parent equity holders of the Krka Group/Average number of shares issued in the period, excluding treasury shares

² Dividends paid for the previous period/Average number of shares issued in the period

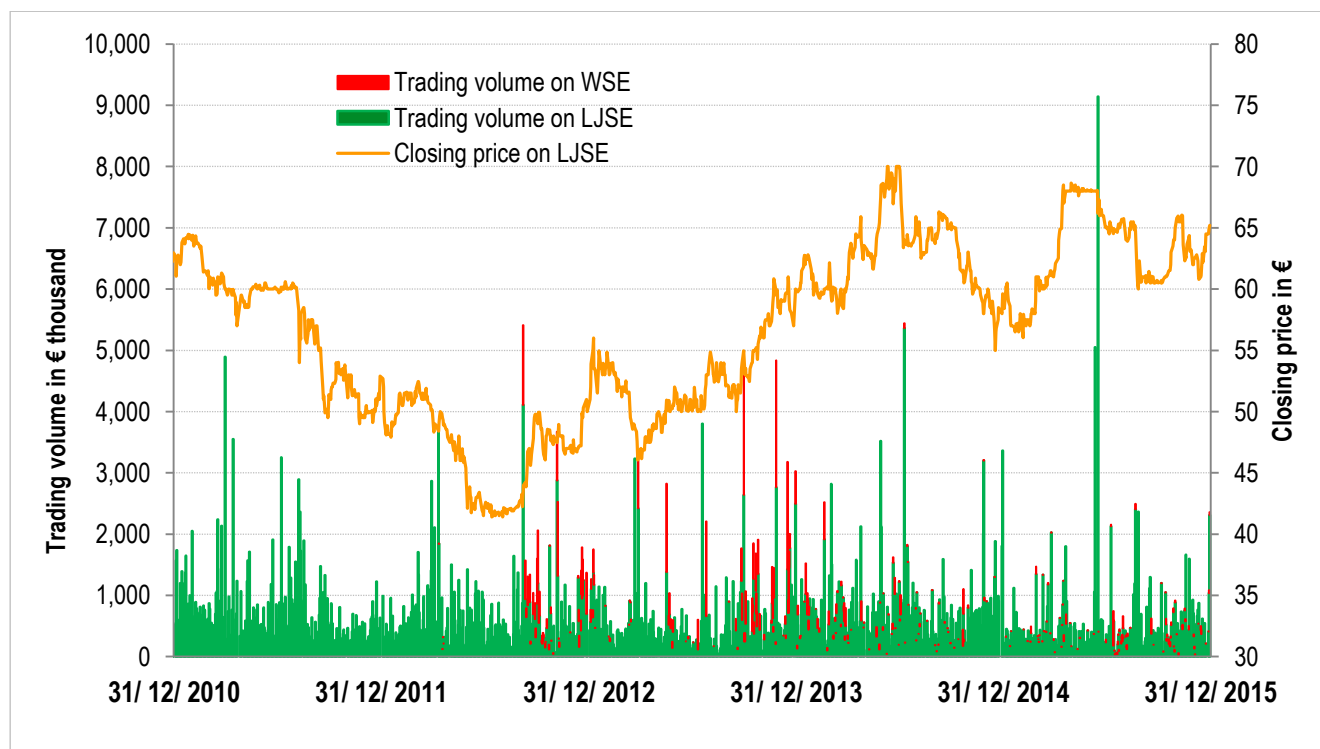
³ Gross dividend per share/Earnings per share from the previous period

⁴ Gross dividend per share/Share price as at 31 December

Share trading and shareholding

Krka shares are listed on the prime market of the Ljubljana Stock Exchange. Since April 2012, they have been dual-listed on the Warsaw Stock Exchange. All Krka shares traded on the Ljubljana and Warsaw stock exchanges are of the same class: ordinary and freely transferable. Each share, except treasury shares, represents one vote at the AGM. Krka shares are freely traded through brokerage companies and banks that are members of the Ljubljana or Warsaw stock exchanges.

Trading in Krka shares in the period from 2010 to 2015



Source: The Ljubljana and Warsaw Stock Exchanges

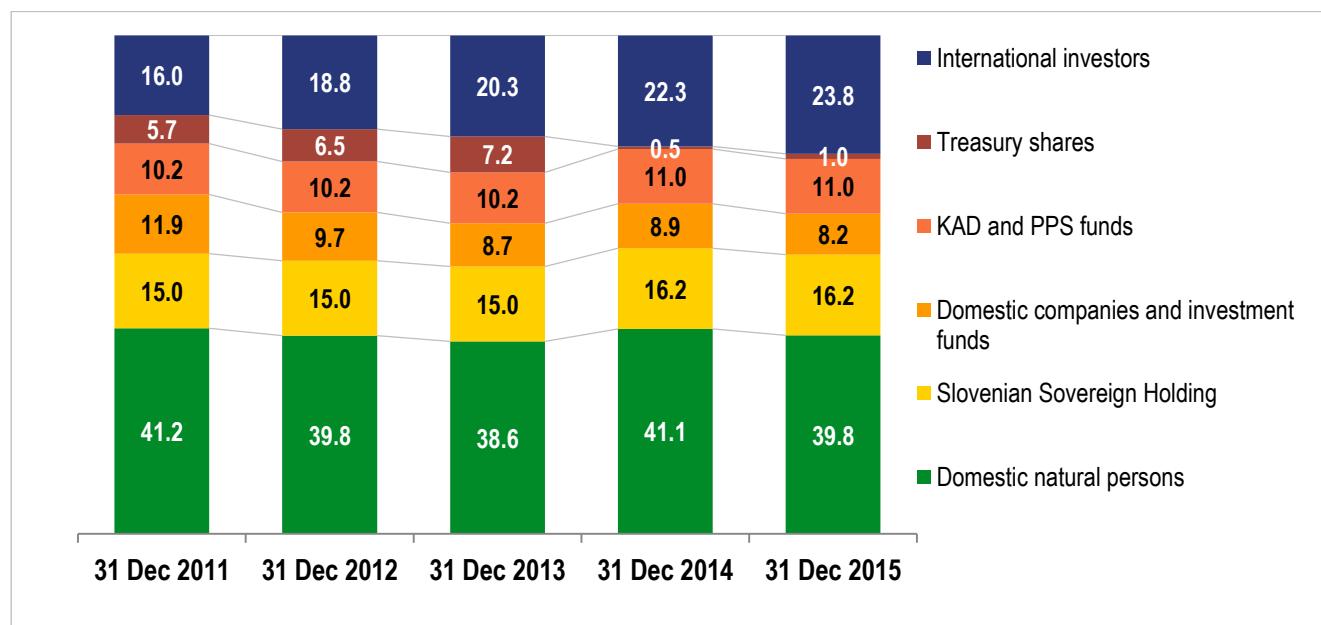
Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2015, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.5 million. The trading volume on the Warsaw Stock Exchange increased in the second half of the year, but on average did not reach the trading volume seen on the Ljubljana Stock Exchange.

The ten largest shareholders on 31 December 2015

	Shareholder	Number of shares	Proportion in the number of total issued shares (%)
1	SDH, D. D.	5,312,070	16.20
2	KAPITALSKA DRUŽBA, D. D.	3,493,030	10.65
3	SOCIETE GENERALE-SPLITSKA BANKA D. D.	2,100,249	6.40
4	HYPO ALPE-ADRIA-BANK D. D.	1,137,545	3.47
5	KDPW	496,391	1.51
6	LUKA KOPER, D. D.	433,970	1.32
7	NEW WORLD FUND INC.	400,000	1.22
8	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.18
9	THE BANK OF NEW YORK MELLON	291,754	0.89
10	AMERICAN FUNDS INSURANCE SERIES	232,246	0.71
		14,285,555	43.55

Krka had 58,765 shareholders at the end of 2015, 4% less than at the end of 2014.

Shareholder structure (%)



Due to the cancellation of treasury shares in 2014, the ownership structure and ownership stakes at the end of 2015 cannot be directly compared to previous periods.

International investors increased their ownership share the most, by 1.5 percentage points. The shareholdings of Slovenian state financial companies, i.e. the Slovenski državni holding (SDH, Slovenian Sovereign Holding) and Kapitalaska družba with its funds, remained unchanged. In 2015, other groups of Slovenian shareholders, i.e. investment funds and companies, and other companies and individuals, reduced their shareholdings.

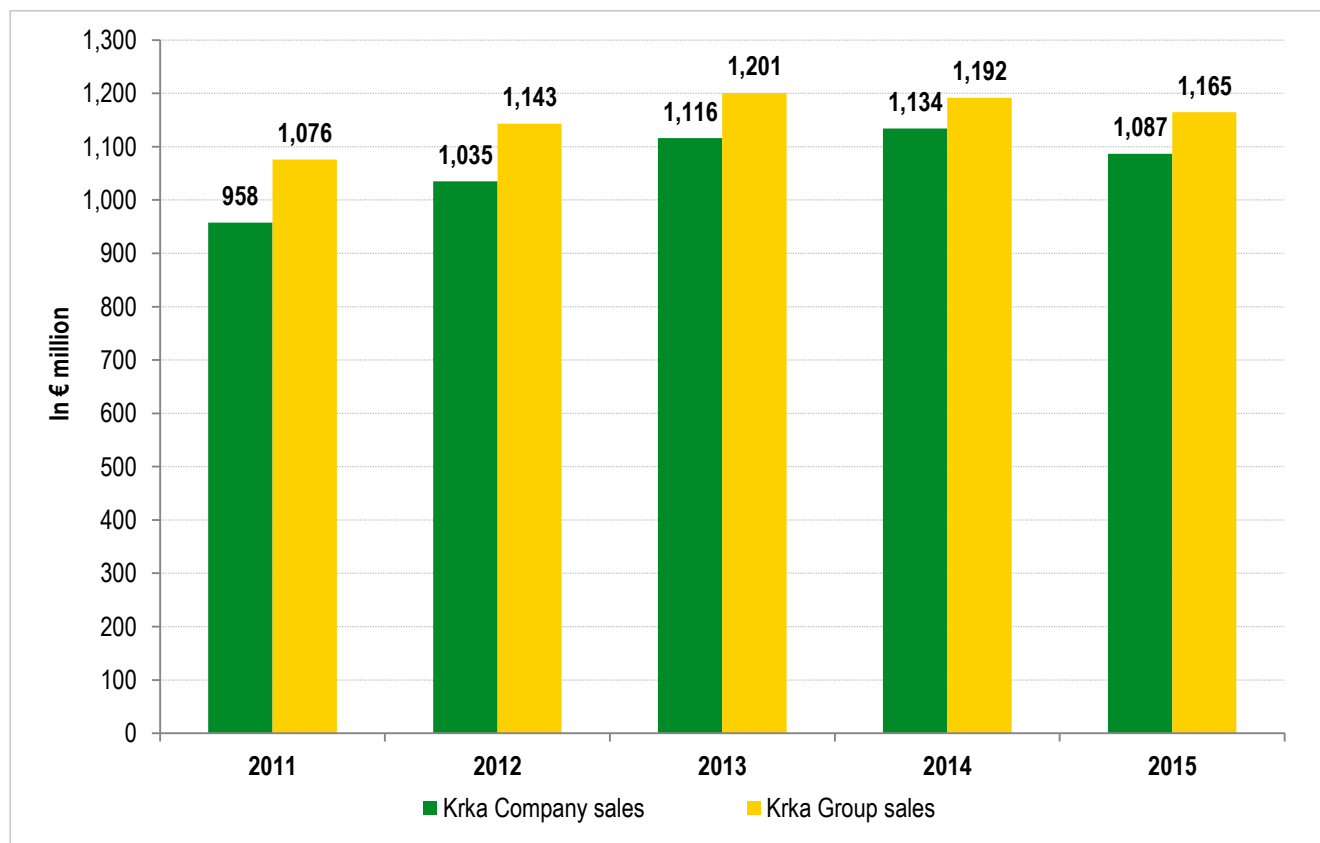
In 2015, the company acquired 152,998 treasury shares on the regulated market, valued at €9,378,878 and held 326,277 treasury shares on 31 December 2015.

Business operations analysis

The business operations analysis includes data for the Krka Group and Krka Company, while the comments relate primarily to the Krka Group.

Operating income

Sales of the Krka Group and Krka Company



The Krka Group sold products and services worth €1,164.6 million, which is €27.0 million, 2% less than in 2014. In terms of volume, sales have increased by more than 3%. Average annual sales growth over the past five years has been 2.9%, while the average annual sales volume growth has been 5.8%.

A detailed analysis of sales by individual markets and product groups is in the chapter Marketing and Sales.

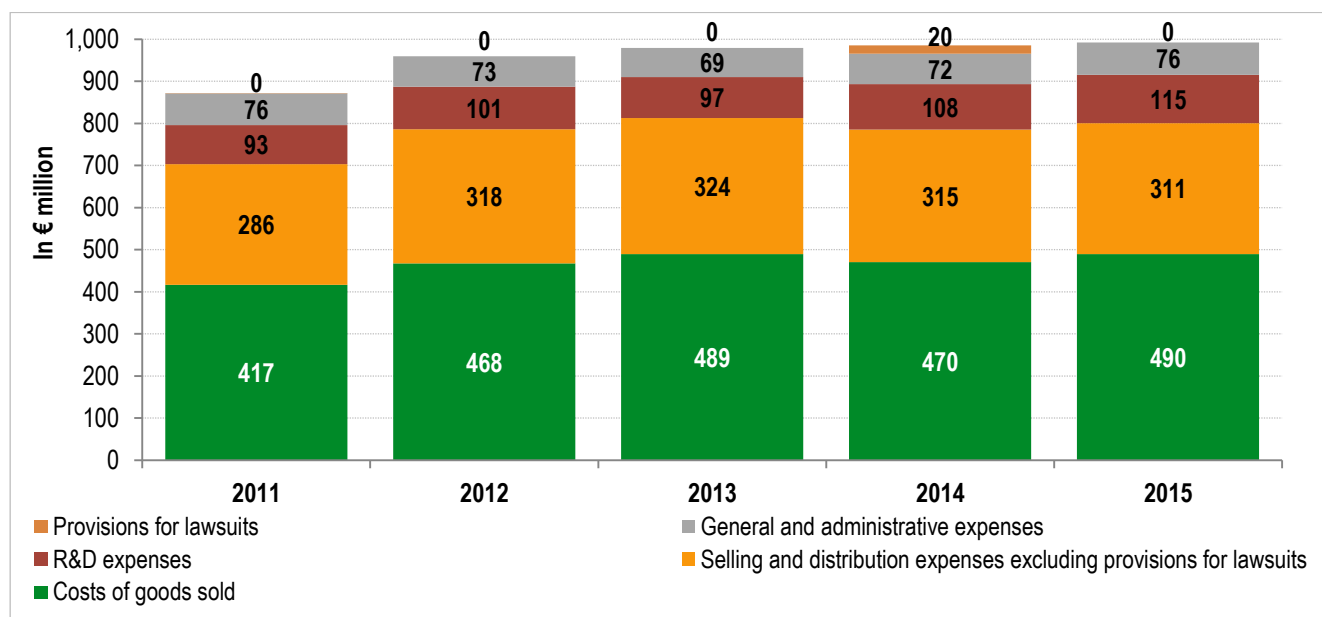
Other operating income amounted to €26.6 million, a decrease of €44.2 million or 62% compared to 2014. The decrease is mainly attributable to reversed provisions for lawsuits and received damages, which were included in other operating income in 2014 in the amount of €59.8 million. Krka reversed €20.0 million of provisions in 2015.

Operating expenses

The Krka Group incurred €991.7 million in operating expenses, up €6.4 million or 0.6% compared to 2014.

The Krka Group's operating expenses include costs of goods sold, totalling €489.6 million, selling and distribution expenses of €310.6 million, R&D expenses totalling €115.4 million and general and administrative expenses of €76.1 million. The operating expenses to sales ratio in the past five years has ranged between 81% in 2011 and 85% in 2015.

Structure of the Group's operating expenses by function



The biggest operating expenses item is costs of goods sold, which rose by 4% compared to 2014; its ratio to sales was 42%. Costs of goods sold item is also influenced by changes in the inventories of finished products. Selling and distribution expenses in 2015 were 7% less than in 2014. The selling and distribution expenses ratio was 27%. Excluding the formation of provisions in 2014, selling and distribution expenses decreased by 1%. R&D expenses amounted to 10% of total sales, an increase of 6% compared to 2014. General and administrative expenses amounted to 7% of total sales, an increase of 6% over 2014.

Financial income and expenses

In € thousand	Krka Group					Krka Company				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
Financial income	25,561	1,486	2,114	5,418	493	36,735	9,178	5,316	22,431	14,046
Financial expenses	-44,283	-103,126	-28,361	-7,227	-12,079	-43,524	-112,313	-28,967	-7,690	-11,822
Net financial result	-18,722	-101,640	-26,247	-1,809	-11,586	-6,789	-103,135	-23,651	14,741	2,224

In 2015, the Group's net financial result improved on 2014. Net foreign exchange rate losses amounted to €35.0 million in 2015. Exposure to the fluctuating exchange rate of the Russian rouble presented the key currency risk; 80% of the foreign exchange losses listed in the income statement for 2015 were the result of unfavourable exchange rate movements of the Russian rouble; 10% occurred due to unfavourable exchange rate movements of currencies of those countries that have close economic ties with the Russian Federation or are dependent on oil prices.

At times of increased uncertainty in foreign currency markets in the second half of the year, we occasionally mitigated the risk posed by the volatile Russian rouble with short-term forward contracts. We generated net financial income in total of €16.5 million by hedging. This balanced more than half of the foreign exchange losses accrued by the Krka Group due to the slump in the rouble. The total negative financial result from foreign currency exchange rates was €18.5 million.

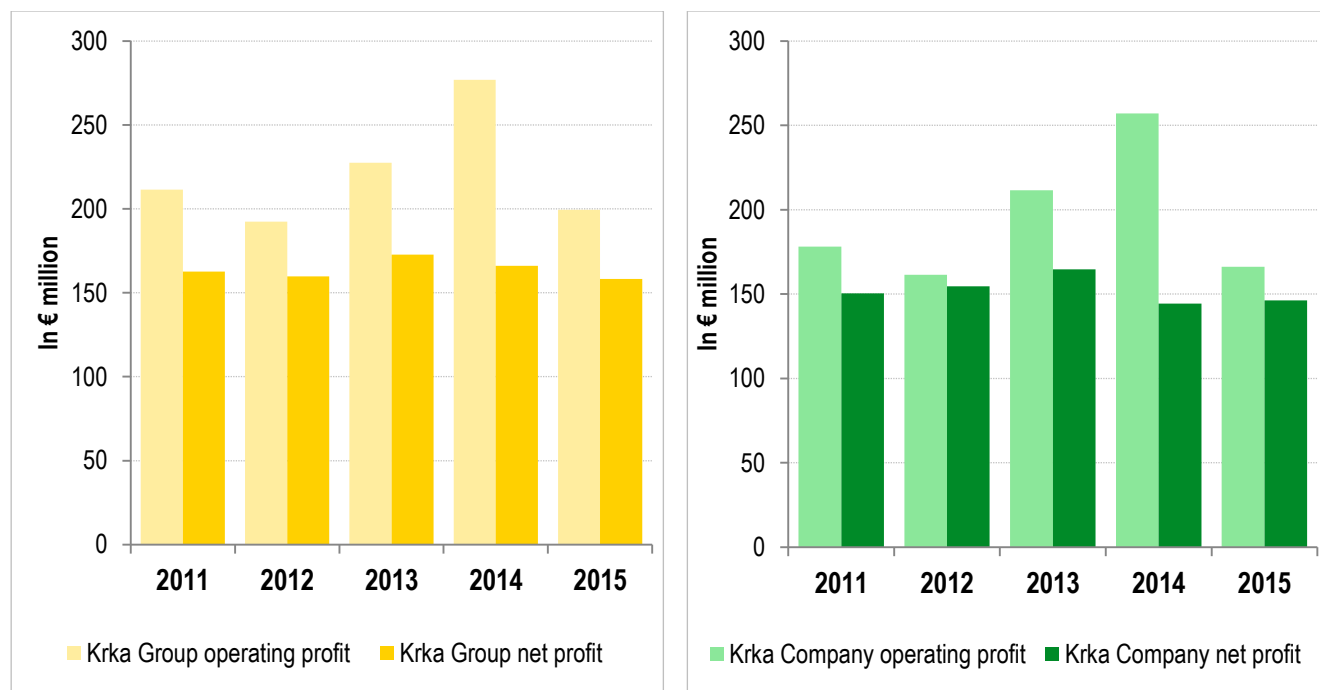
The chapter Risk management contains further details on foreign exchange rate differences.

Financial income includes interest income in total of €0.9 million and a total of €1.3 million from dividends and other profit shares paid.

Financial expenses comprise interest expenses in the amount of €0.3 million, a change in the fair value of investments through profit or loss totalling €0.1 million and €2.0 million worth other financial expenses.

Operating results

Operating profit and net profit



The operating profit of the Krka Group totalled €199.4 million, down €77.5 million or 28% compared to 2014. Group EBITDA in the amount of €306.7 million declined by €67.8 million or 18%.

Profit before tax in 2015 increased by €5.4 million, or 3%, and amounted to €180.7 million. The Group's effective tax rate was 12.5%.

In 2015, the Krka Group generated net profit totalling €158.2 million, down €8.0 million, or 5%, compared to the year before.

Assets

In € thousand	Krka Group					Krka Company				
	2015	Share (in %)	2014	Share (in %)	Index 2015/14	2015	Share (in %)	2014	Share (in %)	Index 2015/14
Non-current assets	986,598	54.5	1,008,830	56.2	98	999,975	56.8	1,015,850	57.4	98
Property, plant and equipment	826,192	45.7	846,478	47.2	98	610,067	34.6	623,622	35.2	98
Intangible assets	116,940	6.5	120,325	6.7	97	31,557	1.8	33,120	1.9	95
Investments and loans	15,276	0.8	14,332	0.8	107	335,992	19.1	334,093	18.9	101
Other	28,190	1.5	27,695	1.5	102	22,359	1.3	25,015	1.4	89
Current assets	822,606	45.5	786,915	43.8	105	761,737	43.2	752,637	42.6	101
Inventories	272,878	15.1	246,260	13.7	111	230,568	13.1	201,081	11.4	115
Trade receivables	433,133	23.9	467,841	26.1	93	402,189	22.8	460,652	26.1	87
Other	116,595	6.5	72,814	4.0	160	128,980	7.3	90,904	5.1	142
Total assets	1,809,204	100.0	1,795,745	100.0	101	1,761,712	100.0	1,768,487	100.0	100

At the end of 2015, Krka Group assets amounted to €1,809.2 million, which was €13.5 million or 1% more than at the end of 2014. The proportion of non-current and current assets in the total asset structure was slightly different compared to the year-end of 2014: non-current assets decreased by 1.7 of a percentage point, representing 54.5%.

The total value of non-current assets amounted to €986.6 million, a decrease of 2% compared to the end of 2014. The most important item, worth €826.2 million or 46% of the Krka Group total assets, was represented by property, plant and equipment. Intangible assets represented 6% of total assets.

Current assets amounted to €822.6 million, up €35.7 million or 5% compared to the end of 2014. Trade receivables at €433.1 million represented the largest current asset item, while inventories amounted to €272.9 million. The total value of inventories and trade receivables compared to 2014 decreased by €8.1 million or 1%. Other current asset items increased, among them loans, by €36.2 million (of which bank deposits for more than 30 days accounted for €36.0 million), and cash and cash equivalents by €12.2 million.

Equity and liabilities

In € thousand	Krka Group					Krka Company				
	2015	Share (in %)	2014	Share (in %)	Index 2015/14	2015	Share (in %)	2014	Share (in %)	Index 2015/14
Equity	1,405,984	77.7	1,351,899	75.3	104	1,433,211	81.3	1,381,313	78.1	104
Non-current liabilities	110,982	6.1	125,421	7.0	88	76,753	4.4	92,462	5.2	83
Current liabilities	292,238	16.2	318,425	17.7	92	251,748	14.3	294,712	16.7	85
Total equity and liabilities	1,809,204	100.0	1,795,745	100.0	101	1,761,712	100.0	1,768,487	100.0	100

The Group's equity increased by €54.1 million compared to the end of 2014. The increase was attributed to the Group's net profit of €158.2 million. Equity was reduced by dividends paid of €81.4 million, further repurchase of treasury shares in the amount of €9.4 million, and other comprehensive income after tax totalling €13.3 million of which translation reserve in the amount of €9.8 million represented the largest item.

The Krka Group had no non-current borrowings in 2015. Provisions of €84.9 million decreased by 13% in comparison to the end of 2014, especially due to the reversal of provisions for lawsuits in the amount of €20.0 million. At the same time, the Krka Group formed provisions for post-employment and other non-current employee benefits in the amount of €10.9 million.

Among the current liabilities of the Krka Group, trade payables decreased by €11.2 million and current borrowings by €38.0 million. The Krka Group had no current borrowings at the end of 2015. Income tax payable increased by €6.7 million and other current liabilities by €16.3 million.

Statement of cash flows

In € thousand	Krka Group		Krka Company	
	2015	2014	2015	2014
Net cash flows from operating activities	277,941	170,870	239,936	156,403
Net cash flows used in investing activities	-135,403	-166,216	-92,677	-142,063
Net cash flows used in financing activities	-129,274	-46,222	-129,924	-53,417
Net increase/decrease in cash and cash equivalents	13,264	-41,568	17,335	-39,077

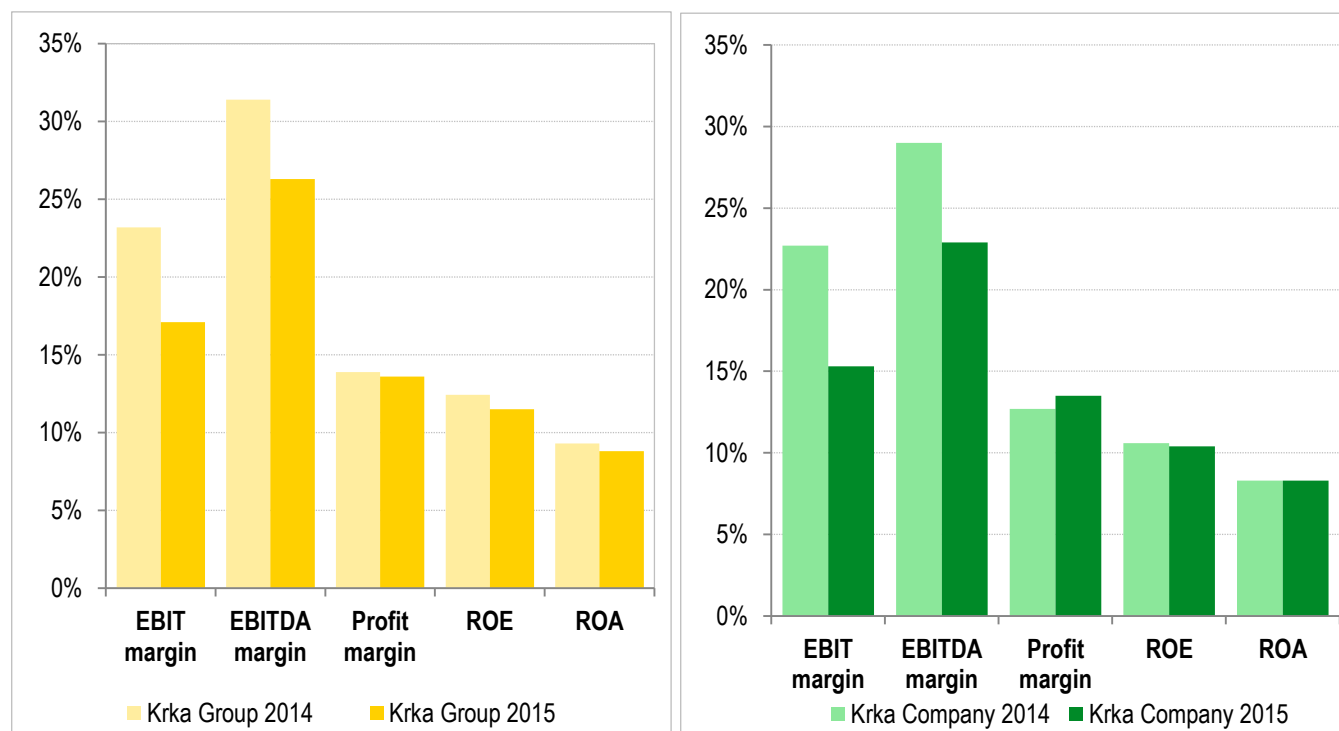
The Krka Group increased its cash and cash equivalents by €13.3 million in 2015, because positive cash flow from operating activities exceeded the negative cash flows from investment and financing activities.

The Krka Group generated operating profit before changes in net operating current assets totalling €275.0 million. The changes in current assets that increased profit were changes in trade receivables, trade payables, other current liabilities and paid income tax, while the changes in inventories, provisions and deferred revenues had a negative effect.

Negative cash flow from investment activities was accrued primarily due to the purchase of property, plant and equipment totalling €103.1 million, payments in connection with current investments and loans totalling €35.6 million, payments in connection with derivative financial instruments in the amount of €6.9 million, the purchase of intangible assets in the amount of €5.8 million and non-current loans of €2.1 million. The negative cash flow from financing activities primarily resulted from the payments of dividends and other profit shares in total of €81.2 million, payments in connection with current borrowings in the amount of €38.0 million, and repurchased treasury shares worth €9.4 million.

Performance ratios

Profitability ratios



The performance ratio values were all in accordance with the strategic guidelines.

Operating figures of the Krka Group and Krka Company for the past five years

In € thousand	Krka Group					Krka Company				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
Revenues	1,164,607	1,191,614	1,200,827	1,143,301	1,075,627	1,086,526	1,134,169	1,116,339	1,035,280	957,653
EBIT	199,434	276,953	227,588	192,308	211,561	166,162	257,167	211,527	161,382	178,150
– EBIT margin	17.1%	23.2%	19.0%	16.8%	19.7%	15.3%	22.7%	18.9%	15.6%	18.6%
EBITDA	306,742	374,535	321,732	282,276	298,747	248,998	329,217	282,993	230,994	244,564
– EBITDA margin	26.3%	31.4%	26.8%	24.7%	27.8%	22.9%	29.0%	25.4%	22.3%	25.5%
Net profit	158,185	166,161	172,766	159,839	162,735	146,262	144,385	164,673	154,615	150,392
– Profit margin	13.6%	13.9%	14.4%	14.0%	15.1%	13.5%	12.7%	14.8%	14.9%	15.7%
Assets	1,809,204	1,795,745	1,759,884	1,626,748	1,534,027	1,761,712	1,768,487	1,701,235	1,565,918	1,463,062
ROA	8.8%	9.3%	10.2%	10.1%	10.8%	8.3%	8.3%	10.1%	10.2%	10.3%
Equity	1,405,984	1,351,899	1,332,611	1,240,521	1,139,754	1,433,211	1,381,313	1,332,246	1,232,215	1,140,485
ROE	11.5%	12.4%	13.4%	13.4%	14.8%	10.4%	10.6%	12.8%	13.0%	13.7%

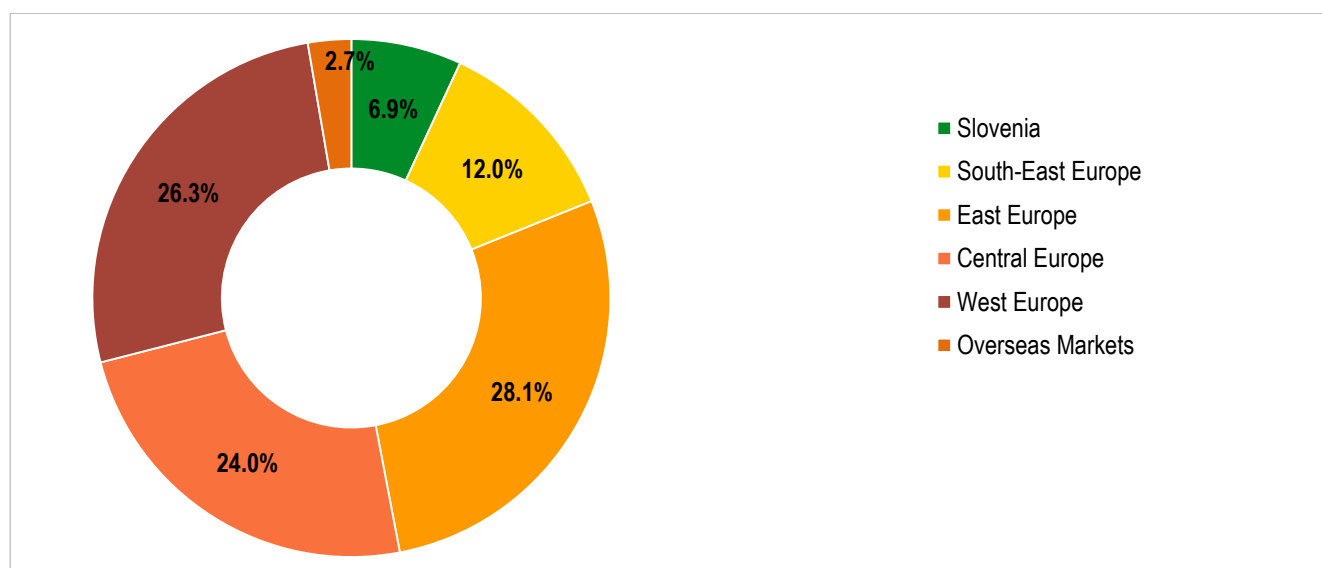
Marketing and Sales

In 2015, the Krka Group generated sales worth €1,164.6 million, or 2% less than in 2014, while the Krka Company generated sales of €1,086.5 million, a 4% decrease compared to 2014. In terms of volume, the sales growth of the Krka Group exceeded 3% in 2015.

Sales by Region

Krka's sales were highest in Region East Europe, where they totalled €327.5 million, or 28.1% of the Krka Group total sales. Region West Europe recorded the second highest sales of €306.1 million, or 26.3% of the Krka Group total sales. The third highest sales were recorded by Region Central Europe with a 24% share totalling €279.9 million. Sales generated by Region South-East Europe totalled €139.6 million (12.0%), and by Region Overseas Markets €31.7 million (2.7%). Sales in Slovenia amounted to €79.9 million, which is 6.9% of the Krka Group total sales.

Group Sales by Region in 2015



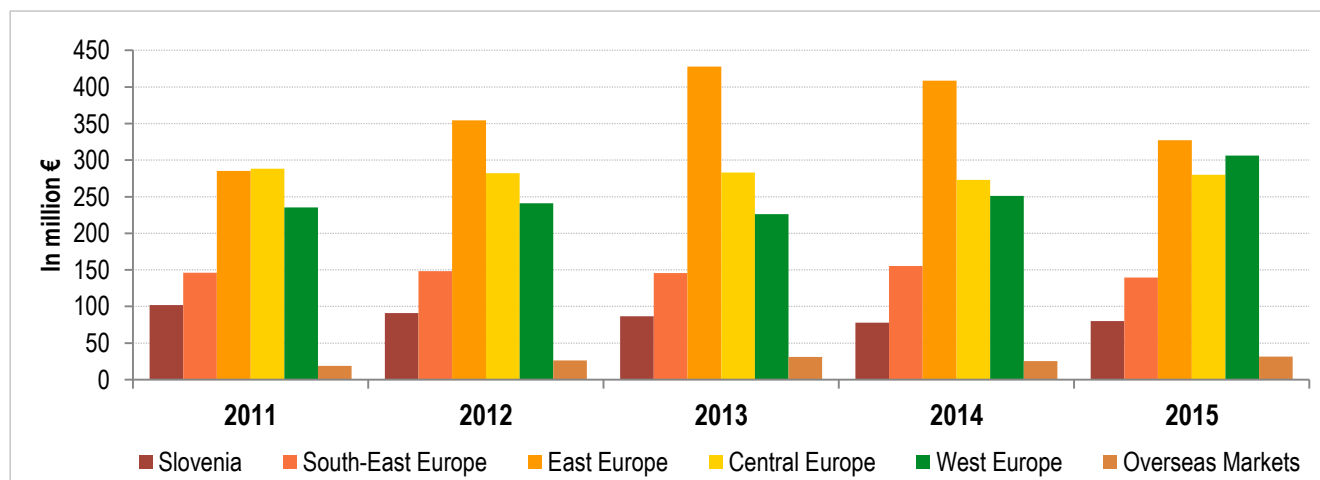
Krka Group and Krka Company sales by Region

In € thousand	Krka Group			Krka Company		
	2015	2014	Index 2015/14	2015	2014	Index 2015/14
Slovenia	79,885	78,029	102	50,661	49,605	102
South-East Europe	139,620	155,328	90	143,536	177,954	81
East Europe	327,466	408,650	80	318,742	379,308	84
Central Europe	279,867	272,981	103	282,278	272,230	104
West Europe	306,064	251,124	122	263,169	232,648	113
Overseas Markets	31,705	25,502	124	28,140	22,424	125
Total	1,164,607	1,191,614	98	1,086,526	1,134,169	96

Krka Group quarterly sales by Region

In € thousand	2015				2014			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Slovenia	19,204	19,530	20,230	20,921	19,286	19,134	19,599	20,010
South-East Europe	30,610	29,903	34,899	44,208	34,158	41,181	31,629	48,360
East Europe	81,484	104,458	56,337	85,187	116,206	104,557	80,879	107,008
Central Europe	68,421	68,805	69,772	72,869	62,093	68,121	66,202	76,565
West Europe	82,134	80,556	74,580	68,794	59,790	62,541	54,931	73,862
Overseas Markets	7,451	7,294	7,634	9,326	6,484	5,819	5,424	7,775
Total	289,304	310,546	263,452	301,305	298,017	301,353	258,664	333,580

Krka Group sales by Region in the past five years



Region Slovenia

Sales of products and services in Krka's domestic market in 2015 were worth €79.9 million. The largest contributors to product sales were prescription pharmaceuticals, with more than 80%, followed by non-prescription products, with 15%, and animal health products, with over 4%. Sales of the health resort and tourist services of the Krka Group reached €31 million.

In 2015, we recorded sales growth in terms of value and in terms of quantity. The sales growth of prescription pharmaceuticals in terms of value reached 2%, of non-prescription products 8%, and was modest in animal health products. We maintained the position of leading producer of medicines in the market, with a 9.5% share.

In Slovenia, we recorded a 6% growth in terms of quantity in 2015.

We were particularly successful in sales of certain therapeutic groups. In particular, we further strengthened our leading position with medicines for the treatment of hypertension, hyperlipidemia and pain. We maintained the leading position with our medicines for the reduction of gastric acid and medicines for treating illnesses of the central nervous system. The most important contributors to total sales were medicines for the treatment of cardiovascular diseases, medicines for the treatment of the central nervous system, and medicines for the treatment of diseases of the alimentary tract and metabolism.

We paid special attention to establishing new products for the treatment of the central nervous system and launched Aryzalera (aripiprazol), Pregabalin Krka (pregabalin) and Dulsevia (duloxetine). In marketing, we emphasised medicines for the treatment of cardiovascular diseases and earned further recognition in the antihypertensives market with the following brands: Prenessa (perindopril), Prenewel (perindopril/indapamide), Amlessa (perindopril/amlodipine), Tolura (telmisartan) and Tolucombi (telmisartan/hydrochlorothiazide). We consolidated the position of the Sorvasta (rosuvastatin) and Atoris

(atorvastatin) brands among statins, and the Doreta (tramadol/paracetamol) brand among analgesics. Krka's range of non-prescription products was expanded with the antitussive Solvolan (ambroxol) and the new brand Septabene (benzylamine/cetylpyridinium). We supplemented the range of animal health products with new pharmaceutical forms of the recently launched Milprazon (milbemycin/praziquantel) and Dehinel (praziquantel).

Krka Group market position in Slovenia

We hold a 9.5% market share, retaining the leading position among pharmaceutical companies.

Our products are market leaders in:

- the group of non-steroidal anti-inflammatory and anti-rheumatic products, with a market share of approximately 70%;
- the group of agents acting on the renin-angiotensin system, with a market share of more than 50%;
- the statin group, with a market share of approximately 50%;
- the proton pump inhibitor group, with a market share of more than 45%; and
- the group of antipsychotics, antidementia medicines and antidepressants, with a market share of approximately 20%.

We are the leading supplier of medicines with atorvastatin, ciprofloxacin, diclofenac, enalapril, carvedilol, quetiapine, losartan, including the combination with hydrochlorothiazide; omeprazole, pantoprazole, perindopril, including combinations with amlodipine and indapamide; ramipril, rosuvastatin, sertraline, simvastatin and tramadol in combination with paracetamol; and valsartan.

Among the top-selling prescription pharmaceuticals are Nalgesin (naproxen), Prenessa (perindopril) and Prenewel (indapamide/perindopril) and Nolpaza (pantoprazole).

Region South-East Europe

Sales in the markets of South-East Europe in 2015 amounted to nearly €140 million, a 10% decrease over 2014. This is mostly the result of price reductions in two key markets, Romania and Croatia, as well as in Serbia. In other markets of the region, we recorded 4 to 15% sales growth; however, we did not succeed in making up the difference.

Romania remains one of Krka's key markets and is the largest market in the region, with sales worth €46.4 million, a 24% decrease in comparison to 2014. Prescription products accounted for the largest share in sales, in particular Atoris (atorvastatin), Aryzalera (aripiprazol), Prenessa/Co-Prenessa (perindopril, also in combination with indapamide), Karbis (candesartan), Tramadol (tramadol), and Enap (enalapril).

In Romania, we were the leader among primarily foreign suppliers of generic medicines, with a 2.8% market share in 2015.

By launching new non-prescription products within the existing brands, we increased sales of Herbion and Septotele. We consolidated our position in the market of products for the treatment of companion animals.

Krka Group market position in Romania

We rank first among primarily foreign generic pharmaceutical companies, with a 2.8% market share.

Our products are among market leaders in:

- the statin group, with a market share of more than 25%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 25%;
- the antimicrobial group (fluoroquinolones), with a market share of approximately 25%;
- the group of prescription analgesics and antipyretics, with a market share of approximately 15%;
- the cerebral and peripheral vasotherapeutic group, with a market share of approximately 15%;
- the ACE inhibitor group and their combinations with diuretics, with a market share of approximately 15%; and
- the proton pump inhibitor group, with a market share of more than 10%.

We are the leading supplier of medicines containing the following active substances: ciprofloxacin, enalapril, ginkgo biloba, carvedilol, lansoprazole, losartan, mirtazapine, naproxen, norfloxacin, ropinirole, telmisartan and tramadol, including the combination with paracetamol.

We are the leading supplier of generic medicines containing the following active substances: amlodipine, aripiprazole, atorvastatin, gliclazide, candesartan, pantoprazole, perindopril in combination with amlodipine and indapamide, pramipexole and rosuvastatin.

Croatia as the key market in terms of sales ranks second in the region. Sales, which were 8% lower compared to the year before, reached nearly €26 million, so Krka retained fourth place among all manufacturers of generic medicines and ranked second in sales of animal health medicines.

Prescription products contributed the largest portion to sales, in particular Atoris (atorvastatin), Co-Perineva (perindopril/indapamide), Dalneva (perindopril/amlodipine), Emanera (esomeprazole), Helex (alprazolam), Nolpaza (pantoprazole), Perineva (perindopril), Roswera (rosuvastatin) and Valsacor (valsartan). In 2015, we complemented the range with two antibiotics, Moloxin (moxifloxacin) and Levalox (levofloxacin), medicines for the treatment of the illnesses of the central nervous system, and analgesics Dulsevia (duloxetine), Pragiola (pregabalin), Arisppa (aripiprazol), Aclexa (celecoxib) and Memanda (memantine).

Krka Group market position in Croatia

We rank second among foreign generic pharmaceutical companies, with a 4.3% market share.

Our products are market leaders in:

- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of more than 35%;
- the statin group, with a market share of more than 25%;
- the fluoroquinolone antimicrobial group, with a market share of more than 25%.

Our products are among market leaders in:

- the anxiolytic group, with a market share of more than 20%;
- the SSRI antidepressant group, with a market share of approximately 20%;
- the proton pump inhibitor group, with a market share of approximately 20%; and
- the ACE inhibitor group and their combinations, with a market share of more than 15%.

We are the leading supplier of medicines with the active substances alprazolam, atorvastatin, dexamethasone, esomeprazole, clarithromycin, norfloxacin, perindopril in combination with indapamide; rosuvastatin, sertraline, telmisartan and valsartan in combination with hydrochlorothiazide.

We are the leading supplier of generic medicines with the active substances desloratadine, escitalopram, gliclazide, perindopril, including the combination with amlodipine; ropinirole and simvastatin.

In **Bosnia and Herzegovina**, we sold over €18 million worth of products in 2015 and exceeded 2014 sales by 5%. In this way, we remained the leading producer of medicines in the market. Prescription products contributed most to sales, among them Enap (enalapril), Lorista (losartan), Valsacor (valsartan), Naklofen (diclofenac), Lexaurin (bromazepam), Ampril (ramipril) and Atoris (atorvastatin). We recorded a sales increase in all product groups: prescription, non-prescription and animal health products.

We are the leading supplier of medicines in Bosnia and Herzegovina.

In **Macedonia**, we remain the leading foreign generic manufacturer of pharmaceuticals. Sales reached €15.5 million, an increase of almost 4%. Growth in this particular market was recorded for the eleventh consecutive year. Despite the constant reductions in reference prices, prescription pharmaceuticals contributed most to the increase in sales value. We plan to increase sales and maintain the high market share also in the future. In **Serbia**, Krka sold €11.5 million worth of products from all three product groups, which is a decrease of 14% over 2014. The slightly lower sales than the year before were the result of a substantial lowering of prices for prescription pharmaceuticals. We launched 14 new products in 40 dosage forms on the **Bulgarian** market, reaching sales of €11.6 million and exceeding sales in 2014 by 6%. Krka remains one of the leading suppliers of medicines in **Kosovo**, where sales reached €5.5 million, up 9% over the year before. Sales exceeded €3.7 million in **Albania**, an almost 15% rise compared to the year before. In addition to the new product launches, this was primarily the result of increased sales in terms of quantities. In **Montenegro**, sales were primarily generated through public tenders. Our total sales were the most substantial so far, worth €1.2 million.

Region East Europe

In Region East Europe, sales growth was reached in a smaller number of markets, while in key target markets, the Russian Federation and Ukraine, sales did not reach those of 2014. Nevertheless, Region East Europe remained Krka's leading region.

Krka's key and largest individual market, the **Russian Federation**, recorded sales in total of €224.7 million in 2015, or 20% less than the year before. The sales value expressed in euros was lower due to the lower average local currency exchange rates compared to 2014. Sales expressed in the Russian rouble, however, increased by 6.5%.

In terms of sales value, Region East Europe remained Krka's leading region.

According to market analysts, Krka's statins and sartans ranked first according to the number of patients using them in the Russian Federation.

Our best-selling product was Lorista (losartan) with combinations with hydrochlorothiazide. Prescription pharmaceuticals followed in this order: Enap (enalapril), including the combination with hydrochlorothiazide; Atoris (atorvastatin), Perineva (perindopril), including the combination with indapamide; Zyllt (clopidogrel), Nalpaza (pantoprazole), Roxera (rosuvastatin), Orsoten (orlistat), Valsacor (valsartan) including the combination with hydrochlorothiazide. Particularly good sales results were reached with Roxera, Perineva and Valsacor. The highest sales among non-prescription products were reached by Herbion and Pikovit. Products that were launched in the last two years have been successfully established. Among prescription pharmaceuticals top-selling medicines were Bravadin (ivabradine), Vamloset (valsartan/amlodipine), Dalneva (perindopril/amlodipine), Lortenza (losartan/amlodipine), Vizarsin (sildenafil) and Maruxa (memantine). Among non-prescription products, these were Septotele Total (benzydamine/cetylpyrindium) and SeptaNazal (xylometazoline/dexpanthenol).

Sales of animal health products in the amount of €12.4 million remained at the 2014 level.

We increased the share of products manufactured in Krka Rus 2 and strengthened our status as the domestic manufacturer in terms of total quantity sold, which reached nearly 50% of all Krka products manufactured for the Russian Federation market.

Krka Group market position in the Russian Federation

We rank fourth among the mostly foreign generic pharmaceutical companies, with a 1.65% market share.

Our products are among market leaders in:

- the group of other non-mineral multivitamins, with a market share of more than 35%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 30%;
- the statin group, with a market share of more than 20%;
- the platelet aggregation inhibitor group (ADP receptor antagonists), with a market share of more than 20%;
- the ACE inhibitors and their combinations with diuretics, with a market share of approximately 20%;
- the proton pump inhibitor group, with a market share of more than 15%;
- peripherally acting anti-obesity products, with a market share of more than 15%; and
- the atypical antipsychotic group, with a market share of approximately 10%.

We are the leading supplier of medicines with the active substances atorvastatin, dexamethasone, enalapril, including the combination with hydrochlorothiazide; naproxen, norfloxacin, pantoprazole, ramipril and simvastatin.

We are the leading supplier of generic medicines with the active substances esomeprazole, clarithromycin, clopidogrel, quetiapine, olanzapine, orlistat, perindopril, including the combination with indapamide; rabeprazole and risperidone.

In **Ukraine** in 2015, the pharmaceutical market continued to contract in terms of volume and value. Despite this, with intensive marketing and sales activities, we strengthened our position as the leading foreign generic pharmaceutical company and generated sales of €33.9 million, 37% lower than the year before.

The group of prescription pharmaceuticals is our most important group of products, and its leading products in terms of sales were Enap (enalapril), Dexamethason (dexamethasone), Atoris (atorvastatin) and Prenessa (perindopril). Among the products that sold well, we increased sales of Amlessa (perindopril/amlodipine) and Azibiot (azithromycin). Our non-prescription products recorded a drop in sales, but Herbion, Panzynorm, Duovit and Bilobil (gingko biloba) were our most notable products in the group.

Krka Group market position in Ukraine

We are the leading foreign generic pharmaceutical company, with a 2.1% market share.

Our products are market leaders in:

- the group of injectable corticosteroids, with a market share of more than 40%;
- the statin group, with a market share of more than 35%;
- the group of anti-dementia medicines, with a market share of approximately 30%; and
- the ACE inhibitors and their combinations with diuretics, with a market share of approximately 20%.

Our products are among market leaders in:

- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 20%;
- the macrolide and pyranoside antibiotic group, with a market share of more than 10%; and
- the proton pump inhibitor group, with a market share of more than 10%.

We are the leading supplier of medicines with the active substances atorvastatin, dexamethasone, enalapril in combination with hydrochlorothiazide; ginkgo biloba, carvedilol, clarithromycin, pantoprazole and simvastatin.

We are the leading supplier of generic medicines with the active substances betamethasone and enalapril.

Sales in **Uzbekistan** amounted to €16.1 million, 6% less than 2014. The decline in the entire market of medicines was mostly the result of declining local currency exchange rates, which led to lower purchasing power. The main contribution to sales came from prescription pharmaceuticals Lorista (losartan), Enap (enalapril) and Amlessa (perindopril/amlodipine), and non-prescription products Pikovit and Septotele. We successfully launched Valodip (valsartan/amlodipine) and Desradin (desloratadine) and SeptaNazal (xylometazoline/dexpantenol),

We increased our market share in Kazakhstan.

Sales in **Kazakhstan** declined by 20% compared to the year before, reaching €13.2 million. The 30% annual decline in the local currency exchange rates in comparison to the euro was the main contributor to negative sales trends in the entire market. Despite the unfavourable situation, our market share increased, and we expect the trend to continue. In terms of sales, our most important prescription pharmaceuticals included Enap (enalapril), Prenessa (perindopril) and Valodip (valsartan/amlodipine), as well as Herbion and Duovit among non-prescription products. The following products were successfully launched: Valodip (valsartan/amlodipine), Azibiot (azitromycin), Lortanda (letrozol) and SeptaNazal (xylometazoline/dexpantenol).

Despite the market decline in **Belarus**, we sold €10.7 million worth of products, or 8% more than in 2014, and retained fourth position among foreign suppliers of generic medicines. Prescription products contributed the largest portion to sales: Lorista (losartan), Nolpaza (pantoprazole) and Enap (enalapril). The leading non-prescription products were Septotele and Pikovit. The pharmaceutical market in **Moldova** was marked by pressure to reduce the prices of medicines and by a decline in the local currency. Despite this, we generated sales of €6.8 million, recorded a 10% increase in sales compared to the year before, retained a market share of slightly below 5% and ranked third among all producers of pharmaceutical products in the Moldovan market.

The tightening of economic circumstances in **Mongolia** also presented a challenge, but nevertheless we were the market leader among foreign producers of pharmaceutical products there. Owing to intensive marketing, product sales amounted to €5.3 million, 2% less than the year before. In **Turkmenistan**, where we regularly achieved two-figure growth in the past six years, we recorded a 21% increase in sales, mostly due to rising sales of prescription products. Sales there totalled €4.7 million. We sold €3.6 million worth of products in **Azerbaijan**. Two devaluations of the local currency and price regulations implemented in September contributed to the 8% decrease in sales. In **Georgia**, we sold €3 million worth of products or 8% less than in 2014, in **Kyrgyzstan** €2.3 million, 30% less than in 2014, and in **Tajikistan** €1.4 million worth of products, 21% less than in 2014. Sales in **Armenia** reached €1.8 million, an increase of 3%

We increased market shares in most Eastern European and Central Asian markets.

Region Central Europe

In Region Central Europe, Krka sold €279.9 million worth of products, 3% more than in 2014. Sales increased in all markets in the region except the Czech Republic. Prescription pharmaceuticals contributed 91% to sales, followed by non-prescription and animal health products.

In **Poland**, our key and largest market in the region, we generated a total of €136 million in sales, or 8% more than in 2014. This was 49% of total product sales in the region. Among our products, prescription pharmaceuticals from the reimbursement list contributed most to sales. New pharmaceuticals introduced over the past few years and products launched in 2015 made an important contribution to sales growth.

The most important prescription pharmaceuticals in terms of sales were: Atoris (atorvastatin), Roswera (rosuvastatin), Valsacor (valsartan), including the combination with hydrochlorothiazide; and Lorista (losartan), including the combination with hydrochlorothiazide. These are followed by: Nolpaza (pantoprazole), Doreta (tramadol/paracetamol), Tolura (telmisartan), including the combination with hydrochlorothiazide; Aryzalera (aripiprazol), Sulfasalazin (sulfasalazin), Karbis (candesartan), including the combination with hydrochlorothiazide; Prenessa (perindopril), including the combination with indapamide; Gliclada (gliclazide), Fromilid (clarithromycin), Zalasta (olanzapine), Rolpryna (ropinrole), Emanera (esomeprazole) and Amlessa (perindopril/amlodipine), including the combination with indapamide. Sales of non-prescription products saw 27% growth, with Bilobil (ginkgo biloba) as the market leader, followed by Septotele. Sales of

animal health products increased by 25% compared to 2014, reaching €4.5 million. The leading products were Floron (florfenicol) and Fypriest (fipronil).

Krka Group market position in Poland

We are the fourth-ranked foreign generic pharmaceutical company, with a 2.4% market share.

- Krka outperformed the entire market with respect to sales growth in 2015.

Our products are market leaders in:

- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 30%;
- the statin group, with a market share of more than 25%.

Our products are among market leaders in:

- the oral fluoroquinolone antimicrobial group, with a market share of approximately 25%;
- the group of intestinal anti-inflammatory products, with a market share of more than 15%;
- the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of approximately 15%;
- the proton pump inhibitor group, with a market share of approximately 15%;
- the SSRI antidepressant group, with a market share of more than 10%; and
- the group of antiparkinsonians, with a market share of approximately 10%.

We are the leading supplier of medicines with the active substances atorvastatin, escitalopram, esomeprazole, candesartan, including the combination with hydrochlorothiazide; lansoprazole; losartan, including the combination with hydrochlorothiazide; ropinirole, rosuvastatin, sulfasalazine, telmisartan, including the combination with hydrochlorothiazide; tramadol in combination with paracetamol, and valsartan, including the combination with hydrochlorothiazide.

We are the leading supplier of generic medicines with the active substances gliclazide, imatinib, pantoprazole and perindopril.

In **Hungary**, also a key market, Krka ranked second in terms of sales in the region for the first time in 2015. With sales 12% higher than the year before, reaching €45.2 million, we maintained our market share and consolidated the second position among mainly foreign producers of generic medicines.

This was mostly contributed by prescription pharmaceuticals: Prenessa (perindopril), including the combination with indapamide; Atoris (atorvastatin), Roxera (rosuvastatin), Nolpaza (pantoprazole), Dalnessa (perindopril/amlodipine), including the combination with indapamide; Zyllt (clopidogrel), Fromilid (clarithromycin), Lavestra (losartan), Valsacor (valsartan), including the combination with hydrochlorothiazide; Emozul (esomeprazole) and Tolura (telmisartan).

We more than tripled the sales of non-prescription products in 2015, which reached €1.5 million. Sales of Bilobil (gingko biloba) remain the strongest, and are followed by the newly launched Septotele, Nalgesin (naproxen), SeptaNazal (xylometazoline/dexpanthenol) and Herbion. Sales of animal health products increased by 6% compared to 2014.

Krka Group market position in Hungary

We ranked second among the mostly foreign generic pharmaceutical companies, with a 2.1% market share.

Our products are market leaders in:

- the platelet aggregation inhibitor group with a market share of more than 25%;
- the statin group, with a market share of more than 20%;
- the proton pump inhibitor group, with a market share of more than 20%.

Our products are among market leaders in:

- the oral fluoroquinolone antimicrobial group, with a market share of approximately 25%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of more than 20%;
- the macrolide and pyranoside antibiotic group, with a market share of more than 20%;
- the group of ACE inhibitors and their combinations with diuretics, with a market share of more than 20%; and
- the calcium-channel blockers group, with a market share of more than 10%.

We are the leading supplier of medicines with the active substance atorvastatin, indapamide, clarithromycin and clopidogrel.

We are the leading supplier of generic medicines with the active substances aripiprazole, gliclazide and pantoprazole.

In the **Czech Republic**, which is also one of Krka's key markets, various changes in the legislation impacted sales in 2015, resulting in keener competition and, consequently, continuing price reductions. The value of sales fell behind 2014 by 26%, reaching €35.9 million. We ranked third among foreign suppliers of generic medicines in the market.

The largest portion of product sales was contributed by prescription pharmaceuticals, especially Tonarssa/Tonanda (perindopril/amlodipine), Asentra (sertraline), Prenessa (perindopril), including the combination with indapamide; Atoris (atorvastatin), Lexaurin (bromazepam), newly launched Aryzalera (aripiprazol) and Pragiola (pregabalin), Tolura (telmisartan) and Valsacor (valsartan), including the combination with hydrochlorothiazide; and Fromilid (clarithromycin).

Sales of non-prescription medicines fell compared to 2014, with Nalgesin-S (naproxen) and Septotele maintaining the strongest sales in 2015.

Krka Group market position in the Czech Republic

Holding a market share of 2.6%, Krka is the third-ranked foreign generic pharmaceutical company.

Our products are among market leaders in:

- the anxiolytic group, with a market share of more than 35%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of more than 30%;
- the proton pump inhibitor group, with a market share of more than 25%;
- the group of alpha-adrenoreceptor antagonists, with a market share of approximately 25%;
- the macrolide and pyranoside antibiotic group, with a market share of more than 20%;
- the SSRI antidepressant group, with a market share of more than 15%;
- the group of ACE inhibitors and their combinations, with a market share of approximately 15%; and
- the statin group, with a market share of approximately 15%.

We are the leading supplier of medicines with the active substances esomeprazole, finasteride, lansoprazole, sertraline and valsartan, including the combination with hydrochlorothiazide.

We are the leading supplier of medicines with the active substances atorvastatin, escitalopram, clarithromycin, pantoprazole, perindopril, including the combinations with amlodipine and indapamide; and tamsulosin.

In **Slovakia**, sales grew by 5% over the year before, totalling €30.3 million. In terms of sales, prescription pharmaceuticals accounted for the largest share, with two leading products, Prenessa (perindopril) and Valsacor (valsartan), including the combination with hydrochlorothiazide. These were followed by Atoris (atorvastatin), Nalpaza (pantoprazol), Amlessa (perindopril/amlodipine), Lexaurin (bromazepam) and Fromilid (clarithromycin).

Sales of non-prescription products increased by 18% compared to 2014. In terms of sales, the leading product was Nalgesin-S (naproxen), followed by Septotele. The sales of animal health products increased by 55%, but the contribution to total sales remained modest.

*Sales growth in
Region Central
Europe was highest
in Estonia (26%),
Latvia (25%),
Hungary (12%) and
Poland (8%).*

In **Lithuania**, we sold €17.1 million worth of products, maintaining the 2014 levels. The most important prescription products in terms of sales were: Valsacor (valsartan), Prenessa (perindopril) and Amlessa (perindopril/amlodipine), including the combination with indapamide; Atoris (atorvastatin), Nalpaza (pantoprazol), and Tolura (telmisartan), including the combination with hydrochlorothiazide. Sales of non-prescription products were up 10%, with Daleron COLD3 (paracetamol/pseudoephedrine/dextromethorphan) and Nalgesin-S (naproxen) contributing the

most.

Sales in **Latvia** reached €9.7 million and increased over last year by 25%, primarily due to prescription products: Atoris (atorvastatin), Prenessa (perindopril), including the combination with indapamide; Nalpaza (pantoprazol), Tolura (telmisartan), and Enap (enalapril), including the combination with hydrochlorothiazide. The 14% growth in sales of non-prescription products was primarily due to sales of Daleron COLD3 (paracetamol/pseudoephedrine/dextromethorphan) and Nalgedol (naproxen).

In **Estonia**, the smallest market in the region, we reached the highest growth, 26%, with total of €5.6 million. Krka's leading prescription product in terms of sales was Roswera (rosuvastatin), followed by Valsacor (valsartan), including the combination with hydrochlorothiazide; Prenessa (perindopril), including the combination with indapamide; and Atoris (atorvastatin). Sales of non-prescription products exceeded 2014 sales by 36%, with Septotele as the leading product in sales terms.

Region West Europe

Overall sales in Region West Europe totalled €306.1 million, 22% more than in 2014. We increased sales of prescription pharmaceuticals through third partners by 4% after a decline of several years, especially owing to very successful sales in Great Britain. We continue to increase sales through subsidiaries. Sales of products marketed under our own brands rose by over 35%, and their share rose to more than 60% of overall sales in the region.

Krka is the leading producer of medicines in Region West Europe, with esomeprazole, clopidogrel, perindopril, galantamine, gliclazide, ropinirole, duloxetine, pregabalin, aripiprazole and pramipexole.

Prescription pharmaceuticals, in particular esomeprazole, duloxetine, pregabalin, pantoprazole, clopidogrel, and candesartan, were the leading products in the region. Through associated companies in particular, Krka successfully launched several medicines after product patents had expired, including duloxetine, pregabalin and aripiprazole, which we launched as the first generic company in most Western European markets.

Sales of animal health products increased by over a quarter compared to 2014. The best-selling product was milbemycin in combination with praziquantel. Total sales of non-prescription products rose by 11% compared to 2014. Germany and Portugal

were the most successful markets in terms of sales.

Almost all subsidiaries in Region West Europe again exceeded sales reached in 2014.

Germany is our most important Western European market. It generated sales of €85.3 million, almost 27% more than the year before. We generated over 90% of sales in the German market through our subsidiary TAD Pharma. We recorded an increase in sales primarily owing to healthy sales of several products for the treatment of cardiovascular diseases, medicines for the treatment of diseases of the alimentary tract and metabolism, and medicinal products for the treatment of the central nervous system. In the first quarter of 2015, we were the first generic producer to launch a medicinal product with duloxetine, under the brand Duloxalta, which was the leading product in terms of sales in 2015 in Germany. It was followed by Pregabador (pregabalin), Pantoprazol TAD (pantoprazol), Aripipan (aripiprazol) and Candecor/Candecor comp (candesartan and the combination with hydrochlorothiazide). The second market in the region in terms of sales was **Spain**, with €43.7 million. Sales through our subsidiary Krka Farmaceutica increased by over 15%, now accounting for over 80% of total sales in Spain. In **Scandinavian countries**, sales in 2015 reached nearly €40 million, an increase of nearly fifty percent compared to 2014. This was mainly the result of a successful launch of modern products for the treatment of the central nervous system with pregabalin, aripiprazole and duloxetine. Our sales were most substantial in **Sweden**, followed by **Denmark** and **Norway**. In **France**, sales amounted to a little less than €33 million, which is a 1% increase on the year before, especially due to good sales of esomeprazole through third partners. In **Great Britain**, we sold nearly €30 million worth of products, which is almost 50% more than in 2014. This was due to successful sales of medicines containing aripiprazole, duloxetine, pramipexole in the pharmaceutical form with prolonged release and pioglitazone. Total sales in **Italy** increased by over 30%, reaching €21.1 million, especially because of doubled sales through our subsidiary Krka Farmaceutici Milano. In **Portugal**, our sales totalled €20.6 million, or 5% more than the year before. Krka Farmaceutica has been one of the Portuguese pharmaceutical market leaders in terms of relative and absolute sales growth rates for some time. In the **Benelux** countries, where we sold €13.2 million worth of products, sales were down €1 million due to lower sales through third partners. In **other European countries**, we sold €8.2 million worth of products through third partners, which is an increase of 9% over 2014.

In **Ireland**, sales in **2014** through the subsidiary Krka Pharma Dublin increased by over two and a half times. Due to this increase, sales amounted to €6.2 million, accounting for an increase of 40%. Sales in **Austria** rose by 36%, totalling €6 million. The subsidiary Krka Pharma, Wien increased sales compared to 2014 by more than 50%.

Region Overseas Markets

In Region Overseas Markets, sales reached €31.7 million, 24% growth compared to 2014. Almost 90% was contributed by prescription pharmaceuticals, which we sell under our own brand names in most markets in the region.

In the markets of the **Middle East**, we sold €15.6 million worth of products, reaching 21% growth compared to 2014. Krka's biggest individual market in this region is **Iran**, with 25% sales growth compared to 2014. The best-selling products were Asentra (sertraline), Nolpaza (pantoprazol),

The biggest markets in terms of sales in the Region Overseas Markets remain Iran, Iraq and the Republic of South Africa.

Letizen (cetirizine), Fromilid (clarithromycin), Ultop (omeprazole), Zyllt (clopidogrel) and Yasnal (donepezil). In **Iraq**, we maintained sales, especially in the north (Kurdistan), and increased sales by 47% compared to 2014. In **Lebanon**, most product launches were postponed to 2016 due to long procedures for marketing authorisations.

In the markets of the **Far East** and **Africa**, we recorded overall sales of €15.4 million and achieved a 28% increase over the year before. The **Republic of South Africa** remained the most important individual market, where we achieved 14% sales growth, with strong sales of especially the following medicinal products with the active substances: lansoprazole, enalapril, amlodipine and carvedilol. Through high sales growth, which was the result of expanding our product range, **Vietnam** has become Krka's largest market in the Far East, followed by **Malaysia**, **China** and **Singapore**.

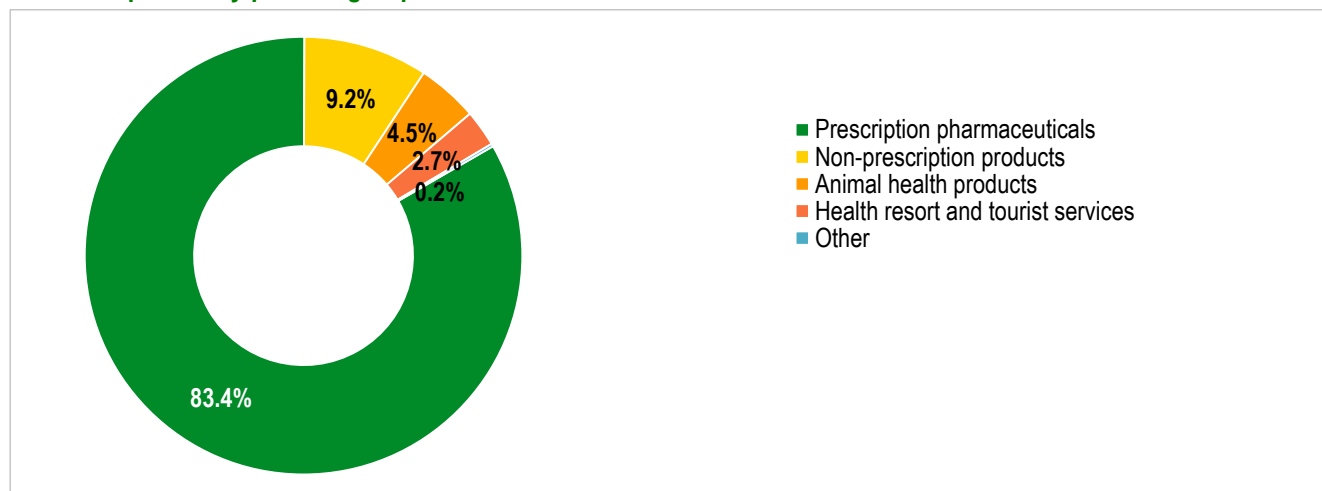
The increase in sales was highest in Vietnam, which became the fourth largest market in the region.

In the **Americas**, we increased sales by 16% compared to the year before. The markets of **Central America** saw the highest growth. The leading products in terms of sales were Valsacor (valsartan), Emanera (esomeprazole) and Atoris (atorvastatin).

Product* and service groups

In 2015, sales of prescription pharmaceuticals accounted for 83.4% of overall sales, followed by non-prescription products with 9.2%, animal health products with 4.5%, and health resort and tourist services with 2.7%. Sales of animal health products increased by 12%, and sales of health resort and tourist services rose by 3%, while sales of prescription pharmaceuticals and non-prescription products decreased.

Krka Group sales by product group in 2015



Krka Group and Krka Company sales by product and service group

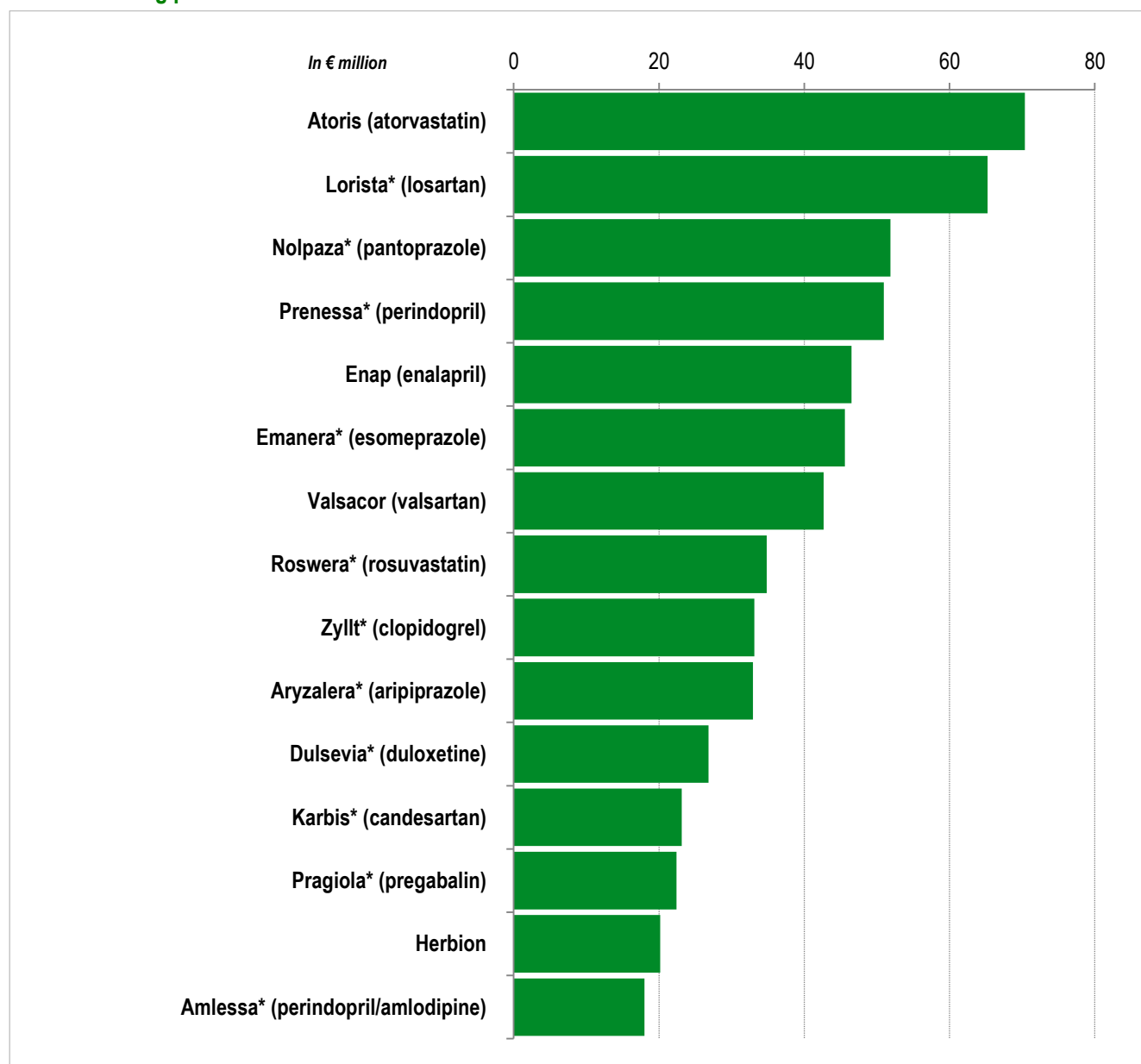
In € thousand	Krka Group			Krka Company		
	2015	2014	Index 2015/14	2015	2014	Index 2015/14
Human health products	1,079,365	1,112,588	97	1,030,779	1,083,211	95
– Prescription pharmaceuticals	971,549	990,627	98	934,874	977,518	96
– Non-prescription products	107,816	121,961	88	95,905	105,693	91
Animal health products	52,129	46,514	112	51,860	46,870	111
Health resorts and tourist services	31,046	30,038	103			
Other	2,067	2,474	84	3,887	4,088	95
Total	1,164,607	1,191,614	98	1,086,526	1,134,169	96

Krka Group quarterly sales by product and service group

In € thousand	2015				2014			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Human health products	270,391	288,389	240,937	279,648	279,342	281,525	239,518	312,203
– Prescription pharmaceuticals	243,217	264,707	217,337	246,288	248,294	253,762	212,288	276,283
– Non-prescription products	27,174	23,682	23,600	33,360	31,048	27,763	27,230	35,920
Animal health products	11,743	14,269	13,131	12,986	10,894	11,792	10,495	13,333
Health resorts and tourist services	6,456	7,550	9,077	7,963	6,830	7,580	8,280	7,348
Other	714	338	307	708	951	456	371	696
Total	289,304	310,546	263,452	301,305	298,017	301,353	258,664	333,580

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Sales of leading products in 2015



* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

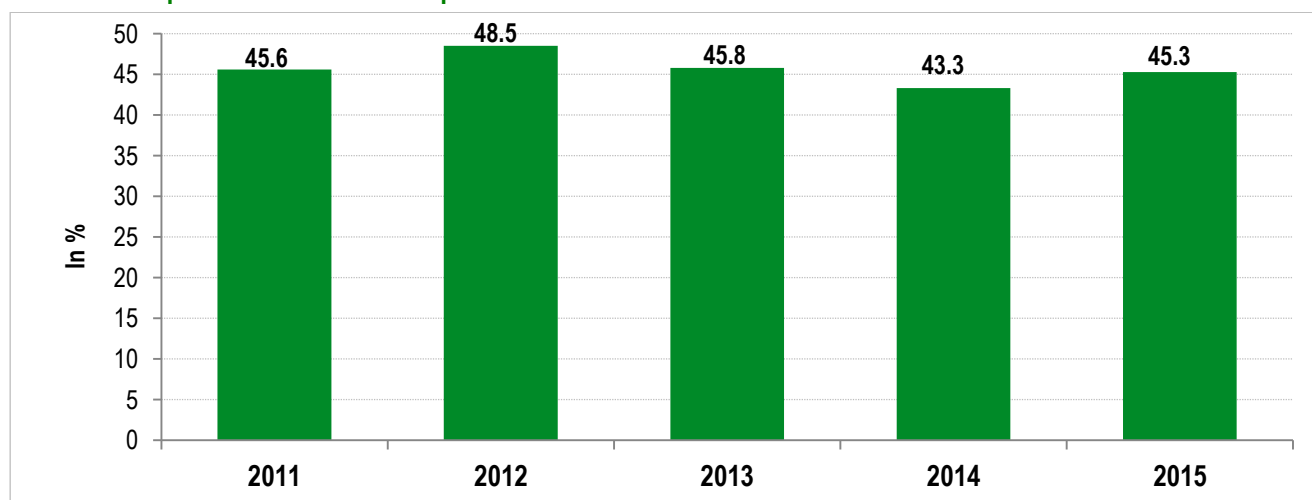
New products

In 2015, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 45.3% of total sales.

The most important new products are Aryzalera* (aripiprazole) and Pragiola* (pregabalin), which were launched in the markets of the European Union at the end of 2014, and Dulsevia* (duloxetine), which was launched in 2015; in 2015, all three ranked among Krka's 15 leading products. In terms of absolute sales growth, they took the leading places.

We launched several new products containing new generic substances and their combinations, supplemented existing products with new pharmaceutical dosage forms and pack sizes, and extended our marketing activities to new markets.

Share of new products** in Krka Group sales



** The share of new products includes products launched in individual markets in the past five years.

New products in 2015

Prescription pharmaceuticals

Medicines for the treatment of cardiovascular diseases	Bravadin (ivabradine)
Medicines for the treatment of the central nervous system	Dulsevia/Duloxalta (duloxetine) Ralago/Rasagea/Raglysa (rasagiline) Kventiax SR/Kventiax Prolong/Quentiax Retard (quetiapine) prolonged-release tablets
Medicines for the treatment of infections	Furocef/Ricefan/Ceferoxan (cefuroxime) Levalox/Levnibiot/Leviaben/Levaxela (levofloxacin)
Medicines for the treatment of diseases of the urinary tract	Dulovesic/Loxentia (duloxetine)
Oncology medicines	Tezalom (temozolomide)

Non-prescription products

Products acting on the oral cavity and pharynx	Septolete Total/Septabene/Septolete Extra/Septolete Omni/Septolete Ultra/Septolete Duo (benzylamine/cetylpyridinium)
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Animal health products

Antimicrobial pharmaceuticals for farm animals	Amatib (amoxicillin)
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* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Prescription pharmaceuticals

In 2015, the Krka Group sold €971.5 million worth of prescription pharmaceuticals, a decrease of 2% compared to 2014. The decrease in sales resulted from currency devaluation in the Russian Federation, the contraction of the market in Ukraine, and price reductions in Romania and the Czech Republic.

In most European markets, we market our prescription pharmaceuticals under our own brand names and have our own marketing-and-sales network. In 2015, Belgium became part of our network in Western Europe. In Central, Eastern and South-Eastern Europe, we have one of the strongest marketing-and-sales networks among the pharmaceutical companies. Our operations permit us to react quickly to changes in markets.

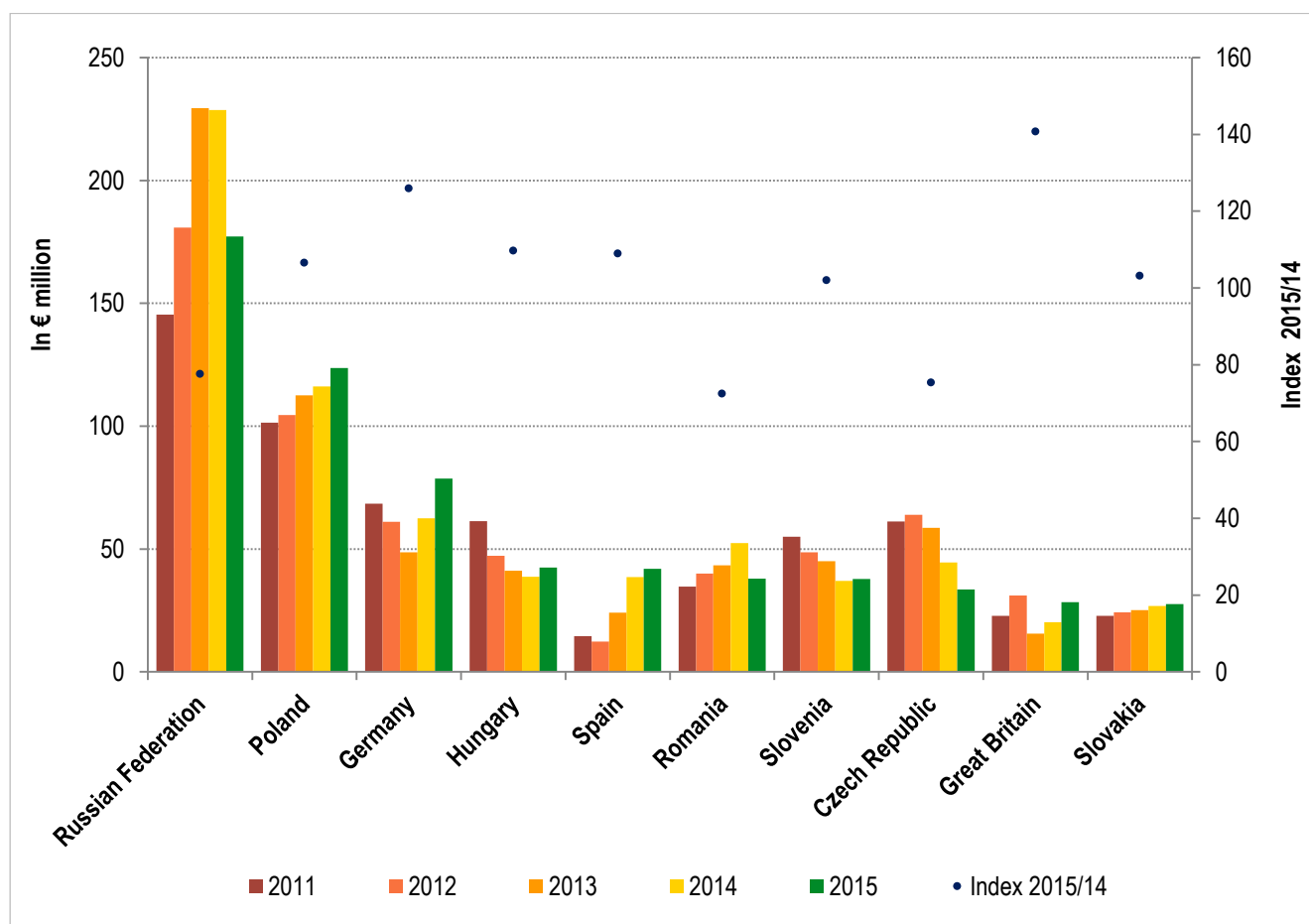
Among the ten largest individual markets, sales of prescription pharmaceuticals increased the most in Great Britain, Germany and Hungary. Among other markets, sales increased the most in Denmark, Norway and Finland. In the Russian Federation, which is Krka's largest individual market for prescription pharmaceuticals, sales decreased, especially due to the devaluation of the Russian rouble. Expressed in the local currency, sales increased.

With respect to sales, medicines for the treatment of cardiovascular diseases remained the key therapeutic area of prescription pharmaceuticals in 2015, followed by pharmaceuticals for diseases of the central nervous system and pharmaceuticals for alimentary and metabolic diseases.

Atoris, Lorista and Nolvaza* are Krka's leading medicines in terms of sales.*

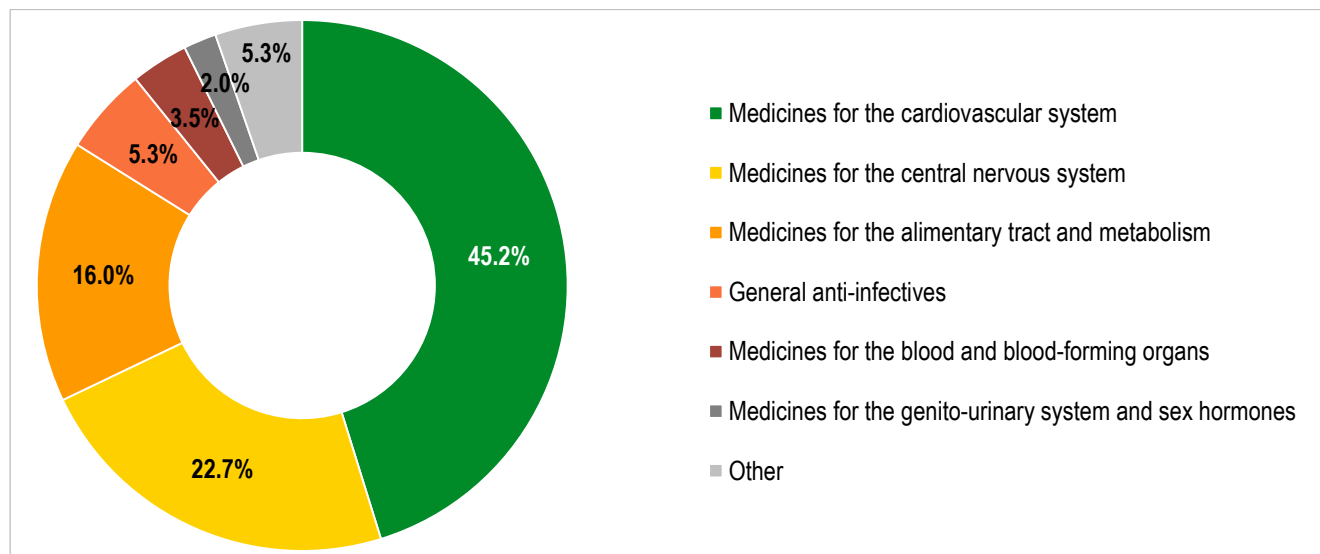
Atoris (atorvastatin) remained the leading prescription pharmaceutical in 2015 in terms of sales, followed by Lorista* (losartan), Nolvaza* (pantoprazole), Prenessa* (perindopril) and Enap (enalapril). Among the ten leading prescription pharmaceuticals in terms of sales were Emanera* (esomeprazole), Valsacor (valsartan), Roswera* (rosuvastatin), Zyllt* (clopidogrel) and Aryzalera* (aripiprazole).

Sales of prescription pharmaceuticals in the ten biggest markets



* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Sales of prescription pharmaceuticals by therapeutic class



Medicines for the treatment of cardiovascular diseases

Statins

Krka has for years been the leading producer of statins in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. We have further consolidated the leading position among competitors by increasing our market share by 20%. In several individual markets, Krka's statins account for more than one third of total statin sales. Our statins Atoris and Roswera* rank the first and second in terms of sales volume in the area. Krka remains the only pharmaceutical company in Europe that markets atorvastatin and rosuvastatin in six strengths.

Krka is the leading producer of statins in the markets of Slovenia, Central, Eastern, and South-Eastern Europe.

Our most important statin is **Atoris** (atorvastatin), which is also Krka's most important product in terms of sales. In 2015, it consolidated its position in Central, Eastern, and South-Eastern Europe. Its market share increased among statins to nearly 15% and to more than 30% among atorvastatins. In terms of sales volume, the atorvastatin with the highest absolute sales growth was Atoris. We expanded the marketing of atorvastatin in Western Europe by launching it in Italy and Belgium. In Great Britain, we ranked among the leading generic producers of atorvastatin. Krka is the only manufacturer in Europe that also markets atorvastatin in strengths of 30 and 60 mg. We have launched the two strengths in Uzbekistan, the 19th sequential market.

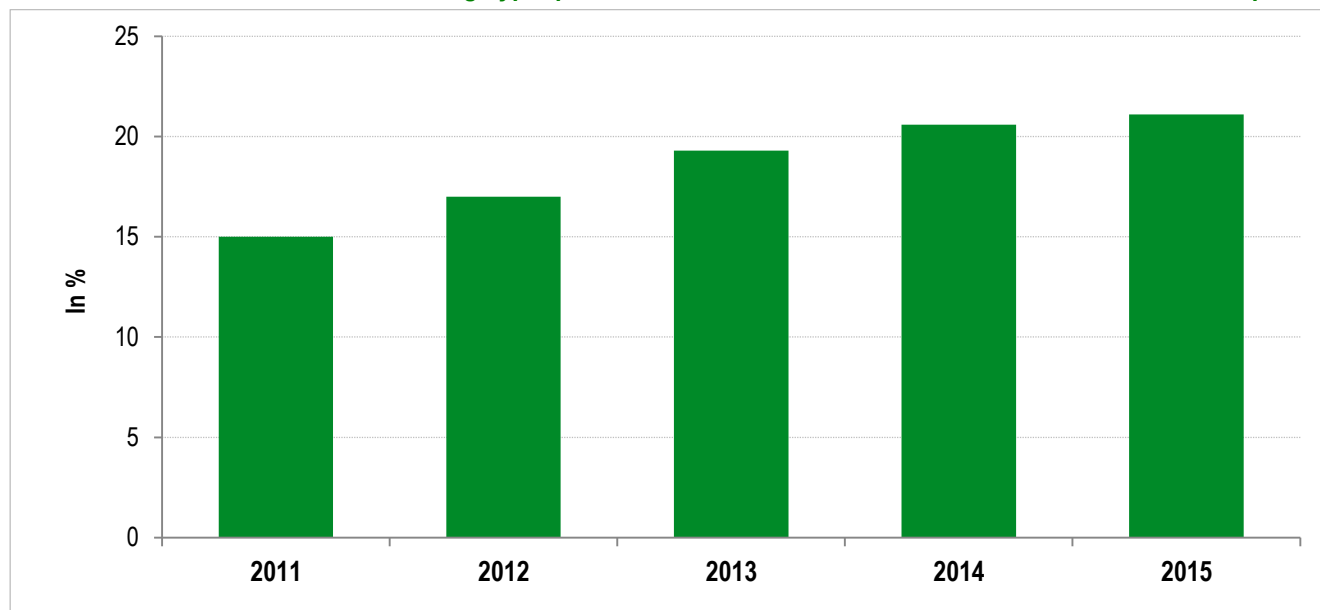
Roswera* (rosuvastatin) remained the leading generic rosuvastatin in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. In terms of sales volume in this area, it only lags behind Atoris, making it the most frequently prescribed rosuvastatin. In several markets, its market share among rosuvastatins exceeds 30%. In 2015, the number of patients treated with Roswera increased by 100,000 patients compared to the year before*. Krka is the only manufacturer in Europe that markets rosuvastatin in strengths of 15 mg and 30 mg. We expanded marketing of Roswera* to other markets in Region East Europe: Mongolia, Moldova and Azerbaijan.

Krka is the only producer in Europe which markets atorvastatin and rosuvastatin in six strengths.

Krka's range of statins includes **Vasilip** (simvastatin). It has been the leading generic simvastatin in the markets of Slovenia, Central, Eastern, and South-Eastern Europe for years. This product group also contains **Atordapin*** (atorvastatin/amlodipine), Krka's first fixed-dose combination of two active ingredients for the treatment of hyperlipidemia and high blood pressure. In 2015, we launched it also in Latvia.

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Market share of Krka's medicines among hypolipemics in Slovenia, Central, Eastern and South-Eastern Europe



Krka's statins and their fixed-dose combinations

rosuvastatin (Roswera/Roxera/Sorvasta)

atorvastatin (Atoris)

atorvastatin/amlodipine (Atordapin/Atorcombo/Amaloris)

simvastatin (Vasilip)

lovastatin (Holetar)

ACE inhibitors

Our range comprises 13 ACE inhibitors, including seven fixed-dose combinations with a diuretic or a calcium channel blocker, and a triple fixed-dose combination. Krka has for years been the leading generic producer of medicines from the ACE-inhibitor group in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, where, in comparison to 2014, we increased our market share. In more than ten ACE inhibitor markets, our share exceeds 15%, also in the Russian Federation, the largest market in the area. In terms of sales volume, we are the leader among all producers of ACE inhibitors.

We are the leading generic producer of medicines containing perindopril in Europe.

Krka has the biggest portfolio of medicines with perindopril among the generic manufacturers in Europe. It comprises **Prenessa*** (perindopril), **Co-Prenessa*** (perindopril/indapamide), **Amlessa*** (perindopril/amlodipine) and **Co-Amlessa*** (perindopril/amlodipine/indapamide). We are the only generic manufacturer of this triple combination, which we launched in 2014 (the first generic pharmaceutical company in the world to do so). In 2015, we increased the market share of Prenessa* and fixed-dose combinations in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, and maintained the leading position among generic producers of medicines containing perindopril in Europe. We launched medicines from this group in several new markets. We launched Co-Amlessa* as the first generic in the Russian Federation, Slovenia, Hungary and elsewhere, Co-Prenessa* and Amlessa* as the first generic in several markets in Eastern Europe, and perindopril in Belgium.

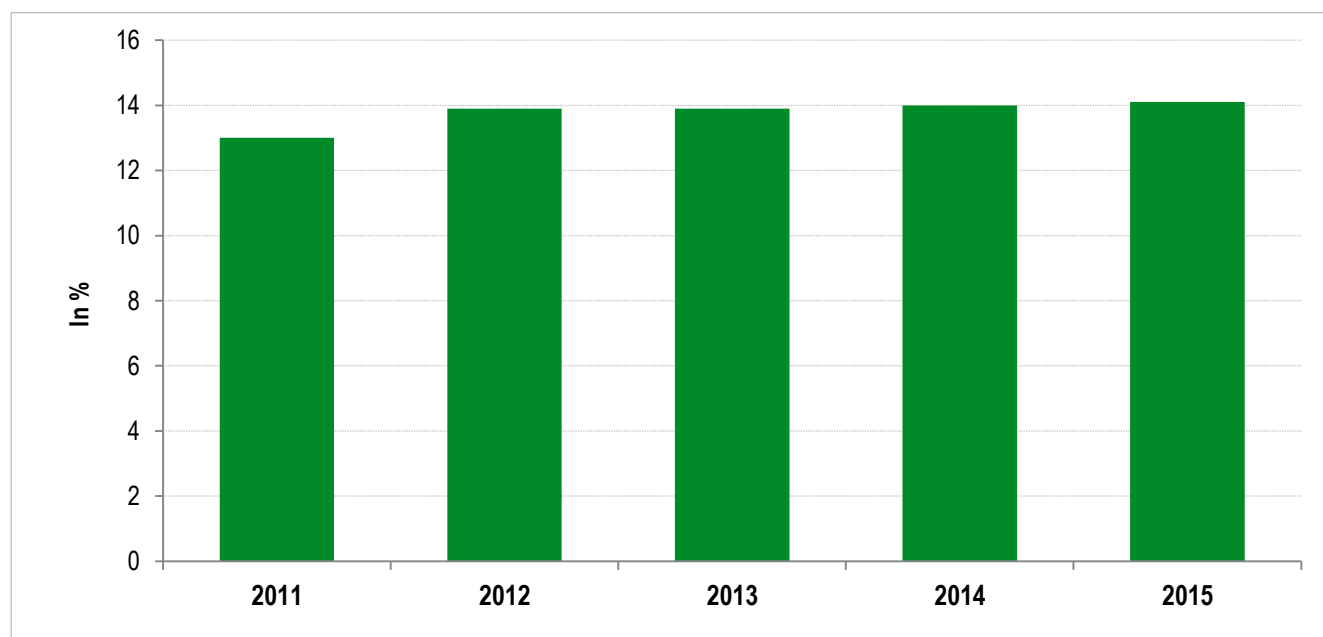
Krka has the biggest portfolio of medicines with perindopril among the generic manufacturers in Europe.

Enap (enalapril) with its fixed-dose combinations with hydrochlorothiazide, remained the leading enalapril in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, holding more than one third of the market shares. One of Krka's medicines with enalapril is a combination of enalapril and a calcium channel blocker, **Elernap*** (enalapril/lercanidipine), which we have been successfully marketing especially in Western Europe, where Krka is the leading generic producer of this fixed-dose combination.

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Ampril* (ramipril) with its fixed-dose combinations with hydrochlorothiazide is the leading generic ramipril in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. Most of it is sold in the Russian Federation, where Amprilan* is the most frequently prescribed ramipril accounting for a market share of over 40%.

Krka's market share in ACE inhibitors in the markets of Slovenia, Central, Eastern and South-Eastern Europe



Krka's ACE inhibitors and their fixed-dose combinations

perindopril (Prenessa/Perineva)
 perindopril/indapamide (Co-Prenessa/Co-Perineva/Prenewel)
 perindopril/amlodipine (Amlessa/Dalnessa/Tonarssa/Dalneva)
 perindopril/amlodipine/indapamide (Co-Amlessa/Co-Dalnessa/Co-Dalneva/Amlewell/Dalhecombi/Tonanda)
 enalapril (Enap)
 enalapril/hydrochlorothiazide (Enap-H/Enap-HL/Enap-HL 20)
 enalapril/lercanidipine (Elernap/Elyrno)
 ramipril (Ampril/Amprilan)
 ramipril/hydrochlorothiazide (Ampril HL/Amprilan HL, Ampril HD/Amprilan HD)
 lisinopril (Laaven/Zonixem)
 lisinopril/hydrochlorothiazide (Laaven-HL/Zonixem-HL, Laaven-HL 20/Zonixem-HL 20, Laaven-HD/Zonixem-HD)
 cilazapril (Cazaprol)
 cilazapril/hydrochlorothiazide (Cazacombi)

Sartans (angiotensin II receptor antagonists)

Krka's sartans are available in 40 countries around the globe. In 2015, Krka remained the leading producer of sartans in the markets of Slovenia, Central, Eastern and South-Eastern Europe. We increased our market share to almost 25%, exceeding 30% in several individual markets. In 2015, we sold 250 million sartan tablets more than the year before, i.e. 15% growth. Despite this, the value of sales decreased.

In 2015, we sold 250 million more sartan tablets than the year before, when we sold 1.78 billion tablets.

Lorista* (losartan) and its combinations with hydrochlorothiazide further strengthened the leading position in terms of sales in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Its market share grew compared to the 2014 figure and reached more than 40%. In addition to the combination of losartan and a diuretic, we also market the fixed-dose combination of losartan with a calcium channel blocker, Tenloris* (losartan/amlodipine). It was first launched in 2014. Last year, we started marketing it as the first generic in the Russian Federation and in Kosovo. We also extended marketing of losartan. We launched it in Belgium.

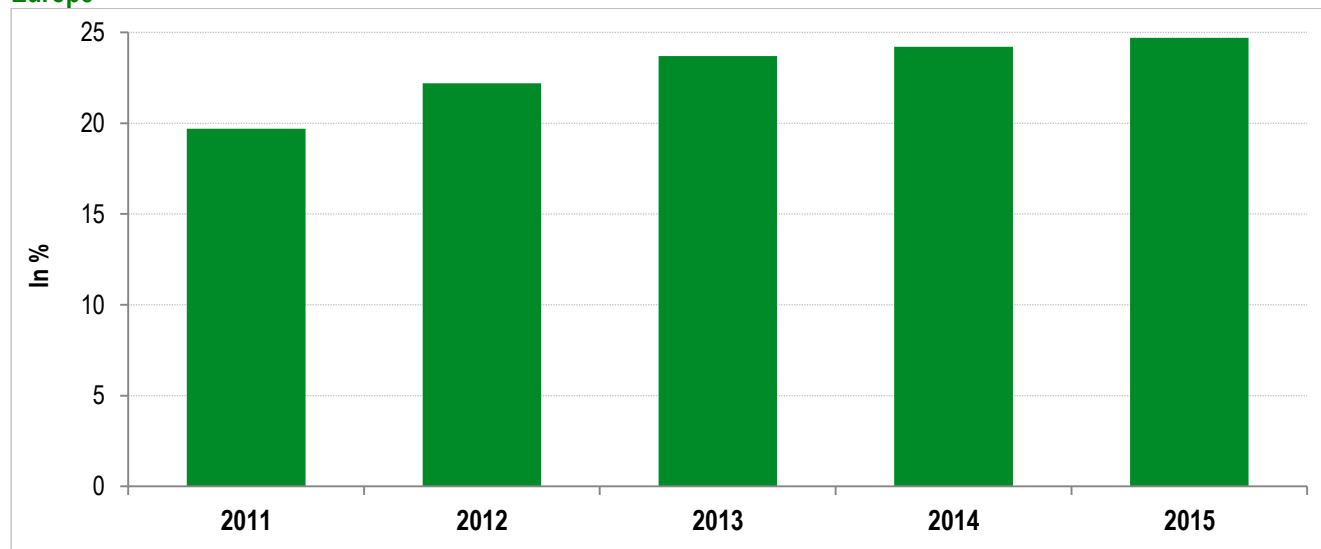
* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Valsacor (valsartan) with its fixed-dose combinations with hydrochlorothiazide is the leading valsartan in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Its market share accounts for more than 25%. Sales are also good in Western Europe, where in 2015 the product's sales growth was the highest. Valsacor is the leading valsartan in Germany, and last year we also started marketing it in Belgium. In some other markets, we launched new strengths. The portfolio of valsartan medicines was extended with **Vamloset*** (valsartan/amlodipine), a fixed-dose combination of valsartan and a calcium channel blocker, which we first marketed in 2014. In 2015, we also launched it in Ukraine and other countries of Eastern Europe. In Kazakhstan, Uzbekistan and in certain other small markets, we introduced it as the first generic producer.

Valsacor is the leading valsartan in Germany.

Also **Karbis*** (candesartan), **Tolura*** (telmisartan) and **Ifirmasta*** (irbesartan), as well as their combinations with hydrochlorothiazide are among the leaders in their respective generic active ingredient groups in the markets of Slovenia, and Central, Eastern and South-Eastern Europe. The market shares of Karbis* and Tolura* in the area exceeded 20%. In Germany, Krka is the leading generic manufacturer of candesartan and among the leading generic producers of telmisartan. We launched Karbis* in Belgium and Estonia, where we also started marketing Tolura*. As the first generic pharmaceutical company, we launched the fixed-dose combination of telmisartan and hydrochlorothiazide in Kazakhstan and Latvia.

Market share of Krka's medicines among sartans in the markets of Slovenia, Central, Eastern and South-Eastern Europe



Krka's sartans and their fixed-dose combinations

losartan (Lorista/Lavestra)

losartan/hydrochlorothiazide (Lorista H/Lavestra H, Lorista HL/Lavestra HL, Lorista HD/Lavestra HD)

losartan/amlodipine (Tenloris/Alortia/Lortenza/Losamlo)

valsartan (Valsacor)

valsartan/hydrochlorothiazide (Valsacombi/Co-Valsacor/Valsacor H, Valsacor HD/Valsaden/Janartan)

valsartan/amlodipine (Vamloset/Valodip)

telmisartan (Tolura/Telmista)

telmisartan/hydrochlorothiazide (Tolucombi/Telmista H)

candesartan (Karbis/Candecor/Canocord)

candesartan/hydrochlorothiazide (Karbicombi/Cancombino/Canocombi)

irbesartan (Ifirmasta/Irabel/Firmasta/Iracor/Irbecor)

irbesartan/hydrochlorothiazide (Ifirmacombi/Co-Irabel/Firmasta H, Firmasta HD/Irbecor comp)

olmesartan (Olimestra)

olmesartan/hydrochlorothiazide (Co-Olimestra)

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Other medicines for the treatment of high blood pressure

In addition to sartans and ACE inhibitors, we also marketed other medicines for lowering high blood pressure. The range includes a calcium channel blocker, **Tenox*** (amlodipine), diuretic **Rawel SR** (indapamide), adrenergic receptor blockers **Coryol** (carvedilol) and **Niperten*** (bisoprolol), and a fixed-dose combination **Sobycombi*** (bisoprolol/amlodipine). We launched Niperten* in Ukraine, and Bosnia and Herzegovina, and Sobycombi* as the first generic pharmaceutical company in the Russian Federation and Hungary. We generated a significant portion of amlodipine and carvedilol sales in the Republic of South Africa and other countries of the Region Overseas Markets.

Other medicines for the treatment of cardiovascular diseases

In 2015, we added a new medicine, **Bravadin** (ivabradine), to our portfolio of medicines for the treatment of cardiovascular diseases. Ivabradine reduces increased heart rate and is used for treating stable angina pectoris and chronic heart failure. As the first and only generic pharmaceutical company in Europe, we started marketing it in the Russian Federation.

We are the first generic pharmaceutical company in Europe to launch ivabradine.

Medicines for the treatment of the central nervous system

Antipsychotics

In 2015, Krka further increased its share among manufacturers of antipsychotics in the markets of Slovenia, Central, Eastern and South-Eastern Europe and strengthened its position as the leading generic manufacturer. In this field, Krka was among the leading companies in terms of absolute growth in sales. We sold most of our antipsychotics in Western Europe, where our sales saw the highest absolute growth.

Aryzalera* (aripiprazole) is our newest antipsychotic. We launched it in the European Union in 2014 and in 2015; it was already available in more than 20 markets. We launched it as the first generic pharmaceutical company in Poland, the Czech Republic, Romania, and other markets of Central and South-Eastern Europe. We also started marketing it in many Western European markets, including Spain, Italy and Portugal. Krka's aripiprazole is the leading generic aripiprazole in Europe, and Aryzalera* placed among the three leading Krka medicines in terms of absolute sales growth in 2015.

Krka is the leading generic manufacturer of aripiprazole in Europe.

In terms of sales, Aryzalera* was followed by **Zalasta*** (olanzapine) and **Kventiax*** (quetiapine). Krka is among the leading generic producers of olanzapine in Europe. In the Russian Federation, Slovenia and some other markets, Zalasta* is the leading generic olanzapine. In 2015, we launched Kventiax* prolonged-release tablets. The medicine is taken once daily, making treatment easier. We launched it in Germany, Spain, Poland, Hungary and other markets.

Krka also markets **Zypsilan*** (ziprasidone), the leading ziprasidone in the markets of Slovenia, Central, Eastern and South-Eastern Europe, and **Torendo*** (risperidone), the leading generic risperidone in the area. In Western Europe, Krka is among the leading generic manufacturers of risperidone orodispersible tablets, and in Germany among the leading generic manufacturers of ziprasidone.

Krka's atypical antipsychotics

aripiprazole (Aryzalera/Aripipan/Arisppa/Zylaxera)

olanzapine (Zalasta/Zolrix)

quetiapine (Kventiax/Quentiax)

risperidone (Torendo/Rorendo)

ziprasidone (Zypsilan/Zypsila/Ypsila)

Antidepressants

Krka has been the leading generic manufacturer of antidepressants in the markets of Slovenia, Central, Eastern and South-Eastern Europe for years. Last year, we increased our market share and therefore strengthened our leading position. In terms of quantities sold, Krka maintained its leading position among all manufacturers.

Krka was the first generic pharmaceutical company to launch duloxetine in more than 15 countries.

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Krka became the leading generic manufacturer of duloxetine in Europe.

Dulsevia* (duloxetine) is Krka's new antidepressant, which may also be used in the treatment of painful diabetic neuropathy. We started marketing it in more than 20 countries, also in the biggest European markets, such as Great Britain, Italy, France and Spain. In more than 15 countries of Western, Central and South-Eastern Europe, Krka was the first generic pharmaceutical company to launch duloxetine. We became the leading generic manufacturer of duloxetine in Europe, and Dulsevia* ranked among the first three Krka's medicines in terms of absolute sales growth.

Elicea* (escitalopram) has been the leading generic escitalopram in the markets of Slovenia, Central, Eastern and South-Eastern Europe for years. In 2015, it further strengthened its position by increasing market share. In Poland and Kazakhstan, it was the leader among all competitors, while in five other markets it placed as the first generic escitalopram, accounting for more than 20% of market share. In 2015, it was launched in Bulgaria.

With more than a 30% market share, **Alventa*** (venlafaxine) was the leading venlafaxine in Slovenia, Estonia, the Czech Republic and Slovakia, and took the leading place among generics in several other markets. Krka also markets it successfully in Western Europe, so last year Krka retained its place among the leading generic manufacturers of venlafaxine in Europe.

Our portfolio of antidepressants also contains **Asentra** (sertraline) and **Mirzaten** (mirtazapine). In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Asentra increased its market share, strengthening the position of the leading generic sertraline, while mirtazapine retained its leading place among all competitors. We also started marketing it in Italy.

Krka's antidepressants

duloxetine (Dulsevia/Duloxalta)

escitalopram (Elicea/Ecytara/Escitalex/Anxila)

venlafaxine (Alventa/Olwexya)

sertraline (Asentra)

mirtazapine (Mirzaten)

Medicines for the treatment of Alzheimer's disease

Krka has been the leading generic producer of medicines for the treatment of Alzheimer's disease for years in Slovenia, and in Central, Eastern and South-Eastern Europe. Last year, we further strengthened the leading position by increasing our market share. Krka's portfolio comprises all four active ingredients used in the world for the treatment of Alzheimer's disease.

Marixino* (memantine) is the leading generic memantine in Portugal, the Czech Republic, Slovenia and Lithuania. In 2015, it was launched in the Russian Federation, Serbia and Croatia. Krka is among the leading generic manufacturers of memantine in Europe.

Krka is one of the leading generic manufacturers of memantine, donepezil and galantamine in Europe.

The product range is supplemented by **Galsya SR*** (galantamine), **Yasnal*** (donepezil) and **Nimvastid** (rivastigmine). Galsya SR* was the leading generic galantamine in Slovenia and Romania, while in Slovakia it took the lead among all competitors. It also recorded strong sales in Western Europe, where Krka placed as the leading generic manufacturer of galantamine. In that area, Krka also took the place among the leading generic manufacturers of donepezil. In 2015, as the only manufacturer, Krka launched Yasnal* orodispersible tablets also in Macedonia.

Krka's medicines for the treatment of Alzheimer's disease

memantine (Marixino/Memando/Maruxa/Memaxa/Mentixa/Maryzola)

galantamine (Galsya SR/Galnora)

donepezil (Yasnal/Yasnoro)

rivastigmine (Nimvastid)

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Medicines for the treatment of Parkinson's disease

For several successive years, Krka has been a leading generic producer of medicines for the treatment of Parkinson's disease in the markets of Slovenia, Central, Eastern and South-Eastern Europe. In 2015, we launched a new medicine rasagiline. It is Krka's third medicine for the treatment of Parkinson's disease. We are the leading generic manufacturer of all three active substances in Europe.

We are the leading generic manufacturer of ropinirole, pramipexole and rasagiline in Europe.

Also in 2015, **Rolpryna SR*** (ropinirole) remained the leading generic ropinirole in many countries, including the Czech Republic, Portugal and Ireland. In Poland, Romania and Estonia, the medicine took the leading position among all ropiniroles. Also in 2015, Krka remained the leading generic producer of ropinirole in Europe.

Oprymea (pramipexole) was the leading generic pramipexole in Romania, Lithuania, and Hungary, holding more than 20% of market share. It was also the leading generic pramipexole in Slovakia, Ireland and many other markets, while in Portugal, it took the leading place among all pramipexoles. In many markets, we started marketing new, greater strengths of pramipexole in prolonged-release tablets. Krka remained Europe's leading supplier of pramipexole in prolonged-release tablet form.

In 2015, we added a new medicine, **Rasagea*** (rasagiline), for the treatment of Parkinson's disease to our portfolio. We started marketing it as one of the first generic medicine of its kind in Germany. In the future, we plan to market it in other markets. In 2015, Krka was the leading generic manufacturer of rasagiline in Western Europe.

Analgesics

Krka further strengthened the position of **Doreta*** (tramadol/paracetamol) fixed-dose combination in the markets of Slovenia, Central, Eastern and South-Eastern Europe. In comparison to 2014, its market share increased and exceeded 30%. Sales were good also in Western Europe. We launched it in Germany, where we became the leading generic producer of this combination. We also ranked among the leading generic producers of this fixed-dose combination in Europe.

Doreta is the leading fixed-dose combination of tramadol and paracetamol in the markets of Slovenia, Central, Eastern and South-Eastern Europe.

In 2014, we added **Aclexa*** (celecoxib), Krka's newest analgesic, to our portfolio of analgesics. In 2015, it remained the leading generic celecoxib in the markets of Slovenia, Central, Eastern and South-Eastern Europe. In Western Europe, too, Krka is among the leading generic producers of celecoxib. In Poland, the Czech Republic, Lithuania and Bulgaria, Aclexa* holds a market share of more than 30% and is ahead of all competitors. In 2015, it was also launched in Croatia and Kosovo.

Our portfolio of analgesics includes **Naklofen duo** (diclofenac) and **Nalgesin*** (naproxen), which is also available as a non-prescription product.

Other medicines for the treatment of diseases of the central nervous system

In 2014, we were the first generic producer in the European Union to launch **Pragiola*** (pregabalin) from the group of antiepileptic agents. Last year, marketing activities were extended to more than ten markets. As the first generic pharmaceutical company, we launched it in Slovenia, Austria, Ireland, Portugal, Croatia, and elsewhere. In Western Europe, Krka was the leading generic manufacturer of pregabalin in Slovenia and Austria, and remained the only generic manufacturer in certain other markets. In terms of absolute sales, Pragiola* was among the three leading Krka products.

Krka was the leading generic manufacturer of pregabalin in Western Europe.

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Medicines for the treatment of diseases of the alimentary tract and metabolism

Proton pump inhibitors

For more than five years, we have been the leading manufacturer of proton pump inhibitors in the markets of Slovenia, Central, Eastern and South-Eastern Europe, and have been increasing our market share for more than a decade. Last year, 300 million more tablets and capsules of proton pump inhibitors were sold than the year before, so growth in terms of quantities reached 20%. However, it retained the 2014 level in terms of sales revenues.

In 2015, sales volume of proton pump inhibitors grew by 20%.

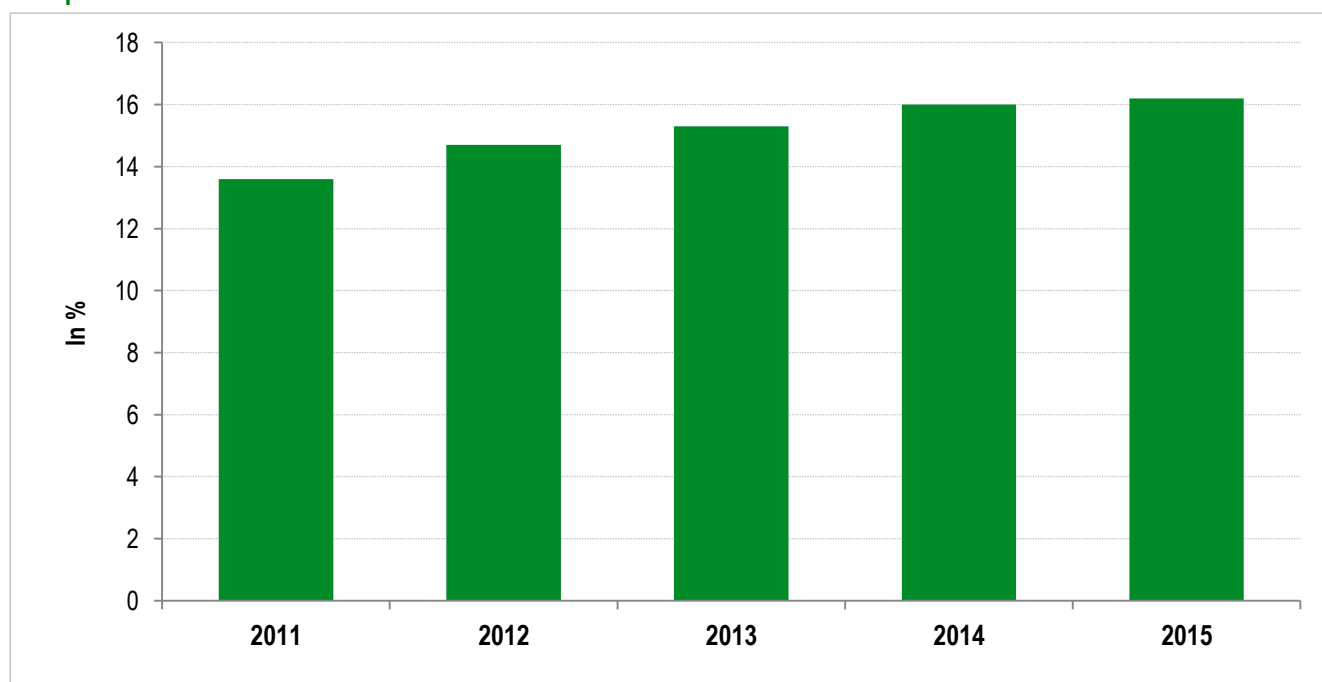
Nolpaza* (pantoprazole) remained the leading generic pantoprazole in the markets of Slovenia, Central, Eastern and South-Eastern Europe. In terms of sales volume, it is the most frequently prescribed pantoprazole in the area. One in four prescribed pantoprazoles is made by Krka. Nolpaza is the most often prescribed proton pump inhibitor in Slovenia, Hungary, and Slovakia. We are one of the leading generic producers of pantoprazole also in Western Europe. Nolpaza* is not only available in tablets, but also in the pharmaceutical form of a powder for a solution for injection. Last year, we launched it in Georgia and Armenia.

Emanera* (esomeprazole) has become the most often prescribed esomeprazole in the markets of Slovenia, Central, Eastern and South-Eastern Europe. One in four prescribed esomeprazoles is Emanera*. In the Czech Republic, Poland, Croatia and several other markets, it accounts for more than one-third of the market share. Sales of Emanera* were also good Western Europe. Krka's esomeprazole was the leading generic esomeprazole in Germany, with more than a 30% market share. Krka has been the leading generic producer of esomeprazole in Europe for several consecutive years. In 2015, we launched Emanera* in Belarus and Kosovo.

Krka is the leading generic manufacturer of esomeprazole in Europe.

Krka's portfolio of proton pump inhibitors also contains **Lanzul*** (lansoprazole) and **Gelbra*** (rabeprazole). The two medicines generated strong sales, especially in Western Europe, while almost one fifth of lansoprazole was sold in the Republic of South Africa and other overseas markets. Krka is among the leading generic producers of lansoprazole and rabeprazole in Europe. Last year, we launched the latter as the first generic pharmaceutical company in Poland and Latvia.

Market share of Krka's medicines among proton pump inhibitors in Slovenia, Central, Eastern and South-Eastern Europe



* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Krka's proton pump inhibitors

esomeprazole (Emanera/Emozul/Escadra)

pantoprazole (Nolpaza/Appryo)

rabeprazole (Gelbra/Zulbex)

lansoprazole (Lanzul/Lansoptol)

omeprazole (Ultop)

Oral antidiabetics

Gliclada* (gliclazide) in the prolonged-release tablet form is Krka's most important oral antidiabetic product. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, it is the leading generic gliclazide, and in the Czech Republic it leads among all competitive products. It also recorded strong sales in Western Europe, where Krka was among the leading generic manufacturers of prolonged-release gliclazide. In 2015, we launched Gliclada* also in the Russian Federation. A new 60 mg strength, which we first launched in 2014, was also put on the market in the Russian Federation, the Czech Republic, Hungary, Austria and several others. Our portfolio of antidiabetics also includes **Meglimid** (glimepiride) and **Enyglid*** (repaglinide). Krka is among the leading generic manufacturers of repaglinide in Germany.

Medicines for the treatment of obesity

Orsoten (orlistat) is Krka's medicine for the treatment of obesity. Orsoten slim, a non-prescription medicine containing 60 mg of orlistat, supplements our product portfolio. Krka is the leading generic manufacturer of orlistat in Russia, where Krka's two medicines containing orlistat together hold a market share of more than 40%. Orsoten sells well in Kazakhstan, where it is the leader among all medicines for treating obesity, accounting for more than 50% of total sales of medicines from that group.

*We launched two new antibiotics, **Furocef*** (cefuroxime) and **Levalox*** (levofloxacin).*

Medicines for the treatment of infections

Also in 2015, Krka remained among the leading generic producers of macrolides in the markets of Slovenia, Central, Eastern and South-Eastern Europe. **Fromilid** (clarithromycin) has been the leading generic macrolide in the area for years. It improved its position with respect to the year before and the brand ranked third in the area in 2015. With more than a 45% market share, it is the leading clarithromycin in Hungary, Slovenia, Ukraine and several other markets. We launched our other macrolide antibiotic, **Azibiot** (azithromycin), in Kazakhstan, Macedonia, Kosovo and several other markets.

Krka is the leading manufacturer of fluoroquinolones in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Krka's portfolio of fluoroquinolones includes four medicines: **Nolicin** (norfloxacin), **Ciprinol** (ciprofloxacin), **Moloxin*** (moxifloxacin) added in 2014, and **Levalox*** (levofloxacin) added in 2015. We launched Levalox* in Spain, Portugal, Poland and several other markets, and Moloxin* in Croatia. It also sells well in Western Europe: We launched it in France, and Krka took a place among the leading generic manufacturers of moxifloxacin. Krka extended its portfolio of antibiotics by adding a cephalosporin antibiotic for oral administration, **Furocef*** (cefuroxime), which we launched in Poland, the Czech Republic, Hungary and other markets.

Medicines for the treatment of diseases of the blood and blood-forming organs

In terms of sales, **Zyllt*** (clopidogrel) is among Krka's ten leading products. We have been marketing it for a decade. In 2015 also, Krka remained the leading generic manufacturer of clopidogrel in Europe. Regarding sales volume, Zyllt* placed first in the Russian Federation, Lithuania, Hungary and certain other markets, while in Germany and Great Britain, we are among the leading generic producers of clopidogrel.

Krka remained the leading generic manufacturer of clopidogrel in Europe.

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Medicines for the treatment of diseases of the urinary tract

Vizarsin* (sildenafil) is our most important product of this therapeutic group. It was the first sildenafil in an orodispersible tablet form in Europe. In 2015, we launched it in new markets: Spain, Belgium, Moldova, and elsewhere. In the Russian Federation, Finland and Belgium, we also launched it in the orodispersible tablet form. In the Russian Federation, we were the first pharmaceutical manufacturer to market sildenafil in this pharmaceutical form.

Vizarsin is the first sildenafil in orodispersible tablet form in the Russian Federation.*

Dulovesic* (duloxetine) is a new product that we launched from the group of medicinal products for the treatment of stress urinary incontinence. We started marketing it in Finland, and as the first and only generic pharmaceutical company in Germany, Ireland and Slovakia. **Asolfena** (solifenacin) is also used to treat incontinence, while **Finpros** (finasteride) and **Tanyz/Tanyz ERAS** (tamsulosin) are used in treating benign prostatic hyperplasia. We launched Tanyz ERAS in the advanced form of prolonged-release tablets as the only generic pharmaceutical company in Croatia.

We launched Dulovesic (duloxetine), a new medicinal product for the treatment of diseases of the urinary tract.*

Medicines for the treatment of diseases of the respiratory system

Our newest medicinal products for the treatment of diseases of the respiratory system are **Cezera*** (levocetirizine), **Dasselta*** (desloratadine) and **Monkasta*** (montelukast). In the markets of Slovenia, Central, Eastern and South-Eastern Europe, they are among the leading generic products, and Krka ranks as one of the leading generic producers of desloratadine also in Western Europe. In Lithuania, all three of the afore-mentioned products retained their leading positions among all competitors, and in several other markets they were leaders among generic products. In 2015, we started marketing Dasselta* as a non-prescription product in Uzbekistan, and Monkasta* in Belgium.

Oncology medicines

We have been marketing oncology products for three years. In 2015, our most important product from this group remained **Meaxin*** (imatinib), which we also launched in Bulgaria. It retained its position as the leading generic imatinib in Slovenia, Lithuania, Poland and Slovakia. In Latvia, it kept the leading place among all competitors. It was among the leaders in Croatia and Bosnia and Herzegovina.

Ecansya* (capecitabine) is among the leading generic capecitabines in the markets of Slovenia, Central, Eastern and South-Eastern Europe. In Bosnia and Herzegovina, however, it took first place among all competitors. In 2015, we started marketing it in Kazakhstan and in several markets of South-Eastern Europe: Albania, Macedonia and Kosovo.

Our portfolio of oncology medicines includes also **Lortanda*** (letrozole), **Escepran*** (exemestane) and **Tolnexa** (docetaxel). In 2015, we launched all three in Bulgaria, and individually in a few small markets in South-Eastern Europe. Lortanda* was the leading generic letrozole in the Czech Republic, and Escepran* the leading exemestane in Latvia, and we were among the leaders in certain other markets.

We added Tezalom (temozolomide) to our portfolio of oncology medicines.

We added **Tezalom** (temozolomide) to our portfolio of oncology medicines. It is used in the treatment of various types of brain tumours and malignant melanoma. We also launched it in the Russian Federation.

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Non-prescription products

In 2015, the Krka Group sold €107.8 million worth of non-prescription pharmaceuticals, 12% less than in 2014. The downward trend followed worsening economic conditions and lower purchasing power in our largest market of non-prescription products, the Russian Federation, a factor which also affected most other Eastern European markets and the contraction of the Ukrainian market.

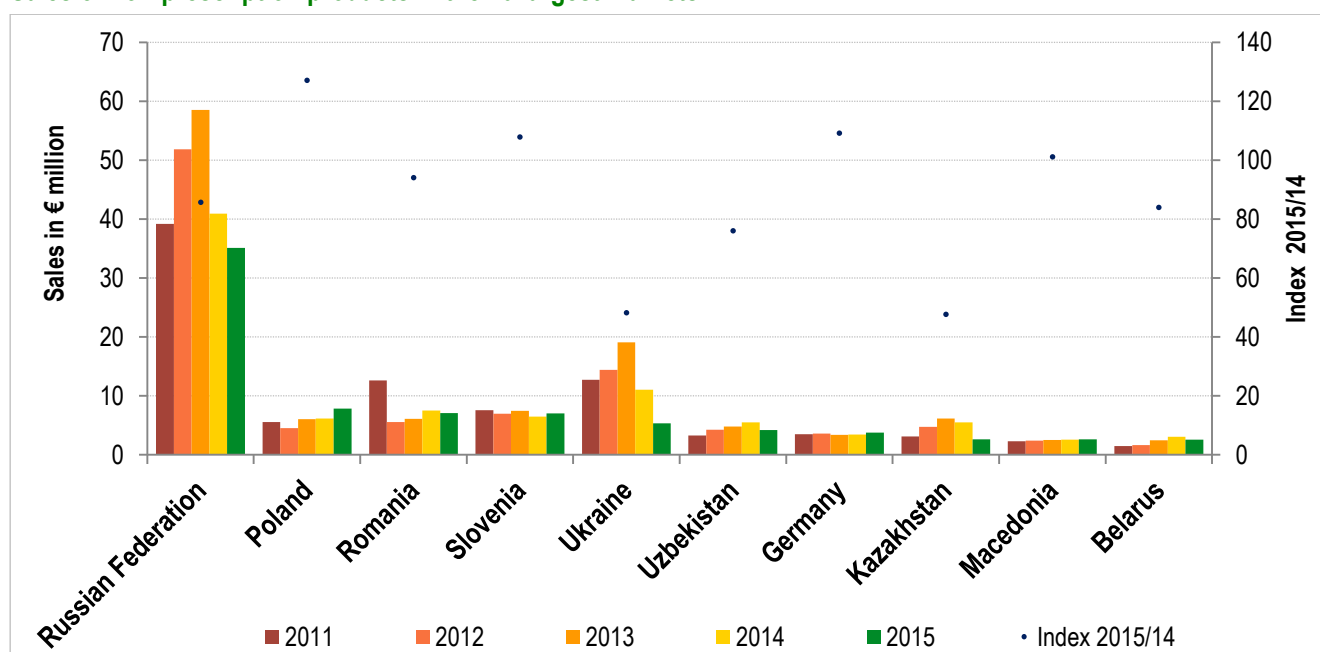
Among the ten largest markets, sales growth was the highest in Poland, Germany and Slovenia, and among other markets in Hungary, Estonia, and Turkmenistan.

In most countries of Central, Eastern and South-Eastern Europe, we marketed our non-prescription products through our own marketing-and-sales network, which we extended to Hungary in 2015.

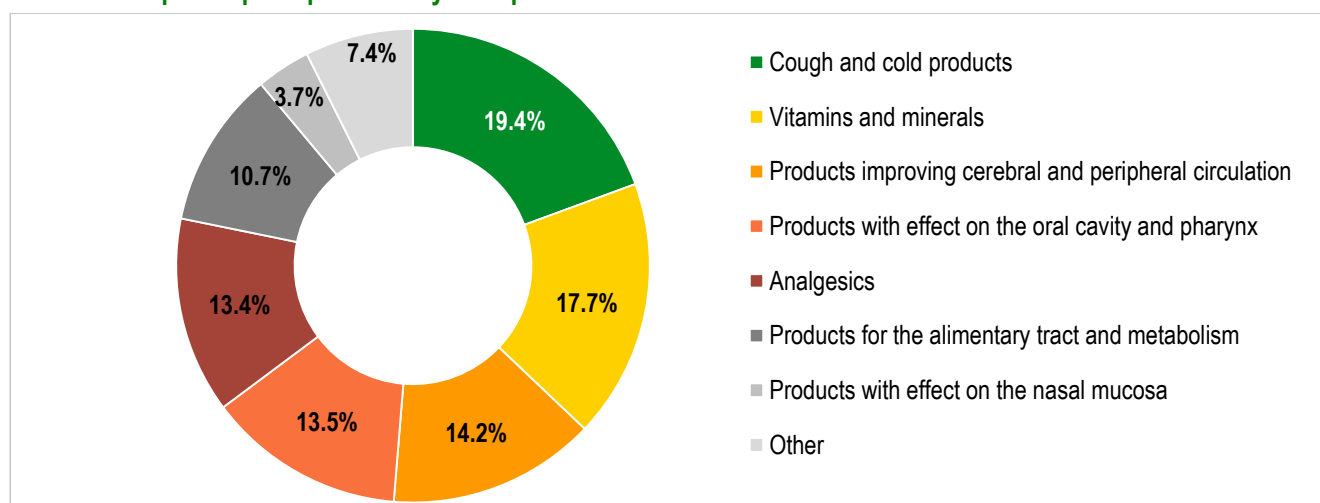
Krka's most important non-prescription product brands are Herbion, Bilobil and Septolete followed by Nalgesin-S*, Pikovit and Panzynom.

Krka's most important non-prescription product brands are Herbion, Bilobil and Septolete.

Sales of non-prescription products in the 10 largest markets



Sales of non-prescription products by therapeutic class in 2015



* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Herbion is our leading product brand among the non-prescription products. Herbion cough syrups are herbal medicines for different types of cough. **Herbion cowslip syrup** and **Herbion ivy syrup** facilitate expectoration, while **Herbion plantain syrup** relieves dry, irritating coughs. **Herbion Iceland moss syrup*** also relieves sore throat and hoarseness. In 2015, we expanded our marketing activities to new markets. We launched Herbion ivy syrup in Poland, Hungary, the Russian Federation and several other markets of Eastern Europe; and Herbion Iceland moss syrup* in Romania, Serbia, Poland, Hungary and several other Eastern European markets. In the Russian Federation, Herbion remained the leading brand among herbal cough products. It also took first place in Moldova. In the Russian Federation and Ukraine, pharmacists most often recommended Herbion brand products for the treatment of coughs.

Herbion was the leading brand among herbal cough products in the Russian Federation.

Bilobil is our second most important non-prescription brand and has already entered more than 25 markets. It contains products with ginkgo extract indicated for the improvement of cognitive abilities: concentration and memory. In Romania, Slovenia, Hungary, and Belarus, products of the Bilobil brand are the leaders among all ginkgo products, and they are among the leaders also in the Russian Federation, Poland and Serbia. In terms of sales volume, Bilobil is the leading brand among products containing ginkgo in the area of Slovenia, Central, Eastern and South-Eastern Europe. The brand products are well-accepted by doctors and patients. Bilobil is recommended by the Macedonian Society of Otorhinolaryngology. In Poland, it was awarded first place in a national competition, "Consumer's Laurel", in the category of medicinal products for improving memory and concentration. We launched **Bilobil Intense** 120 mg in Uzbekistan and Kyrgyzstan.

In the Russian Federation, Romania and several other markets, Bilobil is among the leading brands of products containing ginkgo extract.

Septotele is our third most important non-prescription brand of products, and is used for treating sore throat. In 2015, we launched a completely new medicinal product, i.e. **Septotele Total*** (benzylamine/cetylpyridinium). The product contains a non-steroidal anti-inflammatory ingredient and an antiseptic. It relieves pain and inflammation, and also eliminates the causes of infection. Septotele Total* is available in the form of lozenges and oromucosal spray. We launched it in Slovenia, the Russian Federation, Romania, Poland, Ireland and other markets, a total of 13. We also started marketing Septotele Plus in other new markets. In the Russian Federation, we launched spray and lozenges, and oromucosal spray in Mongolia and Azerbaijan.

We launched our new product for sore throats with a triple effect, Septotele Total (benzylamine/cetylpyridinium), in 13 markets.*

The nasal decongestant **SeptaNazal** (xylometazoline/dexpanthenol) has an effect on nasal mucosa. It is available in spray form for adults and children. SeptaNazal decongests the nose, and heals and protects damaged and inflamed nasal mucosa. In 2015, we launched it in the Russian Federation, Ukraine and in some other Eastern European markets, and in Hungary and Lithuania. So far, SeptaNazal has been launched in 21 markets.

We have entered more than 20 markets with SeptaNazal decongestant.

One of our leading non-prescription products is an analgesic, **Nalgesin-S*** (naproxen). It took first place among the products in its therapeutic class in Slovenia, Bosnia and Herzegovina, Slovakia and the Czech Republic. In 2015, we launched it in Hungary, so it has entered more than 25 markets so far. Krka started marketing larger pack sizes of Nalgesin-S* in Romania, Croatia, and in other markets in order to follow market trends. Our naproxen range also includes a prescription medicine. In the area of Slovenia, Central, Eastern and South-Eastern Europe, Krka holds a market share of more than 50% and is the leading producer of naproxen.

Our most important brands of vitamins and minerals are **Pikovit*** and **Duovit**. The Duovit brand contains products for adults, adjusted to the specific needs of the male and female body, while Pikovit* includes products for children. We started marketing **Pikovit Unique** in many new markets: Romania, Georgia, Poland and several markets of South-Eastern Europe. In terms of sales volume, Pikovit* is the leading brand of vitamins and minerals for children in many Eastern European markets.

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Animal health products

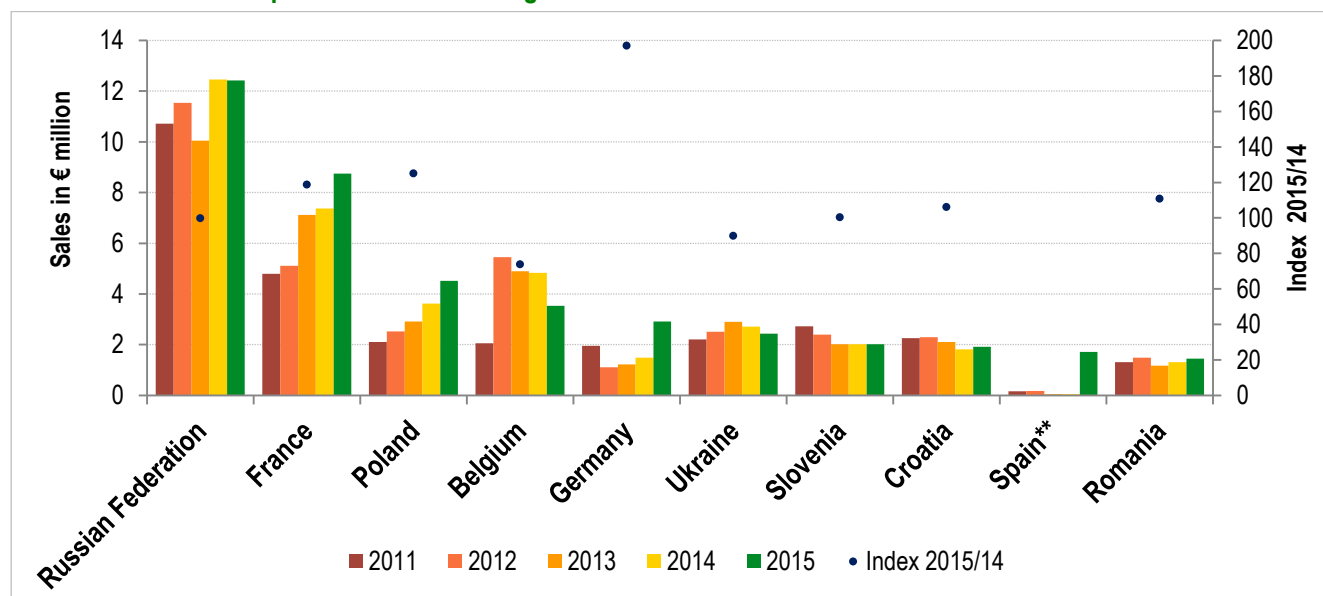
In 2015, the Krka Group sold animal health products worth €52.1 million, an increase of 12% compared to 2014. Among the ten leading markets, sales growth was highest in Spain, Germany and Poland, and among other markets in Estonia, Slovakia, and Latvia.

In Slovenia and Central, Eastern and South-Eastern Europe, we market our animal health products through our own marketing-and-sales network. We have been expanding the network in Western Europe. It has been operating in Germany and Belgium since 2013. In 2014, we also started selling our animal health products through our own marketing-and-sales network in Great Britain. In other western European and overseas markets, animal health products are sold through our partner companies.

Floron, Fypryst* and Enroxil* are our leading animal health products.*

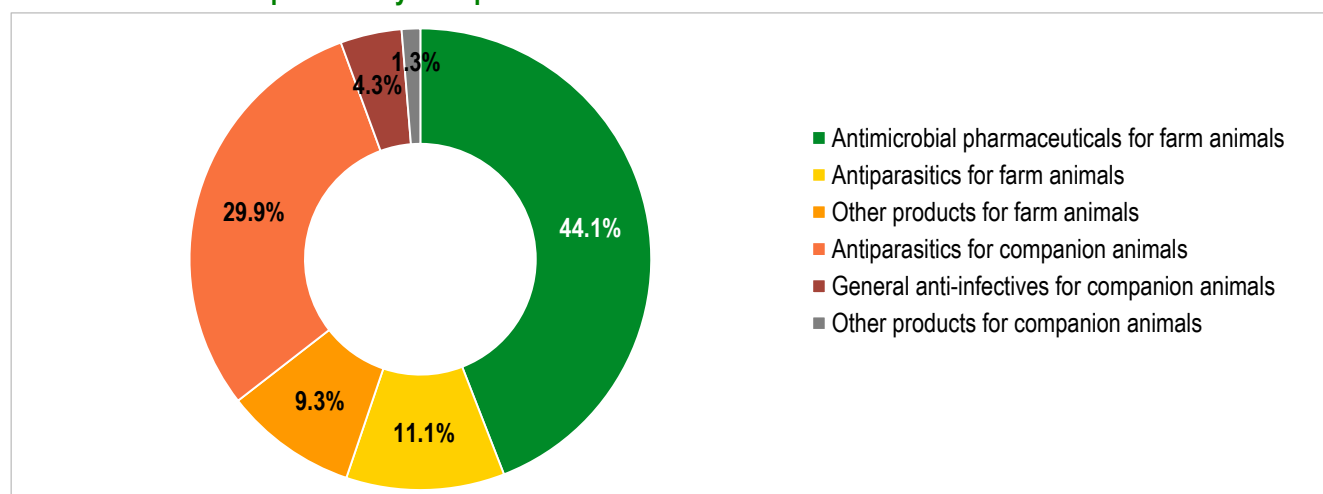
Floron (florfenicol) was the leader among animal health products in terms of sales in 2015, followed by Fypryst* (fipronil), Enroxil* (enrofloxacin), Milprazon* (milbemycin oxime/praziquantel), and Trisulfon (trimethoprim/sulfamonomethoxine).

Sales of animal health products in the ten largest markets



** Sales growth index 2015/14 exceeded 1,000 in Spain

Sales of animal health products by therapeutic class in 2015



* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

In 2015, **Floron*** (florfenicol), used in the treatment of farm animals, held first place among Krka's animal health products in terms of sales. Floron is the first generic florfenicol in Europe available in all four pharmaceutical dosage forms: a solution for injection, oral solution, oral powder, and premix for medicated feed. We started marketing Floron* brand products in new markets. We launched Floron* 4% oral powder in Germany and Poland; the solution for injection in Germany, Belgium and the Netherlands; the oral powder, solution for injection and premix for medicated feed in Great Britain.

Floron is the first generic florfenicol in Europe available in all four pharmaceutical dosage forms.

Another product used in the treatment of farm animals is a fluoroquinolone **Enroxil*** (enrofloxacin), which took third place among sales of Krka's animal health products. It is available in several pharmaceutical dosage forms, including Enroxil* injection solution, **Enroxil* Max** single-dose solution for injection, and **Enroxil* Flavour** flavoured tablets intended for companion animals. We launched all three pharmaceutical dosage forms in Great Britain. Krka was among the first generic manufacturers to launch Enroxil* Max in the Czech Republic, Slovakia, and Hungary, and Enroxil Flavour in Germany.

Another fluoroquinolone is **Marfloxin*** (marbofloxacin). It is available in two pharmaceutical dosage forms: tablets and a solution for injection, including the 2% solution for injection for dogs and cats. We first marketed these in 2014, but last year we launched them as the first generic producer in Slovenia and the Czech Republic. As the first generic producer, Krka launched Marfloxin* tablets in Croatia; and tablets and a solution for injection in Germany. In 2015, compared to the year before, Marfloxin* was Krka's animal health product with the highest absolute sales growth.

In 2015, Marfloxin was Krka's animal health product with the highest absolute sales growth.*

Krka's leading animal health products for farm animals include a combined broad-spectrum chemotherapeutic, **Trisulfon** (trimethoprim/sulfamonomethoxine) and an antiparasitic **Toltarox*** (toltrazuril). In 2015, our portfolio of animal health products acquired a new antibiotic medicine for farm animals, **Amatib** (amoxicillin), used in the treatment of various infections in pigs, and respiratory and alimentary tract infections in chickens. We launched it in eight markets of Western, Central and South-Eastern Europe, in Germany, Romania, Hungary, and other countries.

Fypryst is Krka's most important companion animal product. Most of it was sold in Western European markets.*

Krka's most important companion animal product is **Fypryst*** (fipronil), taking second place among sales of our animal health products. We market a cutaneous spray and a spot-on solution under this brand name. As the first generic manufacturer in Europe, we supplemented our portfolio with **Fypryst Combo** (fipronil/S-methoprene) last year. Also in 2015, we expanded marketing of those products to new markets. We launched Fypryst Combo in Ukraine, Serbia, and Bosnia and Herzegovina. We started marketing Fypryst* cutaneous spray and spot-on solution in Great Britain, France, the Netherlands, and several other Western European markets. We sold most of these brand products in Western European markets.

Milprazon* (milbemycin oxime/praziquantel) is Krka's most advanced medicine for the treatment of infestations with internal parasites in dogs and cats. It was launched in 2014, and in 2015 marketing activities were extended to more than 15 new markets, including Great Britain, the Russian Federation, Poland and Romania. We entered most of these markets as the first generic pharmaceutical company, and in Croatia, Serbia, Bulgaria and the Baltic States, Milprazon* is the only product of its kind on the market. Already in its second year on the market, Milprazon* was established among Krka's leading five animal health products and was first in terms of absolute sales growth.

As the first generic pharmaceutical company, we started marketing Milprazon in more than ten markets.*

The antiparasitic **Dehinel Plus*** (febantel/praziquantel/pyrantel embonate) is intended for companion animals. It is available in tablets as Dehinel Plus*, and in flavoured tablets as **Dehinel Plus* Flavour**, as well as in tablets for large dogs, **Dehinel Plus* XL**. In 2015, we started marketing Dehinel Plus* Flavour and Dehinel Plus* XL products in Germany, Belgium and the Netherlands. Most of these products were sold in Western Europe.

The animal health product portfolio also includes the disinfectant **Ecocid* S**, which is supplemented by **Ecocid Advanced**, with peroxyacetic acid. In 2015, we launched it as the first generic pharmaceutical company also in Ukraine.

* Products marketed under different brand names in individual markets. They are listed at the end of the chapter.

Health resorts and tourist services

Sales revenues generated by health resorts and tourist services amounted to €31.9 million in 2015, accounting for a 3.4% increase.

In their business units in Šmarješke and Dolenjske Toplice, Strunjan, Novo mesto and Otočec, the spa resort group Terme Krka recorded 341,289 overnight stays, up 4% compared to 2014. The overnight stays of domestic guests increased by 5% and of foreign guests by 1%, accounting for 32% of total overnight stays. The majority of foreign guests were Italian, with 31,000 overnight stays, while more than 10,000 overnight stays were recorded with Austrians and Israelis. The number of overnight stays of Russian guests declined by approximately 50%, but their share nevertheless accounted for 10% of all foreign guests.

The occupancy rates of Krka hotels for the year were as follows: Talaso Strunjan recorded a very high occupancy rate of 82%. Terme Dolenjske Toplice saw an almost 4% increase in the occupancy rate, reaching 66%. The occupancy rate in Terme Šmarješke Toplice amounted to 65%. Hoteli Otočec recorded a 44% occupancy rate, up 9% compared to 2014.

Products marketed under different brand names in individual markets

Active ingredient	Brand names
Prescription pharmaceuticals	
amlodipine	Tenox, Hipres, Amlonor, Alneta
aripiprazole	Aryzalera, Aripipan, Arisppa, Zylaxera
atorvastatin/amlodipine	Atordapin, Atorcombo, Amaloris
bisoprolol	Niperten, Sobycor, Sobyc
bisoprolol/amlodipine	Sobycombi, Niperten Combi
candesartan	Karbis, Candecor, Canocord
candesartan/hydrochlorothiazide	Karbicombi, Cancombino, Canocombi
capecitabine	Ecansya, Cansata
cefuroxime	Furocef, Ricefan, Ceferoxan
celecoxib	Aclexa, Dilaxa
clopidogrel	Zyllt, Kardogrel
desloratadine	Dasselta, Esradin, Desradin
donepezil	Yansal, Yasnor
duloxetine	Dulsevia, Duloxalta, Dulovesic, Loxentia
enalapril/lercanidipine	Elernap, Elyrno
escitalopram	Elicea, Ecytara, Escitalex, Anxila
esomeprazole	Emanera, Emozul, Escadra
exemestane	Escepran, Etadron
galantamine	Galsya SR, Galnora
gliclazide	Gliclada, Glyclada, Laaglyda
imatinib	Meaxin, Neopax, Meapax, Itivas
irbesartan	Ifirmasta, Irabel, Firmasta, Iracor, Irbecor
irbesartan/hydrochlorothiazide	Ifirmacombi, Co-Irabel, Firmasta H, Firmasta HD, Irbecor comp
lansoprazole	Lanzul, Lansoptol
letrozole	Lortanda, Likarda
levocetirizine	Cezera, Lertazin
levofloxacin	Levalox, Levnibiot, Leviaben, Levaxela
losartan	Lorista, Lavestra
losartan/amlodipine	Tenloris, Alortia, Lortenza, Losamlo
memantine	Marixino, Memando, Maruxa, Memaxa, Mentixa, Maryzola
montelukast	Monkasta, Monalux
moxifloxacin	Moloxin, Moflaxa, Moxibiot, Moflaxya
naproxen	Nalgesin, Analgesin, Naldorex
olanzapine	Zalasta, Zolrix
pantoprazole	Nolpaza, Appryo
perindopril	Prenessa, Perineva
perindopril/amlodipine	Amlessa, Dalnessa, Tonarssa, Dalneva
perindopril/amlodipine/indapamide	Co-Amlessa, Co-Dalnessa, Co-Dalneva, Amlewell, Dalnecombi, Tonanda
perindopril/indapamide	Co-Prenessa, Co-Perineva, Prenewel
pregabalin	Pragiola, Pregabador, Pregabio
quetiapine	Kventiax, Quentiax
rabeprazole	Gelbra, Zalbex
ramipril	Ampril, Amprilan

rasagiline	Ralago, Rasagea, Raglysa
repaglinide	Enyglid, Repodiab
risperidone	Torendo, Rorendo
ropinirole	Rolpryna SR, Ralnea SR
rosuvastatin	Roswera, Roxera, Sorvasta
sildenafil	Vizarsin, Sildegra
telmisartan	Tolura, Telmista
telmisartan/hydrochlorothiazide	Tolucombi, Telmista H
tramadol/paracetamol	Doreta, Tramabian
valsartan/amlodipine	Vamloset, Valodip
valsartan/hydrochlorothiazide	Valsacombi, Co-Valsacor, Valsacor H, Valsacor HD, Valsaden, Janartan
venlafaxine	Alventa, Olwexya
ziprasidone	Zypsilan, Zypsila, Ypsila

Non-prescription products

benzylamine/cetylpyridinium	Septotele Total, Septabene, Septotele Extra, Septotele Omni, Septotele Ultra, Septotele Duo
Iceland moss extract	Herbion Iceland moss, Herbisland, Herbimos
naproxen	Nalgesin-S, Analgesin, Nalgedol, Ilgesin
vitamins for children	Pikovit, Divakid

Animal health products

biocide	Ecocid, Oxidid
enrofloxacin	Enroxil, Xacin, Enrox
febantel/praziquantel/pyrantel embonate	Dehinel Plus, Anthelmin Plus
fipronil	Fypryst, Fypryst Combo, Amflee, Fyperix
florfenicol	Floron, Fenflor
flubendazole	Flimabend, Flimabo
marbofloxacin	Marfloxin, Quiflox, Quiflor
milbemycin oxime/praziquantel	Milprazon, Milquantel
toltrazuril	Toltarox, Tolzesya, Bovicox

Research and development

The basic function of research and development is to provide new generic products and maintain their competitive edge throughout their life cycles.

Clear development objectives, innovative, creative and flexible approaches are used to gain timely marketing authorisations for selected products from therapeutic areas with marketing potential, and launching them on markets for prescription pharmaceuticals, non-prescription products and animal health products. Research, development, and technological and regulatory processes are continuously improved to make the complete range of Krka products competitive.

We pay attention to present-day diseases and respond quickly to market opportunities in order to guarantee the prompt development of advanced medicines for the treatment and prevention of various diseases. Correct development and patent baselines serve as the foundations for research and development of new products.

Krka's development is part of a vertically integrated business model. The company controls the complete process of production, from research to the production of active substances and finished products. Thanks to our knowledge and the implementation of the most complex advanced methods, we are able to develop vertically integrated products and control all stages, from the preparation of incoming materials to manufacturing and assessing the finished product. We conduct comprehensive preclinical and pharmacokinetic or bioequivalent studies. These have become very complex, in particular due to the development of new therapeutic areas, especially in the case of oncology medicines, fixed-dose combinations for cardiovascular diseases and central nervous system medicines. We also conduct certain additional clinical tests to meet the regulatory requirements of markets.

We use high-tech equipment in order to implement the most technically and technologically demanding projects. By regularly upgrading equipment and training our employees, managing greatly reduced technology life cycles and products has been ensured.

Research-and-development projects also produce innovations, which we protect with patent applications.

The development results are used in preparation of marketing authorisation documents critical for obtaining marketing authorisations and launching products on time. Well-prepared marketing authorisation documents, the right marketing authorisation strategy and proper management of marketing authorisation procedures enhance the placement of new products on various and demanding global markets.

With constant development activities, we maintain, improve and transform medicines and in the process comply with increasingly stricter regulatory requirements and standards.

Protecting our know-how and industrial property

In 2015, Krka submitted patent applications for two new inventions and four international patent applications on the basis of priority applications from 2014.

In 2015, Krka applied for 62 trademarks in Slovenia, and submitted 47 international and 20 national trademark applications.

The number of new products and marketing authorisations of the Krka Group

In 2015, Krka obtained marketing authorisations for 24 new products in 58 new dosage forms and strengths as follows: **Rosmela/Rosudapin/Rosvaden** (amlodipine/rosuvastatin); **Wamlox/Amlodipin/Valsartan Krka** (amlodipine/valsartan); **Tenlisa** (amlodipine/lisinopril); **Atorvastatin-K** (atorvastatin); **Bloxazoc** (metoprolol succinate); **ramipril**; **Dulsevia/Duloxalta** (duloxetine); **Ralago/Rasagea/Raglysa** (rasagiline); **Opryme** (pramipexole) 2.62 mg and 3.15 mg prolonged-release tablets; **Kventiax SR/Kventiax Prolong/Quentiax Retard** (quetiapine) 50 mg prolonged-release tablets; **Doreta** (tramadol/paracetamol) 75 mg/650 mg prolonged-release tablets; **Levalox/Levaxela/Levnibiot/Leviaben** (levofloxacin) film-coated tablets and solution for infusion; **Furocef/Ricefan/Ceferoxan** (cefuroxime); **Linezolid Krka** (linezolid), **Betaklav** (amoxicillin/clavulanic acid) 400 mg/57 mg powder for oral suspension; **Tezalom** (temozolomide), **Gliclada** (gliclazide) 90

Krka obtained marketing authorisations for 24 new products in 58 dosage forms and strengths.

mg modified-release tablets; **Dulovesic/Loxentia** (duloxetine), **Septabene/Septotele Omni/Septotele Ultra/Septotele Extra/Septotele Optima/Septotele Total** (cetylpyridinium chloride/benzylamine hydrochloride) available as lozenges and oromucosal spray; **Ulcavis/Ulcamed** (bismuth subcitrate), **Ataxxa** (imidacloprid/permethrin), and **Amatib** (amoxicillin). We acquired new marketing authorisations for several products in new markets in all our regions. We obtained 560 new marketing authorisations under various authorisation procedures for prescription pharmaceuticals, non-prescription products and animal health products.

Prescription pharmaceuticals

In 2015, we obtained marketing authorisations for 19 new medicinal products in 50 dosage forms and strengths as follows: **Rosmela/Rosudapin/Rosvaden** (amlodipine/rosuvastatin); **Wamlox/Amlodipin/Valsartan Krka** (amlodipine/valsartan); **Tenlisa** (amlodipine/lisinopril); **Atorvastatin-K** (atorvastatin); **Bloxazoc** (metoprolol succinate); **ramipril**; **Dulsevia/Duloxalta** (duloxetine); **Ralago/Rasagea/Raglysa** (rasagiline); **Opryme** (pramipexole) 2.62 mg and 3.15 mg prolonged-release tablets; **Kventiax SR/Kventiax Prolong/Quentiax Retard** (quetiapine) 50 mg prolonged-release tablets; **Doreta** (tramadol/paracetamol) 75 mg/650 mg prolonged-release tablets; **Levalox/Levaxela/Levnibiot/Leviaben** (levofloxacin) film-coated tablets and solution for infusion; **Furocef/Ricefan/Ceferoxan** (cefuroxime); **Linezolid Krka** (linezolid); **Betaklav** (amoxicillin/clavulanic acid) 400 mg/57 mg powder for oral suspension; **Tezalom** (temozolomide); **Gliclada** (gliclazide) 90 mg modified-release tablets; **Dulovesic/Loxentia** (duloxetine). These new products supplemented our range of medicines for cardiovascular diseases, the central nervous system, antibiotics, oncology medicines, and medicines for type-2 diabetes. We expanded marketing opportunities for our key products in all regions through various marketing authorisation procedures.

We expanded our portfolio for the treatment of cardiovascular diseases with new fixed-dose combinations and single-component medicines. We obtained marketing authorisations under the European decentralised procedure for **Rosmela/Rosudapin/Rosvaden** (amlodipine/rosuvastatin) film-coated tablets in six strengths. The medicine contains two established active ingredients used for the treatment of high blood pressure and increased cholesterol levels, making it possible to comprehensively control the risks of the development of cardiovascular diseases, effectively reducing their development.

*We expanded our range for reducing high-blood-pressure with new combinations:
Rosmela/Rosudapin/Rosvaden (rosuvastatin/amlodipine);
Wamlox/Amlodipin/Valsartan Krka, and **Tenlisa** (lisinopril/amlodipine).*

We acquired marketing authorisations under the European decentralised procedure for the fixed-dose combination **Wamlox/Amlodipin/Valsartan Krka** (amlodipine/valsartan) film-coated tablets in five strengths. The medicine contains two active ingredients with different mechanisms of action used for the treatment of high blood pressure. The active substances complement each other, providing for effective and safe treatment. Taking only one tablet a day improves patient compliance and persistence, which is very important, especially in high-risk patients. The medicine may be taken by patients who should be treated with more than one active substance. It is available in five strengths, which allows the attainment of target blood pressure values in patients who need high doses.

We obtained marketing authorisations in the Russian Federation for the fixed-dose combination, **Tenlisa** (amlodipine/lisinopril) tablets in two strengths. The medicine contains two established active substances. One is from the group of ACE inhibitors for lowering blood pressure, the other acts as a calcium antagonist. They supplement each other and make possible the effective control of blood pressure.

We also obtained marketing authorisations in the Russian Federation for a new form of atorvastatin calcium, **Atorvastatin-K** (atorvastatin) film-coated tablets in six strengths: 10 mg, 20 mg, 30 mg, 40 mg, 60 mg, and 80 mg. Several strengths allow for the right selection of once-daily administration in one tablet, and ensure the ideal balance between efficacy and safety of the treatment of hypercholesterolemia and prevention of cardiovascular diseases. The 80 mg film-coated tablets (the largest daily dosage) are for patients at high risk of cardiovascular complications.

*We launched the new antidepressant **Dulsevia/Duloxalta** (duloxetine) on the European market.*

We obtained marketing authorisations under the European decentralised procedure for **Bloxazoc** (metoprolol succinate) prolonged-release tablets in four strengths. This active substance belongs to the group of well-known and established cardioselective beta blockers and is used for the treatment of high blood pressure and cardiac diseases. The prolonged-release tablets ensure

stable concentrations of the active ingredient in plasma and a long-lasting effect throughout the day. Since it is taken once daily, patient compliance is good, which increases its therapeutic effect.

Our portfolio of medicines for treating diseases of the central nervous system was increased in the segment of antidepressants and medicines for the treatment of Parkinson's disease. We obtained marketing authorisations under the European decentralised procedure for **Dulsevia/Duloxalta** (duloxetine) 30 mg and 60 mg gastro-resistant capsules. This medicine from the group of combined serotonin-noradrenaline reuptake inhibitors is used in the treatment of depression, generalised anxiety disorder, and neuropathic pain associated with diabetes.

We obtained a marketing authorisation under the European decentralised procedure for a new medicine, **Ralago/Rasagea/Raglysa** (rasagiline) in 1 mg tablets, for the treatment of Parkinson's disease. Rasagiline is a monoamine oxidase B inhibitor, and has a different mechanism of action than other Krka's antiparkinsonians. It inhibits the enzyme, which increases the level of extra-cellular dopamine in the central nervous system. It is taken once daily as monotherapy or with the combination of levodopa and carbidopa. In this case, titration is not necessary.

We obtained marketing authorisations under the European decentralised procedure for **Opryme** (pramipexole) 2.62 mg and 3.15 mg prolonged-release tablets. The medicine is administered once daily, as monotherapy or in combination for the treatment of signs and symptoms of Parkinson's disease.

Krka's range of antipsychotics was expanded. We obtained a marketing authorisation under the European decentralised procedure for the new **Kventiax SR/Kvetiax Prolong/Quentiax Retard** (quetiapine) 50 mg prolonged-release tablets. Quetiapine is a broad-spectrum antipsychotic medicine for treating mental illnesses such as schizophrenia, bipolar disorder and major depression. The new strength of prolonged-release tablets can be used in the initiation of the quetiapine treatment and treatment of depression.

Krka is the first generic manufacturer to obtain marketing authorisations for selected European markets for the new antiparkinsonian, Ralago/Rasagea/Raglysa (rasagiline).

We obtained marketing authorisations under the European decentralised procedure for the analgesic **Doreta** (tramadol/paracetamol) 75 mg/650 mg prolonged-release tablets. This medicine contains a combination of two well-established analgesics which act through different receptors, providing for complex and prolonged action. Prolonged-release tablets are effective for 12 hours, which is especially important for relieving pain at night. This is a safe and effective medicine for the symptomatic treatment of moderate to severe pain in adults and adolescents.

We obtained a marketing authorisation for Doreta (tramadol/paracetamol) prolonged-release tablets, a combination of two established active substances.

We supplemented the portfolio of antibiotics with five new marketing authorisations. We obtained marketing authorisations under the European decentralised procedure in certain countries of the European Union and under the national procedure in Serbia for **Levalox/Levaxela/Levnibiot/Leviaben** (levofloxacin) film-coated tablets in two strengths and solution for infusion. The medicine, in two pharmaceutical dosage forms, is a wide-spectrum quinolone antibiotic for treating infections of the sinuses, lungs, urinary tract, kidneys and bladder, chronic prostate infections, and dermal and subdermal infections.

We obtained marketing authorisations in certain countries of the European Union for new antibiotics: Levalox/Levaxela/Levnibiot/Leviaben (levofloxacin); Furocef/Ricefan (cefuroxime); and Linezolid Krka.

We obtained marketing authorisations under the European decentralised procedure for the cephalosporin antibiotic **Furocef/Ricefan/Ceferoxan** (cefuroxime) film-coated tablets in two strengths. It is used for treating infections of the pharynx, sinuses, middle ear, lungs, the chest, the urinary tract and dermis.

We obtained a marketing authorisation under the European decentralised procedure for **Linezolid Krka** (linezolid) 600 mg film-coated tablets. This is the first medicinal product from the group of oxazolidinone antibiotics to be made by Krka. Its unique mechanism of action selectively inhibits the synthesis of bacterial proteins and is effective against Gram-positive bacteria, including streptococci, MRSA, and enterococci resistant to vancomycin. It is used in the treatment of severe pneumonia, and severe dermal and subdermal infections.

We obtained marketing authorisations under the European decentralised procedure in the European Union and under the national procedure in Serbia for the antibiotic combination, **Betaklav** (amoxicillin/clavulanic acid) 400 mg/57 mg powder for

oral suspension. According to the guidelines, it is the first choice of medicine in the treatment of respiratory infections. It should be taken twice daily. Under the European decentralised procedure, we also extended the marketing authorisation for the use of **Betaklav** (amoxicillin/clavulanic acid) film-coated tablets in two strengths.

In the Russian Federation, we supplemented Krka's range of oncology medicines by obtaining marketing authorisations for **Tezalom** (temozolomide) capsules in four strengths. This is our new medicine, an alkylating agent used in the treatment of brain tumours and metastatic melanoma. It prevents cancer cell division, which slows the growth of tumours, and extends survival time.

We obtained marketing authorisations under the European decentralised procedure and the national procedure in selected countries of the European Union for **Gliclada** (gliclazide) 90 mg modified-release tablets. This new strength of the antidiabetic medicine for the treatment of type-2 diabetes permits dose adjustment with fewer tablets.

We obtained marketing authorisations under the European decentralised procedure for **Dulovesic/Loxentia** (duloxetine) gastro-resistant capsules in two strengths, 20 mg and 40 mg. Duloxetine is from the group of combined serotonin-noradrenaline reuptake inhibitors and is the first medicine used in the treatment of stress urinary incontinence in women. Due to its neuromodulatory action, urethral tone increases, as well as bladder capacity, reducing stress urinary incontinence. It is used for the treatment of moderate to severe stress urinary incontinence and hence for improving the quality of life.

We increased our marketing opportunities in European markets by obtaining marketing authorisation for capsules of the antiepileptic agent **Pragiola** (pregabalin) in eight strengths. We were the first to obtain marketing authorisations for this medicine under the European decentralised procedures in selected European countries. Pragiola is the first choice for treating epilepsy and generalised anxiety disorder.

We obtained approvals under the European decentralised procedure in twelve European countries for **Imatinib Krka** (imatinib) film-coated tablets in two strengths.

In the Russian Federation, we obtained marketing authorisations for the new medicines **Tenlisa** (amlodipine/lisinopril); **Atorvastatin-K** (atorvastatin) and **Tezalom** (temozolomide), and for **Pregabia** (pregabalin), **Elicea Q-Tab** (escitalopram); **Telmista** (telmisartan) and **Nolpaza** (pantoprazole) powder for solution for injection. We also obtained marketing authorisations for fixed-dose combinations for the treatment of cardiovascular diseases: **Co-Dalneva** (perindopril/indapamide/amlodipine); **Niperten Combi** (amlodipine/bisoprolol fumarate), and **Firmasta H 150/Firmasta H 300/Firmasta HD 300** (irbesartan/hydrochlorothiazide).

In other Eastern European countries, we obtained new marketing authorisations for Krka's key products: **Emanera** (esomeprazole), **Roxera** (rosuvastatin), **Moloxin** (moxifloxacin), **Opryme** (pramipexole), **Nolpaza** (pantoprazole) powder for solutions for injection, **Atoris** (atorvastatin), **Bravadin** (ivabradine), **Dilaxa** (celecoxib), **Vizarsin** (sildenafil), **Sobycor** (bisoprolol), **Gliclada** (gliclazide), **Azibiot** (azithromycin), and **Maruxa** (memantine).

In various Eastern European countries, we obtained marketing authorisations for two oncology products – **Lortanda** (letrozole) and **Tolnexa** (docetaxel), and fixed-dose combinations of **Amlessa** (perindopril/amlodipine), **Co-Amlessa** (perindopril/indapamide/amlodipine), **Atordapin** (atorvastatin/amlodipine), **Sobycombi** (bisoprolol/amlodipine), **Valsacor H 80/Valsacor H 160/Valsacor HD 160** (valsartan/hydrochlorothiazide), **Vamloset/Valodip** (amlodipine/valsartan), **Co-Prenessa** (perindopril/indapamide), enalapril maleate in combinations with hydrochlorothiazide, and **Enap L Combi/Elyrno** (lercanidipine/enalapril).

In the markets of South-Eastern Europe, we obtained marketing authorisations for key medicinal products from different indication areas. We obtained new marketing authorisations for antibiotics as follows: **Moloxin** (moxifloxacin) film-coated tablets and the solution for injection, **Fromilid** (clarithromycin) 500 mg film-coated tablets, **Azibiot** (azithromycin) 250 mg film-coated tablets, and **Betaklav** (amoxicillin/clavulanic acid) 875 mg/125 mg film-coated tablets.

We expanded marketing opportunities for two antipsychotics, **Aryzalera** (aripiprazole) and **Kventiax** (quetiapine) in three strengths (150 mg, 200 mg and 300 mg), antiparkinsonian **Opryme** (pramipexole) prolonged-release tablets, antidiabetic **Gliclada SR** (gliclazide), **Nolpaza** (pantoprazole) film-coated tablets and powder for solutions for injection for treating gastric problems, and two cytostatics, **Escepran** (exemestane) and **Ecansya** (capecitabine). We obtained new marketing

authorisations for various markets of South-Eastern Europe for single-, double-, and triple-component medicines for the treatment of cardiovascular diseases: **Tolura** (telmisartan), **Sobycor** (bisoprolol), **Lizinopril Krka** (lisinopril), **Atordapin** (amlodipine/atorvastatin), **Tenloris** (losartan/amlodipine), **Ifirmacombi** (irbesartan/hydrochlorothiazide), **Elernap** (lercanidipine/enalapril), **Valsacor H 80/Valsacor H 160/Valsacor HD 160** (valsartan/hydrochlorothiazide), **Sobycombi** (bisoprolol/amlodipine), **Amlessa** (perindopril/amlodipine), and **Amlewell** (perindopril/indapamide/amlodipine).

In various countries, we obtained marketing authorisations for medicinal products: **Tolucombi** (telmisartan/hydrochlorothiazide), **Tolura** (telmisartan), **Roswera** (rosuvastatin), **Zyllt** (clopidogrel), **Tenox** (amlodipine), **Vasilip** (simvastatin), **Nolicin** (norfloxacin), **Ciprinol** (ciprofloxacin), **Lanzul** (lansoprazole), **Vizarsin** (sildenafil), and **Naklofen Duo** (diclofenac).

Non-prescription products

In 2015, we obtained marketing authorisations for three non-prescription medicines: **Septabene/Septolete Omni/Septolete Ultra/Septolete Extra/Septolete Optima/Septolete Total** (cetylpyridinium chloride/benzylamine hydrochloride) lozenges and oromucosal spray and for **Ulcavis/Ulcamed** (bismuth subcitrate), and we further strengthened the position of our key brands.

We obtained marketing authorisations under the European decentralised procedure in selected European countries and under national procedures in the Russian Federation, Serbia, and Bosnia and Herzegovina for **Septabene/Septolete Omni/Septolete Ultra/Septolete Extra/Septolete Optima/Septolete Total** available as lozenges and oromucosal spray. We thus expanded our range of medicines acting on the oral cavity and pharynx. We developed a new manufacturing technology for lozenges, set up a new technological line, and introduced a continuous production process. We confirmed effectiveness and safety in Krka's international clinical study. The medicine in both forms contains a combination of two active substances, cetylpyridinium chloride and benzylamine hydrochloride, which have anti-inflammatory, analgesic and antiseptic effects. It may be used by adults and children.

We obtained marketing authorisations for the alimentary tract medicine, **Ulcavis/Ulcamed** (bismuth subcitrate) film-coated tablets, under the national procedure in the Russian Federation as a non-prescription medicine and under the European decentralised procedure as a prescription medicine. It acts locally; under the influence of gastric acid, bismuth subcitrate precipitates and binds with proteins in the lesion, protecting it in a mechanical way. At the same time, it also stimulates the excretion of substances that additionally protect the mucous membrane. It is used in quadruple therapy; in combination with other medicines, it acts on *Helicobacter pylori*. The bismuth subcitrate enables the effective removal of the bacteria.

We expanded marketing opportunities in Eastern Europe for certain key medicines that act on the nasal mucosa. We obtained marketing authorisations for **SeptaNasal nasal spray for adults** and **SeptaNasal nasal spray for children** in Armenia, Kyrgyzstan, Georgia, Turkmenistan, Tajikistan and Albania.

We obtained marketing authorisations for **Septoaqua nasal spray for adults** and **Septoaqua nasal spray for children** in Bulgaria, Belarus, Kyrgyzstan, Armenia, Uzbekistan and Turkmenistan.

Among medicines acting on the oral cavity and pharynx, we obtained a marketing authorisation for **Septolete Plus** oral spray in Tajikistan. We obtained marketing authorisations for medicines from the **Daleron** brand in Azerbaijan.

We obtained marketing authorisations for our herbal medicine, **Bilobil** 120 mg capsules, in the Czech Republic, Albania, Azerbaijan, and Kyrgyzstan. We obtained marketing authorisations for another herbal medicine, **Herbion Iceland moss syrup**, in Georgia, Moldova, Turkmenistan, Tajikistan, Kazakhstan, Kyrgyzstan, Bulgaria and Greece, and **Herbion ivy syrup** in Tajikistan and Azerbaijan.

We obtained marketing authorisations for Panzynorm capsules in Lithuania and Estonia.

We developed two advanced pharmaceutical forms of Septabene/Septolete (lozenges and oromucosal spray) and obtained relevant marketing authorisations.

We use the technology for the production of new form of lozenges for Septabene/Septolete Omni/Septolete Ultra/Septolete Extra/Septolete Total. The efficacy and safety of the lozenges was confirmed by Krka's clinical trial.

Animal health products

In 2015, we obtained marketing authorisations for two new animal health products in five pharmaceutical dosage forms and strengths, **Ataxxa** (imidacloprid/permethrin) and **Amatib** (amoxicillin).

We obtained marketing authorisations under the European decentralised procedure in 21 European countries and under the national procedure in the Russian Federation and Ukraine for our new medicinal product, **Ataxxa** spot-on solution in four strengths. Ataxxa contains a fixed-dose combination (imidacloprid/permethrin) and is used for treating dogs. It completes Krka's range of animal health products for complete and advanced protection of companion animals from external parasites.

In European markets and in the Russian Federation, we obtained a marketing authorisation for Ataxxa (imidacloprid/permethrin).

We obtained marketing authorisations under the European decentralised procedure in 19 European countries, and under the national procedure in the Russian Federation for **Amatib** oral powder for pigs and chickens, a new animal health medicine for farm animals. It contains the active ingredient amoxicillin, an antimicrobial used for treating respiratory tract infections, gastro-intestinal tract infections, meningitis, arthritis and secondary infections in pigs and respiratory tract infections and gastro-intestinal tract infections in chickens. It is well-soluble and when a complete herd is to be treated, it is administered in drinking water. Pigs may be treated individually with in-feed administration

We obtained marketing authorisations under the European decentralised procedure in 27 European countries, and under the national procedure in Ukraine and Macedonia for **Milprazon/Milquandel/Milbactor** flavoured film-coated tablets for small cats and kittens. The milbemycin oxime/praziquantel fixed-dose combination is one of the most advanced medicines for treating infestations with internal parasites in cats. It also treats infections with intestinal parasites, lung worms and eye worms, and due to its systemic mechanism of action it also prevents heart worm infestations.

We expanded market opportunities for companion animal products. We obtained marketing authorisations under the European decentralised procedure for **Dehinel Plus Flavour** and **Dehinel Plus XL** tablets for treating internal parasite infections in dogs. In Serbia, we obtained new marketing authorisations for **Fypryst Combo** (fipronil/S-methoprene) spot-on solution in five strengths, used for the prevention and treatment of infestations with ticks, fleas, and lice in dogs, cats, and ferrets. In Serbia, Macedonia and Ukraine, we expanded market opportunities for **Milprazon** (milbemycin/praziquantel) tablets in two strengths for treating internal parasite infections in dogs. We obtained marketing authorisations in Bosnia and Herzegovina for **Rycarfa** (carprofen) solution for injection for dogs and cats and flavoured tablets in three strengths for dogs. They are used as painkillers for dogs and cats. In Croatia, we obtained a marketing authorisation for **Marfloxin** (marbofloxacin) solution for injection for the treatment of wounds, abscesses, and urinary tract infections in dogs and cats. We extended the use of **Toltarox** (toltrazuril) oral suspension for the prevention of infections with coccidiosis to another animal species, sheep.

In Bosnia and Herzegovina, we obtained marketing authorisations for animal health products for farm animals: **Flimabend** (flubendazole) oral suspension for the treatment of infections with internal parasites in chickens and pigs, and **Marfloxin** (marbofloxacin) 100 mg/ml solution for injection to treat respiratory tract infections in cattle and pigs. We obtained a marketing authorisation for **Egocin 155** (oxitetracycline/sodium sulfamonomethoxine) oral powder for treating infections of the respiratory and alimentary tracts in pigs and calves.

Health resorts and tourist services

In Talaso Strunjan, we introduced two new programmes of medical wellness, for stress management and for healthy ageing. We also introduced a new method for the treatment of urinary incontinence in women. In Terme Šmarješke Toplice, we introduced a new diabetes prevention programme.

Product supply

The key objective of Product Supply is to satisfy market demand by providing sufficient quantities of quality products in a timely and cost-effective manner. To meet this objective, we react quickly to changing market demands; we continually optimise the cost-effectiveness of products and technologies; improve processes to reduce flow time along the entire supply chain, and integrate supply processes in all Krka Group companies and in other contracted production sites.

With the introduction of advanced technological processes into API production and finished products, we follow the production requirements for new products and legislation in this area. We have been increasing production capacities and improving the cost-effectiveness of processes in Slovenia and in Krka's subsidiaries. Our adjustments to increasingly more challenging conditions in individual markets were made easier and more effective by implementing a new management process for the entire product life cycle.

We have been introducing equal-quality, but lower-cost alternative sources of active pharmaceutical ingredients, excipients and packaging. In this way, we have been lowering the risks related to changing conditions in raw material markets.

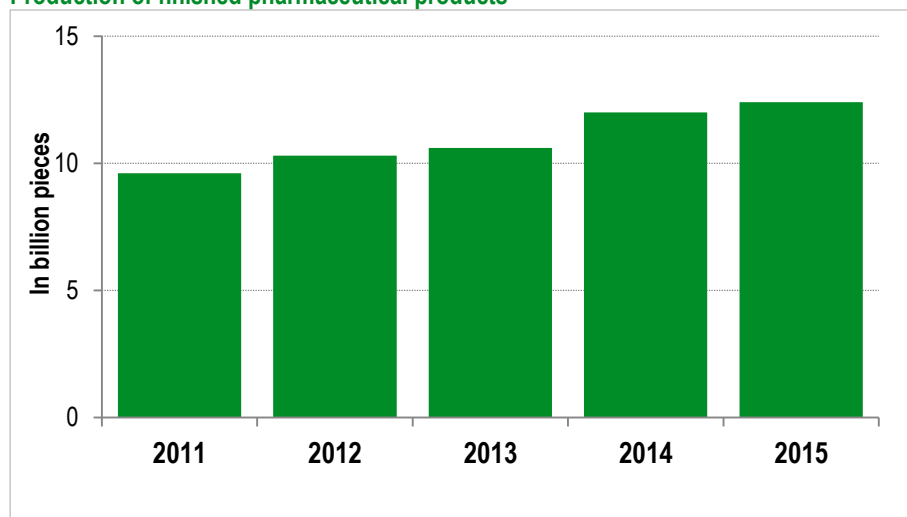
Production planning and implementation

In terms of volume, the production of finished pharmaceutical products followed market demand. Compared to 2014, the production of finished products in 2015 increased by 3%. Once again, we recorded the biggest monthly and quarterly levels of production so far.

A high level of vertical integration in the production process means high added value. This means that we produce and technologically control a large share of the active ingredients that we build into finished products at various production sites in Slovenia and abroad, thus reducing dependency on external suppliers in this key segment of the supply chain. In the last few years, we have increased the shares of vertically integrated active ingredients.

With continuous improvements to processes, we have considerably lowered the average lead time, thus optimising our response time and improving the flexibility of processes in the supply chain.

Production of finished pharmaceutical products



Supply process

For ecological, financial, and GMP reasons, the number of raw material producers decreased in 2015. Regardless of the unstable situation in the raw material market, we managed to meet the needs of the production of finished products. We also secured the timely delivery of finished products made by our contract manufacturers. We increased the transparency of raw material and packaging material purchasing and upgraded the system of managing purchasing contracts and harmonising the specifications of raw materials with suppliers.

We continued to make savings, taking into consideration unchanged foreign currency variations. We increased integration and optimised purchasing processes with Krka's subsidiaries. We further improved partnership strategies with suppliers.

Production

The key aim of production is to timely secure a sufficient quantity of quality products to meet market needs, while optimally using the available resources of the Krka Company and subsidiaries.

We continued activities related to technology transfer for new products to an industrial scale. We have been achieving good results in optimising production processes and increasing production yields. We successfully manage technology transfers between plants, thereby using production capacities to their maximum. Despite increasingly demanding quality standards in pharmaceutical production and the expansion of the product portfolio, we kept the costs of processes at the same level as in 2014. We continued to upgrade information technology support for managing, monitoring and controlling processes, the standardisation of production processes and optimisation of the system of production documentation and process controls.

We transferred new technologies and products to the completed production and distribution centre in the Russian Federation, and in 2015 produced over one billion tablets and consolidated our position as a local manufacturer. We established the conditions for verification and thus regular production in the highly automated plant Notol 2, the largest investment in Krka's history. This will increase our production capacities from 13 to over 17 billion pieces of solid pharmaceutical forms a year. We implemented new technology for the production and packaging of lozenges in the Ljutomer plant.

By starting Modul 2 in the Sinteza 1 plant in Krško and transferring additional technologies (products) to this location, we increased the plant's capacity, thus considerably increasing capacities for the production of active pharmaceutical ingredients for vertically integrated products.

Preparation of technological documents

We plan the process of implementing post-authorisation activities for the preparation of packaging materials and technological documentation for production in Slovenia, in companies abroad and contract manufacturers in a way that ensures timely completion and maximum responsiveness to sales requirements. An increase in the number of products and production sites, and changing market and packaging requirements in local languages are demonstrated in an increasing number of finished and bulk products.

We upgraded the Master Batch Records (MBR), which include automated technological processes and a system of material master data, which are the basis for most processes in SAP.

In 2015, we carefully followed EU legislation on falsifying medicines (FMD) and prepared technical and systemic solutions, which will be needed for the implementation of the new directive on ensuring secondary packaging which proves the medicine is in its original packaging, and the introduction of final packaging by batches.

Warehousing and transport

Despite increasing the physical scope of production, we secured quality and timely receipt, warehousing, commissioning and dispatching of material and products without increasing warehouse capacities, by means of optimising processes and upgrading the warehouse equipment.

According to good distribution practice, we upgraded product and pharmaceutical raw materials distribution system for all transportation. As part of updating the transport and dispatch process, we prepared new software that enables better planning and transport supervision.

We reduced costs related to transport services by improving the system of using vehicles. In sea traffic, we simplified the customs clearance procedure, which has contributed to improving material flow within the supply chain.

Investments

In 2015, the Krka Group allocated €96 million for investments, while investment liabilities assumed pursuant to concluded contracts totalled €159 million. We invested primarily in increasing and updating production capacities. We also pursued our strategic objective of developing our own generic pharmaceuticals by investing in research and development capacities and through our production and distribution centres around the world.

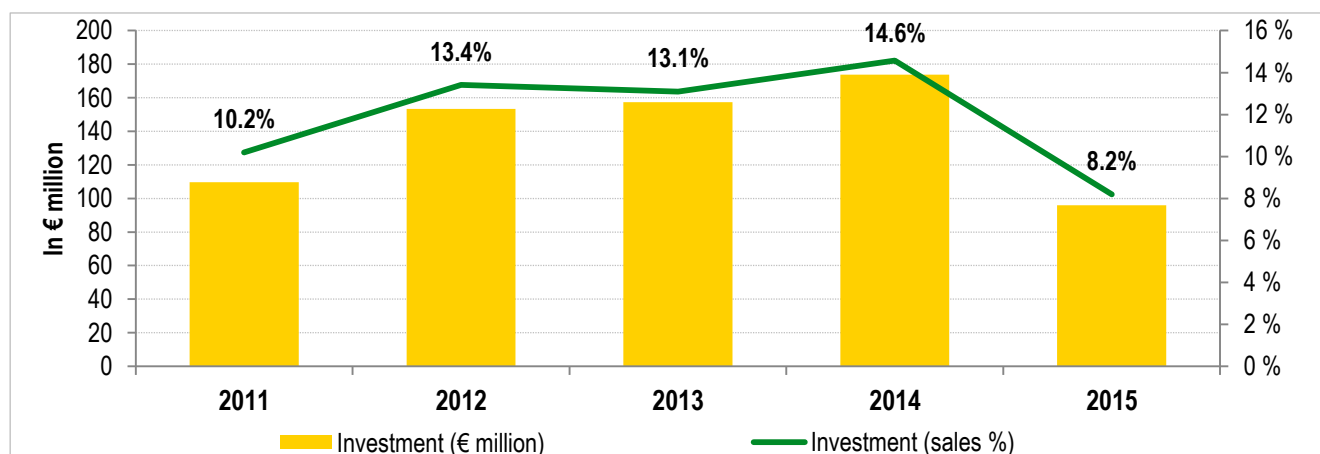
In 2015, we allocated €96 million to investments.

In the past decade, we have allocated €1.3 billion to investments.

In Slovenia, Croatia, and the Russian Federation, twenty investment projects are in progress with the aim of increasing our production capacities by more than one third. The annual volume of tablets and capsules produced will increase from 13 billion tablets and capsules to more than 17 billion.

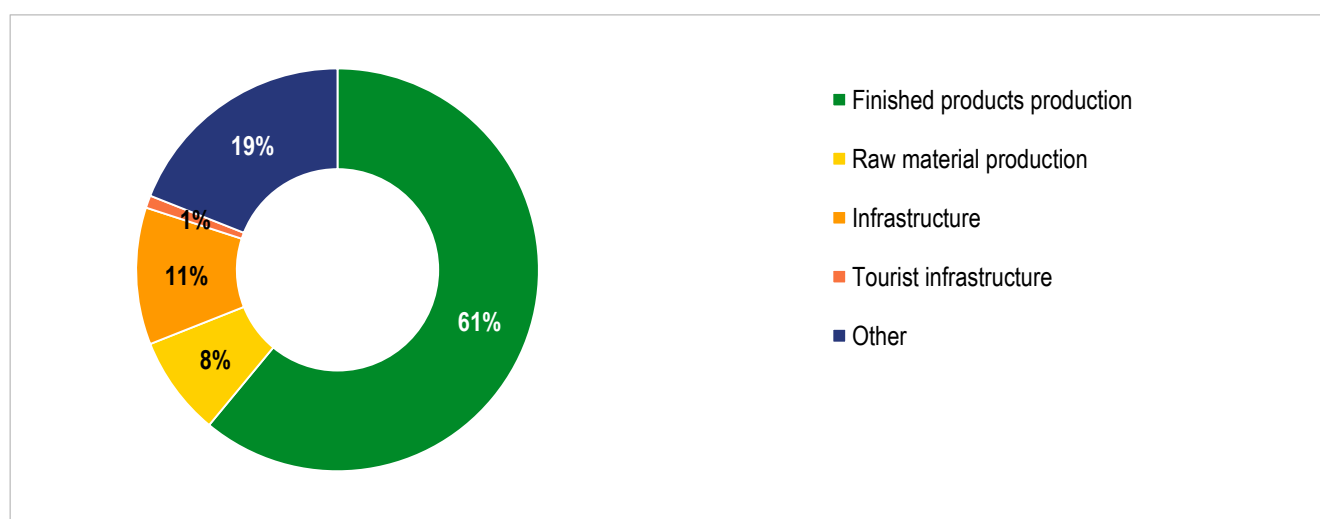
All projects comply with environmental standards. The selected equipment matches the best available technology, providing for environmental protection and efficient energy use and at the same time ensuring safe and efficient operations.

Krka Group investments in the period from 2011 to 2015



We invest in the production of raw materials and finished products and in the modernisation of infrastructure to provide stable support for the business functions of the entire Krka Group. Investments accounted for 8.2% of sales revenues generated in 2015.

Structure of Krka Group investments in 2015



We opened Notol 2 plant, our largest investment to date

The construction of a plant for the production of solid pharmaceutical dosage forms, Notol 2, was completed in Ločna in Novo mesto, Krka's main location. The investment totalled €200 million. The new facility design satisfies Krka's vertically integrated business model, allowing us to manage the entire process from development to the production of raw materials and finished products. Its advantages are its highly automated computer-controlled production and material flow systems.

With Notol 2 and Sinteza 1, Krka is strengthening its competitive advantage in the global pharmaceutical market.

The construction of four buildings with a total area of 55,000 square metres, which are connected with bridges to the Notol solid dosage forms production plant and the Finished Products Warehouse, was started in June 2012 and took two-and-a-half years. The building complex was completed in autumn 2013, and facility installations were ready for clean rooms to be set up and logistic and technological equipment to be installed.

In 2014, qualifications and validations of the systems were carried out: the logistic system, technological equipment, and technological media system. This was quite challenging, due to the complexity of the plant and the high level of automation. In September 2014, the plant passed a technical inspection, and in November 2014, it received an approval for test operations. The test production started at the beginning of 2015.

A high-tech 55,000-square-metre plant was completed in two and a half years.

The Notol 2 production buildings include three physically and functionally connected buildings: a production plant, a packaging plant, and a warehouse. The building for the production of bulk products has seven floors, as does the high-bay warehouse with a temporary storage room for 8,760 pallets. To ensure greater efficiency of the logistic system, the warehouse is placed between the production and packaging plants, and transport routes connect it with the receiving area in the Notol plant and the Finished Products Warehouse. The finished product packaging plant has four floors. Connecting bridges serve to move raw and packaging materials and automated containers with bulk products, and as a passageway to the canteen for visitors and personnel. In this way, Notol and Notol 2 are connected to form a single technological unit.

The result of the knowledge of Krka experts

The conceptual design of the plant is the result of the knowledge and teamwork of Krka experts. During planning, special attention was paid to personnel safety and environmental protection. Therefore, technical solutions were adapted to these requirements. The plant has been certified and operates in accordance with the standards ISO 14001, Environmental Management and ISO 18001, Occupational Health and Safety. Production is carried out in closed systems.

The selected production equipment facilitates efficient power and waste material consumption, and at the same time reduces emissions of hazardous substances. The best available technology was used to reduce the impact on the environment.

Equipment will be installed gradually, depending on market needs and increases in production volume. At the start of production, Notol 2 was provided with about one third of the technological equipment. New production lines will be added gradually and the capacity of the plant will increase to the final 4.5 billion tablets and capsules per year.

Krka's production complex for active pharmaceutical ingredients in Krško has been completed

In two years, we completed the construction of the new manufacturing facility for active pharmaceutical ingredients (API) in Krško and increased our production capacities. The €85-million investment gives Krka new capacities, and facilitates the management of the entire process from development to the production of raw materials and finished products.

We manage the entire process from development to the production of raw materials and finished products.

We began building the Sinteza 1 plant in July 2012. Production in the plant's first module began in summer 2014, and in summer 2015 the plant's second module also became operational. All production lines are now up and running. The plant lends additional flexibility to the production process, since the manufacturing of new products can be started in a relatively short period of time. The plant enables small-batch and large-batch production of APIs and intermediates.

The production process is carried out in accordance with good manufacturing practice and under controlled conditions in accordance with the European Directive, REACH. A computer system is used to carefully monitor and manage the entire process. We officially opened this state-of-the-art 5,529-square metre plant at the beginning of October 2015.

Production plant for a new generation of lozenges

We completed the €11.5-million investment in a new production plant for the new generation of lozenges in Ljutomer.

The 3,943-square metre building was completed at the end of February 2015. In May, we completed the technical inspection and received the production line for manufacturing a new generation of Krka's lozenges at a capacity of 400 to 600 kg/h. In June, we began with trial production, and after the approval of the Agency for Medicinal Products and Medicinal Devices of the Republic of Slovenia at the end of August, also regular production.

*We built a plant
in Ljutomer for
the production of
a new generation
of lozenges.*

New development capacities

Krka's major investment to satisfy the needs of development and quality assurance in the next few years is the construction of a fourth research-and-control centre (RKC 4) in Ločna. The building will be placed in the direct vicinity of the other three research-and-control centres, and will be connected to RKC 2 and RKC 3. Preparation works for the construction of the €54-million research-and-control centre began at the end of June 2015. The construction of the facility of 18,000 square metres will take two years.

We are installing equipment in the new plant in the Russian Federation

Krka-Rus 2 in Istra, the Russian Federation, is among the most important investments in Krka's subsidiaries. During the first stage, we built a new plant and logistics centre, and in 2015 we began to install additional technological and logistic equipment. In this way, production capacity will increase to two thirds of the planned final capacity, which will total up to 2.5 billion tablets and capsules a year. With the installation of other logistic equipment, we will reach the full capacity of the warehouse and logistic system.

We are extending our production programme in Croatia

In the distribution and production centre in Jastrebarsko, Croatia, we will renovate the warehouse and distribution centre, because we intend to expand our production programme to acquire new laboratory and production capacities for the production of solid pharmaceutical dosage forms. Documentation for the execution of works has been completed and the main technological equipment with a longer delivery date was ordered. After obtaining the construction permit, we began construction works at the end of 2015. Production on the new technological equipment is planned to start during the first three months of 2017. The investment is estimated at €31 million.

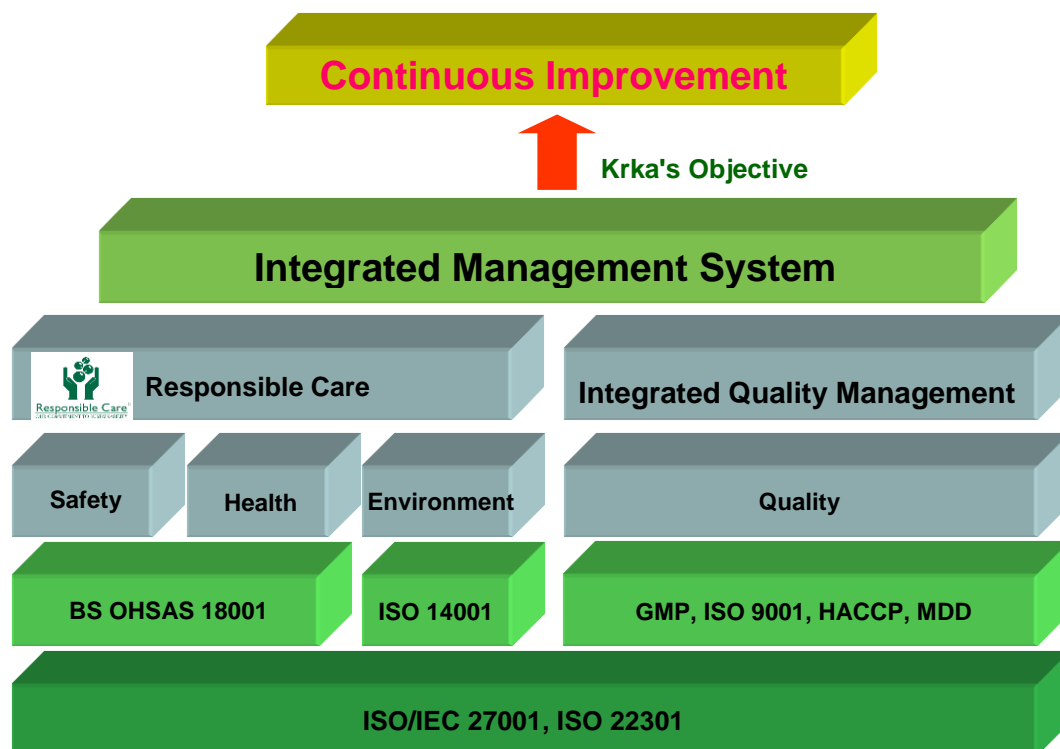
Integrated management system and quality

Krka's basic underlying strategy in terms of quality is ensuring the competitive quality of Krka products and services by continuous improvement of products, processes and services. We apply various advanced work systems and control methods to meet the requirements of different clients and demonstrate the on-going suitability of processes for achieving goals. Owing to advances in process development, we continuously meet the expectations of our clients and gain new opportunities for further improvements.

Management and quality systems

We manage various aspects of our operations (quality, the environment, health and safety at work, foodstuffs safety, medical devices, information security, and business continuity management) in a uniform way with our integrated management system (IMS). The purpose of the IMS is to achieve optimum business targets. The IMS is structured according to the requirements of ISO 9001 standard, and upgraded and extended according to the GXP and HACCP principles, *Medical Device Directive* (MDD), ISO 14001; BS OHSAS 18001; ISO/IEC 27001, and ISO 22301 standards. The performance of our IMS is supported by a centralised document management system, which we regularly upgrade by reducing costs, shortening the time from the production of a document to its enforcement, providing easy access to the documents and their security. To ensure the credibility of our IMS and increase our partners' trust, we have the IMS regularly certified by independent external institutions, and demonstrate our compliance with regulatory and legal requirements in foreign and Slovenian inspections and audits of our partners. We regularly follow new developments in the area of good practices and systematically introduce them into management systems and processes.

IMS determines our attitude to quality, environment, occupational safety, food safety, medicinal device safety, information security and uninterrupted operations.



Continuous improvements dictated by standards, quality guidelines and the PDCA (Plan-Do-Check-Act) approach are the driving force of progress and upgrades in all areas of the Krka Group operations. We systematically manage processes, from purchasing, research and development, production, marketing and sales to monitoring customer satisfaction. Customer satisfaction and sustainable business success will remain our key objectives in the future.

Inspections and audits of the management and quality system

The quality assurance system is controlled by certification bodies, domestic and foreign inspections, and internal audits and audits of our partners.

The IMS is regularly certified by the Slovenian Institute of Quality and Metrology (SIQ). SIQ is also the certified body for establishing the conformity of medicinal devices. It also reviews Krka every year according to the EC certificate of conformity issued for the Septoqua medical device.

Krka manufactures a variety of medicinal products and is therefore monitored by several Slovenian competent bodies or institutions. The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) monitors medicinal products and devices made by Krka.

The Health Inspectorate of the Republic of Slovenia (ZIRS) monitors self-medication medicines and food supplements. Biocidal products are controlled by the Chemical Office of the Republic of Slovenia, while the Administration of the Republic of Slovenia for Food Safety, Veterinary and Plant Protection (UVHVVR) inspects feed additives and catering. The Metrology Institute of the Republic of Slovenia exerts control over measuring devices used in manufacturing and trade, and prepacked products. The Metrology Institute of the Republic of Slovenia carried out an inspection of compliance with the *Metrology Act and Rules on Quantities of Pre-Packed Products*.

In 2015, Krka underwent more inspections and audits focusing on the production of medicinal products than in the past, because new legislation and guidelines entered into force introducing stricter requirements of contract partners. JAZMP regularly inspects medicinal products and API manufacturing processes, clinical trials, and the implementation of pharmacovigilance. In 2015, it carried out seven inspections. Of these, in two instances the requirements for the extension of the manufacturing authorisation were inspected. The other five inspections were regular. Based on these, Krka was granted a GMP certificate confirming that manufacturing is carried out in conformity with the GMP principles and guidelines applicable to medicinal products and APIs.

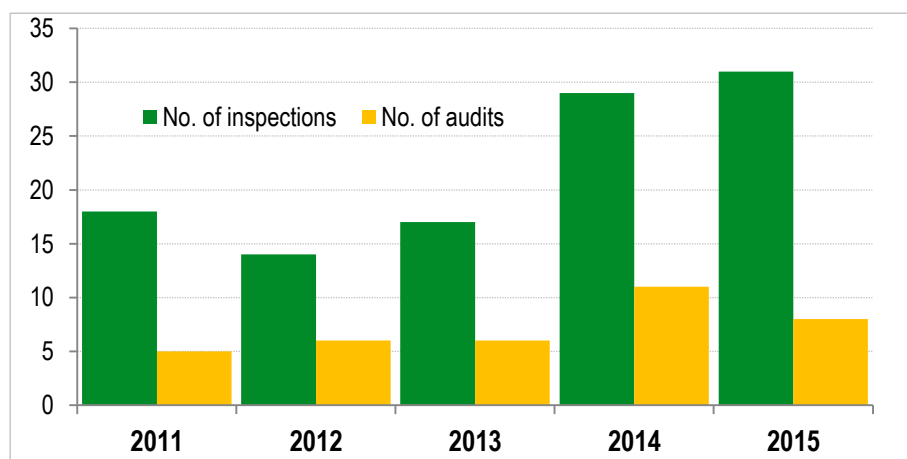
We successfully passed all inspections and audits, as the inspectors confirmed suitability and compliance with regulatory requirements applied in the production of pharmaceuticals and APIs.

The manufacture of medicinal products is also inspected by foreign bodies, because medicines are marketed in markets outside the European Union.

In February 2015, as a manufacturer of medical devices Krka was granted the EC certificate of conformity and approved the Septoqua medical device for conformity and IIa classification by SIQ, the certified body for medicinal devices.

In compliance with the *Medicinal Products Act (ZZdr-2)* and regulations on the wholesale distribution of medicinal products, we obtained permits in January 2015 to deal in the wholesale of a limited range of products. In September 2015, the good distribution practice guidelines for active ingredients entered into force. We followed the guidelines promptly, so they have already been included in the existing good distribution practice system.

Number of inspections and audits at Krka Group



In 2015, Krka successfully passed:

- the verification of the new Noto 2 plant for production of finished products;
- the certification of the Septoqua medicinal device;
- the Russian certification audit of the quality management system (ISO 9001), which shortened the launch procedure for the Russian market;
- the verification of the new line for manufacturing Septabene lozenges (new technology);
- the inspection of General Directorate of Medicines and Pharmaceuticals of Turkey (when the GMP certificate is granted, Krka will be able to start the marketing authorisation procedures for the Turkish market).

UVHVVR regularly sampled and checked feed additives in order to ensure the quality of products; suitability of conditions for establishing the traceability of feed additives in registered plants; and that requirements for the issuing veterinary permits for exporting feed additives were met.

In the Catering Department, UVHVVR conducted two regular inspections, and the National Laboratory of Health, Environment and Food (NLZOH) one. The inspections were conducted in order to check that work processes were compliant with the *Slovenian Act Regulating the Sanitary Suitability of Foodstuffs, Products and Materials Coming into Contact with Foodstuffs* and the HACCP plan.

The Health Inspectorate of the Republic of Slovenia (ZIRS) carried out two regular manufacturing inspections focusing on labelling and traceability throughout the entire food supplement production process, and compliance with the requirements of the *Slovenian Act Regulating the Sanitary Suitability of Foodstuffs, Products and Materials Coming into Contact with Foodstuffs*.

Our partners conduct audits of the quality management system every year. Usually audits are conducted by partners from Western Europe, but in 2015 our partner from the Republic of South Africa also carried out an audit. Two partners' audits reviewed environmental protection and occupational safety. Also in 2015, Krka passed all audits successfully. Their findings prove that Krka meets the requirements of all partners.

Auditors from the Krka Group audit the suppliers' and contract partners' quality management systems internationally to ensure control of the quality of products and processes, thus enabling further growth of the company. We focus on legislative requirements related to good manufacturing practice, environmental protection, human resources, and social responsibility. We have been implementing measures to reduce risks related to the quality of products and raw materials produced by suppliers and contractors to an acceptable level. The suitable quality and timely delivery of products and raw materials manufactured by suppliers and contract partners provides for the optimum planning of production processes.

Number of inspections conducted at suppliers and contract partners



Quality assurance processes

In 2015, Krka introduced six key processes for the implementation of its policies and attainment of strategic objectives: company management, research and development, product supply, marketing, sales, and engineering and technical services. Quality assurance processes are integrated into company management processes, and facilitate the

implementation of the elementary corporate process rules of operation. Our constant task is to upgrade quality systems, thus improving process efficiency, and the quality and competitiveness of products and services. To achieve this, it is vital that our employees undergo continuous training and constantly upgrade their knowledge in the field of quality management. They cooperate with experts from various areas, seek opportunities for improvement and introduce new developments in company processes.

We maintain awareness of the importance of quality in company processes at a high level by continuously seeking new innovative approaches to introduce in processes through incentives and notices in publications and on the corporate website.

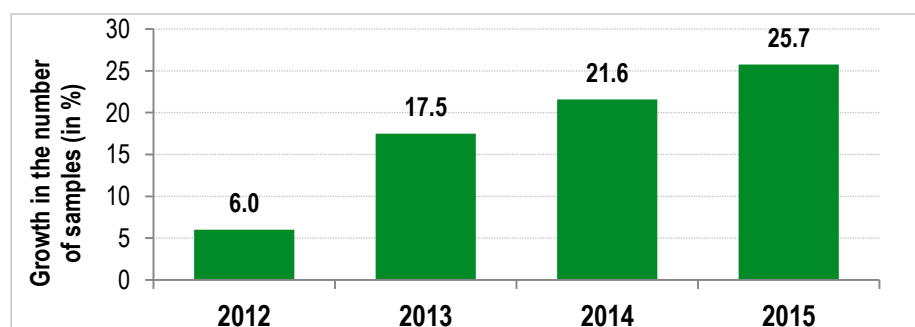
To produce a high-quality, safe and effective product, quality must be integrated into the earliest stages of research and development. We ensure that the quality of products and processes complies with the latest standards and requirements of international legislation by introducing new knowledge and tools, an in-depth understanding of processes, and suitable resources.

We have established a quality management system for active ingredients, excipients, and packaging materials, which ensures that only materials of suitable quality for use in chemical and pharmaceutical production are released. We cooperate with Krka's subsidiaries to upgrade the quality system. Krka's own technology, research and development are employed to manufacture active ingredients, which are then used in the production of most key products. We constantly upgrade the quality system of the active ingredient manufacturing. This applies also to manufacturing facilities that do not belong to Krka. In 2015, we intensified the upgrade of the quality systems of our contract manufacturers of active ingredients in order to ensure that active ingredients used in Krka's medicinal products are made according to our own procedures and are of comparable quality, irrespective of the manufacturing site. All active ingredients, excipients and packaging materials are assessed in accordance with good manufacturing practice standards and registration documents.

The qualification and validation procedures of investment and computer projects, production and laboratory equipment, utilities, air-conditioning systems, technological procedures, cleaning processes, calibrations and maintenance processes contribute to quality assurance in production and control processes. Process validations and packaging validations are intended to ensure the compliance of technological processes applied in bulk product manufacturing and packaging of finished products. Transport validation confirms that transport conditions are suitable. We promptly follow the latest legal requirements. We also make and implement useful proposals which contribute to rationalising and optimising work.

We assess the quality of products, active ingredients, incoming materials, production environment, and manufacturing processes with laboratory quality control at all our production sites. We have established a system for constant monitoring of the quality of our marketed medicinal products throughout their shelf lives. Krka has been optimising processes, introducing the latest analytical techniques, following new developments in GMP guidelines and training employees continuously to comply with all legal requirements and follow its business objectives. Krka shares knowledge and analytical methods at the corporate level and with its contract partners to ensure the same quality of work and medicinal products. Successful inspections and audits conducted by agencies and business partners prove that laboratory quality control is performed professionally by well-qualified employees. The laboratory quality control of incoming materials and manufactured product batches is conducted simultaneously and strictly follows production and sales plans. With constructive communication and the effective organisation of work, we are able to fulfil orders on time and consequently contribute to customer satisfaction, together with other organisational units.

Laboratory quality control



We control production processes, active ingredients, and finished pharmaceutical products. We control the critical stages of the production process, and examine and assess documents for every product batch separately. This is why we are able to confirm that our medicinal products are manufactured in compliance with the prescribed procedures and good manufacturing practice guidelines applicable to EU countries. We conduct annual product quality reviews in order to establish quality trends, then take appropriate measures and optimise processes with regard to the established trends.

We constantly upgrade our documentation and information system in compliance with the process requirements to ensure the transparent and efficient use of information. Documents proving the quality of our products are arranged systematically and available for review during inspections or partner audits.

Releasing a batch onto the market is the result of processes ongoing throughout the product manufacturing cycle.

In view of sales and production requirements, we plan and coordinate activities for the timely release of incoming materials, bulk products and finished products. We continuously improve the planning process and are actively involved in a project to integrate planning, which is being carried out within the supply chain optimisation project. We adjust the number of batches released to the market with regard to sales requirements and the performance of production activities. We record batch release times in order to make products available for timely dispatch. To release batches on the market, certain relevant activities must be performed throughout manufacturing, quality control and product quality assessment cycles. All manufactured batches are assessed in compliance with the standards of good manufacturing practice and registration documents. The final assessment of an individual medicinal product batch is performed by qualified persons authorised to launch particular pharmaceutical batches according to the provisions of the *Slovenian Medicinal Products Act* and the applicable EU legislation.

We issue a certificate of analysis and certificate of conformity and prepare batch documentation for customers according to quality assurance contracts, which we regularly harmonise and update together with customers and partners. In-depth communication and certain responsibilities arising from a partnership are the result of long-term cooperation. We regularly update finished product certificates of conformity in accordance with the guidelines of good manufacturing practices that apply to EU countries.

We follow the quality of products on the market throughout their life-cycle. We also actively follow the safety of medicines within the pharmacovigilance system. Data on the safety of a medicinal product are collected and evaluated through the entire life cycle of the product, in the periods before and after the marketing authorisation, and upon its daily use. Through the pharmacovigilance system, we assess the risks and benefits of a product, and take measures for risk management and ensure appropriate information for doctors and users.

Quality system orientation

A key objective of the IMS is the satisfaction of our customers with Krka products and services.

Our quality system addresses our customers' demands and expectations in accordance with the legislative requirements and good manufacturing practice. To further improve processes, we take into account customer satisfaction information about our products by continuously monitoring indirect indicators. We provide for customer satisfaction in relation to our products and services through regularly updated quality assurance contracts and product quality reviews. Another indicator of customer satisfaction are our successful audits of product manufacturing in compliance with good manufacturing practice and registration documents.

Our Quality Committee periodically reviews all major processes with respect to our IMS and performance criteria, and proposes strategic guidelines for their further development. We regularly conduct monthly reviews of quality indicators for key processes in Krka that affect the quality, safety and effectiveness of products.

Krka places strong emphasis on environmental protection and occupational health and safety (ISO 14001, BS OHSAS 18001) as well as on sincere and fair public relations. As a result, we have been granted the right to use the 'Responsible Care' logo every year.

Quality management begins with daily work in each organisational unit, with all processes and products and with every individual. There is always room for improvement, so we continuously promote quality (also in relation to efficiency, economising, knowledge, useful suggestions and the environment) under the title 'Your Quality Counts'. To increase the commitment to quality, a series of professional and motivation articles is published in our internal magazine, *Utrip*. The

commitment to management systems is also reflected by the good results of periodic measurements of the organisational climate.

Our permanent objective is to integrate and pursue uniformity of management and quality systems in the processes of all Krka Group companies. In view of this, we upgrade systems and pursue their optimisation. In 2015, the responsible persons from individual business functions of the parent Company from which the required upgrading and optimisation of work in subsidiaries originate continued to visit subsidiaries. We share information, introduce new developments, and provide assistance to subsidiaries, where we regularly audit their quality systems. The internationalisation of quality system processes leads to coherent and comprehensive quality management, optimisation and process efficiency.

Information security system

Our information security management system (ISMS) is ISO/IEC 27001:2013 certified. We regularly assess information source risks. Krka's internal rules on archiving documentary materials comply with the *Slovenian Protection of Documents and Archives and Archival Institutions Act (ZVDAGA)*, and compliance has been approved by the Archives of the Republic of Slovenia. ISMS is regularly reviewed with self-inspections, audits, and external security inspections. Krka's Information Security Policy was extended to our subsidiaries. Training our employees and raising their awareness are key elements in the successful implementation of ISMS, which is also carried out by using contemporary technologies such as e-learning.

No major information security incidents occurred in Krka in 2015, which points to the high level of employee awareness and secure information infrastructure.

We consistently implement the personal data protection policy in compliance with EU directives and the national legislation of countries where Krka's subsidiaries operate, so that personal data protection is ensured throughout the Krka Group. Krka, d. d., Novo mesto has concluded contracts on personal data processing with all its subsidiaries.

We control and ensure increased information safety with the in-depth application of the latest supervision and information security tools such as intrusion detection and intrusion prevention systems (IDS/IPS), security information and event management (SIEM) system, vulnerability management, protection of Krka networks from unwanted traffic (Secure Web Gateway), and the introduction of Mobile Device Management (MDM) tools. The application of all these tools has been extended to all our units abroad.

Special attention is paid to the availability of critical systems such as the business system, production system, documentation system, electronic mail, control systems and others. The expected minimal availability of critical systems is 99.5%. To allow for system availability, the data centre has been doubled in Novo mesto. Together with the basic data centre, it ensures a high level of redundancy, meeting the requirements of high redundancy and data safety. Safety copies are produced in real time for all computer systems, applications and data bases at the remote location, outside Novo mesto.

We ensure a high availability of critical systems.

System:	Annual availability in %				
	2015	2014	2013	2012	2011
Business	99.9	99.8	99.8	99.9	99.5
Production	99.9	99.7	99.9	99.8	99.5
Documentation	99.7	99.9	99.8	99.1	99.1
E-mail	99.9	99.8	99.8	99.9	99.8

Business continuity management system

In 2015, we updated the business continuity management system (SUNP) according to ISO 22301:2013 (the new international standard for business continuity management) that superseded BS 25999, the business continuity standard on which SUNP was based.

We assess process criticality and the risks that threaten their operability. In 2015, we re-analysed the impact on operations, adopted a new business continuity management strategy and updated relevant plans.

We take effective measures to protect people, property and other key resources, and to prevent emergencies and disasters. For emergency cases, we have prepared plans of action and disaster relief measures, as well as measures to reduce direct damage. The effectiveness of the SUNP is improved by continuously upgrading the system, providing training and practice. We pay special attention to increasing resistance to major incidents or disasters, so that we ensure a high level of redundancy of our critical infrastructure through new investment projects.

*SUNP is an
integral part of
Krka's
comprehensive
risk
management.*

SUSTAINABLE DEVELOPMENT

Responsibility to employees

A dynamic international environment offers many challenges and opportunities for growth and development. Employees work in various cultures, where we work as partners to achieve common company goals. Our values – speed and flexibility, partnership and trust, creativity and efficiency – are important parts of Krka's culture, and this enables us to set high goals and reach them with ambition, knowledge and ability. Special attention is paid to attracting, recognising and developing young talent. In this way, we make sure that the company remains successful in the future.

Employees work in various cultures, where we work as partners to achieve common goals.

Employees make the greatest contribution to the company's success. Together, we encourage a culture of mutual trust, respect, co-operation and teamwork, lifelong learning, and responsible and efficient work. We strive to ensure that all our activities reflect responsibility to employees and Krka values.

Exchanging experience in an international setting fosters a synergistic network of various cultures

The international environment, interesting work challenges, the best possible working conditions, the quality of life and work, social security, and safety at work, form the foundations for a stimulating working environment in which the goals and needs of the individual are linked with the company's objectives.

Equal opportunity, respect for legal norms and rules, and an ethical approach to other people and the wider social community are the foundations of our work. We respect human rights as they are defined in internationally recognised principles and guidelines, including the *Universal Declaration of Human Rights*. We abide by all legal norms and rules related to human rights issues in all the countries where we operate. All employees get familiar with the *Krka Code of Ethics*, which obliges us to respect ethical and professional standards of work, knowledge and behaviour. Because we value quality, new employees are selected carefully and must maintain high professional and ethical standards in addition to having the necessary knowledge and skills.

We are committed to the high ethical and professional standards stipulated in the Krka Code of Ethics.

Employees work in an international environment, where they have the opportunity to develop professionally and personally through the challenges arising from their tasks. They can also attend many different courses on leadership, personal and professional development or foreign languages. The basis of success is striving for excellence at work and continuous professional development, personal development and the development of interpersonal relations.

As we plan for the long term, we think about future employees even before they enter the job market. We offer scholarships to students who demonstrate talent and ability during their studies. The students on our scholarships are connected with Krka during their studies. We systematically work with them to connect them with the company in the best possible way and help them gain experience. These students get to know Krka and the company's working processes at organised meetings and during their internship and can prove their skills and abilities. We assist students and junior researchers working on various assignments. As lecturers at tertiary education institutions, we help design course materials at 1st and 2nd cycle study programmes. In 2015, Krka had 50 students on scholarships, 7 of whom graduated. We also work with secondary schools and faculties and provide compulsory work placement for students; 251 secondary school and university students attended work placement in our company in 2015.

We work with young people and help them gain experience even before they enter the job market.

It is our aim to be successful in a competitive international environment. This may be achieved only if the organisational climate provides for employee satisfaction and effective work. By regularly measuring the organisational climate, we make sure that the employees have the opportunity to express their opinions. Analyses of findings serve for improvements which contribute to efficient and creative environment and committed employees. We encourage the awareness that every employee contributes to a sound working environment, good organisational climate and business results.

The company's competitiveness and performance are also maintained through the continuous improvement of internal processes.

The company's competitiveness and performance are also maintained through the continuous improvement of internal processes. This is becoming increasingly important, given our intensive growth and expansion to new markets. The Krka Group is becoming increasingly complex, which is why we give special attention to organisational efficiency. Our continuous search for new solutions in the processes and structure, reorganisation and restructuring of the units in Slovenia and abroad enable us to be flexible and quick to respond to the demands of the competitive environment, while exchanging experience in an international environment allows for a synergistic network of various cultural patterns and values.

Key 2015 employee data

Number of employees	10,564 from that 46.5% in Slovenia
Average age	39.2 years
Share of female employees	63.8%
Share of female employees in management positions	44.7%
Share of employees with at least university degree	54.8%
Share of permanently employed	88.2% (87.6% female; 89.5% male)
Change in number of employees in 2015	+65
Undesired fluctuation	7.8%

Number of employees as at 31 December 2015

	2015	2014	2013	2012	2011	Index 2015/14
Krka Company in Slovenia	4,292	4,256	4,190	4,085	3,899	101
Krka Company representative offices outside Slovenia	506	482	438	410	480	105
Krka Company	4,798	4,738	4,628	4,495	4,379	101
Subsidiaries outside Slovenia	5,151	5,130	4,764	4,287	3,865	100
Terme Krka Group	578	585	605	627	653	99
Farma GRS*	37	46	51	52	51	80
Krka Group	10,564	10,499	10,048	9,461	8,948	101

* Including the micro-companies founded by Farma GRS

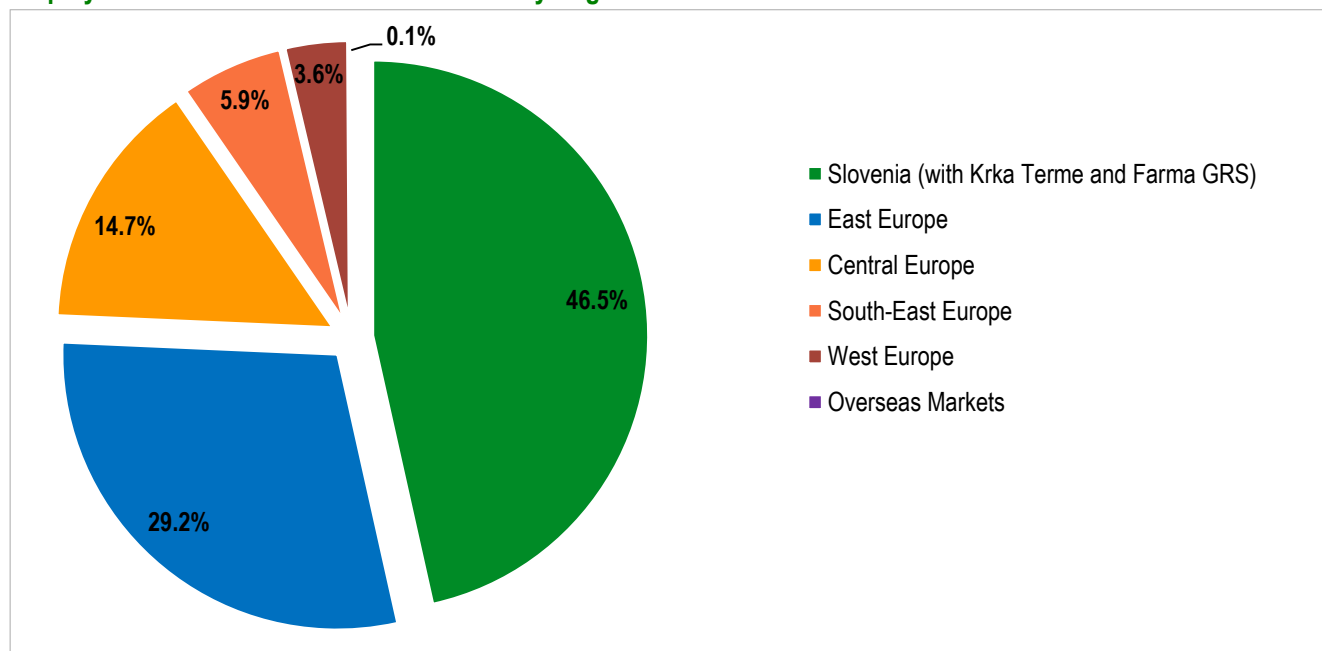
Educational structure

One of the pillars of Krka's human resource policy is the continuous improvement of the educational structure of our employees as we are aware that only extensive investment in development, demanding technology and highly qualified experts enable a quick and effective response to the demands of a highly competitive market. The share of employees with at least university-level qualifications is 54.8%, or 5,792 employees. These include 152 employees with a doctoral degree and 349 employees with a master's degree or specialisation.

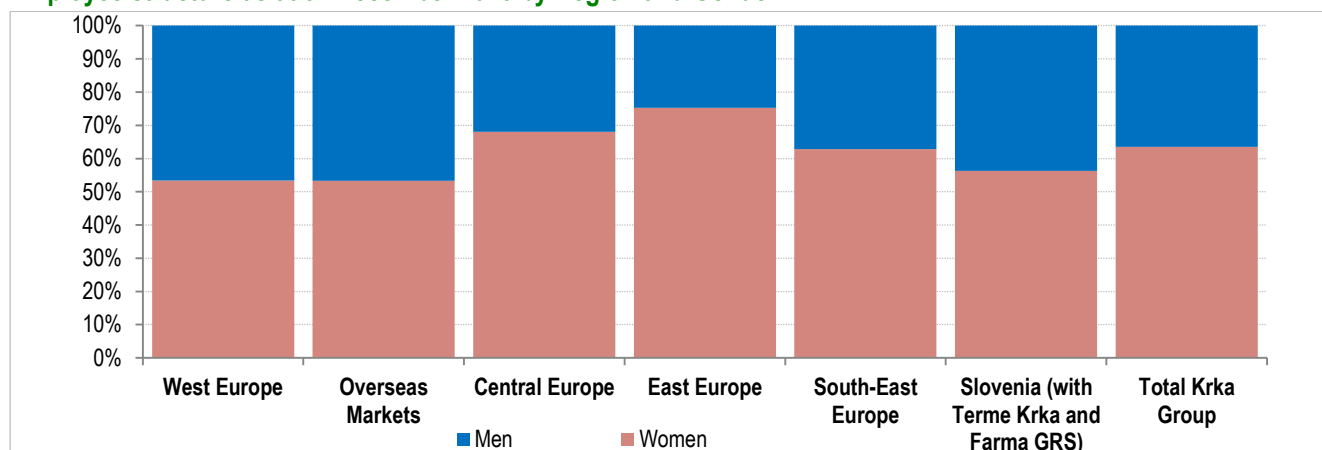
Educational structure of Krka Group employees as at 31 December 2015

	2015	2014	2013	2012	2011
PhD	152	126	111	106	95
MSc	349	339	323	281	266
University degree	5,291	5,306	4,927	4,522	4,230
Higher professional education degree	1,385	1,282	1,200	1,072	945
Vocational college degree	304	271	272	263	257
Secondary school education, level V	1,844	1,891	1,889	1,864	1,760
Other	1,239	1,284	1,326	1,353	1,395
Krka Group	10,564	10,499	10,048	9,461	8,948

Employee structure as at 31 December 2015 by Region



Employee structure as at 31 December 2015 by Region and Gender



Employee education and development

Investing in the knowledge and development of all employees is essential to the success of Krka and its employees. Employee development is systematically planned, and continuous education enables our employees' **professional and personal development** as well as their advancement at work.

We identify and systematically train our **key and promising employees** early in their careers. By training and allowing them to gain experience in various areas and by mentoring and coaching them, we prepare them to take on the most challenging and responsible tasks in the Company.

As we are aware that early identification of talent is essential, we have implemented a project for finding the potential in employees already in their first year of employment.

In 2015, there were 1,153 key and promising employees, 10.9% of the entire Krka Group team.

The need to train key and promising employees and well-trained leaders encouraged us to start our **own leadership programme**. It comprises three programmes that are adapted to different

We identify promising employees and foster their development.

Knowledge is a Krka value.

levels of management: Krka International Leadership School, the Krka Operational Leadership School and a basic level leadership programme. Coaching and action learning supplement the leadership programmes and contribute to the development of leaders. We also provide an in-house international programme for **professional and project teams** to train professionals in communication skills, teamwork and project work; learn about and exchange Krka's good practices; connect employees from various backgrounds, and encourage employee personal development. Our employees also attend leadership and management training programmes at renowned business schools.

In order to systematically develop employees who have potential, we have designed a special mentorship programme which involves meeting some of the renowned and well-known Krka employees. Mentorship is a goal-oriented and planned consulting process, which enables an exchange of experience and the development of the potential of employees who may come from various countries.

An important tool enabling effective leadership, motivation and the development of employees is the Krka appraisal interview. Managers and employees use it to define objectives, discuss priorities and expectations relating to work and employee development, and on this basis plan the employees' training. All employees are involved in the Krka appraisal system.

Competency models for various working areas enable us to identify needs pertaining to the development, knowledge upgrade and further skills development of our employees. Competencies are a good basis for the recruitment of new employees and for designing training and skills development programmes and their evaluation.

We provide our employees with continuous education and training in various specialist fields, such as management and personal growth, foreign languages, particularly English and Russian, quality management, and modern information technology.

Our employees learn about the most recent developments at faculties, institutes and other institutions in Slovenia and abroad. In 2015, 371 Krka employees were also part-time students, of whom 48 were involved in post-graduate studies. Krka supports them by partly funding the fees and by granting them study leave.

Krka was one of the first companies in Slovenia to develop programmes for **national vocational qualifications** (NVQ). We are the only company in the country to offer six programmes of national vocational qualification for the pharmaceutical industry. Employees in pharmacies and other pharmaceutical companies are involved in these programmes. In 2015, we awarded 67 NVQ certificates. In total, we have awarded 1,306 certificates since 2004 – 1,164 to Krka employees and 142 to employees of other companies and pharmacies.

For employees in the marketing-and-sales network, several training programmes are available that are conducted by over 70 Krka trainers who work in an international environment. In this way, good practice transfer between various markets is secured. For all functions, we have an established system of induction for new employees, and for those who will take on new, more responsible jobs.

Traditional forms of education and training are supplemented with e-learning and e-testing, which have become important training tools, since Krka is geographically widely dispersed. E-learning and e-testing are also used as preparation for seminars and meetings, since they ensure a higher level of knowledge and participation at training sessions.

In 2015, all employees attended various training sessions more than seven times. On average, employees undertook 56 hours of professional development. Krka spends 0.5% of its operating revenues on employee education and training.

In order to connect employees from different countries and achieve synergy in the pursuit of our goals, we organise international conferences on different areas of our operations: marketing, sales, technology, human resources, and regulatory affairs. They offer an opportunity for the employees of Krka and its subsidiaries and representative offices abroad to exchange experience, analyse current challenges, and discuss common strategies and goals and how to transfer good practices to enable the Company success in the future.

*Exchanging
experience and
transferring good
practices is
important for our
success.*

Employee remuneration and motivation

We acknowledge good work and encourage employees to perform well through a performance bonus system.

Our best employees receive recognition awards and performance bonuses for successful work. We select and award the best employees and best managers at the organisational-unit level and at the Group level, as well as our best employees in the marketing-and-sales network and in regulatory affairs.

Krka has been recognising the efforts of its most loyal employees for decades by bestowing long-service awards and special recognition awards at the Krka Awards Day annual event.

*We promote
commitment and
loyalty and
we reward
excellence and
loyalty.*

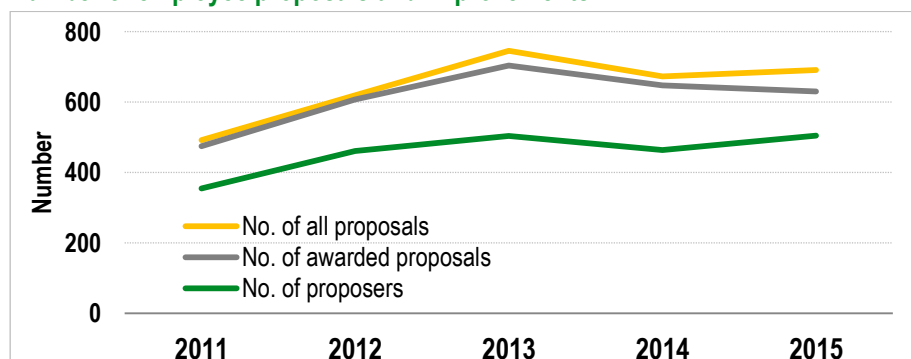
Encouraging inventive work

We have applied the inventive work system since 2003 to allow all employees to participate in the system of continuous improvements. This enhances the quality system, and hence also the integrated management system. We encourage employees to think about what we do, and why and how we work. We wish to draw everyone's attention to the fact that every proposal is important and worth considering. For any employee who makes a useful proposal or proposal for improvement, the biggest reward is the fact that, due to their proposal, improvements are made.

We encourage inventive work by conferring awards quarterly, by a token award with a thank-you letter from the President of the Management Board and CEO, announcements on the Krkanet and in the internal magazine *Utrip*, publications of interviews with individual proposers in *Utrip*, annual meetings of proposers, and awards and recognitions that the best employees in terms of inventive work receive at Krka Awards Day.

Proposals from the inventive work system have made quite a few savings. This is also the purpose of the corporate campaign 'Your Effectiveness Counts', in which employees are included with their useful suggestions and proposals for improvements.

Number of employee proposals and improvements



Quality of life

We care for the health and well-being of employees. We participate in activities that contribute to the quality of life outside the working environment.

For several decades, we have supported the well-being of our employees and good interpersonal relationships by organising a wide range of cultural and sporting events. We inform our employees about the importance of a healthy diet and offer good quality meals in all the Company's locations.

*We care for the
quality life of
employees and
retirees.*

Employee gatherings are an important part of Krka's corporate culture. Employees get together on Krka Day – a social and sports event for all Krka employees – and on Krka Awards Day, when we reward our most loyal employees, as well as our best employees, best managers, and best proposers of innovations and useful suggestions. Skiing enthusiasts come together on the winter sports day. Krka employees also meet at gatherings honouring the disabled, blood donors, firefighters and athletes, on environmental cleaning campaign days, at events celebrating the opening of new facilities and other events.

Employees also have access to a wide range of sports activities. The Krka Trim Club organises sports activities which are attended by approximately 1,000 employees every week in their free time. The Krka Culture and Arts Society contributes to cultural life, organising gallery exhibitions, a choir, a theatre club, creative workshops and visits to cultural events.

We organise a traditional New Year's gathering for Krka retirees, who can join the Krka Pensioners Club, through which they keep in touch with other former Krka employees.

Health and safety at work

Krka provides its employees with a safe working environment. The latest developments in occupational health and safety, and fire prevention are incorporated into every new project and technology. We monitor the risk of accident and potential health implications for every work position and technology. In order to ensure continual long-term improvements in working conditions, risk is assessed periodically and action is taken to reduce it to acceptable levels.

Care for the health of our employees is the common responsibility of all employees, their managers, professional services and doctors of occupational medicine. The Works Council and both trade unions are also incorporated into the system.

The physical and emotional well-being of our employees, and a pleasant psychosocial climate are ensured by open communication, zero tolerance of any kind of violence, organised weekly exercise, preventive workouts, sports, cultural and social events, and workshops given by doctors on the topic of living a healthy lifestyle and the negative effects of psychoactive substances, healthy meals at our canteens, etc.

The Interpersonal Relations and Sick Leave Project, which has helped reduce sick leave, has been in place for several years. In 2015, 5.6% of employees were on sick leave and 3.7% were on maternity leave.

A total of 5% of employees have a registered disability, who, in accordance with the legislation and regulations on the disabled, work in appropriate job positions. We apply various preventive measures to reduce additional health issues and disabilities. Apart from preventive and curative care, we guarantee our employees will continue to work in job positions that are adjusted to their abilities. Krka also provides appropriate re-qualification programmes for employees who can no longer perform in their current job positions.

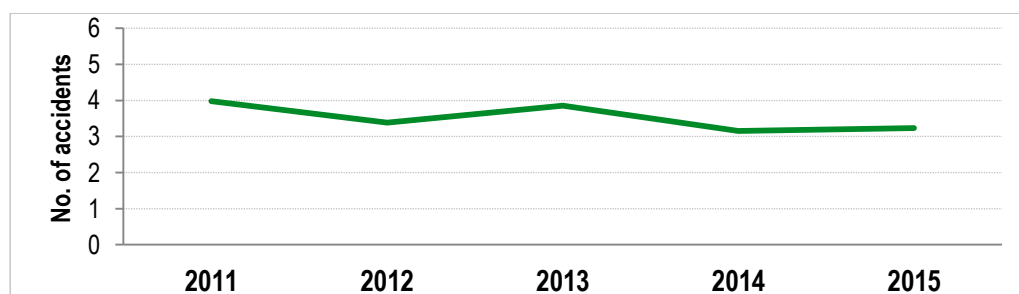
The occupational safety system complies with the BS OHSAS 18001:2007 standard and is incorporated into the Krka integrated management system. Every organisational unit at Krka includes a health-and-safety-at-work group and a certified health and safety officer. At the company level, we have a health and safety at work team that prepares key objectives and programmes, which they submit to the Management Board for approval.

We continually monitor data on workplace accidents. The LTAR (Lost Time Accident Rate) indicator in the graph, which indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work, stood at 3.23, similarly to 2014. All accidents were minor. Sick leave due to accidents at work decreased by nearly 60%. The majority of injuries were caused by minor incisions and impacts. Men accounted for 60% of all injured persons; no age group stood out.

*We manage risks
in work
processes.*

*Teamwork in
employee health
care produces
results.*

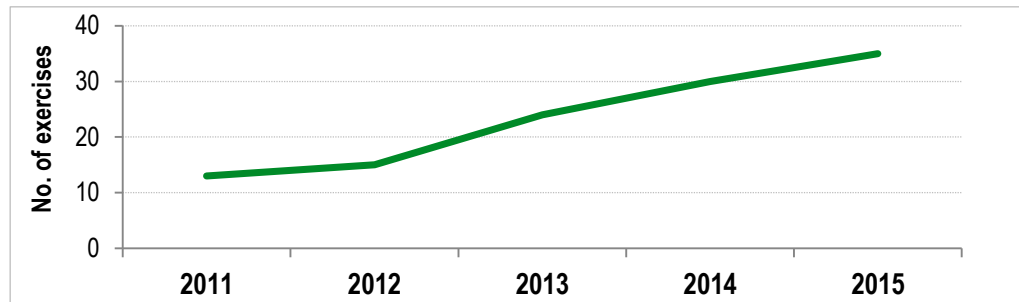
Workplace accidents requiring three or more days of sick leave per one million hours of work (LTAR)



There were no major incidents such as fires or major spillages of hazardous chemicals. The Fire Protection Department and the Industrial Fire Service Crew are responsible for emergency interventions. In 2015, we conducted 35 training exercises to be better prepared for cases of emergency of which four were major. In these four training exercises, we cooperated with the Novo mesto Fire and Rescue Service and local fire departments. We presented realistic possibilities of emergency situations, and tested the co-ordination of internal and external emergency teams, as well as Krka first aid and medical teams.

We are well-prepared for emergencies.

Number of exercises carried out to prepare for emergencies



Communicating with employees

Open and regular communication between the management team and employees is vital to the processes of the Company's internationalisation and optimisation, as well as change and risk control, and decision-making.

We promote responsible and ethical communication, and encourage open and two-way exchanges at all levels. This is how we create a productive working environment, develop a sense of belonging, and build a culture of mutual trust and respect, lifelong learning and responsible and efficient work.

We promote open, two-way communication.

We keep employees informed about the Company events by means of various internal communication tools.

The Works Council is the link between employees and the Management Board. Its members represent all organisational units in the Company. Employees can therefore put their initiatives and questions forward through members or the President of the Works Council or through the Worker Director.

Another important source of information is the annual worker assemblies, where the President and members of the Management Board inform employees about the operating results of the past year, plans for the current year, the Group's development strategy, and other news. At these assemblies employees may ask questions and put forward their proposals.

If employees wish to communicate with the President of the Management Board, they may do so by e-mail or they can make an appointment to see him personally.

We keep employees informed about events in the company by means of various internal communication tools.

Employees also receive news regularly by way of our internal weekly bulletin *Bilten*, which is available in print and electronic form, and via our monthly magazine *Utrip*. *Utrip* contributes to a better understanding of Krka's vision, mission and values, as well as the Krka Group's strategies and policies. Local editions of *Utrip* (*Puls* in countries outside Slovenia) and *Bilten* (*Bulletin*) report on local news from our markets and the most relevant corporate news.

Our intranet website Krkanet is a tool for internal communication. It is the central venue for posting documents, and offers support for our business processes and project work. Subject matter is in two languages and is accessible to all employees in the Krka Group, while in key markets employees also have access to portals in their local languages.

We also send out news via the electronic address Krka.si, notice boards and information screens, as well as by means of internal communication campaigns on important company strategies. Another Krka newsletter in electronic form is the *M-Bulletin*, intended for our marketing and sales staff outside Slovenia.

We use surveys to measure employee satisfaction with internal communication. The results help us to improve and optimise the use of the media and tools for internal communication.

Responsibility to investors

Krka's principal objective is to maximise the Company's value and act on behalf of all stakeholders, including shareholders (investors). We demonstrate our responsibility by achieving our business objectives, operating in a transparent manner and communicating with investors.

The transparency of our business operations complies with the adopted good practices of corporate governance as stipulated by corporate governance codices.

Quality communication with investors and analysts is an important aspect of Krka's attainment of its primary objective, because it helps them understand our business story. In 2015, we received the award for best annual report and best report on the business operations analysis and plans from the business daily newspaper *Finance* for the third time in a row.

We strive to make our communication with investors as transparent, prompt and consistent as possible. The information that we pass on to investors is mainly related to our business results and the Company's future strategy. We comply with the Company's information disclosure policy at all times.

The main communication objectives are to:

- achieve a fair market value for Krka;
- gain easier and cheaper access to financial sources; and
- create a reasonable level of liquidity in Krka shares.

*In 2015, we held
113 meetings
with interested
investors.*

We meet these objectives through:

- meetings with investors at the Company's headquarters;
- meetings between Krka's management and financial analysts at the Company's headquarters;
- participation in various investor conferences;
- road shows in financial centres around the world;
- conference calls with financial analysts after releasing business results;
- publications for investors (the *Utrip prihodnosti* magazine, presentation and promotional materials);
- Annual General Meetings;
- press conferences about business results; and
- communication with financial media.

Krka's business results are available in Slovenian and English at SEOnet (<http://seonet.ljse.si>) of the Ljubljana Stock Exchange, ESPI of the Warsaw Stock Exchange, and the Krka web pages.

For more information, shareholders may contact our Finances Division by phone +386 7 331 7591 or e-mail finance@krka.biz.

Responsibility to customers

Customers are one of the key target groups of a company.

We classify customers into four groups according to the nature of our operations:

1. institutions (health-care, regulatory, industrial property, health insurance, etc.);
2. direct customers (distributors, other pharmaceutical companies);
3. indirect customers (pharmacies, hospitals, pharmacists, doctors, veterinarians); and
4. end users (patients, buyers).

Responsibility to institutions

During the stages of product development, production, sales and marketing, we co-operate with various institutions, health insurance companies and other bodies dealing with medicinal and other Krka products. Our co-operation is based on prescribed procedures, and providing current and reliable documents is our main concern. The reliability and currency of documents is achieved by appropriate procedures and systematic, clearly organised and complete documentation. We work towards long-term co-operation with institutions and are quick and responsive in communicating with them.

We ensure compliance with our quality systems in all stages of operation. We continuously modernise and upgrade all the previously mentioned systems, as well as standard procedures and good practices. This is confirmed every year by the audits and inspections conducted by regulatory bodies examining the compliance of our operations and integrated management system with the relevant standards.

We ensure compliance with our quality systems in all stages of operation.

In order to attain our research and development objectives, we exchange ideas and know-how with specialised institutions and companies, whereby target-oriented project cooperation with universities and institutes as well as other education and science institutions is of particular importance. We also co-operate with these institutions on a daily basis. Another relevant aspect of Krka's co-operation with young people is the Krka Prizes and scholarships. Our experts are involved in continuous training and knowledge upgrade by co-operating with institutions and participating in the teaching process and scientific research.

Our professional, scientific and regulatory environment is changing, and we take an active part in these changes by cooperating in various professional and industrial associations in Slovenia, the European Union and in other markets.

Responsibility to direct customers

Direct customers of our products are wholesalers, pharmacy chains, hospitals and other pharmaceutical companies. More than 90% of all our customers are long-term customers. We value their opinions and proposals, and continuously make an effort to satisfy them with our sales and post-sales services. An example of such an effort is the annual opinion polls in which we interview our customers about their satisfaction with our products, sales personnel, order processing, complaint procedures and their general level of satisfaction.

In 2015, we recorded the highest ever direct customer satisfaction.

In the 2015 poll, we measured the overall satisfaction of Krka's customers and the customers of Krka's affiliated companies abroad. Special attention was paid to recognising customers' expectations and major areas of improvement. Customer loyalty and the evaluation of their satisfaction, which improves every year, prove that we have been successful. In the last survey, we measured a high, 93% index of total customer satisfaction.

Responsibility to indirect customers

One of the biggest and most important customer groups is the indirect customer group. It comprises doctors, veterinarians and pharmacists, i.e. the professional public who prescribe, recommend and provide Krka's products, thus representing a link with the end customers for whom the products are intended.

We regularly inform our indirect customers about products, enabling them to make a professional decision about which product is most suitable for their patients and customers. Through our medical representatives, we keep in direct contact with them in 40 countries. We also inform indirect customers in print or electronically. We ensure that the information, which is the basis for an appropriate and safe use of our products, is current.

We also contribute to the professional development of doctors, veterinarians and pharmacists. Every year, we organise and support several professional and educational meetings at which they have an opportunity to exchange opinions and experience, and make contacts. Meetings take place in various countries where Krka's products are available. In addition to many local events, we organised several international symposia in 2015, which were held at large international congresses in Slovenia, Great Britain, Turkey and Spain. These symposia were attended by over 550 participants from 30 countries. We organised a professional programme and a tour of the factory for participants of several professional events in Slovenia.

In communicating with the professional public, we act responsibly and in accordance with the legislation and other regulations related to business operations, including product marketing and personal data protection, and we operate according to good business practice and ethical promotion. The advertising of pharmaceutical products is subject to strict regulation and control.

In communicating with the professional public, we act responsibly and in accordance with the legislation and other regulations.

Medical representatives are regularly trained to provide the professional public with accurate and current information about our products. We also make sure that they have appropriate communication skills and are familiar with legal and other regulations and standards of work. Use of advanced methods of electronic learning and knowledge testing after training is regularly undertaken. In 2015, we updated e-courses to make them even more useful, so that they help make learning more effective. We also introduced other methods of learning in order to contribute to the professional development and skills of medical representatives.

We follow modern technological trends, which show an increased use of digital media like smart phones and tablets. In 2015, we continued to provide our medical representatives with tablet computers to facilitate the presentation of Krka's products and planning and recording of their work. Approximately 70% of medical representatives were using tablet computers at the end of the year. With modern tools, we can provide the professional public with current information about our products, so in Slovenia we prepared a mobile application, *Krka's Medicines*.

Feedback and the opinions of our indirect customers obtained through daily contact and independent market research are important. So, in the Russian Federation, our largest market, according to the Com-con survey we are the most reputable suppliers of medicines among general practitioners, and among the three leading suppliers with cardiologists and gastroenterologists. According to Cegedim, we are the leading foreign suppliers of medicines in Poland, our second largest market, in terms of the satisfaction of the professional public with suppliers of medicines, with general practitioners, internist doctors, gastroenterologists and psychiatrists. We are among the leading suppliers of medicines with cardiologists.

Post-marketing clinical trials which prove the efficacy and safety of our medicines also monitor the satisfaction of end users and indirect customers. We are one of the few generic pharmaceutical companies to conduct these trials internationally. In 2015, we completed two major research projects: Victory, where patients were treated with valsartan and a combination of valsartan and hydrochlorothiazide, a trial conducted in five countries, and Rosu-path, in which patients were treated with rosuvastatin, which was conducted in six countries. Altogether, 850 patients were included in both trials.

We prove efficacy and safety of our products with new clinical trials.

Responsibility to end users

We care for the health of the end users of our products with quality, efficient and safe products. A broad range of Krka's products is used to treat the most widespread illnesses.

We feel great responsibility to our end users, so we put all our efforts in ensuring the high quality of our products and services. The quality of active ingredients, excipients and all incoming materials through to the finished products is examined with laboratory tests using state-of-the-art and validated analytical methods, devices and procedures. All our prescription pharmaceuticals and non-prescription products are tested and comply with all regulations. We market only those products which have been approved and comply with requirements and regulations.

We ensure consumer safety with a system for monitoring and collecting information on the effects of our products.

We implement health protection, safety, and consumer safety systems according to clear guidelines incorporated into our operations. Our risk management system related to health, consumer safety and protection complies with legal requirements and regulations.

Our system of collecting information about risks to the health of patients or public health related to prescription pharmaceuticals and non-prescription products, scientific data evaluation, assessing the possibilities for reducing and preventing risks and taking the basic measures needed for the safe use of medicines complies with European legislation and the regulations of other countries where Krka holds marketing authorisations. We actively contribute to protecting patients' and public health through pharmacovigilance.

Trust is the result of a long-term relationship which we form and nourish through appropriate communication. With end users, we engage in responsible and professional communication, complying with relevant legislation. We do our best to ensure that our consumers receive all the necessary information about our products.

Texts on products and related information are presented in accordance with the legislation in several languages on corporate and product web pages, as well as on specialist web pages, including the educational web page in Slovenian, www.ezdravje.com, web page covering issues of erectile dysfunction, www.midva.com in seven languages, web page related to pets, www.klopi-bolhe.com, also in seven languages. Customers who wish to buy non-prescription products from online pharmacies can visit www.lekarna-na-dom.si, Krka's web page, which is also accessible in the Czech Republic in a different version. In 2015, we upgraded five existing language variants of corporate pages and opened five new ones, so that corporate web pages are now available in 22 local languages.

Internet users have quick access to current information on Krka and Krka's products.

Promotional and educational videos on non-prescription products are available on You Tube in several languages at one site. Internet subject matter is used in accordance with modern digital trends and adapted to the needs of the users. In 2015, we adapted the web pages of the brand Nolpaza control and presented the new brands SeptaNazal and Septotele Total/Septabene. In total, more than 95 web pages are available in 24 languages, enabling customers quick access to current information on Krka's products.

Social corporate responsibility

Social responsibility is closely related to our mission of living a healthy life. The established long-term relationship with the local community and contribution to its development form an important part of Krka's history.

We contribute to social progress

We allocate considerable funds for non-profit activities at the local and national level, and support activities outside Slovenia in countries where we operate. We support organised groups and individuals whose projects or activities promote social progress. By supporting international associations, we strengthen international cooperation. Our priority is to support long-term projects that can contribute to improving the lives of as many people as possible, and to projects that promote mass participation and work with young people.

In 2015, we allocated 0.34% of total sales to sponsorships and donations.

In 2015, the Krka Company allocated 0.34% of its total sales to sponsorships and grants. We put into practice our social responsibility by supporting health care and sports, humanitarian actions, science, education and culture, and we also support those whose efforts help protect the natural environment.

We form partnerships by sponsoring and donating to numerous organisations. Once a year, we organise a gathering of clubs and associations that appear under the name Krka, where we present Krka's operations and plans, and in turn learn about their achievements and goals. We exchange good practices and strengthen our co-operation. Last year, we met for the eighth consecutive time.

We met with clubs and associations bearing the name Krka for the ninth time in a row.

Caring for a healthy society

Krka allocates considerable funds to providing health-care institutions with modern and better equipment. This is because we wish as many people as possible to have access to urgent medical care. We are supporters and co-founders of many societies and associations. We have supported the Slovenian Cardiovascular Health Society since it was founded.

Sport is also a part of us

We are true to our mission by supporting sports. We encourage the development of many different sports by offering our co-operation and partnership. We particularly support amateur clubs at the broad local level that enable young people to take part in recreational and competitive sports.

For almost four decades, Krka Trim Club has been offering Krka employees all kinds of sporting and recreational activities and Workers' Sports Games of Dolenjska and Bela Krajina.

Culture is also a part of us

We have been supporters of many cultural events in the local and broader social environment. Since 1971, Krka has had its own cultural society, Krka Culture and Arts Society, which organises exhibitions of fine arts and photography at Krka galleries in Novo mesto and Ljubljana. The society also organises an annual book fair with accompanying events, and Drama Club meetings. The society also supports the work of the Krka Mixed Choir, the literature club and creative workshops. Since 2008, Krka has been organising Krka's cultural evenings.

In April, we organised Krka's Week of Charity and Volunteering for the fourth consecutive year.

Charity is also a part of us

Volunteer work has been part of our organisational culture since the company was founded. Since 2012, we have held a socially responsible campaign, Krka's Week of Charity and Volunteering, under the slogan 'Charity Is Also a Part of Us'. During the last four years, nearly 3,500 Krka employees have worked as volunteers. Krka's fourth Week of Charity and Volunteering brought together 1,179 Krka employees, 24% of all those employed at Krka and Terme Krka in Slovenia; 192 employees participated for the first time; 331 employees donated blood. At various Krka locations in Slovenia, our employees collected 4.1 tonnes of clothes, toys, footwear, food, books and other consumables for adults and children. We collected 360 kg of cat and dog food and helped in two animal shelters. We kept the elderly company at thirty-one retirement homes and tenants of seven occupational activity centres, and some other institutes and institutions. As part of the charity event, we donated a navigation device to assist with the surgery of the nose and nasal cavities to a Slovenian hospital. Our charity week concluded with an open day for members of 56 associations (40 fire-fighters and 16 patient associations) as these organisations bring together numerous volunteers whose actions are inspirational.

Individuals contribute to the development of society by volunteering throughout the year. There are over 1,300 blood donors in the company. Several employees are members of various non-profit associations and organisations. Krka has always helped people who have suffered from natural disasters, accidents or social misfortunes. We also collect contributions through our Works Council for fellow employees facing serious misfortune.

Many of our employees have been volunteers for several years on the sponsorship boards of various associations and societies, in retirement homes, in schools for children with special needs, and in other institutions. These are given special attention. Following proposals made by Krka employees on the best volunteer participating in one or more charity area and whose work and results make the lives of many in the community better, at the end of every year we select two and award them with recognitions.

For several years, we have been the biggest donor to the Novo mesto-based society Sožitje, a charity helping people with mental disabilities, and the Novo mesto Dragotin Kette Primary School for children with special needs. We also support occupational activity centres and retirement homes and give presents to children in the holiday season. In 2015, we responded to requests from the Red Cross and Karitas with donations. We also support several non-profit, non-governmental and non-political organisations.

We support new scientific discoveries

By encouraging young people to be creative and engage in research work, Krka Prizes have made an important contribution to Slovenian science. In the past 44 years, we have awarded 2,577 Krka Prizes. With the Krka Prizes, we would like to encourage new findings in science which will result in new products. In 2015, five Krka Prizes were conferred for special achievements in the research field and 25 to graduate and post-graduate students, while 26 secondary school students were awarded 13 Krka Prizes for team projects. In this way, we wish to emphasise the importance of the research work of the young generations who start engaging in research work in primary and secondary school.

The main objective of the Krka Prizes Fund is to encourage the cooperation of research and educational institutions with Krka, as this is the only way to make knowledge transfer possible. Many successful research projects in various areas of the pharmaceutical and related sciences that will contribute to the health of patients around the world even more efficiently in the future stem from a combination of basic and applied research.

The invitation for Krka Prizes attracts an increasing number of authors of doctoral dissertations every year. They make an important contribution to scientific excellence in Slovenia and the high quality of research work in Slovenia. Last year, more than 20 award winners held PhDs.

Living a healthy life

Launched in 2009, one of our most visible projects is the Caring for Your Health – Together We Scale the Heights campaign. We worked with the Slovenian Mountaineering and Climbing Association to signpost and carry out maintenance work on 15 hiking trails around Slovenia.

The campaign is aimed at raising awareness, and encouraging Slovenians to take care of their health and do trekking, because it is the simplest form of exercise and helps improve physical and emotional well-being. Thousands of hikers have set out on routes signposted by Krka. We happily welcome every new hiker encouraged by our campaign to take a new step towards better health.

Caring for the environment

Our fundamental principle in making business decisions is care for the quality of life. This means that environmental protection is at the forefront of our work. We know that our operations affect the social and economic environment, while the responsibility to the natural environment has become a part of Krka's everyday business operations at all levels and in all areas.

To minimise our impact on the environment, we have been using renewable sources of energy since autumn 2010. We installed a new solar power station on the rooftop and the façade of the packaging material warehouse to generate green energy. Another contribution to a cleaner environment is the zero-emission electric vehicle we use to deliver the Company's internal mail. We also have a charging station in the car park in front of the Krka administrative building in Novo mesto.

Environment protection is one of our key strategies and is included in all processes from development to finished product. In order to reduce pollution and energy consumption, we encourage all Krka employees to be responsible for their actions every day. One way is with our internal communication campaign 'Your Care for the Environment Counts!', with which we encourage energy savings, print savings and recycling.

Because we care for the environment, we have been involved in activities that improve air quality and encourage sustainable mobility, which is also stated in *Krka's Mobility Plan*. The purpose of the *Mobility Plan* is to encourage employees to use alternative and less environmentally harmful ways of coming to work and thus make a contribution to sustainable mobility and their health.

Members of the Krka Volunteer Industrial Fire Service have been involved in the fire protection of Krka employees and local residents for over four decades.

Responsibility to our natural environment

Environmental protection is an important aspect of Krka's business strategy. We are well aware that we are part of a broad social community, which enables us to operate successfully. As our operations affect people, the community and the natural environment, we strive to reduce our impact on the environment and provide for a clean and healthy living environment for the employees and the broad community. Environmental sustainability is becoming increasingly important to our customers, our employees and the public, so we have incorporated it into Krka's daily business operations. We refer to the environmental management system ISO 14001, which was implemented in 2001.

Through a holistic approach to environmental protection, we wish to foster a positive and responsible attitude to the environment among all employees. Operational tasks are conducted by Environmental Protection.

Our environmental policy clearly defines our responsibility to the natural environment and commits us to:

- include environmental awareness in our development strategy and individual investment projects and thus reduce the negative impact on the environment to the greatest extent possible;
- reduce emissions by using all the available technology;

- reduce risks of the occurrence of extraordinary events and improve measures taken in such events;
- use energy sources rationally and reduce waste;
- replace hazardous substances used in technologies with less hazardous ones;
- increase environmental awareness of employees through education, training and raising their environmental consciousness;
- inform employees and the public about the present state and achievements related to the environment;
- consistently follow and consider the applicable legal provisions and also new legislation and guidelines in the pharmaceutical industry;
- set systematic environmental goals and programmes to improve the present state of the environment.

We follow our compliance with environmental legislation and environmental protection permits by regularly monitoring air, water, and noise emissions, and assess waste. We regularly check reservoirs and equipment containing ozone depleting substances. In 2015, we recorded excess concentrations in two parameters at the outlet of wastewater from the Ljutomer plant and in one parameter at the Bršljun plant. In both cases, we took appropriate corrective action. The Compliance of operations with legislation is confirmed by inspections conducted by the Inspectorate for the Environment and Nature (ION) and environmental audits by SIQ and contractual partners. In 2015, non-compliance was not established at inspections and audits, so no financial or non-financial sanctions were imposed. ^{G4-EN29}

Environmental milestones in 2015

- Start-up of the state-of-the-art water purification system for the preparation of pharmaceutical waters and energy supply;
- decrease in the use of river water for energy by over 25%;
- implementation of a system of aerobic stabilisation of sludge at the treatment plant;
- reduction of sludge from the treatment plant by 462 t or 21%;
- reduction of waste for disposal in landfills by 5%;
- replacement of the steam boiler in Ločna;
- reconstruction of the dry air preparation system in Notol;
- upgrading the energy monitoring and targeting (M&T) system;
- reducing fuel consumption in transport by 2.6%.

Costs of environmental protection

We allocated €7 million to environmental protection in 2015. The indirect costs of environmental protection total €4 to 5 million per year and include the costs of wastewater discharge and treatment, waste management, waste air treatment, noise management, monitoring costs, environmental levies and other indirect costs of environmental protection. Our direct investments in environmental protection total up to €3 million annually. By investing in equipment and technologies, we ensure continuous improvement in all fields of environmental protection.

Use of natural resources

Water

Water is a natural resource on which economic development, the quality of life and indeed, our existence depend. In comparison to many other areas on Earth, there is enough water in Slovenia, but in Krka we are conscious of water protection and water resource management. Water consumption is a very important element of environmental protection, so we consistently plan, monitor and control it. Many of our activities are aimed at maintaining the quality of the River Krka. All water systems at Krka are managed in compliance with good manufacturing practice and the HACCP system.

Consumption of drinking and river water

Krka's main sources of energy are:

- drinking water from the municipal utility services;
- river water.

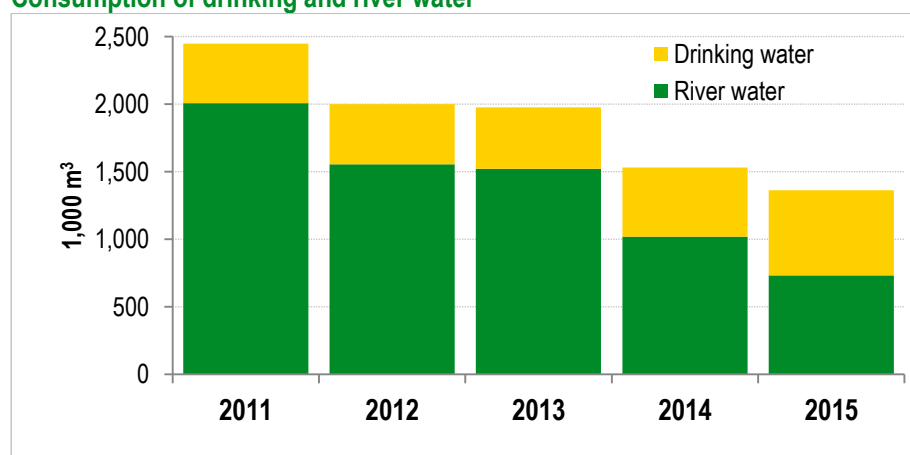
A computer-operated surveillance system is employed to closely monitor the consumption of drinking water by large users. We prevent failures and uncontrolled run-offs through correct planning, implementation and preventive maintenance of pipelines. This is why the increase in drinking water consumption lags behind the growth of production.

Over 80% of the drinking water is used in production processes. Drinking water is the raw material for the preparation of high-quality purified waters used in the production of pharmaceutical products. We use membrane technology in the process, which has lowered the consumption of chemicals and reduced the impact on the environment. In 2015, a new water purification plant for preparing pharmaceutical waters from drinking water and for preparing river water for energy supply started operating. The built-in devices have a large yield and use less chemicals. All rinsing waters from the new water purification system are collected in a special reservoir, treated again and used in preparing waters for energy supply. In this way, energy costs were reduced by 25% in the first year of the operation of the new water purification plant. We ensure consistent water quality by suitable preventive maintenance and monitoring the operations of machines. With technological improvements, we ensure quality, extend the useful life of the equipment, reduce the use of water and chemicals, and the generation of waste.

By re-using rinsing water from the new wastewater plant, we reduced the use of river water for energy use by over 25%.

More than 62% of the river water is used for cooling by various heat exchangers, especially in API production, while the remaining 38% is used in the preparation of technological waters for energy supply and production.

Consumption of drinking and river water



Consumption of drinking and river water		2015	2014	2013	2012	2011
Total water consumption	m³	1,362,297	1,531,957	1,978,658	2,001,988	2,446,635
Drinking water	m³	628,770	513,375	455,403	447,268	439,821
River water	m³	733,527	1,018,582	1,523,255	1,554,720	2,006,814

Energy

Krka's main sources of energy are:

- natural gas;
- liquefied petrol gas;
- electric power; and
- fuel oil as back-up fuel.

Consumption of energy in GJ		2015	2014	2013	2012	2011
Energy (total)		889,239	836,284	801,631	792,221	811,792
Electric power		308,585	292,895	309,765	317,064	327,565
Natural gas		559,010	523,837	469,241	447,338	462,804
Liquefied petrol gas		20,083	19,395	19,372	19,303	18,480
Fuel oil (extra light)		1,561	157	3,293	8,516	2,943

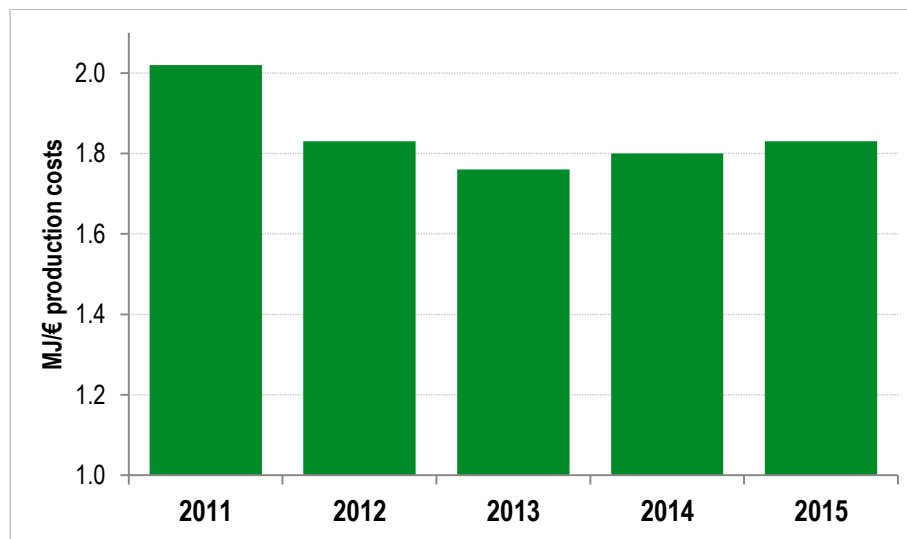
The electric power supply comes from the public utility electricity grid, from Krka's own generators powered by renewable sources such as the solar power station, and from natural gas powered cogeneration of thermal energy and electric power.

Generated electric power, alternative sources in GJ (total)	2015	2014	2013	2012	2011
Solar power plant	241	223	243	289	277
Cogeneration	48,180	48,989	13,238	0	0

Specific use of energy

Specific energy use has been declining as a result of measures for efficient energy use. In 2015, we started production in the new Notol 2 and Sinteza 1 plants, but not yet to their full capacity. We also fully established climatic conditions. This had a negative impact on the specific use of energy. Despite the start-up of the new plants, the specific use of energy remained similar to 2014.

Specific use of energy

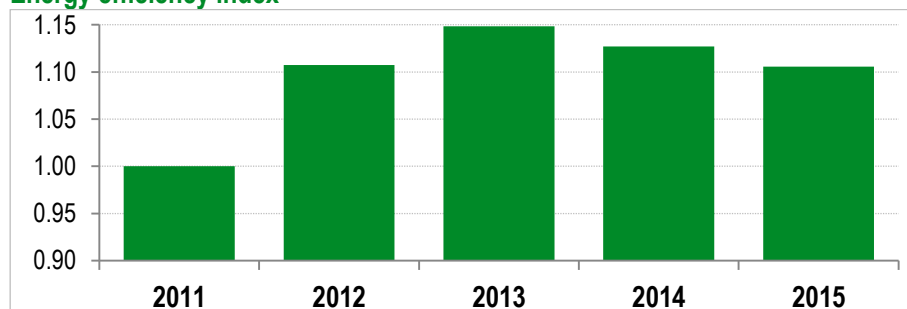


	2015	2014	2013	2012	2011
Specific use of energy	MJ/€	1.83	1.80	1.76	1.83

Energy efficiency index

In the past few years, we reduced the specific use of energy and energy efficiency index. Despite the start-ups of our new Notol 2 and Sinteza 1 plants, the specific use of energy and energy efficiency index remained similar to the 2014 figures.

Energy efficiency index



	2015	2014	2013	2012	2011
Energy efficiency index	1.106	1.127	1.148	1.107	1.000

The energy efficiency index is set in compliance with the reference document Energy Efficiency, Chapter 1.3.1. Energy efficiency ratio and its improvement

Replacement of a steam boiler

The boiler room has four steam boilers. In consideration of the current technological steam consumption and the planned increase as a result of new buildings, we increased the capacity of the steam boiler room at Ločna. The oldest steam boiler was replaced with a new, more powerful and energy-efficient one. We selected the best available technology. The boiler is equipped for the first and second phase of wastewater use with condensation of flue gases and a burner with NO_x emissions below 90 mg/m³, which is beneath the legal requirements. In addition to O₂ regulation, the burner allows for advanced regulation of CO, which improves energy efficiency and reduces emissions.

The selected technology has led to an increase in energy utilisation from 89% to 99.7%.

The new condensation steam boiler ensures more than 99% nominal energy utilisation.

Reconstruction of the dry air preparation system in Notol

The equipment for the dry air preparation system had aged, so we refurbished it. The system of desiccant wheels was replaced with dehumidification technology with glycol refrigeration, which enables the recovery of waste heat from cooling production units. In the study completed before the refurbishment, we established that the selected technology is technically and economically more appropriate than dry air technology with a desiccant wheel.

This technology, which will also be installed in new and reconstructed buildings, saved over 2,500 MWh of primary energy sources over a year in Notol alone.

A new system of dry air preparation saves more than 2,500 MWh of primary energy sources per year.

Energy management

As there was a need to monitor the efficiency of cooling energy generation, we introduced an energy target monitoring system (CSRE) in 2006, which we expanded to monitoring the production of secondary energy carriers in 2011. In 2015, other plants in Slovenia and abroad were included in the system. This ensured:

- a precise and transparent register of the energy use and costs in Slovenia and abroad;
- monitoring and evaluating energy efficiency and costs based on characteristic indicators;
- comparison and evaluation of typical energy use;
- defining energy target values or desired use in dependence on energy factors;
- improving the transparency of energy use and appointing responsible persons for each indicator of efficient energy use;
- support to energy management system as per SIST EN ISO 50001.

Following the EUREM (European Energy Manager) programme developed in Germany in 1997, over 4,000 European energy managers have been trained for efficient energy management. The second member of the energy management team at Krka has completed this training.

We improved the informing of employees on environmental and energy efficiency with a strong campaign on efficient energy use via internal media, emails and on Krka's intranet pages.

Biotic diversity

The area around the Krka River is important, as it is a natural habitat of several water and riparian plants and animal species, especially fish, amphibians and birds. As such, it is defined as an ecologically important area (EIA) and protected, and is included in the Natura 2000 network. According to the Nature Conservation Act, EIA is an area of the habitat or a large ecosystem unit which importantly contributes to biotic diversity*. Natura 2000 is a European network of special protected areas in EU member states. The main principle of the network is the sustainable preservation of biotic diversity. Special attention is given to threatened species. These include several fish species, such as the asp, huchen, and cactus roach, the thick-shelled fresh water shellfish, human fish, as well as the European otter and beaver, which are often spotted along the entire watercourse.

* Biodiversity is the degree of variation of living organisms of all types. Among others, it includes terrestrial, marine and other aquatic ecosystems and ecological complexes. This includes diversity within species, between species and diversity of ecosystems.

All Krka industrial buildings are concentrated within their respective sites and do not extend into ecologically sensitive areas. We closely follow the strictest measures to protect the environment in existing buildings and newly planned ones. The collection and discharge of treated wastewater from our water treatment plant do not threaten the preservation of water and riparian areas or the conditions for connecting these areas. Our sustainable attitude to environmental protection guarantees the preservation of environmental values and biodiversity.

The areas of our Ljutomer and Krško plant are not included in the Natura 2000 European ecological network. Nevertheless, all wastewater is treated appropriately at the municipal wastewater treatment plant in Ljutomer and Vipav Krško, so that our emissions do not endanger biodiversity.

Transport

We use all means of transport. Transport is organised by our own transport department. We use our own vehicles or employ contractual carriers. Most of our products are transported to European and Asian markets.

For road transport, we use the most modern vehicles with ecologically appropriate engines. We supply products to distant markets by sea, air or rail. We also supply products to certain Asian markets by air-and-rail combined transport.

In 2015, we organised transport for 9,500 shipments of finished products, raw materials and packaging materials. Our vehicles covered more than 1.8 million km, which is 4% more than in 2014. By modernising the fleet of vehicles and providing additional training for drivers, we reduced average fuel consumption by 2.6%.

Owing to the updated fleet of vehicles and additional training of drivers, we reduced average fuel consumption by 2.6%.

In 2015, we recorded no extraordinary events or accidents that would jeopardise the environment, assets or people's safety. The competent national bodies for transport control found no violations of the legislation. All our carriers and other parties involved in transport regularly attend annual training courses. We pay special attention to ensuring that all our contractual carriers and their drivers are duly informed of the requirements and particularities of transporting pharmaceutical products.

Krka's fleet of vehicles comprises 20 vehicles and is regularly modernised. All vehicles ensure appropriate conditions for drivers and meet environmental standards. In 2015, we completed the evaluation of the load volume of transport vehicles, which, in accordance with good distribution practice, proved that the vehicles are suitable for transporting medicinal products. Dispatch processes and transport were updated with new software that enables better planned transport and control of it. The two-level loading system increased the utilisation of the loading area, so we reduced the number of transports with most clients, where possible.

Emissions

Wastewater

Care for effective water treatment is one of the priorities in the area of environmental protection in Krka, as we strive to preserve the quality of water in the long term. Wastewater in Ločna is treated with Krka's modern industrial wastewater treatment plant, which follows the requirements based on the best available technologies (BAT) in this field, while wastewater from dislocated plants is treated at highly efficient municipal wastewater treatment plants.

Our plant in Ločna generates industrial, municipal and cooling wastewater. We treat the industrial and municipal wastewater at our own biological wastewater treatment plant. In 2015, we treated 715,690 m³ of wastewater, or 38,287 m³ more than the year before. We generated 458,522 m³ of cooling waters that were not polluted, which were discharged into the Krka River by a cooling and rainwater discharge system.

Our plant in Bršljin generates industrial and municipal wastewaters which are discharged by the public sewage system and are treated by the municipal wastewater treatment plant in Novo mesto. In 2015, we generated a total of 18,000 m³ of wastewater.

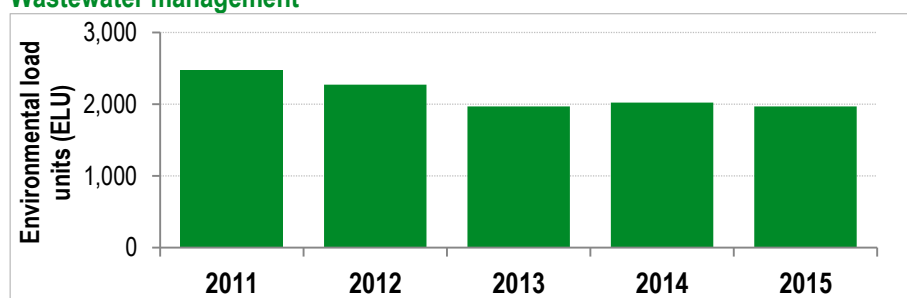
Our plant in Šentjernej generates industrial and municipal wastewaters. Effluents are discharged by the public sewage system and treated by the new municipal wastewater treatment plant in Šentjernej. In 2015, we generated a total of 23,949 m³ of wastewater.

Our plant in Ljutomer generates industrial and municipal wastewater. Effluents are discharged by the public sewage system and treated by the municipal wastewater treatment plant in Ljutomer. In 2015, we generated a total of 30,800 m³ of wastewater.

Our plant in Krško generates industrial, municipal and energy supply wastewaters. Effluents are discharged by the public sewage system and treated by the municipal wastewater treatment plant Vipap in Krško. In 2015, we generated a total of 30,983 m³ of wastewater.

Despite starting the Krško plant, we reduced total environmental load units (ELU) by 2.7% compared to 2014. The well-managed wastewater treatment has been upgraded with additional control mechanisms, which enable us to reduce emissions in water and reduce potential risks to an acceptable level. A significant additional emission control mechanism is the preparation of the risk assessment for the water environment, which is part of the comprehensive risk assessment. The method of treating wastewater, additional measures and the procedure for handling waste are prescribed according to the calculated risks based on ecotoxicological data for each active ingredient and data on the familiar water environment.

Wastewater management



Environmental load units (ELU) are the prescribed mathematical calculation of pollution from all wastewater outlets in Slovenia (Ločna, Šentjernej, Bršljin and Ljutomer). The calculation takes into account the annual wastewater rate of discharge, organic pollution, nitrogen, phosphorous, the suspended solids load and the impact of wastewater treatment.

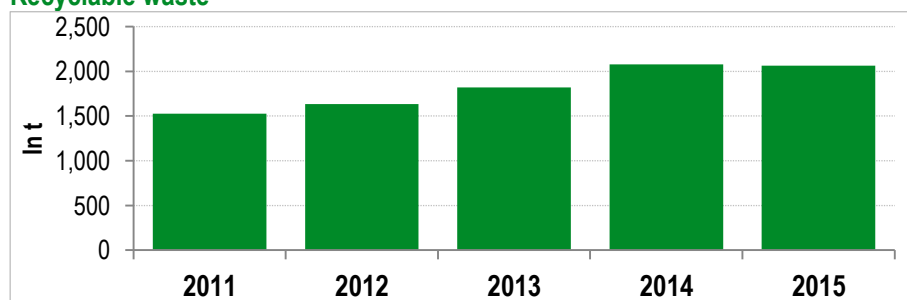
Waste

We treat waste responsibly, according to legislation and requirements. Waste is an important source of raw material and energy, so special attention is paid to separating waste at source, i.e. at the point where it is generated. For this purpose, we set up a waste management system that involves advanced equipment for separated collection, pressing and waste transportation.

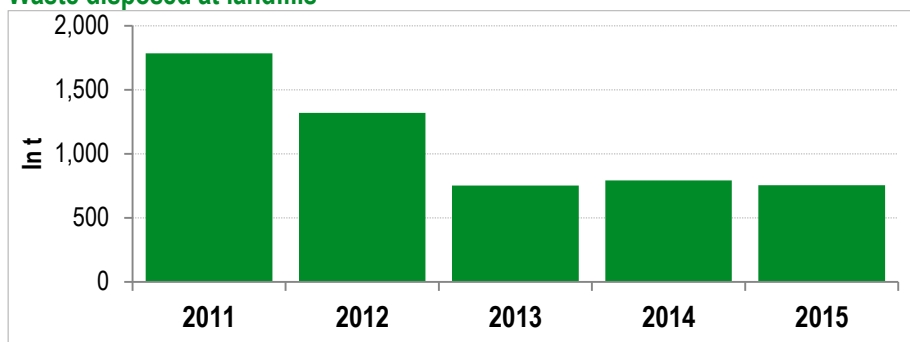
The key aim in waste management is to reduce the quantity of waste disposed at landfills, because landfill disposal is the least acceptable method.

Krka successfully pursued this aim in 2015. We disposed of 755 tonnes of waste at landfills, which is 7% of all waste generated in 2015. In comparison to 2014, the quantity of disposed waste was reduced by 5%, while the quantity of waste for energy supply increased by 17%. The production start-ups in Sinteza 1 in Krško and Notol 2 plants increased the quantity of hazardous waste, which we hand over entirely to contractors for safe destruction. By implementing a system of aerobic stabilisation of sludge at the treatment plant, we reduced the quantity of sludge by 462 tonnes or 21%. These results may only be achieved with responsible work of all employees, so an important part of our activities is providing regular training on waste management. It is conducted by employees of the Health and Safety at Work department. In 2015, 557 employees attended the training.

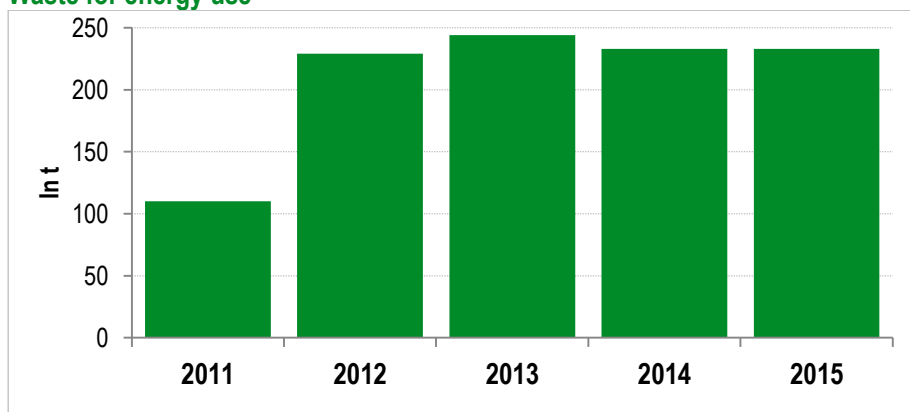
Recyclable waste



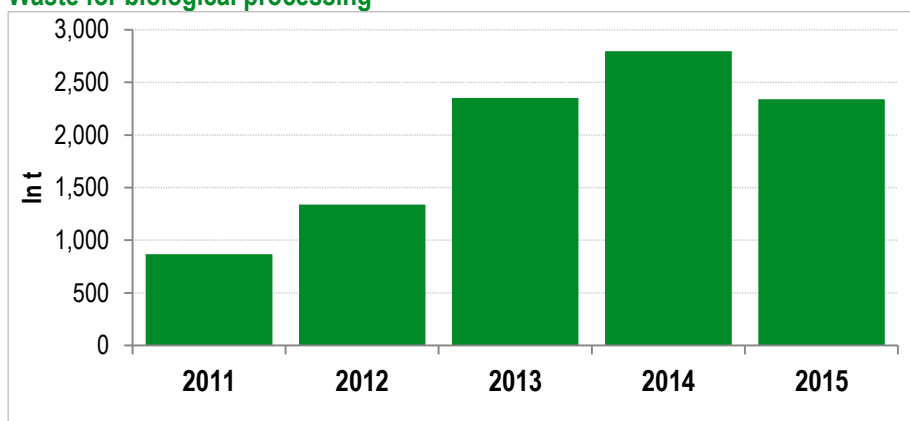
Waste disposed at landfills



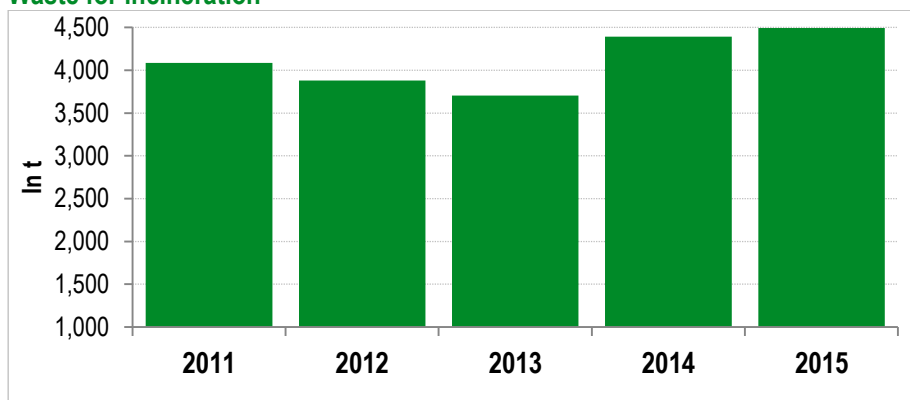
Waste for energy use



Waste for biological processing



Waste for incineration



Noise

We have been reducing noise emissions as much as possible by installing equipment with reduced noise emissions, setting up noise barriers, and by fitting cargo vehicles with electrical cooling aggregates. All measurements comply with the legislation.

Air emissions

We reduce air emissions with treatment systems fitted to all outlets that could be a source of air pollution. Effective dusting systems, filters, wet-type filtration systems, condenser columns and thermal oxidisers keep air emissions below the legal threshold values and at the levels, which is made possible by state-of-the-art emission control technology. Devices for thermal oxidation of waste air ensure high efficiency in eliminating organic materials, and the least possible emissions of these materials into the air. Inlet air filtration and absolute filtration are applied to all airborne particle emissions, making sure that all particles, or at least over 99.95%, are removed. In this way, air with fewer dust particles than are contained in the surrounding air, is released into the environment.

		2015	2014	2013	2012	2011
Air emissions						
Energy related CO ₂ – direct	t CO ₂ ek	32,288	30,147	27,367	26,542	26,991
Energy related CO ₂ – indirect	t CO ₂ ek	42,430	40,273	42,593	43,596	45,040
Total CO₂	t CO₂ ek	74,718	70,420	69,960	70,138	72,031

We generate direct emissions of CO₂ through the use of fuels and by emitting ozone depleting substances from our cooling devices, and indirect emissions by exploiting electric power from the public utility electricity grid, which is produced by burning fossil fuels at thermal power plants. We increased direct emissions of CO₂ at Ločna by the cogeneration of electric power, but at the same time reduced indirect emissions as the generated electric power was not taken from the public electricity grid, which generally emits more CO₂ in the production of electric energy. Nevertheless, total emissions of CO₂ somewhat increased as we started production in the Noto 2 plant.

Environmental protection at Krka's subsidiaries outside Slovenia

We operate in the global market, so the responsibility to the natural environment is to the greatest extent possible included in the activities of subsidiaries and representative offices abroad. By permanent cooperation, information exchange and investment, we transfer good practices in environmental protection to all subsidiaries according to local legislation. We have set up separate waste collection systems and waste is only handed over to authorised waste collection and treatment companies. Wastewater is collected, analysed and treated by municipal wastewater treatment plants. Sources of dust particle emissions are equipped with highly effective absolute filtration devices. We transfer good practices in the rational use of energy and water to subsidiaries.

Environmental communication

We show our attitude to environmental protection through environmental communication with employees, as well as the local and wider social community. Responsible environmental management is included in the induction seminar for newly recruited employees and in national vocational qualifications programmes. In 2015, Krka's Catalogue of Training Programmes was supplemented with content related to the environment. In the first year, more than 500 employees attended the training on waste management. Articles on environmental protection are published in internal media, while short notices and suggestions related to the environment are published on internal web pages. In this way, we constantly encourage our employees to treat the environment responsibly and build awareness about environmental issues, thus reducing the effects on the environment to the greatest extent possible.

We inform the public about our environmental activities via public announcements in the media and at various seminars, symposia and round tables. We are actively engaged in drafting environmental legislation and are also co-founders of the Section for Environment and Energy at the Chamber of Commerce of Dolenjska and Bela krajina.

We cooperate closely with professional and scientific organisations in Slovenia and abroad. Educational institutions of all levels arrange visits to our plants to see our state-of-the-art environmental protection technology. As guest lecturers, we

contribute to the syllabus of under- and post-graduate study programmes. High school and university students and junior researchers work on assignments under the mentorship of Krka's experts responsible for environmental protection.

The sustainable improvement of the environment depends on good relationships with the representatives of the social environment, especially with our closest neighbours, as our activities have an effect on their living space and the quality of life. We feel greatly responsible to the local community with whom we share the environment. In March 2015, we organised a traditional meeting with local residents, where we presented results and plans related to environmental protection. Such meetings make an ideal opportunity for open dialogue and exchange of opinions. We consider the obtained information on the views of the local residents and our role in protecting the environment in planning environmental goals and programmes.

Krka's sustainable development indicators for 2015

ENVIRONMENTAL DATA		2015	2014	2013	2012	2011
Total water consumption	m ³	1,362,297	1,429,239	1,978,658	2,001,988	2,446,635
Drinking water	m ³	628,770	513,375	455,403	447,268	439,821
River water	m ³	733,527	1,018,582	1,523,255	1,554,720	2,006,814
Used energy (total)	GJ ¹	889,239	836,284	802,293	792,221	811,792
Electric power	GJ	308,585	292,895	310,387	317,064	327,565
Natural gas	GJ	559,010	523,837	469,241	447,338	462,804
Liquefied petrol gas	GJ	20,083	19,395	19,372	19,303	18,480
Fuel oil (extra light)	GJ	1,561	157	3,293	8,516	2,943
Generated electric power, alternative sources (total)	GJ	48.421	49.212	13.481	289	277
Solar power plant	GJ	241	223	243	289	277
Cogenerated electric power	GJ	48.180	48.989	13.238	0	0
Energy intensity						
Specific use of energy	MJ/€	1.83	1.80	1.76	1.83	2.02
Energy-efficiency index ²		1.106	1.127	1.148	1.107	1.00
Wastewater (total)	m ³	1,277,944	1,320,903	1,632,795	1,721,739	2,309,996
Cooling water	m ³	458,522	558,862	930,988	894,236	1,215,235
Industrial wastewater	m ³	819,422	762,041	701,807	827,503	1,094,761
– Suspended solids load	t	15.8	21.7	20.62	22.1	34.35
– Biochemical oxygen demand	t	4.7	5.3	7.0	20.8	22.3
– Chemical oxygen demand	t	74.1	80.8	66.7	88.5	96.4
– Nitrogen	t	3.7	3.1	3.8	3.8	7.4
– Phosphorus	t	0.3	0.3	0.3		0.4
Environmental load units (ELU) ³	EO	1,969	2,024	1,967	2,271	2,480
Waste (total)	t	10,640	10,303	8,881	8,397	8,335
Hazardous waste (total)	t	5,198	4,394	3,705	3,878	4,087
– Solid waste	t	704	608	508	518	660
– Liquid waste	t	4,494	3,786	3,197	3,360	3,427
Non-hazardous waste (subtotal)	t	5,442	5,909	5,176	4,519	4,298
Disposal at landfills (subtotal)	t	755	792	751	1,319	1,786
– Mixed waste (disposal)	t	755	792	751	665	795
– Biomass (disposal)	t	0	0	0	654	991
Mixed waste (energy use)	t	272	233	244	229	110
Biomass (composting)	t	2,341	2,797	2,351	1,338	866
Recycling waste (total)	t	2,063	2,079	1,819	1,633	1,526
– Paper	t	1,018	1,021	953	790	859
– Plastics	t	273	301	237	221	223
– Glass	t	86	119	104	105	114
– Metal	t	159	126	121	129	69
– Wood	t	527	512	404	382	251
Electric and electronic equipment	t	11	8	11	6	10

Air emissions						
Energy-related CO ₂ – direct	t CO ₂ ek ⁴	32,288	30,147	27,367	26,542	26,991
Energy-related CO ₂ – indirect	t CO ₂ ek	42,430	40,273	42,593	43,596	45,040
Energy-related SO ₂	t	1	1	1	1	1
Energy-related NO _x	t	26	24	23	23	22
Ozone-depleting substances and fluorinated greenhouse gases	t CO ₂ ek	1,298	1,421	903	2,203	991
Compliance						
Extraordinary events		0	0	0	0	0
Environmental protection (total)						
Environmental protection costs	in € thousand	7,010	6,531	5,950	6,545	5,310
Investments in environmental programmes	in € thousand	4,361	4,154	4,103	4,220	4,322
		2,649	2,377	1,874	2,325	988
SOCIETY						
Number of employees						
		4,798	4,738	4,627	4,495	4,379
Slovenia		4,292	4,256	4,189	4,085	3,899
Representative offices abroad		506	482	438	410	480
Health and safety						
Sick leave rate	%	5.6	5.1	4.8	4.7	5.0
Number of accidents		23	22	28	22	25
Lost time accident rate (LTAR)		3.23	3.14	3.85	3.38	3.98
Proportion of disabled employees	%	5.0	5.1	4.9	5	5.2
Education and training						
Number of education and training hours	hour/employee	60	42	40.6	40	41.2
Education and training costs	€/l employee	745	741	750	822	807

¹ The calculation of GJ was based on net caloric values published on the website of the Slovenian Environment Agency.

² The energy-efficiency index is set in compliance with the reference document Energy Efficiency, Chapter 1.3.1. Energy-efficiency ratios and their improvement

³ Environmental load units (ELU) indicate annual load on the environment due to the discharge of wastewater at a particular pollution source. The calculation takes into account the average annual value of an individual parameter, which is assigned the appropriate factor, and the annual wastewater rate of discharge at a particular outlet (Decree on Reporting Form Applied in Occasional or Regular Measurements within the Operational Monitoring of Wastewaters; Official Gazette of the Republic of Slovenia No. 94/14, changes and amendments, No. 98/15).

⁴ The calculation of tonnes of CO₂ was based on the emission factors published on the website of the Slovenian Environment Agency.

Who's who in Krka

Jože Colarič

President of the Management Board and CEO

Vinko Zupančič

Member of the Management Board and Director of API R&D, Production and Supply Chain

Aleš Rotar

Member of the Management Board and Director of Pharmaceutical R&D and Production

David Bratož

Member of the Management Board

Milena Kastelic

Member of the Management Board–Worker Director; Head of Semi-Solid, Liquid and Other Products and Head of Bršljin Department

Zvezdana Bajc

Deputy CEO–Corporate Performance

Borut Lekše

Deputy CEO–Legal Affairs and Head of Legal Affairs

Dušan Dular

Senior Professional Consultant

Mojca Vidmar Berus

Director of Corporate Performance Management

Marko Lampret

Technical Director

Ljubica Mikša

Assistant Chief Executive–QM

Elizabeta Suhadolc

Director of Marketing and Director of Pharmaceuticals

Alenka Jerman

Deputy Director of Marketing and Deputy Director of Pharmaceuticals

Breda Barbič-Žagar

Medical Director and Director of Strategic Marketing

Samo Komel

Director of Non-Prescription Products

Jože Primc

Director of Animal Health

Damjan Možina

Director of Sales and Director of Region East Europe

Tomaž Sever

Deputy Director of Sales and Director of Region Central Europe

Miran Bevec

Deputy Director of Sales for the Russian Federation and Director of Key Market Russian Federation

Mojca Prah Klemenčič

Director of Region Slovenia and Director of Key Market Slovenia

Andrej Klobučar

Director of Region South-East Europe

Boštjan Korošec

Director of Region West Europe and Director of Key Market West Europe

Matjaž Zavolovšek

Director of Region Overseas Markets

Zdravko Čuk

Director of Key Market Croatia

Tomaž Indihar

Director of Key Market Poland

Jan Gala

Director of Key Market Czech Republic

Katalin Hubay

Director of Key Market Hungary

Amelia Tataru

Director of Key Market Romania

Vadim Kolesnikov

Director of Key Market Ukraine

Suzana Kolenc

Director of New Products

Zvone Simončič

Director of Pharmaceutical R&D

Valentina Zaletel-Mišmaš

Director of Pharmaceutical Production

Marko Herga

Director of API R&D and Production

Andrej Bavdek

Director of API Production

Brane Kastelec

Director of Finance

Mateja Vrečer

Director of Quality Management

Boris Dular

Director of Human Resources

Miran Kapš

Director of Information Technology and Telecommunications

Elvira Medved

Head of Public Relations

Mihael Florjanič

Head of Industrial Property

Andrej Škulj

Head of Health and Safety at Work

Darja Colarič

Head of Public Services

Mira Rataj Siročič

Head of Internal Audit



Living a healthy life.

Financial Report 2015



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INTRODUCTION TO THE FINANCIAL STATEMENTS

The financial statements consist of two separate sections.

The first section illustrates the consolidated financial statements and related notes of the Krka Group, whereas the second section encompasses the financial statements and related notes of Krka, d. d., Novo mesto (hereinafter also Krka). The financial statements were prepared in compliance with the *International Financial Reporting Standards* (hereinafter *IFRS*) as adopted by the European Union, which is in compliance with the resolution adopted at the 11th Annual General Meeting held on 6 July 2006.

The financial statements of Krka and the Krka Group are presented in euros, rounded to the nearest thousand. They are an integral part of the 2015 Annual Report, which is published via the SEOnet electronic announcement system of the Ljubljana Stock Exchange, via the ESPI system of the Warsaw Stock Exchange and on the Krka website (<http://www.krka.si/sl/za-vlagatelje/financna-porocila/>).

Each section of the financial statements was audited by ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., and two separate reports as individual chapters have been prepared accordingly.

The Statement of Compliance presented below includes an acknowledgement of responsibility for all the financial statements of both Krka and the Krka Group.

STATEMENT OF COMPLIANCE

The Management Board of Krka, d. d., Novo mesto is responsible for preparing the annual report of Krka and the Krka Group including the financial statements so as to provide the general public with a true and fair view of the financial position and the results of the operations of Krka and its subsidiaries in 2015.

The Management Board hereby acknowledges that:

- the financial statements of Krka and its subsidiaries were prepared on a going concern basis,
- the selected accounting policies are applied consistently and any changes in accounting policies have been reported,
- the accounting estimates have been prepared in a fair and reasonable manner and are in compliance with the principles of prudence and due diligence,
- the financial statements and the notes thereto for Krka and the Krka Group have been prepared in accordance with the applicable legislation and the IFRS, as adopted by the European Union.

The Management Board is responsible for taking the measures required to preserve Krka's and the Krka Group's assets and to prevent and detect fraud and other forms of misconduct.

The Tax Authorities may, at any time within a period of five years after the end of the year for which a tax assessment was due, carry out an audit of the company's operations, which may lead to an assessment of additional tax liabilities, default interest, and penalties with regard to corporate income tax or other taxes and levies. The Management Board is not aware of any circumstances that may result in a significant tax liability.

Management Board of
Krka, d. d., Novo mesto

Novo mesto, 11 March 2016

CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP

Consolidated statement of financial position

In € thousand	Notes	31 Dec 2015	31 Dec 2014
Assets			
Property, plant and equipment	12	826,192	846,478
Intangible assets	13	116,940	120,325
Loans	14	7,696	6,944
Investments	15	7,580	7,388
Deferred tax assets	16	27,949	27,521
Other non-current assets		241	174
Total non-current assets		986,598	1,008,830
Assets held for sale		41	41
Inventories	17	272,878	246,260
Trade receivables	18	433,133	467,841
Other receivables	18	31,540	47,436
Loans	14	37,380	1,177
Investments	15	11,808	575
Cash and cash equivalents	19	35,826	23,585
Total current assets		822,606	786,915
Total assets		1,809,204	1,795,745
Equity			
Share capital	20	54,732	54,732
Treasury shares	20	-20,071	-10,677
Reserves	20	73,387	77,291
Retained earnings	20	1,296,688	1,229,245
Total equity holders of the parent		1,404,736	1,350,591
Non-controlling interests within equity	20	1,248	1,308
Total equity		1,405,984	1,351,899
Liabilities			
Provisions	23	84,865	97,466
Deferred revenue	24	13,381	14,905
Deferred tax liabilities	16	12,736	13,050
Total non-current liabilities		110,982	125,421
Trade payables	25	103,871	115,051
Borrowings	22	0	38,019
Income tax payable		8,030	1,332
Other current liabilities	26	180,337	164,023
Total current liabilities		292,238	318,425
Total liabilities		403,220	443,846
Total equity and liabilities		1,809,204	1,795,745

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated income statement

In € thousand	Notes	2015	2014
Revenues	5	1,164,607	1,191,614
Costs of goods sold	7	-489,648	-470,149
Gross profit		674,959	721,465
Other operating income	6	26,576	70,731
Selling and distribution expenses	7	-310,568	-334,762
R&D expenses	7	-115,393	-108,370
General and administrative expenses	7	-76,140	-72,111
Operating profit		199,434	276,953
Financial income	10	25,561	1,486
Financial expenses	10	-44,283	-103,126
Net financial result		-18,722	-101,640
Profit before tax		180,712	175,313
Income tax	11	-22,527	-9,152
Net profit		158,185	166,161
Attributable to:			
– equity holders of the parent		158,245	166,221
– non-controlling interest		-60	-60
Basic earnings per share (in €)	21	4.86	5.07
Diluted earnings per share (in €)	21	4.86	5.07

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of other comprehensive income

In € thousand	Notes	2015	2014
Net profit		158,185	166,161
Other comprehensive income for the year			
Other comprehensive income reclassified to profit or loss in future periods			
Translation reserve	20	-9,826	-50,003
Change in fair value of available-for-sale financial assets	20	192	2,368
Deferred tax effect	20	-33	-402
Net other comprehensive income reclassified to profit or loss in future periods	20	-9,667	-48,037
Other comprehensive income that will not be reclassified to profit or loss in future periods			
Restatement of post-employment benefits		-3,946	-17,752
Deferred tax effect	23	315	2,922
Net other comprehensive income that will not be reclassified to profit or loss in future periods	23	-3,631	-14,830
Total other comprehensive income for the year (net of tax)		-13,298	-62,867
Total comprehensive income for the year (net of tax)		144,887	103,294
Attributable to:			
– equity holders of the parent		144,947	103,354
– non-controlling interest		-60	-60

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of changes in equity

In € thousand	Reserves								Retained earnings			Total equity holders of the parent	Non-controlling interests within equity	Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Translation reserve	Other profit reserves	Retained earnings	Profit for the year			
Balance at 1 Jan 2015	54,732	-10,677	10,677	105,897	14,990	30,000	-8,981	-75,292	1,001,636	79,528	148,081	1,350,591	1,308	1,351,899
Net profit	0	0	0	0	0	0	0	0	0	0	158,245	158,245	-60	158,185
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	-3,472	-9,826	0	0	0	-13,298	0	-13,298
Total comprehensive income for the year (net of tax)	0	0	0	0	0	0	-3,472	-9,826	0	0	158,245	144,947	-60	144,887
Transactions with owners, recognised directly in equity														
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	0	50,041	-50,041	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	148,081	-148,081	0	0	0
Repurchase of treasury shares	0	-9,394	0	0	0	0	0	0	0	0	0	-9,394	0	-9,394
Formation of reserves for treasury shares	0	0	9,394	0	0	0	0	0	0	0	-9,394	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-81,408	0	-81,408	0	-81,408
Total transactions with owners, recognised directly in equity	0	-9,394	9,394	0	0	0	0	0	50,041	16,632	-157,475	-90,802	0	-90,802
Balance at 31 Dec 2015	54,732	-20,071	20,071	105,897	14,990	30,000	-12,453	-85,118	1,051,677	96,160	148,851	1,404,736	1,248	1,405,984

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

In € thousand	Reserves								Retained earnings			Total equity holders of the parent	Non-controlling interests within equity	Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserve	Other profit reserves	Retained earnings	Profit for the year			
Balance at 1 Jan 2014	59,126	-69,372	69,372	101,503	14,990	30,000	3,883	-25,289	943,393	78,518	125,119	1,331,243	1,368	1,332,611
Net profit	0	0	0	0	0	0	0	0	0	0	166,221	166,221	-60	166,161
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	-12,864	-50,003	0	0	0	-62,867	0	-62,867
Total comprehensive income for the year (net of tax)	0	0	0	0	0	0	-12,864	-50,003	0	0	166,221	103,354	-60	103,294
Transactions with owners, recognised directly in equity														
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	0	58,243	-55,243	-3,000	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	125,119	-125,119	0	0	0
Repurchase of treasury shares	0	-15,140	0	0	0	0	0	0	0	0	0	-15,140	0	-15,140
Formation of reserves for treasury shares	0	0	15,140	0	0	0	0	0	0	0	-15,140	0	0	0
Withdrawal of treasury shares – share capital decrease	-4,394	0	0	4,394	0	0	0	0	0	0	0	0	0	0
Withdrawal of treasury shares by debiting other reserves and release of reserves for treasury shares	0	73,835	-73,835	0	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-68,866	0	-68,866	0	-68,866
Total transactions with owners, recognised directly in equity	-4,394	58,695	-58,695	4,394	0	0	0	0	58,243	1,010	-143,259	-84,006	0	-84,006
Balance at 31 Dec 2014	54,732	-10,677	10,677	105,897	14,990	30,000	-8,981	-75,292	1,001,636	79,528	148,081	1,350,591	1,308	1,351,899

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of cash flows

In € thousand	Notes	2015	2014
OPERATING ACTIVITIES			
Net profit		158,185	166,161
Adjustments for:		116,835	109,208
– amortisation/depreciation	12, 13	107,308	97,582
– foreign exchange differences		1,364	187
– investment income		-26,087	-2,236
– investment expenses		9,392	1,468
– interest expenses and other financial expenses		2,331	3,055
– income tax	11	22,527	9,152
Operating profit before changes in net operating current assets		275,020	275,369
Change in trade receivables		31,250	-35,939
Change in inventories		-26,618	-10,440
Change in trade payables		476	-2,958
Change in provisions		-18,226	-25,854
Change in deferred revenues		-1,524	2,100
Change in other current liabilities		16,114	3,692
Income taxes paid		1,449	-35,100
Net cash flows from operating activities		277,941	170,870
INVESTING ACTIVITIES			
Interest received		878	1,585
Proceeds from sale of current investments		24	3
Dividends received		1,288	22
Proceeds from sale of property, plant and equipment		3,193	876
Acquisition of intangible assets	13	-5,807	-12,911
Purchase of property, plant and equipment	12	-103,053	-174,028
Non-current loans		-2,092	-2,093
Proceeds from repayment of non-current loans		1,086	1,087
Payments to acquire non-current investments		-99	-103
Proceeds from sale of non-current investments		35	109
Payments/Proceeds in connection with current investments and loans		-35,575	19,237
Payments in connection with derivative financial instruments		-6,919	0
Proceeds from derivative financial instruments		11,638	0
Net cash flows used in investing activities		-135,403	-166,216
FINANCING ACTIVITIES			
Interest paid		-672	-364
Payments/Proceeds in connection with current borrowings		-38,000	38,000
Dividends and other profit shares paid	20	-81,208	-68,718
Repurchase of treasury shares	20	-9,394	-15,140
Net cash flows used in financing activities		-129,274	-46,222
Net increase/decrease in cash and cash equivalents		13,264	-41,568
Cash and cash equivalents at the beginning of the year		23,585	67,275
Effect of exchange rate fluctuations on cash held		-1,023	-2,122
Net cash and cash equivalents at the end of the year		35,826	23,585

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The consolidated financial statements for the year ended 31 December 2015 refer to the Krka Group consisting of the controlling company and its subsidiaries in Slovenia as well as abroad.

The Krka Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health-resort and tourist services.

1. Basis of preparation

Declaration of conformity

The consolidated financial statements were prepared in accordance with *International Financial Reporting Standards (IFRS)*, and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC), as adopted by the European Union, and in compliance with the *Companies Act*.

At the date of the statement of the financial position, due to the endorsement process of the EU, there is no difference in the policies applied by the Krka Group between *IFRS* and *IFRS* adopted by the EU.

The consolidated financial statements were approved by the Krka's Management Board on 11 March 2016.

Basis of measurement

The consolidated financial statements were prepared at historical cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available for sale, where the fair value was taken into account. The methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The consolidated financial statements are presented in the euro, which is the functional currency of Krka. All financial information presented in the euro has been rounded to the nearest thousand.

The use of estimates and judgements

The preparation of financial statements requires the management of the controlling company to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities of the Group as well as the reported income and expenses for the period.

Among other items, management estimates include: a determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; allowances made for inventories and receivables; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of potential provisions for lawsuits, as well as assumptions and estimates relating to the impairment of goodwill. Regardless of the fact that management duly consider all factors that may affect the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, management makes judgements while considering potential changes in the business environment, new business events, new and additional information that may be available, as well as experience.

Until 31 December 2012, the Krka Group recognised the TAD trademark as an item of intangible assets with an indefinite useful life, determining its assessed recoverable amount on each reporting dates. Since 1 January 2013, the TAD trademark has been recognised as an item of intangible assets with a finite useful life.

Key estimates and assumptions as on the day of the statement of the financial position that are associated with future operations and which could result in a significant adjustment of the book values of assets and liabilities are presented below.

Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is presented in the following notes:

- Note 2 'Impairment testing of non-financial assets'

At least once annually, the controlling company checks for each cash generating unit whether there are any indicators of impairment. The recoverable amount of non-financial assets determined as the present value of future cash flows is based on an estimate of expected cash flows from the cash generating unit and on a determination of the appropriate discount rate.

- Note 13 'Impairment testing of goodwill and trademark'

The criteria used in goodwill impairment testing are verified at least once a year. Determining the present value of future cash flows requires management to assess estimated future cash flows from each cash generating unit as well as to determine the appropriate discount rate. The Company has found no evidence of goodwill impairment. The carrying amount of goodwill of €42,644 thousand did not change in the 2015 financial year.

In addition, the Company carried out TAD Pharma trademark impairment testing and found that the carrying amount of trademark at 31 December 2015 equals €39,859 thousand (2014: €40,707 thousand).

- Note 23 'Post-employment benefits'

Defined post-employment benefit obligations include the present value of termination benefits on retirement. They are recognised on the basis of the actuarial calculation approved by the controlling company's Management Board. The actuarial calculation is made by using assumptions and estimates effective at the time of the calculation, and as a result of future changes may differ from actual assumptions applicable at that future time. This applies primarily to determining of the discount rate, assessment of employee turnover, mortality assessment, as well as assessment of the increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

- Note 23 'Provisions for lawsuits and contingent liabilities'

Several lawsuits and claims have been brought against individual companies in the Krka Group for alleged breaches of patent rights or competition law. A provision is recognised when the Company has present obligations (legal or constructive) as a result of past events, if a reliable estimate can be made of the amount of obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements, as their actual existence is confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. The management of the controlling company continually assess contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. In this case, a provision is recognised in the financial statements of the period in which the change in probability occurs. The Krka Group reversed €20,000 thousand of provisions for lawsuits in 2015.

- Note 26 'Other current liabilities'

The Krka Group accrues contractually agreed discounts in its financial statements when, based on annual sales, individual customers acquire the right to discount recognition in the next financial year, i.e. when contractually agreed terms and conditions of discounts are fulfilled. The assessed rate of discount depends on the facts known at the time of the financial statement's preparation, past experience in trading with individual customers, and other relevant facts.

2. Significant accounting policies

The Krka Group applies the same accounting policies in all periods, presented in the accompanying consolidated financial statements.

The Krka Group companies apply uniform accounting policies. Accounting policies applied by subsidiaries have been changed where necessary and adjusted with policies applied by the Group.

The accounting policies and calculation methods used are consistent with those applied in the previous year. The accounting policies and methods used are noted below, and were applied if relevant events occurred in Group companies in the reporting period.

Newly adopted standards and interpretations

The accounting policies used in compiling of the consolidated financial statements are consistent with those applied in the financial year ending on 31 December 2014, except for the adoption of the amended standards and interpretations effective from 1 January 2015, which are noted below.

New standards and interpretations effective from 1 January 2015

Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service costs in the period in which the service is rendered, instead of allocating the contributions to periods of service. This amendment is effective for annual periods beginning on or after 1 January 2014.

The amendments to the standard had no significant impact on the consolidated financial statements of the Krka Group.

Annual improvements 2010–2012 Cycle

Amendments to IFRS 2 Share-Based Payments

The amendment is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.

The amendments to the standard had no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IFRS 3 Business Combinations

The amendments are applied prospectively and clarify that all contingent consideration arrangements classified as liabilities or assets arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39 *Financial Instruments*.

The amendments to the standard had no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- an entity must disclose the judgements made by the management in applying the aggregation criteria in paragraph 12 of *IFRS 8*, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g. sales and gross margins) used to assess whether the segments are similar and
- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosures for segment liabilities.

The amendments to the standard had no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in *IAS 16* and *IAS 38* that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

The amendments to the standard had no significant impact on the consolidated financial statements of the Krka Group since its assets are not revalued under the revaluation model.

Amendments to IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

The amendments to the standard had no significant impact on the reporting of the Krka Group.

Annual improvements 2011–2013 Cycle

Amendments to IFRS 3 Business Combinations

The amendments are applied prospectively and clarify that:

- Joint arrangements, not just joint ventures, are outside the scope of *IFRS 3* and
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The amendments to the standard had no significant impact on the reporting of the Krka Group.

Amendments to IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in *IFRS 13* can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of *IAS 39 Financial Instruments*.

The amendments to the standard had no significant impact on the reporting of the Krka Group.

Amendments to IAS 40 Investment Properties

The description of ancillary services in *IAS 40* differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that *IFRS 3*, and not the description of ancillary services in *IAS 40*, is used to determine if the transaction is the purchase of an asset or a business combination.

The amendments to the standard had no significant impact on the reporting of the Krka Group.

Basis for consolidation

Subsidiaries

Subsidiaries are entities controlled by the parent company. Control exists when the controlling company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are converted to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the prevailing exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate at the date when the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised directly in other comprehensive income. Non-cash items measured at historical costs in foreign currency are translated into the functional currency by applying the exchange rate valid at the date of the transaction.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into euros at the exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated into euros at the average annual exchange rate, which in view of transaction dynamics is closest to the exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised directly in other comprehensive income as translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Operating profit

Operating profit comprises profit before tax and financial items. Financial items include interest on bank balances, deposits, available-for-sale investments, interest paid on borrowings, profit or loss from the sale of available-for-sale financial instruments, and foreign exchange gains or losses from the translation of all monetary assets and liabilities in foreign currency.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. With instruments not recognised at fair value through profit or loss, fair value is increased or decreased by any directly attributable transaction costs associated with the instrument's purchase or issue. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

The accounting of financial income and expenses is discussed in the chapter 'Financial income and expenses'.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in profit or loss.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the group manages such investments and makes purchase and sale decisions based on their fair value and in accordance with the investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables and loans

Other non-derivative financial instruments are measured at amortised costs using the effective interest method, less any impairment losses.

Share capital

Repurchase of treasury shares

When treasury shares recognised as a part of share equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends

Dividends are recognised in the Group's consolidated financial statements in the period in which they are declared by the Annual General Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at costs less accumulated depreciation and impairment losses (see accounting policy 'Impairment').

Costs include expenditures that are directly attributable to the acquisition of the asset. Costs of self-constructed assets include costs of materials and direct labour, any other directly attributable costs of making the asset ready for its intended use, and (if applicable) costs of dismantling and removing items and restoring the site on which they are located, as well as capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of property, plant and equipment and are recognised within other income or other expenses in profit or loss.

As off 1 January 2009, costs of borrowings that may be directly attributable to the acquisition, construction or production of an asset under construction, are also part of the cost of an item of property, plant and equipment of the Krka Group. If borrowings raised by the Group are earmarked and cannot be attributed directly to the acquisition of an asset under construction, the pro-rata amount of costs is capitalised only when borrowings exceed 10% of the value of all investments of the accounting period. The pro-rata amount of costs is calculated using the capitalisation rate as the weighted average costs of borrowings that have not been settled in the accounting period. The pro-rata amount of costs increases the cost of significant assets under construction, i.e. assets that account for more than 10% of total investments in the period and the construction of which extends over a period of more than 6 months.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the income statement as expenses when incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

Estimated useful lives are as follows:

- for buildings 15 to 60 years,
- for plant and equipment 2 to 20 years,
- for furniture 5 years,
- for computer equipment 4 to 6 years, and
- for means of transportation 5 to 15 years.

Intangible assets

Goodwill

Goodwill, which occurred with the acquisition of the subsidiary, represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost less accumulated impairment losses.

Research and development

All other costs referring to research and development work within the Group are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets with finite useful lives that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy 'Impairment').

Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and trademarks, is recognised in profit or loss as incurred.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets (except of goodwill) from the date that they are available for use.

The estimated useful lives for software, licences and other rights are 2 to 10 years, and 50 years for the TAD trademark.

Inventories

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 at the reporting date less sales expenses and other possible administrative expenses, which are usually connected with the sale.

An inventory unit of raw materials and materials, as well as supporting and packaging materials is valued at cost including all direct costs of purchase. Inventories of material are carried at moving average prices. Inventories of finished products and work in progress are carried at standard cost, which in addition to the direct cost of material includes also costs of production, such as direct labour cost, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Fixed-price variances are determined in accordance with the current valuation of inventories using production costs. An inventory unit of merchandise is valued at cost, including the cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are carried at moving average prices.

Impairments

Financial assets

A financial asset is assessed at each reporting date to determine if there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value, less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purpose of impairment testing, the goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Current employee benefits

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Non-current employee benefits

Provisions for post-employment benefits and other non-current employee benefits

Pursuant to the local legislation of countries where the controlling company and subsidiaries are located, the Group is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. Provisions are set aside for these obligations. The Company has no other pension obligations.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is performed by the use of the projected unit credit method. Employee benefit costs, as well as the cost of interest are recognised in profit or loss, whereas restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in other comprehensive income.

Provisions

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

Provisions for lawsuits

The Group discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim has not yet been disclosed.

Revenues from the sale of goods and services rendered

Revenues from the sale of goods are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenues from services rendered are recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale, but transfer usually occurs when the product has left the Group's warehouse.

No revenues are recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing managerial involvement with the goods. Revenues from the sale of goods and services rendered are measured at the sales prices stated in invoices or other documents, reduced by rebates approved when the sale is made, including those granted for early payment.

Government assistance

Revenues referring to government grants are initially recognised when there is a reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grants. Revenues that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the revenue is recognised. Revenues that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss by using the effective interest method. Dividend income is recognised on the date that the shareholder's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expenses on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss by using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised by using the financial position liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax is based on the expected method of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

The Krka Group presents basic and diluted earnings per share (EPS) data. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Krka Group are ordinary no-par value shares.

Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in providing products or services within a particular geographically defined economic environment. Segments differ in terms of risks and returns. The Krka Group's segment reporting is based on the Group's internal reporting system applied by the controlling company's management in the decision-making process.

Inter-segment pricing is determined on an arm's-length basis.

The segments include: the European Union (all countries of the European Union), South-East Europe (Serbia, Bosnia and Herzegovina, Macedonia, Montenegro, Kosovo, Albania) and East Europe (Russian Federation and other former Soviet Union countries excluding the Baltic countries).

Segment capital expenditure comprises all costs incurred during the period to acquire property, plant and equipment, and intangible assets.

Amendments to standards and interpretations

Standards and interpretations not yet adopted

The following new and amended standards have not come into effect by the financial statements' date and will be applied in future periods. The Krka Group will apply the new and revised standards and interpretations when they are adopted.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of *IFRS 9 Financial Instruments*, bringing together the requirements of all individual phases of the IASB's project to replace *IAS 39 Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard is applied for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The amendments are to be applied retrospectively, however presentation of comparative data is not obligatory. Early adoption of the previous versions of *IFRS 9*, published in 2009, 2010 and 2013 is permitted providing the entity has made a transfer to *IFRS* at any time before 1 February 2015. The standard has not yet been endorsed by the EU.

These amendments are not expected to have any significant impact on the financial statements.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard and permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt *IFRS*. Entities that adopt *IFRS 14* must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. *IFRS 14* is applied for annual periods beginning on or after 1 January 2016. The standard has not yet been endorsed by the EU.

These amendments are not expected to have any significant impact on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued *IFRS 15* which establishes a five-step model that will apply to revenue earned from a contract with a customer. Under *IFRS 15* revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognising revenue. The new standard is applicable to all entities and will supersede all current revenue recognition requirements under *IFRS*. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The standard has not yet been endorsed by the EU.

The Group is currently assessing the impact of *IFRS 15* and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisition of Interests

The amendments to *IFRS 11* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant *IFRS 3* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to *IFRS 11* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The standard has not yet been endorsed by the EU.

The Group estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in *IAS 16* and *IAS 38* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. The standard has not yet been endorsed by the EU.

The Group estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of *IAS 41*. After initial recognition, bearer plants will be measured under *IAS 16* at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of

The amendments to *IAS 16* also require that produce that grows on bearer plants will remain in the scope of *IAS 41* measured at fair value less costs to sell. For government grants related to bearer plants, *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The standard has not yet been endorsed by the EU.

These amendments are not expected to have any impact on the Group's financial statements.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments of *IAS 27* will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying *IFRS* and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of *IFRS* electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to *IFRS*. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between *IFRS 10* and *IAS 28* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in *IFRS 3*, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

These amendments are not expected to have any impact on the Group's financial assets.

Annual improvements 2012–2014 Cycle

The IASB has issued the *Annual Improvements to IFRSs 2012–2014 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016, but can be applied earlier.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Changes in Methods of Disposal

The amendments clarify that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment applies for annual periods beginning on or after 1 January 2016.

The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments state that:

- such reclassifications should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied; and
- assets that no longer meet the criteria for held for distribution to owners (and do not meet the criteria for held for sale) should be treated in the same way as assets that cease to be classified as held for sale.

These amendments are not expected to have any impact on the Group's financial statements.

IFRS 7 Financial Instruments: Disclosures Relating to the Service Contracts and Application of Amendments in Separate Financial Statements with Consequential Impact on Amendments to IFRS 1

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. Paragraph 42C(c) of IFRS 7 states that a pass through arrangement under a servicing contract does not, in itself, constitute a continuing involvement for the purposes of the transfer disclosure requirements.

Applicability of the amendments to IFRS 7 offsetting disclosure to condensed interim financial statements

Amendments to IFRS 7 were made to remove uncertainty as to whether the disclosure requirements on offsetting financial assets and financial liabilities (introduced in December 2011 and effective for periods beginning on or after 1 January 2013) should be included in condensed interim financial statements.

Amendments to IFRS 7 were made to remove uncertainty as to whether the disclosure requirements on offsetting financial assets and financial liabilities (introduced in December 2011 and effective for periods beginning on or after 1 January 2013) should be included in condensed interim financial statements, and if so, whether in all Interim financial statements after 1 January 2013 or only in the first year.

The amendments apply retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

These amendments are not expected to have any significant impact on the Group.

Amendments to IAS 19 Employee Benefits: (Discount Rate: Regional Market Issue)

These amendments clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. The amendment

clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period. The amendments apply for annual periods beginning on or after 1 January 2016.

These amendments are not expected to have any significant impact on the Group.

Amendments to IAS 34 Interim Financial Reporting (disclosure of information elsewhere in the interim financial report)

The amendments clarify the requirements relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the Interim financial report that is available to users on the same terms and at the same time as the Interim financial statements.

The amendments apply retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Group estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IAS 1: Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

The Group estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*. The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These

amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

The Group estimates that the amendment will not have a significant impact on the financial statements.

3. Determination of fair value

A number of the Krka Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods presented below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability of the Krka Group.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price.

Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated on the basis of the present value of future principal and interest cash flows discounted at the market rate of interest at the reporting date.

4. Segment reporting

The Group reports in terms of certain geographical segments. Revenues generated by individual segments are presented in terms of customers' geographical location.

Segment reporting

	European Union		South-East Europe		East Europe		Other		Elimination		Total	
In € thousand	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenues from non-group companies	741,495	694,754	55,775	55,200	327,466	408,650	39,871	33,010	0	0	1,164,607	1,191,614
Intra-group revenues	219,216	206,957	22,632	25,375	188,245	191,575	0	0	-430,093	-423,907	0	0
Other operating income	24,332	66,505	102	290	2,142	3,936	0	0	0	0	26,576	70,731
Operating expenses	-627,380	-594,859	-45,754	-42,593	-293,260	-327,496	-25,355	-20,444	0	0	-991,749	-985,392
Intra-group operating expenses	-403,104	-346,206	-26,900	-28,381	-352,696	-402,125	-9	-7	782,709	776,719	0	0
Operating profit	138,447	166,400	10,123	12,897	36,348	85,090	14,516	12,566	0	0	199,434	276,953
Interest income	492	1,139	4	7	385	222	0	0	0	0	881	1,368
Intra-group interest income	1,117	1,105	0	0	0	0	0	0	-1,117	-1,105	0	0
Interest expenses	-324	-133	0	0	-6	0	0	0	0	0	-330	-133
Intra-group interest expenses	-542	-944	0	0	-650	-1,058	0	0	1,192	2,002	0	0
Net financial result	-823	-2,554	-106	-629	-16,814	-98,179	-979	-278	0	0	-18,722	-101,640
Income tax	-17,266	-5,353	-885	-367	-3,577	-3,104	-799	-328	0	0	-22,527	-9,152
Net profit	120,358	158,493	9,132	11,901	15,957	-16,193	12,738	11,960	0	0	158,185	166,161
Investments	78,313	146,072	142	170	17,434	27,479	0	0	0	0	95,889	173,721
Depreciation	71,515	63,409	1,923	1,712	25,807	24,119	282	266	0	0	99,527	89,506
Amortisation	5,114	5,153	291	308	2,193	2,459	183	156	0	0	7,781	8,076
Goodwill	42,644	42,644	0	0	0	0	0	0	0	0	42,644	42,644
Trademark	39,859	40,707	0	0	0	0	0	0	0	0	39,859	40,707
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Total assets	1,394,853	1,366,998	38,680	40,709	368,309	380,187	7,362	7,851	0	0	1,809,204	1,795,745
Total liabilities	309,305	324,486	8,231	11,616	64,079	82,061	21,605	25,683	0	0	403,220	443,846

5. Revenues

In € thousand	2015	2014
Revenues from the sale of products	1,060,944	1,097,065
Revenues from the sale of services	35,038	32,311
Revenues from the sale of material and merchandise	68,625	62,238
Total revenues	1,164,607	1,191,614

6. Other operating income

In € thousand	2015	2014
Reversal of non-current provisions	20,243	39,077
Deferred revenues reversal	1,984	2,905
Gain on sale of property, plant and equipment and intangible assets	526	552
Reversal of allowances for receivables	1,711	1,127
Collected written-off receivables	4	28
Other income	2,108	27,042
Total other operating income	26,576	70,731

Detailed information on non-current provisions reversal is included in Note 23.

7. Costs by nature

In € thousand	2015	2014
Costs of goods and material	313,140	289,504
Costs of services	225,197	216,579
Employee benefit costs	323,419	330,948
Amortisation and depreciation	107,308	97,582
Inventory write-offs and allowances	12,843	9,433
Receivables impairment and write-offs	4,610	2,896
Formation of provisions for lawsuits	165	20,031
Other operating expenses	35,443	34,719
Total costs	1,022,125	1,001,692
Change in the value of inventories of products and work in progress	-30,376	-16,300
Total	991,749	985,392

8. Employee benefit costs

In € thousand	2015	2014
Gross wages and salaries and continued pay	249,848	255,256
Social security contributions	20,431	20,892
Pension insurance contributions	34,259	35,084
Payroll tax	1,080	1,021
Post-employment benefits and other non-current employee benefits	5,231	5,811
Other employee benefit costs	12,570	12,884
Total employee benefit costs	323,419	330,948

Post-employment benefits and other non-current employee benefits are explained in detail in Note 23. Other employee benefit costs in 2015 are comprised mainly of vacation bonuses and commuting allowances.

9. Other operating expenses

In € thousand	2015	2014
Grants and assistance for humanitarian and other purposes	1,997	2,089
Environmental protection expenses	3,392	2,685
Other taxes and levies	23,833	20,911
Loss on sale of property, plant and equipment and intangible assets	2,396	4,953
Other expenses	3,825	4,081
Total other operating expenses	35,443	34,719

Other taxes and levies include €19,044 thousand (2014: €16,062 thousand) comprising various taxes paid on pharmaceuticals and in respect of fees paid to associates in individual countries.

10. Financial income and expenses

In € thousand	2015	2014
Interest income	881	1,368
Change in fair value of investments through profit or loss	0	93
Derivatives income	23,368	0
– income	11,638	0
– change in fair value	11,730	0
Income from dividends and other profit shares	1,288	22
Other financial income	24	3
Total financial income	25,561	1,486
Net foreign exchange differences	-34,956	-100,075
Interest expenses	-330	-133
Change in fair value of investments through profit or loss	-78	-5
Derivatives expenses	-6,919	0
– expenses	-6,919	0
Other financial expenses	-2,000	-2,913
Total financial expenses	-44,283	-103,126
Net financial result	-18,722	-101,640

11. Income tax

Adjustment to effective tax rate

In € thousand	2015	2014
Income tax	23,316	11,893
Deferred tax	-790	-2,741
Total income tax	22,526	9,152
Profit before tax	180,712	175,313
Income tax at the rate of 17-percent	30,721	29,803
Increased expenses	-1,403	-1,207
Tax exempt expenses	7,859	-3,521
Tax incentives	-15,770	-17,589
Revenues decreasing the tax base	218	313
Revenues increasing the tax base	42	24
Effect of changed tax rate on deferred taxes	0	27
Effect of different tax rates	1,156	786
Other	-296	516
Total income tax	22,527	9,152
Effective tax rate	12.5%	5.2%

The major share of tax incentives relate to investments in R&D and investment relief.

12. Property, plant and equipment

In € thousand	31 Dec 2015	31 Dec 2014
Land	35,227	34,760
Buildings	408,238	415,976
Equipment	352,005	365,880
Property, plant and equipment being acquired	30,722	29,862
Total property, plant and equipment	826,192	846,478

Krka's largest investment in 2015 in the amount of €16,589 thousand, was in the construction of the Notol 2 plant (2014: €77,334 thousand). Investment in the construction of the plant in Ljutomer for the production of the new generation lozenges amounted to €10,714 thousand (2014: €254 thousand); investment in the construction of the Sinteza 1 Plant in Krško for the production of pharmaceuticals reached €6,758 thousand (2014: €14,200 thousand); €2,496 thousand was invested in the construction of the development and control center (2014: €3 thousand); and an investment of €2,393 thousand was made in expanding the production of sprays. The latter is a new project introduced in 2015, so no comparable data for 2014 exist. A total of €2,555 thousand was spent on various information technology and telecommunications projects (2014: €4,140 thousand).

Major investments in subsidiaries include investment in the Krka-Rus subsidiary in the Russian Federation amounting to €8,941 thousand (2014: €2,157 thousand). An additional €2.838 thousand was invested in the Krka Farma subsidiary in Russian Federation (2014: €18,261 thousand); investments in Terme Krka Group reached €940 thousand (2014: €2,927 thousand); and €659 thousand were invested in Krka Farma Zagreb (2014: €22 thousand).

Movement of property, plant and equipment (PPE)

In € thousand	Land	Buildings	Equipment	PPE being acquired	Total
Costs					
Balance at 1 Jan 2014	32,295	665,433	802,862	123,136	1,623,726
Additions	0	0	0	160,810	160,810
Capitalisation – transfer from PPE under construction	2,940	106,278	139,352	-248,570	0
Disposals, deficit, surplus	-25	-558	-10,417	0	-11,000
Impairment	0	-3,818	-7	0	-3,825
Translation difference	-450	-29,887	-23,614	-6,033	-59,984
Transfers, reclassification	0	-207	-317	519	-5
Balance at 31 Dec 2014	34,760	737,241	907,859	29,862	1,709,722
Balance at 1 Jan 2015	34,760	737,241	907,859	29,862	1,709,722
Additions	0	0	0	90,353	90,353
Capitalisation – transfer from PPE under construction	544	26,171	61,480	-88,195	0
Disposals, deficit, surplus	-3	-2,707	-14,117	-7	-16,834
Translation difference	-74	-7,042	-4,973	-1,291	-13,380
Transfers, reclassification	0	-215	294	0	79
Balance at 31 Dec 2015	35,227	753,448	950,543	30,722	1,769,940
Accumulated depreciation					
Balance at 1 Jan 2014	0	-302,779	-497,243	0	-800,022
Depreciation	0	-24,626	-64,880	0	-89,506
Disposals, deficit, surplus	0	45	9,583	0	9,628
Transfers, reclassification	0	80	-89	0	-9
Impairment	0	328	16	0	344
Translation difference	0	5,687	10,634	0	16,321
Balance at 31 Dec 2014	0	-321,265	-541,979	0	-863,244
Balance at 1 Jan 2015	0	-321,265	-541,979	0	-863,244
Depreciation	0	-27,077	-72,450	0	-99,527
Disposals, deficit, surplus	0	1,888	13,106	0	14,994
Transfers, reclassification	0	9	-57	0	-48
Translation difference	0	1,235	2,842	0	4,077
Balance at 31 Dec 2015	0	-345,210	-598,538	0	-943,748
Carrying amount					
Balance at 1 Jan 2014	32,295	362,654	305,619	123,136	823,704
Balance at 31 Dec 2014	34,760	415,976	365,880	29,862	846,478
Balance at 1 Jan 2015	34,760	415,976	365,880	29,862	846,478
Balance at 31 Dec 2015	35,227	408,238	352,005	30,722	826,192

No borrowing costs refer to the items of property, plant and equipment in 2015.

The carrying amount of the items of property, plant and equipment, which are temporarily not used, amounted to €719 thousand at 31 December 2015 (2014 year-end: €1,638 thousand).

23% of total property, plant and equipment used as at 31 December 2015, were fully depreciated (22% as at 31 December 2014). The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

13. Intangible assets

In € thousand	31 Dec 2015	31 Dec 2014
Goodwill	42,644	42,644
Trademark	39,859	40,707
Concessions, patents, licences and similar rights	30,506	31,511
Intangible assets being acquired	3,931	5,463
Total intangible assets	116,940	120,325

The item of goodwill refers solely to the purchase of the company TAD Pharma and the item of trademark relates to TAD Pharma.

Movement of intangible assets (IA)

In € thousand	Goodwill	Trademark	Concessions, patents, licences and similar rights	IA being acquired	Total
Costs					
Balance at 1 Jan 2014	42,644	42,403	95,798	5,056	185,901
Additions	0	0	0	12,911	12,911
Transfer from IA being acquired	0	0	12,505	-12,505	0
Disposals, deficit, surplus	0	0	-1,334	0	-1,334
Transfers, reclassification	0	0	-32	0	-32
Translation difference	0	0	-397	1	-396
Balance at 31 Dec 2014	42,644	42,403	106,540	5,463	197,050
Balance at 1 Jan 2015	42,644	42,403	106,540	5,463	197,050
Additions	0	0	0	5,536	5,536
Transfer from IA being acquired	0	0	6,719	-6,719	0
Disposals, deficit, surplus	0	0	-1,955	-350	-2,305
Transfers, reclassification	0	0	135	3	138
Translation difference	0	0	-124	-2	-126
Balance at 31 Dec 2015	42,644	42,403	111,315	3,931	200,293
Accumulated amortisation					
Balance at 1 Jan 2014	0	-848	-69,309	0	-70,157
Amortisation	0	-848	-7,228	0	-8,076
Disposals, deficit, surplus	0	0	899	0	899
Transfers, reclassification	0	0	25	0	25
Translation difference	0	0	584	0	584
Balance at 31 Dec 2014	0	-1,696	-75,029	0	-76,725
Balance at 1 Jan 2015	0	-1,696	-75,029	0	-76,725
Amortisation	0	-848	-6,933	0	-7,781
Disposals, deficit, surplus	0	0	1,100	0	1,100
Transfers, reclassification	0	0	-135	0	-135
Translation difference	0	0	188	0	188
Balance at 31 Dec 2015	0	-2,544	-80,809	0	-83,353
Carrying amount					
Balance at 1 Jan 2014	42,644	41,555	26,489	5,056	115,744
Balance at 31 Dec 2014	42,644	40,707	31,511	5,463	120,325
Balance at 1 Jan 2015	42,644	40,707	31,511	5,463	120,325
Balance at 31 Dec 2015	42,644	39,859	30,506	3,931	116,940

56% of total intangible assets in use as at 31 December 2015 were fully amortised (47% as at 31 December 2014). The share of fully amortised intangible assets is calculated in consideration of their cost.

Impairment testing of goodwill and TAD Pharma trademark

Impairment testing was applied to the TAD Pharma trademark and associated goodwill which arose on the takeover of the German company TAD Pharma by the controlling entity Krka at the end of 2007.

The recoverable amount of goodwill that arose on the acquisition of the stake in TAD Pharma was determined by using the cash flow projection method, based on the five-year financial plans of the cash generating unit. The controlling entity Krka and TAD Pharma were considered cash generating units. A pre-tax discount rate of 9.0%

was applied in the projection for both cash generating units, TAD Pharma and Krka. Cash flows over 5 years were extrapolated by using the average the annual growth of 2.0% for both cash generating units. The same discount rates and average annual growth were applied in 2015 as in the previous financial year.

In the opinion of the Management Board, a reasonable change in the discount rate or growth rate would not result in goodwill impairment.

Considering the above assumptions, the assessed recoverable amount exceeds the carrying amount, so no impairment is required.

14. Loans

In € thousand	31 Dec 2015	31 Dec 2014
Non-current loans	7,696	6,944
– loans to others	7,696	6,944
Current loans	37,380	1,177
– portion of non-current loans maturing next year	155	1,008
– loans to others	37,224	168
– current interest receivable	1	1
Total loans	45,076	8,121

Non-current loans are mostly housing loans extended by the parent company and some subsidiaries to their employees in accordance with the internal acts of the Group. The loan of the controlling company bear the annual interest rate that equals the contractually agreed rate set by the Minister of Finance in accordance with the *Corporate Income Tax Act* that defines the interest rates for related parties. The actual interest rate fluctuated between 0.825% and 1.133% in 2015 (2014: between 1.138% and 1.422%). The maximum repayment period is 15 years.

Short-term loans to others include bank deposits totalling €36,000 thousand maturing in more than 30 days.

15. Investments

In € thousand	31 Dec 2015	31 Dec 2014
Non-current investments	7,580	7,388
– available-for-sale financial assets	7,580	7,388
Current investments including derivatives	11,808	575
– shares and interests held for trading	79	157
– derivatives	11,729	0
– other current investments	0	418
Total investments	19,388	7,963

Available-for-sale financial assets in the amount of €688 thousand refer to investments in shares and interests in companies in Slovenia (2014 year-end: €714 thousand), and €6,892 thousand to investments in shares of companies abroad (2014 year-end: €6,674 thousand).

The derivative financial instruments comprise short-term forward contracts, which the Krka Group agreed as a means of hedging the risk arising from the volatility of the Russian rouble.

Other current investments at the end of 2014 financial year refer to Slovenian mutual funds; in comparison, at the end of 2015, Krka had no investments in mutual funds.

Movement in available-for-sale financial assets

In € thousand	Available-for-sale financial assets
Balance at 1 Jan 2014	5,231
Adjustment to market value	2,157
Balance at 31 Dec 2014	7,388
Balance at 1 Jan 2014	7,388
Adjustment to market value	192
Balance at 31 Dec 2015	7,580

Adjustments of non-current investments (available-for-sale financial assets) to the market value or fair value are recognised in other comprehensive income in the amount of €192 thousand (2014: €2,368 thousand). No adjustment was recognised in the income statement in 2015 (2014: adjustment of total €-211 thousand).

16. Deferred tax assets and liabilities

In € thousand	Assets		Liabilities	
	2015	2014	2015	2014
Investments, property, plant and equipment and intangible assets	377	503	13,530	14,048
Available-for-sale financial assets	1,546	1,546	803	771
Inventories	11,686	13,124	97	95
Receivables/liabilities	4,525	3,769	365	324
Provisions for post-employment benefits and other non-current employee benefits	9,651	9,434	0	0
Transfer of tax loss	2,223	1,333	0	0
Total	30,008	29,709	14,795	15,238
Offsetting	-2,059	-2,188	-2,059	-2,188
Net	27,949	27,521	12,736	13,050

In € thousand	Balance at 1 Jan 2014	Recognised in income statement	Translation reserve	Recognised in other comprehensive income	Balance at 31 Dec 2014	Recognised in income statement	Translation reserve	Recognised in other comprehensive income	Balance at 31 Dec 2015
Investments, property, plant and equipment and intangible assets	-13,165	-303	-77	0	-13,545	400	-8	0	-13,153
Available-for-sale financial assets	-351	1,528	0	-402	775	0	1	-33	743
Inventories	4,074	9,034	-79	0	13,029	-1,428	-12	0	11,589
Receivables/liabilities	4,144	246	-945	0	3,445	974	-259	0	4,160
Provisions for post-employment benefits and other non-current employee benefits	6,292	221	-1	2,922	9,434	-97	-1	315	9,651
Transfer of tax loss	988	345	0	0	1,333	941	-51	0	2,223
Total	10,312	2,741	-1,102	2,520	14,471	790	-330	282	15,213

Unrecognised deferred tax on account of the tax losses of subsidiaries amounted to €2,370 thousand at the end of 2015 (€2,627 thousand as at the end of 2014).

17. Inventories

In € thousand	31 Dec 2015	31 Dec 2014
Material	111,113	106,098
Work in progress	64,369	56,984
Products	90,395	75,633
Merchandise	6,287	7,429
Inventory advances	714	116
Total inventories	272,878	246,260

Inventory write-offs and allowances amounted to €12,843 thousand (2014: €9,433 thousand).

18. Trade and other receivables

In € thousand	31 Dec 2015	31 Dec 2014
Current trade receivables	433,133	467,841
Other current receivables	31,540	47,436
Total receivables	464,673	515,277

Receivable impairment and write-offs recorded within operating expenses amounted to €4,610 thousand in 2015 (2014: €2,896 thousand).

Current trade receivables

In € thousand	Gross value	Allowances for receivables	Net value at 31 Dec 2015	Net value at 31 Dec 2014
Current trade receivables from domestic customers	9,980	414	9,566	9,212
Current trade receivables from foreign customers	448,251	24,684	423,567	458,629
Total current trade receivables	458,231	25,098	433,133	467,841

Of the total amount, 57% of trade receivables was secured with the SID – Prva kreditna zavarovalnica, d. d.

Other current receivables

Other current receivables refer mostly to receivables due by the state, in particular arising from corporate income tax in the amount of €1,313 thousand (2014: €19,381 thousand) and other receivables due from the state amounting to €24,019 thousand (2014: €21,883 thousand).

19. Cash and cash equivalents

In € thousand	31 Dec 2015	31 Dec 2014
Cash in hand	32	23
Bank balances	35,794	23,562
Total cash and cash equivalents	35,826	23,585

The Krka Group concluded contracts with four different banks on the authorised overdraft limit on bank accounts in the total amount of €2,500 thousand (the same as last year). No negative balances were recorded on these bank accounts as at 31 December 2015, hence no overdraft facilities were used.

20. Equity

Share capital

Krka reduced its share capital by withdrawing of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General Meeting of 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. There is only one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Treasury shares

As at 31 December 2015, the controlling company held 326,277 treasury shares, which accounts for 0.99% of the share capital value.

At the 19th Annual General Meeting held on 3 July 2014, the shareholders adopted a resolution authorising the Management Board of the controlling company to acquire treasury shares, on the condition that the total share of all treasury shares acquired and already held, do not exceed 10% of share capital or 3,279,344 of shares.

Based on this authorisation, the Company is allowed to acquire treasury shares on the regulated market at respective market prices. The Company may also acquire treasury shares outside the regulated market. When

purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not exceed 25-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group, which is an approximation of the highest closing price of KRKG shares on the regulated market.

Treasury shares acquired on the basis of this authorisation may be disposed of in the following way:

- to be exchanged for equity-stakes in other companies based on Krka's M&A strategy;
- to be sold to a strategic partner.

Repurchase of treasury shares in 2015

	Number of shares	Weighted average share price (in €)	Value of shares (in € thousand)
Balance at 31 Dec 2014	173,279		10,677
Repurchases in 2015	152,998	61.40	9,394
Balance at 31 Dec 2014	326,277		20,071

The subscription fee is included in the weighted average price of shares.

The 2015 repurchase of treasury shares in terms of days is illustrated in Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

The Krka Group's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves, fair value reserves and translation reserves.

Reserves for treasury shares amounted to €20,071 thousand as at the reporting date, and increased by €9,394 thousand based on their formation as a result of additional repurchase of treasury shares.

The share premium is to be used under the terms and for the purposes defined by the applicable act. The share premium was recorded at €105,897 thousand as at 31 December 2015 and consists of the general equity revaluation adjustment (€90,659 thousand) that was included in share premium during the transfer to IFRS; the share premium (€10,844 thousand) formed pursuant to a special regulation applicable in the ownership transformation of the controlling company; and €4,394 thousand of share premium resulting from the reduction in share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2015, the value of reserves remained unchanged.

The share premium is to be used under the terms and for the purposes defined by the applicable act. The share premium was recorded at €105,897 thousand as at 31 December 2015, and consists of the general equity revaluation adjustment (€90,659 thousand) that was included among share premium during the transfer to IFRS; the share premium (€10,844 thousand) formed pursuant to a special regulation applicable in the ownership transformation of the controlling company; and €4,394 thousand of share premium resulting from the reduction in share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2015, the value of reserves remained unchanged.

Legal reserves are to be formed up to 30% of the share capital. They amounted to €14,990 thousand as at 31 December 2015, and remained unchanged over the previous period.

Statutory reserves amounted to €30,000 thousand as at the reporting date, and remained unchanged over the previous period. Statutory reserves are formed by the Krka Group up to the amount of €30,000 thousand. Statutory reserves may be used for loss coverage, the formation of reserves for treasury shares, to reduce share capital by share withdrawal, and to regulate dividend policy.

The *fair value reserve* includes the cumulative change in the fair value of available-for-sale financial assets and post-employment benefits. Compared to the previous period, the fair value reserve decreased by €3,472 thousand, amounting to €-12,453 thousand as at 31 December 2015. The total change results from a reduction in the fair value of available-for-sale financial assets (by €192 thousand), a reduction of €33 thousand referring to the related deferred tax effect, a reduction on the account of restatement of post-employment benefits by €3,946 thousand, and an increase of €315 thousand referring to the related deferred tax effect due to the restatement of post-employment benefits.

Compared to the previous period, the *translation reserve* increased by €9,826 thousand, amounting to €-85,118 thousand as at 31 December 2015. The increase is a result of exchange rate losses occurring during the translation of individual items in financial statements of foreign operations into the reporting currency.

Retained earnings

Retained earnings grew on the basis of the majority shareholder's profit in the amount of €158,245 thousand. The reduction, on the other hand, is a result of the allocation of accumulated profit to dividend pay-out (€81,408 thousand) in accordance with the resolution adopted by the 21st Annual Meeting held on 20 August 2015, and of an additional formation of reserves for treasury shares by the controlling company in 2015 (€9,394 thousand).

The amount of the dividend pay-out shown in the statement of cash flows differs from the figure confirmed by the Annual Meeting and included in the statement of changes in equity by the amount of change between the opening and closing balance of liabilities for dividend pay-out in the amount of €200 thousand (2014: €148 thousand).

Dividends per share

In 2015, the declared gross dividend per share was €2.50 (2014: €2.10).

Non-controlling interests within equity

In € thousand	Non-controlling interest		Equity attributable to non-controlling interest		Net profit attributable to the non-controlling interest	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Interest held by minority shareholders in Golf Grad Otočec, d. o. o.*	36.9%	36.9%	1,187	1,261	-74	-78
Interest held by minority shareholders in Farma GRS, d. o. o.**	0.3%	0.3%	61	47	14	18
Total			1,248	1,308	-60	-60

*Terme Krka has a 63.1-percent holding in Golf Grad Otočec, d. o. o.; the remaining shareholders include IMP PROMONT-ELEKTRO d.o.o. (3.05 %), Abanka Vipava d.d. (6.10 %), Trimo, d.d. (6.10 %), Begrad, d.d. (3.05 %), Lesnina inženiring, d.d. (6.10 %), Telekom Slovenije, d.d. (4.51 %), Kovinotehna MKI d.o.o. (3.05 %), IMP PROMONT d.o.o. (3.05 %) and Vodnogospodarsko podjetje Novo mesto, d.d. (1.91 %).

** Krka has a 99.7-percent holding in Farma GRS, d. o. o. with Metronik d.o.o., Iskra Pio d.o.o. and Gospodarska zbornica Dolenjske in Bele krajine each having a 0.1% holding.

21. Earnings per share

Basic earnings per share amounted to €4.86 in 2015, and decreased by 4.2% over the previous year, when it amounted to €5.07. The calculation of earnings per share took into account the profit for the period attributable to the controlling interests in the amount of €158,245 thousand (2014: €166,221 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 32,550,928 shares for 2015 and 32,768,062 shares for 2014. Treasury shares were eliminated from the calculation.

All shares issued by the controlling company are ordinary shares; thus the diluted earnings per share ratio equalled the basic earnings per share.

22. Borrowings

In € thousand	31 Dec 2015	31 Dec 2014
Non-current borrowings	0	0
Current borrowings	0	38,019
– borrowings from domestic banks	0	38,000
– current interest payable	0	19
Total borrowings	0	38,019

23. Provisions

In € thousand	Balance at 31 Dec 2014	Formation	Utilisation	Reversal	Translation reserve	Balance at 31 Dec 2015
Provisions for lawsuits	20,100	165	0	-20,000	-1	264
Provisions for post-employment benefits and other non-current employee benefits	76,938	10,874	-3,447	-234	0	84,131
Other provisions	428	166	-115	-9	0	470
Total provisions	97,466	11,205	-3,562	-20,243	-1	84,865

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of the anticipated amount if the indemnification claim has not yet been disclosed. External advisers for disputes referring to intellectual property are engaged to define the anticipated amounts. Furthermore, every year, the management verifies the calculated amount of provisions for each individual claim that has not yet been settled.

In 2014, other income included damages received and the reimbursement of court fees from a lawsuit between Krka and AstraZeneca for the unjustified temporary prohibition of the sale of Krka's pharmaceutical Esomeprazole in Great Britain over a period from mid-2010 to the summer of 2011. Since the plaintiff appealed the decision of the court, Krka set aside provisions of total €20,000 thousand in 2014. As all legal remedies in the case had been exhausted, Krka reversed the total amount of the provisions in 2015.

In addition to the aforementioned lawsuits over intellectual property, 10 other lawsuits are in progress against Krka and its subsidiaries, with claims totalling €10,250 thousand, as well as 20 lawsuits referring to other areas (labour legislation, civil lawsuits), with claims totalling €1,050 thousand. Based on its familiarisation with the content of disputes and based on the legal opinion of external experts, the management of the Company

assessed that there was no need to set aside provisions relating to the above disputes and lawsuits. However, provisions totalling €264 thousand were set aside on account of other legal actions.

Provisions for post-employment benefits and other non-current employment benefits are based on a calculation performed by a certified actuary, and were accounted for under the following assumptions:

- the selected discounted interest rate is 1.92-percent annually, which equals the return on 15-year corporate bonds with high credit ratings in the euro area at the end of November 2015 (2014: 2.45-percent);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal acts;
- employee turnover, depending in particular on the employees' age;
- mortality rates calculated on the basis of the latest mortality tables available;
- increase in wages by 1.80% (the same as in 2014).

Provisions for post-employment benefits

In € thousand	2015	2014
Balance at 1 Jan	62,298	42,644
Employee benefit costs	3,040	1,626
Interest costs	1,582	2,021
Post-employment benefits paid	-2,596	-1,745
Actuarial surplus/deficit, of that:	3,946	17,752
- change in financial assumptions	4,148	16,307
- experience	-202	1,445
Balance at 31 Dec	68,270	62,298

Sensitivity analysis

	Discount rate		Salary increase	
Change in	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities in € thousand	-4,083	4,525	4,508	-4,107

24. Deferred revenues

In € thousand	Balance at 31Dec 2014	New deferred revenues received	Deferred revenues reversal	Balance at 31Dec 2015
Grants received from the European Fund for Regional Development and the Republic of Slovenia budget for construction of the new Notal 2 plant for production of pharmaceuticals	2,730	187	-267	2,650
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	4,296	0	-196	4,100
Grants received from the European Regional Development Fund received for the Sinteza 4 project	8	0	-4	4
Grants received from the European Regional Development Fund – development of new technologies (FBD project)	535	0	-98	437
Grants received from the European Regional Development Fund for setting up information and technology solutions system (GEN-I)	0	22	-3	19
Grants by the European Fund – Development Centres of the Slovene Economy	6,770	-26	-650	6,094
Property, plant and equipment received for free	545	45	-535	55
Emission coupons	21	21	-20	22
Other deferred revenue	0	211	-211	0
Total deferred revenue	14,905	460	-1,984	13,381

Construction of the new Notal 2 plant for production of pharmaceuticals and FBD projects are partly funded by the European Union (European Regional Development Fund). The projects are carried out within the framework of the Operational Programme for Strengthening Regional Development Potentials for the Period 2007-2013; Priority Axis 1: Competitiveness and Research Excellence: Main Type of Activity 1.1.: Improvement of Competitiveness and Research Excellence.

The recorded amounts of deferred revenues are reduced by a proportionate share of the depreciation of assets to which the grants refer and by any other types of expenses incurred.

25. Trade payables

In € thousand	31 Dec 2015	31 Dec 2014
Payables to domestic suppliers	38,298	46,252
Payables to foreign suppliers	61,742	64,442
Payables from advances	3,831	4,357
Total trade payables	103,871	115,051

26. Other current liabilities

In € thousand	31 Dec 2015	31 Dec 2014
Accrued contractual discounts on products sold	128,179	106,603
Payables to employees – gross wages, other receipts and charges	33,657	35,091
Other	18,501	22,329
Total other current liabilities	180,337	164,023

Accrued contractually agreed discounts on products sold include discounts to which customers are entitled when the relevant terms and conditions are fulfilled; these discounts are not granted to customers in the year of sale. In terms of value, the majority, i.e. three quarters, account for discounts tied to sales based on public tenders in some Western European markets.

The item 'Other' also includes current liabilities to the state on account of VAT payable in the amount of €11,254 thousand and other current liabilities to the state totalling €3,437 thousand.

27. Contingent liabilities and commitments

In € thousand	31 Dec 2015	31 Dec 2014
Guarantees issued	19,150	18,822
Other	620	620
Total contingent liabilities	19,770	19,442

Major items of guarantees issued include a counter guarantee for the due payment of potential liabilities from a customs guarantee of €6,000 thousand issued in Belarus, a contract bond issued on behalf of the subsidiary Farma GRS in the amount of €5,300 thousand, and a guarantee issued to the Financial Administration of the Republic of Slovenia in the amount of €2,500 thousand. The item 'Other' includes affected property in Serbia in the amount of €620 thousand.

In addition to the aforementioned lawsuits referring to intellectual property, 10 other lawsuits are in progress against Krka and its subsidiaries, with claims totalling €10,250 thousand, as well as 20 lawsuits referring to other areas (labour legislation, civil lawsuits) with claims totalling €1,050 thousand. Based on its familiarisation with the content of the disputes and on the legal opinion of external experts, the Management of the Company assessed that there was no need to set aside provisions relating to the above disputes and lawsuits. However, provisions totalling €264 thousand were set aside on account of other legal actions.

Based on contracts signed in connection with on-going investments, at year-end the Group accounted for €62,643 thousand of future liabilities resulting from the acquisition of property, plant and equipment (2014 year-end: €35,596 thousand).

Operating lease

In € thousand	31 Dec 2015	31 Dec 2014
Up to 1 year	2,741	3,689
1-5 years	3,843	3,066
More than 5 years	0	0
Total lease liabilities	6,584	6,755

Lease contracts with terms in excess of 5 years refer to the lease of real estate (primarily offices), whereas lease contracts for a period of up to one year and from 1 to 5 years refer also to the lease of equipment and cars.

28. Financial instruments and financial risks

The long-term stability of the Company's performance is managed by means of active risk management. Due to the extensive scope of the Group's international import and export business, the Group is primarily exposed to foreign exchange and credit risks.

Credit risk

The credit control process involves obtaining credit ratings for clients to which the controlling company and subsidiaries make product sales worth an annual €100,000 or more, and regular, dynamic monitoring of customer payment discipline.

At the end of last year, more than 93% of the receivables payable by the Krka Group's buyers were included in the process of credit control.

Compared to the beginning of 2015, total receivables payable by buyers decreased at the end of the year. This resulted in part from the revaluation of receivables due to the depreciation of local currencies, primarily the Russian rouble. At the end of 2015, the amount of overdue receivables remained within the normal scope acceptable to Krka. Krka believes that the payment discipline of buyers did not change.

At the end of the year, more than 80% of receivables payable by buyers from the Russian Federation had been secured with a credit insurance company. The total value of receivables payable by the Russian buyers in the local currency rose in the first quarter of the year due to a one-time extension of payment terms and due to an increase in sales prices in the rouble. It remained stable later in the year.

Approximately one half of receivables payable by Ukrainian buyers are hedged with bank guarantees or credit insurance coverage. We recorded slightly extended terms of payment in the Ukrainian market, because companies have difficulty accessing foreign currencies.

57% of total receivables payable by end buyers to the Krka Group were hedged by credit insurance coverage or financial instruments. Our policy of hedging receivables remained unchanged in 2015.

In 2015, Krka recorded no significant write-offs of overdue receivables payable by buyers, and no increase in problematic receivables payable

Credit risk exposure

The carrying amount of financial assets represents the biggest exposure to credit risk as illustrated below.

In € thousand	Notes	31 Dec 2015	31 Dec 2014
Loans	14	45,076	8,121
Investments	15	19,388	7,963
Trade receivables	18	433,133	467,841
Cash and cash equivalents	19	35,826	23,585
Total		533,423	507,510

As for the financial assets exposed to credit risk, the loans and receivables are presented separately.

Loans by geographical region

In € thousand	31 Dec 2015	31 Dec 2014
Slovenia	44,499	7,472
South-East Europe	143	136
East Europe	150	216
Central Europe	284	297
West Europe	0	0
Overseas markets	0	0
Total	45,076	8,121

Trade receivables by geographical region

In € thousand	31 Dec 2015	31 Dec 2014
Slovenia	9,565	9,213
South-East Europe	86,980	104,071
East Europe	175,172	182,801
Central Europe	63,807	79,794
West Europe	94,840	86,920
Overseas markets	2,769	5,042
Total	433,133	467,841

Of the total amount, 57% of trade receivables were secured with the SID – Prva kreditna zavarovalnica, d. d.

Maturity analysis of loans as at the reporting date

In € thousand	Gross 2015	Allowance 2015	Gross 2014	Allowance 2014
Not-past due	45,072	0	8,115	0
Past due up to 20 days	1	0	3	0
Past due between 21 and 50 days	0	0	1	0
Past due between 51 and 180 days	1	0	1	0
Past due more than 180 days	13	11	12	11
Total	45,087	11	8,132	11

Maturity structure of trade receivables as at the reporting date

In € thousand	Gross 2015	Allowance 2015	Gross 2014	Allowance 2014
Not-past due	416,109	2,548	437,637	2,788
Past due up to 20 days	11,638	187	14,090	219
Past due between 21 and 50 days	1,565	91	4,235	164
Past due between 51 and 180 days	5,421	789	11,841	423
Past due more than 180 days	23,498	21,483	19,584	15,952
Total	458,231	25,098	487,387	19,546

The Krka Group agrees extended terms with some customers. If the Group did not extend payment terms to some of the customers, the maturity structure of receivables would be as follows at the reporting date: not past due €413,561 thousand (2014: 392,315 thousand); past due up to 20 days €11,451 thousand (2014: 22,939 thousand); past due between 21 and 50 days €1,474 thousand (2014: 10,041 thousand); past due between 51 and 180 days €4,632 thousand (2014: €40,859 thousand); and past due more than 180 days: €2,015 thousand (2014: €21,233 thousand).

Movement of allowances for loans

In € thousand	2015	2014
Balance at 1 Jan	11	41
Impairment of loans	0	-30
Balance at 31 Dec	11	11

Movements in receivable impairments less receivables due by the state and advances

In € thousand	2015	2014
Balance at 1 Jan	19,546	18,475
Formation of allowances	7,545	2,831
Write-off of receivables	-9	-116
Reversal of allowances	-1,843	-1,127
Effect of exchange rate differences	-141	-517
Balance at 31 Dec	25,098	19,546

Liquidity risk

Its stable performance, with no major fluctuations or deviations, investment financing with own assets, organic growth and a stable cash flow from operations continued to assure Krka's strong financial structure. In 2015, Krka's liquidity risk was assessed as small.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 Dec 2015

In € thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Payables to suppliers	100,039	100,039	100,039	0	0	0
Other liabilities, excluding amounts owed to the state, to employees and advances	165,646	165,646	165,646	0	0	0
Total non-derivative financial liabilities	265,685	265,685	265,685	0	0	0
Total derivative assets/liabilities	0	0	0	0	0	0
Total	265,685	265,685	265,685	0	0	0

Maturity of financial liabilities as at 31 Dec 2014

In € thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Current borrowings from banks	38,019	38,269	20,214	18,055	0	0
Payables to suppliers (excluding advances)	110,694	110,694	110,694	0	0	0
Other liabilities, excluding amounts owed to the state, to employees and advances	120,590	120,590	120,590	0	0	0
Total non-derivative financial liabilities	269,303	269,553	251,498	18,055	0	0
Total derivative assets/liabilities	0	0	0	0	0	0
Total	269,303	269,553	251,498	18,055	0	0

Currency risk

The Krka Group performs in diverse international markets and is exposed to foreign exchange risks in certain markets. Also in 2015, currency exchange rates had negative effect on the business performance of the Krka Group.

The exposure to fluctuation in the exchange rate of the Russian rouble has remained the Group's principal foreign exchange risk. Eighty percent (80%) of foreign exchange losses presented in the 2015 income statement were accrued due to unfavourable exchange rate fluctuations of the Russian rouble.

During the year, the exchange rate was volatile. In the first quarter of the year, the value of the Russian rouble expressed in euros rose by 16%. It was rising also at the beginning of the second quarter. In June, however, the rouble's value fell to the initial value recorded in the second quarter. In the third quarter, its value decreased by a further 15%, followed by the 9% slump in the last quarter. At the end of 2015, the value of the rouble expressed in euros was 10% lower than at the beginning of the year.

The primary cause for the decrease in the value of the rouble was the downturn in oil prices. Other factors impacted its value as well, among them geopolitical circumstances, economic sanctions of certain countries against the Russian Federation, and the Russian Federation's retaliation, as well as macroeconomic circumstances in the Russian market.

Unfavourable currency fluctuations in countries whose economies depend on ties with the Russian Federation or oil prices caused 10% of foreign exchange losses. In 2015, the Kazakh tenge and Ukrainian hryvnia saw the sharpest declines in the value of the currency expressed in euros. The tenge plummeted by 42%, and hryvnia by 27%. The organised financial markets provide no hedging instruments for these currencies.

Other foreign exchange differences were accrued due to the unfavourable fluctuations of other currencies, but their impact on the Krka Group's performance was low.

In 2015, we changed the foreign currency risk management policy. Changes were necessary because of the changed and volatile situation in the market of energy commodities, with a direct impact on the value of the Russian rouble and other currencies in the area. At times of increased uncertainty in foreign currency markets in the second half of the year, we occasionally mitigated the risk posed by the volatile rouble with forward contracts. We generated financial income totalling €16,449 thousand by hedging. This put in balance more than half of foreign exchange losses accrued by the Krka Group due to the slump in the rouble.

In total, the Krka Group recorded €34,956 thousand of exchange rate losses in 2015. Combined with the income from hedging instruments, the financial result of the Group stood at €-18,507 thousand.

Risk management policy yielded good results in 2015. Total financial result (exchange rate differences and hedging effect) would have been, in the event of total hedging of the Russian rouble or in the event of non-hedging of the currency risk, even less favourable. If the hedging instruments had been used throughout the entire year, the annual financial income from hedging the rouble would have almost entirely been nullified by the cost of annual insurance. If, on the other hand, no hedging instruments had been applied, the Group would have reported net exchange rate losses in the income statement with no impact of the hedging instruments.

Currency risk exposure

31 Dec 2015					
In € thousand	EUR*	PLN	HRK	RUB	RON
Loans	44,600	257	0	55	88
Trade receivables	132,478	46,774	18,628	142,082	54,584
Borrowings	0	0	0	0	0
Trade payables	-77,899	-1,630	-572	-5,583	-419
Financial position exposure (net)	99,179	45,401	18,056	136,554	54,253

* The EUR is the functional currency and is not exposed to foreign currency risk.

31 Dec 2014					
In € thousand	EUR*	PLN	HRK	RUB	RON
Loans	7,616	268	0	86	71
Trade receivables	161,121	43,091	27,188	140,023	56,713
Borrowings	-38,019	0	0	0	0
Trade payables	-84,645	-1,183	-474	-5,092	-293
Financial position exposure (net)	46,073	42,176	26,714	135,017	56,491

* The EUR is the functional currency and is not exposed to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2015	2014	2015	2014
PLN	4.18	4.18	4.26	4.27
HRK	7.61	7.63	7.64	7.66
RUB	68.09	50.93	80.67	72.34
RON	4.45	4.44	4.52	4.48

* number of local currency's units for one euro

The above-stated exchange rates were used to calculate items in the financial statements as at 31 December, and equal the reference exchange rate of the ECB effective on 31 December.

Sensitivity analysis

A 10% or 1% percent increase in the euro exchange rate in respect of currencies stated as at 31 December 2015 or 31 December 2014 would have increased or decreased profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining elements, in particular interest rates, remain unchanged. The calculation of the above-stated exchange rates volatility impact took into account the balance of receivables, liabilities and borrowings denominated in the local currencies.

In € thousand	Effect on profit or loss before tax			
	2015		2014	
Currency fluctuation	+10%	-10%	+10%	-10%
RUB	13,655	-13,655	13,502	-13,502
Currency fluctuation	+1%	-1%	+1%	-1%
PLN	454	-454	422	-422
HRK	181	-181	267	-267
RON	543	-543	565	-565

Any additional 10% change in the Russian rouble's value or any additional 1% change in the Polish zloty, the Croatian kuna or the Romanian leu in respect of the euro's value would result in an additional change in profit or loss before tax in the above-stated amounts.

Interest rate risk

In the past the Krka Group repaid all of its non-current borrowings, and no new borrowings were raised by the Group in 2015. Thus the reference interest rate changes no longer have any impact on the Group's interest rate exposure.

Exposure to interest rate risk

In € thousand	2015	2014
Financial instruments at fixed interest rate	45,075	-6,880
Financial assets	45,075	8,120
Financial liabilities	0	-15,000
Financial instruments at variable interest rate	0	-23,000
Financial assets	0	0
Financial liabilities	0	-23,000

Analysis of cash flow sensitivity by applying a variable interest rate

At 31 December 2015, the Group reports no financial assets or financial liabilities at variable interest rates, so an increase or decrease in variable interest rates would have no impact on the Group's operating results.

Capital management

Krka reduced its share capital by withdrawing of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General Meeting of shareholders on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. There is only one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

The Krka Group's capital management is aimed at ensuring a high credit rating and relevant financing indicators in order to ensure the proper development of its operations and to generate the maximum value for its shareholders.

The Krka Group follows changes in the economic environment by managing and adjusting its equity structure. Dividends are paid out on an annual basis. Up to 50% of consolidated profit of the majority owners generated in the preceding year will be appropriated to dividends in line with the applicable development strategy for the 2016-

2020 period. In setting the amount of profit to be allocated to dividends, Krka's financial needs in terms of its investments and major takeovers are also considered. The Krka Group has no specific goals as regards the ownership share held by employees or share options plans.

There were no changes in the Company's approach to capital management in 2015 or 2014.

The Krka Group monitors capital by using a gearing ratio, which is net debt divided by total net debt plus total equity. Within net debt, the Company includes interest-bearing borrowings and trade payables less cash and cash equivalents.

In € thousand	31 Dec 2015	31 Dec 2014
Borrowings	0	38,019
Trade payables and other current liabilities	284,208	279,074
Cash and cash equivalents	35,826	23,585
Net indebtedness	248,382	293,508
Equity	1,405,984	1,351,899
Equity and net indebtedness	1,654,366	1,645,407
Gearing (debt/equity) ratio	15.0 %	17.8%

Fair value

In € thousand	2015		2014	
	Carrying amount	Fair value	Carrying amount	Carrying amount
Non-current loans	7,696	7,696	6,944	6,944
Available-for-sale financial assets	7,580	7,580	7,388	7,388
Current loans	37,380	37,380	1,177	1,177
Current financial investments	11,808	11,808	575	575
– shares and interests held for trading	79	79	157	157
– derivatives	11,729	11,729	0	0
– other current investments	0	0	418	418
Trade receivables	433,133	433,133	467,841	467,841
Cash and cash equivalents	35,826	35,826	23,585	23,585
Current borrowings	0	0	-38,019	-38,019
Trade payables and other liabilities excluding amounts owed to the state, to employees and advances	-265,686	-265,686	-231,285	-231,285
Total	267,737	267,737	238,206	238,206

In terms of fair value, assets and liabilities are classified into three levels:

- level 1 – assets at market price;
- level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- level 3 – assets the value of which cannot be determined by using observable market data.

Assets at fair value

In € thousand	31 Dec 2015				31 Dec 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	6,217	0	1,363	7,580	6,025	0	1,363	7,388
Shares and interests held for trading	79	0	0	79	157	0	0	157
– derivatives	0	0	11,729	11,729	0	0	0	0
Other current investments (mutual funds and assets in management)	0	0	0	0	418	0	0	418
Total assets at fair value	6,296	0	13,092	19,388	6,600	0	1,363	7,963
Assets for which fair value is disclosed								
Non-current loans	0	0	7,696	7,696	0	0	6,944	6,944
Current loans	0	0	37,380	37,380	0	0	1,177	1,177
Trade receivables	0	0	433,133	433,133	0	0	467,841	467,841
Cash and cash equivalents	0	0	35,826	35,826	0	0	23,585	23,585
Total assets for which fair value is disclosed	0	0	514,035	514,035	0	0	499,547	499,547
Total	6,296	0	527,127	533,423	6,600	0	500,910	507,510

Liabilities at fair value

In € thousand	31 Dec 2015				31 Dec 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Total liabilities at fair value	0	0	0	0	0	0	0	0
Liabilities for which fair value is disclosed								
Current borrowings	0	0	0	0	0	0	38,019	38,019
Trade payables and other liabilities excluding amounts owed to the state, to employees and advances	0	0	265,686	265,686	0	0	231,285	231,285
Total liabilities for which fair value is disclosed	0	0	265,686	265,686	0	0	269,304	269,304
Total	0	0	265,686	265,686	0	0	269,304	269,304

The fair value of non-current loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for 2015 and 2014 was computed on the basis of the annual interest rate of 2 per cent.

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and is not decreased by any costs that may arise upon the sale or purchase of securities.

29. Related party transactions

Data on groups of persons

By the end of the year, members of the Management Board of the controlling company held 37,303 of Krka shares, i.e. 0.1138% of total equity or 0.1149% of voting rights, whereas members of the Supervisory Board of the controlling company held 1,882 shares, i.e. 0.0057% of total equity or 0.0058% of voting rights, and the managing directors of subsidiaries held 4,341 shares, i.e. 0.0132% of the total equity or 0.0134% of voting rights.

Equity stakes held by members of the Management and the Supervisory Boards of the Company and their shares of voting rights

	31 Dec 2015			31 Dec 2014		
	Number of shares	Equity share (in %)	Share of voting rights (in %)	Number of shares	Equity share (in %)	Share of voting rights (in %)
Members of the Management Board						
Jože Colarič	22,500	0.0686	0.0693	22,500	0.0686	0.0690
Aleš Rotar	13,023	0.0397	0.0401	12,770	0.0389	0.0391
Zvezdana Bajc	1,660	0.0051	0.0051	1,660	0.0051	0.0051
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
Danica Novak Malnar	0	0	0	0	0	0
Total members of the Management Board	37,303	0.1138	0.1149	37,050	0.1130	0.1136
Members of the Supervisory Board (owner representatives) whose term expired on 20 June 2015						
Jože Lenič				180	0.0005	0.0006
Matjaž Rakovec				0	0.0000	0.0000
Vincenc Manček				11,543	0.0352	0.0354
Mojca Osolnik Videmšek				452	0.0014	0.0014
Sergeja Slapničar				0	0.0000	0.0000
Members of the Supervisory Board (owner representatives) whose term began on 20 August 2015						
Matej Pirc	152	0.0005	0.0005			
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Jože Mermal	0	0.0000	0.0000			
Simona Razvornik Škofič	0	0.0000	0.0000			
Andrej Slapar	0	0.0000	0.0000			
Anja Strojín Štampar	0	0.0000	0.0000			
Members of the Supervisory Board (employee representatives)						
Tomaž Sever	500	0.0015	0.0015	500	0.0015	0.0015
Franc Šašek	1,000	0.0030	0.0031	540	0.0016	0.0017
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total members of the Supervisory Board	1,882	0.0057	0.0058	13,445	0.0410	0.0412
Total	39,185	0.1195	0.1207	50,495	0.1540	0.1548

Treasury shares were eliminated from the calculation of voting rights (326,277 treasury shares as at 31 December 2015 and 173,279 as at 31 December 2014).

Remuneration paid to groups of persons (gross)

In € thousand	2015	2014
Members of the Management Board in the controlling company	2,540	2,373
Managers of subsidiaries	2,640	2,557
Members of the Supervisory Board in the controlling company	189	209
Members of the Supervisory and Management Boards in subsidiaries	2	9
Total gross remuneration paid to groups of persons	5,371	5,148

Remuneration paid to members of the management board in the controlling company and managers of subsidiaries includes wages and salaries, fringe benefits and any other earnings.

Remuneration paid to members of the supervisory board in the controlling company represents earnings in connection with exercising the function within the Supervisory Board. Remuneration paid to members of the supervisory and management boards in subsidiaries, who simultaneously act as members of the management board in the controlling company or are employed under individual employment contracts, also include only earnings for exercising the function within the supervisory and management boards.

Gross earnings paid to employees employed under individual employment contracts in 2015 amounted to €11,603 thousand (2014: €10,965 thousand).

Remuneration paid to members of the Management Board in the controlling company in 2015

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net pay-out	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	393	151	14	433	169	826	334
Aleš Rotar	306	123	9	290	114	596	246
Zvezdana Bajc	276	111	9	263	103	539	223
Vinko Zupančič	222	91	10	207	81	429	182
Danica Novak Malnar	140	63	6	10	5	150	74
Total members of the Management Board	1,337	539	48	1,203	472	2,540	1,059

In € thousand	Net fringe benefits and other earnings					
	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	4.22	2.82	6.58	0.03	0.54	14.19
Aleš Rotar	3.38	2.82	1.44	0.92	0.55	9.11
Zvezdana Bajc	3.38	2.82	1.21	0.97	0.55	8.93
Vinko Zupančič	3.37	2.82	2.81	0.78	0.55	10.33
Danica Novak Malnar	1.47	2.82	0.06	0.91	0.64	5.90
Total members of the Management Board	15.82	14.10	12.10	3.61	2.83	48.46

Remuneration paid to members of the Management Board in the controlling company in 2014

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net pay-out	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	381	148	13	377	147	758	308
Aleš Rotar	296	120	9	259	102	555	231
Zvezdana Bajc	271	109	9	235	92	506	210
Vinko Zupančič	218	88	11	185	73	403	172
Danica Novak Malnar	141	63	6	10	5	151	74
Total members of the Management Board	1,307	528	48	1,066	419	2,373	995

	Net fringe benefits and other earnings					
	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
In € thousand						
Jože Colarič	4.21	3.05	4.89	0.03	0.54	12.72
Aleš Rotar	3.37	3.05	0.82	0.91	0.54	8.69
Zvezdana Bajc	3.37	3.05	1.72	0.99	0.55	9.68
Vinko Zupančič	3.38	3.05	3.31	0.76	0.55	11.05
Danica Novak Malnar	1.47	3.05	0.02	1.01	0.64	6.19
Total members of the Management Board	15.80	15.25	10.76	3.70	2.82	48.33

The item of other bonuses includes the use of a company car for private purposes as well as other similar bonuses. The refund of work-related costs consists of commuting and meal allowances. Members of the Management Board do not receive attendance fees or any other income for exercising their functions in the Management and Supervisory boards in subsidiaries.

Remuneration paid to members of the Supervisory Board in the controlling company in 2015

In € thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives) whose term expired on 20 June 2015								
Jože Lenič	10.98	7.99	3.30	2.40	0.00	0.00	14.28	10.39
Vincenc Manček	9.15	6.65	1.76	1.28	0.00	0.00	10.91	7.93
Mojca Osolnik Videmšek	10.06	7.32	2.20	1.60	0.28	0.20	12.54	9.12
Matjaž Rakovec	9.88	7.19	2.20	1.60	0.37	0.27	12.45	9.05
Sergeja Slapničar	9.15	6.65	2.20	1.60	0.40	0.29	11.75	8.55
Members of the Supervisory Board (owner representatives) whose term began on 20 August 2015								
Matej Pirc	8.50	6.18	1.27	0.92	0.09	0.07	9.86	7.17
Julijana Kristl*	15.46	11.25	3.03	2.20	0.55	0.40	19.04	13.84
Jože Mermal	7.65	5.56	1.49	1.08	0.09	0.07	9.23	6.71
Simona Razvornik Škofič	7.79	5.67	1.49	1.08	0.18	0.13	9.46	6.88
Andrej Slapar	7.79	5.67	1.49	1.08	0.00	0.00	9.28	6.75
Anja Strojin Štampar	7.08	5.15	1.49	1.08	0.00	0.00	8.57	6.23
Members of the Supervisory Board (employee representatives)								
Franc Šašek	17.53	12.75	3.69	2.68	0.00	0.00	21.22	15.43
Tomaž Sever	16.23	11.81	3.69	2.68	0.55	0.40	20.47	14.89
Mateja Vrečer	17.15	12.47	3.25	2.36	0.00	0.00	20.39	14.83
Total remuneration paid to members of the Supervisory Board	154.41	112.30	32.51	23.64	2.51	1.82	189.42	137.77

* Julijana Kristl also served as an owners' representative on the Supervisory Board; her term expired on 20 June 2015.

In accordance with a resolution passed at the 16th Annual General Meeting held on 7 July 2011, members of the controlling company's supervisory board are entitled to an attendance fee, which for each individual member of the controlling company's supervisory board amounts to €275.00 gross. Members of the supervisory board committee receive an attendance fee for their participation in sessions, which for each individual commission member amounts to 80% of the attendance fee for supervisory board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the number of attendances, each member of the supervisory board is entitled in every financial year to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the supervisory board or sessions of the supervisory board commissions – reaches 50% of the basic pay for exercising the function for each supervisory board member, taking into account actual pay-outs on an annual level.

In addition to attendance fees, members of the Company's supervisory board annually receive basic pay for exercising the function in the amount of €15,500 gross each. The president of the supervisory board is also entitled to an additional fee in the amount of 50% of the basic pay for exercising the function of member of the

supervisory board, whereas deputy president of the supervisory board is entitled to an additional fee of 10% of the basic pay for exercising the function of a member of the supervisory board. Members of the supervisory board committee receive an additional fee for exercising the function in the amount of 25% of the basic pay for exercising the function of a member of the supervisory board. President of the committee is also entitled to a bonus corresponding to 50% of the additional fee for exercising the function of a member the supervisory board committee.

Members of the Company's supervisory board and members of the supervisory board committee receive a basic pay and an additional fee for exercising the function, in proportionate monthly payments to which they are entitled during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the Supervisory Board committee in every financial year is entitled – notwithstanding the above-mentioned or the number of commissions of which he/she is a member or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each supervisory board member taking into account actual pay-outs on an annual level.

Loans to groups of persons

In € thousand	Balance		Repayments	
	31 Dec 2015	31 Dec 2014	2015	2014
Members of the Management Board in the controlling company	1	2	1	1
Managers of subsidiaries	0	0	0	0
Members of the supervisory board in the controlling company	0	0	0	0
Members of the Supervisory and Management Boards in subsidiaries	0	0	0	0
Total loans to groups of persons	1	2	1	1

Loans granted to staff employed under individual employment contracts were recorded as at 31 December 2015 at €72 thousand (€84 thousand as at 31 December 2014). Repayments of loans by staff employed under individual employment contracts in 2015 reached €12 thousand (2014: €24 thousand).

30. Profile of the Group

Transactions between Group companies and groups of persons were implemented on the basis of sale and purchase contracts, whereby intercompany transactions were based on the market prices of products and services.

	Share in equity	Share capital value at 31 Dec 2015	Currency	Headcount at 31 Dec 2015	Headcount at 31 Dec 2014
The controlling entity					
KRKA, d. d., Novo mesto	100%	54,732,265	EUR	4798	4738
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753,239	EUR	578	585
Farma GRS, d. o. o., Novo mesto, Slovenia	99.7%	1,003,000	EUR	37	46
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	175	176
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	205	208
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	57	63
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD	36	34
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	19,550	BGN	63	58
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	1
OOO KRKA-RUS, Istra, Russian Federation	100%	3,961,374,765	RUB	320	283
OOO KRKA FARMA, Istra, Russian Federation	100%	753,874,800	RUB	1924	1945
TOV KRKA UKRAINA, Kiev, Ukraine	100%	100,000	UAH	353	380
TOO KRKA Kazakhstan, Almaty, Kazakhstan	100%	2,000,000	KZT	109	119
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	881	846
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	229	252
KRKA Magyarország Kft, Budapest, Hungary	100%	44,880,000	HUF	181	164
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	121	118
UAB KRKA Lietuva, Vilnius, Lithuania	100%	9,847	EUR	73	76
SIA KRKA Latvia, Riga, Latvia	100%	9,954	EUR	39	37
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	190	188
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	4	5
KRKA Pharma GmbH, Vienna, Austria	100%	36,500	EUR	24	24
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	24	24
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10,000	EUR	39	39
KRKA FARMACEUTICI MILANO, S.R.L., Milan, Italy	100%	10,000	EUR	49	33
Krka France Eurl, Paris, France	100%	10,000	EUR	23	36
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	7	7
KRKA Belgium, SA, Brussels, Belgium	95%	200,000	EUR	8	6
KRKA Finland Oy, Espoo, Finland	100%	2,500	EUR	11	7
KRKA UK Ltd, London, Great Britain	100%	1,000	GBP	5	1
KRKA USA, LLC, Wilmington, USA	100%	10,000	USD	0	0

The subsidiary Terme Krka held a 63.1 per cent interest in Golf Grad Otočec, d. o. o. at 31 December 2015; Farma GRS held 100% per cent interest in its subsidiaries GRS TEHFARMA, d. o. o., GRS VIZFARMA, d. o. o.,

GRS PREK FARMA, d. o. o, GRS EKO FARMA, d. o. o, GRS TREN FARMA d. o. o and GRS VRED FARMA d. o. o.; and the subsidiary Krka France Eurl held a 5 per cent interest in subsidiary KRKA Belgium, SA.

31. Educational structure of employees

	2015		2014	
	Average headcount	Share (in %)	Average headcount	Share (in %)
PhD	137	1.3	118	1.2
MSc	340	3.2	331	3.2
University education	5312	50.4	5126	49.9
Higher professional education	1327	12.6	1236	12.0
Vocational college education	279	2.7	271	2.6
Secondary school education	1878	17.8	1894	18.4
Skilled workers	944	9.0	1184	11.5
Unskilled workers	315	3.0	124	1.2
Total (average for the period)	10,532	100.0	10,284	100.0

32. Transactions with audit companies

The annual fee for auditing the Krka Group's financial statements in 2015 amounted to €477 thousand (2014: €471 thousand). In addition, the auditing companies provided various consultation services to the Group in 2015 charging a fee of €55 thousand.

33. Subsequent events

Below is a presentation of events that have taken place since the end of 2015 and up to 31 March 2016.

- Since 1 January 2016, the company Krka, d. d., Novo mesto has had a new management board with a term of office until 31 December 2021. In addition to the President of the Management Board and CEO Jože Colarič and Worker Director Milena Kastelic, Dr. Aleš Rotar, Dr. Vinko Zupančič and David Bratož are also members of the Management Board.
- From the beginning of 2016 to 4 February 2016 (followed by the closed period until the annual report is published), we acquired 29,900 treasury shares worth €1,838,131. The balance of treasury shares totals 356,177 (i.e. 1.086% of total shares).
- On 25 February 2016 Krka informed the public that Krka's subsidiary Krka Sverige AB in Stockholm (hereinafter Krka Sverige) received the decision of the Maritime and Commercial Court in Copenhagen in the alleged patent infringement case of patent EP 1 020 461 in Denmark brought against Krka Sverige by the companies AstraZeneca in Sweden and AstraZeneca in Denmark (hereinafter AstraZeneca).

Patent EP 1 020 461 protects the active ingredient esomeprazole with high optical purity, which is the reason the medication containing this active ingredient is supposed to have better pharmacological effects. The active ingredient esomeprazole as such is not protected by patent. The medicine marketed by Krka Sverige in Denmark does not contain the active ingredient esomeprazole with high optical purity. Regardless of this fact, the Maritime and Commercial Court in Copenhagen decided that by selling its product in Denmark Krka Sverige allegedly infringed the patent of AstraZeneca because crystals of high

optical purity esomeprazole appeared at some stage in the reaction mixture during the production process of the active ingredient esomeprazole by Krka.

Therefore, the Maritime and Commercial Court in Copenhagen found that this infringement by Krka Sverige had caused damages to AstraZeneca in Denmark in the amount of DKK 50 million (€6.7 million). The first instance decision by the Maritime and Commercial Court is not final, so Krka Sverige will not pay any compensation until the decision becomes final. Krka Sverige will appeal the decision, as it is of opinion that the Court's decision contradicts the patent interpretation of the European Patent Office and contradicts established legal practice in the European Union when deciding on such patents (known as Swiss type claims).

Krka published statements on the dispute regarding esomeprazole in Denmark on 15 January 2010 and 11 April 2013.

Independent Auditor's Report



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Krka, d.d., Novo mesto

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Krka Group, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion


In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Krka Group, as of December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited consolidated financial statements.

Ljubljana, March 11, 2016


Sanja Košir Nikašinić
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1


Lidija Sinkovec
Certified auditor

FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO

Statement of financial position

In € thousand	Notes	31 Dec 2015	31 Dec 2014
Assets			
Property, plant and equipment	12	610,067	623,622
Intangible assets	13	31,557	33,120
Investments in subsidiaries	14	302,114	299,119
Non-current receivables due from subsidiaries		10,704	14,091
Loans	15	26,300	27,588
Investments	16	7,578	7,386
Deferred tax assets	17	11,567	10,833
Other non-current assets		88	91
Total non-current assets		999,975	1,015,850
Assets held for sale		41	41
Inventories	18	230,568	201,081
Trade receivables	19	402,189	460,652
Other receivables	19	16,602	34,333
Loans	15	75,907	47,752
Investments	16	11,808	575
Cash and cash equivalents	20	24,622	8,203
Total current assets		761,737	752,637
Total assets		1,761,712	1,768,487
Equity			
Share capital	21	54,732	54,732
Treasury shares	21	-20,071	-10,677
Reserves	21	159,965	154,133
Retained earnings	21	1,238,585	1,183,125
Total equity		1,433,211	1,381,313
Liabilities			
Borrowings	23	0	2,000
Provisions	24	73,585	86,628
Deferred revenue	25	3,168	3,834
Total non-current liabilities		76,753	92,462
Trade payables	26	132,065	139,960
Borrowings	23	66,244	102,020
Income tax payable		7,509	0
Other current liabilities	27	45,930	52,732
Total current liabilities		251,748	294,712
Total liabilities		328,501	387,174
Total equity and liabilities		1,761,712	1,768,487

The accompanying notes are an integral part of the financial statements and should be read in conjunction with them.

Income statement

In € thousand	Notes	2015	2014
Revenues	5	1,086,526	1,134,169
Costs of goods sold	7	-485,810	-462,674
Gross profit		600,716	671,495
Other operating income	6	23,409	64,605
Selling and distribution expenses	7	-276,802	-308,425
R&D expenses	7	-120,840	-112,646
General and administrative expenses	7	-60,321	-57,862
Operating profit		166,162	257,167
Financial income	10	36,735	9,178
Financial expenses	10	-43,524	-112,313
Net financial result		-6,789	-103,135
Profit before tax		159,373	154,032
Income tax	11	-13,111	-9,647
Net profit		146,262	144,385
Basic earnings per share (in €)	22	4.49	4.41
Diluted earnings per share (in €)	22	4.49	4.41

The accompanying notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of other comprehensive income

In € thousand	Notes	2015	2014
Net profit		146,262	144,385
Other comprehensive income for the year			
Other comprehensive income reclassified to profit or loss in future periods			
Change in fair value of available-for-sale financial assets	21	192	2,368
Deferred tax effect	21	-33	-402
Net other comprehensive income reclassified to profit or loss in future periods		159	1,966
Other comprehensive income that will not be reclassified to profit or loss in future periods			
Restatement of post-employment benefits	24	-4,067	-15,997
Deferred tax effect	24	346	2,719
Net other comprehensive income that will not be reclassified to profit or loss at a future date		-3,721	-13,278
Total other comprehensive income for the year (net of tax)		-3,562	-11,312
Total comprehensive income for the year (net of tax)		142,700	133,073

The accompanying notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of changes in equity

In € thousand	Reserves							Retained earnings			Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	
Balance at 1 Jan 2015	54,732	-10,677	10,677	105,897	14,990	30,000	-7,431	1,001,636	55,244	126,245	1,381,313
Net profit	0	0	0	0	0	0	0	0	0	146,262	146,262
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	-3,562	0	0	0	-3,562
Total comprehensive income for the year (net of tax)	0	0	0	0	0	0	-3,562	0	0	146,262	142,700
Transactions with owners, recognised directly in equity											
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	50,041	-50,041	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	126,245	-126,245	0
Repurchase of treasury shares	0	-9,394	0	0	0	0	0	0	0	0	-9,394
Formation of reserves for treasury shares	0	0	9,394	0	0	0	0	0	0	-9,394	0
Dividends paid	0	0	0	0	0	0	0	0	-81,408	0	-81,408
Total transactions with owners, recognised directly in equity	0	-9,394	9,394	0	0	0	0	50,041	-5,204	-135,639	-90,802
Balance at 31 Dec 2015	54,732	-20,071	20,071	105,897	14,990	30,000	-10,993	1,051,677	50,040	136,868	1,433,211

The accompanying notes are an integral part of the financial statements and should be read in conjunction with them.

In € thousand	Reserves							Retained earnings			Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	
Balance at 1 Jan 2014	59,126	-69,372	69,372	101,503	14,990	30,000	3,881	943,393	62,396	116,957	1,332,246
Net profit	0	0	0	0	0	0	0	0	0	144,385	144,385
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	-11,312	0	0	0	-11,312
Total comprehensive income for the year (net of tax)	0	0	0	0	0	0	-11,312	0	0	144,385	133,073
Total transactions with owners, recognised directly in equity											
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	58,243	-55,243	-3,000	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	116,957	-116,957	0
Repurchase of treasury shares	0	-15,140	0	0	0	0	0	0	0	0	-15,140
Formation of reserves for treasury shares	0	0	15,140	0	0	0	0	0	0	-15,140	0
Withdrawal of treasury shares – share capital decrease	-4,394	0	0	4,394	0	0	0	0	0	0	0
Withdrawal of treasury shares by debiting other reserves and release of reserves for treasury shares	0	73,835	-73,835	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	-68,866	0	-68,866
Total transactions with owners recognised directly in equity	-4,394	58,695	-58,695	4,394	0	0	0	58,243	-7,152	-135,097	-84,006
Balance at 31 Dec 2014	54,732	-10,677	10,677	105,897	14,990	30,000	-7,431	1,001,636	55,244	126,245	1,381,313

The accompanying notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of cash flows

In € thousand	Notes	2015	2014
OPERATING ACTIVITIES			
Net profit		146,262	144,385
Adjustments for:		73,981	97,456
– amortisation/depreciation	12, 13	82,836	72,050
– foreign exchange differences		2,964	11,821
– investment income		-36,887	-9,519
– investment expenses		8,733	9,751
– interest expenses and other financial expenses		3,224	3,706
– income tax	11	13,111	9,647
Operating profit before changes in net operating current assets		220,243	241,841
Change in trade receivables		60,785	-35,928
Change in inventories		-29,487	-10,113
Change in trade payables		3,106	7,257
Change in provisions		-18,789	-26,150
Change in deferred revenues		-666	1,520
Change in other current liabilities		-6,744	3,305
Income taxes paid		11,488	-25,329
Net cash flows from operating activities		239,936	156,403
INVESTING ACTIVITIES			
Interest received		1,755	3,237
Proceeds from sale of current investments		24	3
Dividends received		1,288	22
Proportionate profit of subsidiaries		10,399	5,993
Proceeds from sale of property, plant and equipment		1,627	509
Acquisition of intangible assets	13	-5,252	-10,927
Purchase of property, plant and equipment	12	-75,393	-139,764
Acquisition of subsidiaries and a share of minority interest without obtained assets		-3,537	-19,973
Refund of subsequent payments in subsidiaries		285	185
Non-current loans		-9,449	-10,015
Proceeds from repayment of non-current loans		9,320	3,014
Payments to acquire non-current investments		-29	-79
Proceeds from sale of non-current investments		35	101
Payments/Proceeds in connection with current investments and loans		-28,469	25,631
Payments in connection with derivative financial instruments		-6,919	0
Proceeds from derivative financial instruments		11,638	0
Net cash flows used in investing activities		-92,677	-142,063
FINANCING ACTIVITIES			
Interest paid		-1,367	-1,360
Repayment of non-current borrowings		-1,500	0
Payments/Proceeds in connection with current borrowings		-36,455	31,801
Dividends and other profit shares paid	21	-81,208	-68,718
Repurchase of treasury shares	21	-9,394	-15,140
Net cash flows used in financing activities		-129,924	-53,417
Net increase/decrease in cash and cash equivalents		17,335	-39,077
Cash and cash equivalents at the beginning of the year		8,203	49,417
Effect of exchange rate fluctuations on cash held		-916	-2,137
Net cash and cash equivalents at the end of the year		24,622	8,203

The accompanying notes are an integral part of the financial statements and should be read in conjunction with them.

Notes to the financial statements

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia.

The Company is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals and non-prescription products) and animal health products.

1. Basis of preparation

Declaration of conformity

The financial statements of Krka have been prepared in accordance with International Financial Reporting Standards (*IFRS*) promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (*IFRIC*), as adopted by the European Union, and in compliance with the *Companies Act (ZGD)*.

At the date of the statement of financial position, due to the endorsement process of the EU, there is no difference in the policies applied by the Company between *IFRS* and *IFRS* adopted by the EU.

The financial statements were approved by Krka's Management Board on 11 March 2016.

Basis of measurement

The financial statements have been prepared on a historical cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available for sale, where the fair value has been taken into account. The methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The financial statements are presented in the euro, which is Krka's functional currency. All financial information presented in the euro has been rounded to the nearest thousand.

The use of estimates and judgements

Management estimates include, among other items: the determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; allowances made for inventories and receivables; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of potential provisions for lawsuits, as well as assumptions and estimates relating to impairment of goodwill. Regardless of the fact that management duly considers all the factors that may affect the preparation of these assumptions, the actual consequences of business events may differ from the estimates. In the process of making accounting estimates, management makes judgements while considering potential changes in the business environment, new business events, new and additional information that may be available, as well as experience.

Key estimates and assumptions as at the day of the statement of the financial position that are associated with future operations and which could result in a significant adjustment of the book values of assets and liabilities are presented below.

Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is presented in the following notes:

- Note 14 'Impairment testing of investments in subsidiaries'

The controlling company checks whether there are any indicators of the impairment of investments in subsidiaries at least once a year. The fair value of investments that may be impaired determined as the present value of future cash flows is based on an estimate of expected cash flows from the cash-generating unit and on a determination of the appropriate discount rate. The Company has found no need to impair investments in subsidiaries as at 31 December 2015.

- Note 24 'Post-employment benefits'

Defined post-employment benefit obligations include the present value of termination benefits on retirement. They are recognised on the basis of the actuarial calculation approved by the Company's Management Board. The actuarial calculation is made by using assumptions and estimates effective at the time of the calculation, and as a result of future changes, may differ from actual assumptions applicable at that future time. This applies primarily to determining the discount rate, the assessment of employee turnover and mortality assessment, as well as the assessment of the increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

- Note 24 'Provisions for lawsuits and contingent liabilities'

A number of lawsuits and claims have been filed against Krka for alleged infringement of patents rights and competition law. A provision is recognised when the Company has present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements, as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. The management of the Company continually assess contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. In this case, a provision is recognised in the financial statements of the period in which the change in probability occurs. Krka reversed €20,000 thousand of provisions in 2015.

- Note 27 'Other current liabilities'

Krka accrues contractually agreed discounts in its financial statements when, based on annual sales, individual customers acquire the right to discount recognition in the next financial year, i.e. when the contractually agreed terms and conditions of discounts are fulfilled. The assessed rate of discount depends on the facts known at the time of the financial statement's preparation, past experience in trading with individual customers, and other relevant facts.

2. Significant accounting policies

The Company applies the same accounting policies in all periods, presented in the accompanying financial statements.

The accounting policies and calculation methods used are consistent with those applied in the previous year, which are noted below and which were applied if relevant events occurred in the Company in the reporting period.

New standards and interpretations effective from 1 January 2015

Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 January 2014.

The amendments to the standard had no significant impact on the financial statements of Krka.

Annual improvements 2010–2012 Cycle

Amendments to IFRS 2 Share-Based Payments

The amendment is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.

The amendments to the standard had no significant impact on the financial statements of Krka.

Amendments to IFRS 3 Business Combinations

The amendments are applied prospectively and clarify that all contingent consideration arrangements classified as liabilities or assets arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39 *Financial Instruments*.

The amendments to the standard had no significant impact on the financial statements of Krka.

Amendments to IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- an entity must disclose the judgements made by the management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g. sales and gross margins) used to assess whether the segments are similar and
- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosures for segment liabilities.

The amendments to the standard had no significant impact on the reporting of Krka.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

The amendments to the standard had no significant impact on the financial statements of Krka since its assets are not revalued under the revaluation model.

Amendments to IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. In

addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

The amendments to the standard had no significant impact on the reporting of Krka.

Annual improvements 2011–2013 Cycle

Amendments to IFRS 3 Business Combinations

The amendments are applied prospectively and clarify that:

- joint arrangements, not just joint ventures, are outside the scope of *IFRS 3*; and
- this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The amendments to the standard had no significant impact on the reporting of Krka.

Amendments to IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in *IFRS 13* can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of *IAS 39 Financial Instruments*.

The amendments to the standard had no significant impact on the reporting of Krka.

Amendments to IAS 40 Investment Properties

The description of ancillary services in *IAS 40* differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that *IFRS 3*, and not the description of ancillary services in *IAS 40*, is used to determine if the transaction is the purchase of an asset or a business combination.

The amendments to the standard had no significant impact on the reporting of Krka.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are converted into euros (the functional currency of the Company) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated into euros at the exchange rate applicable at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are re-translated into euros at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised directly in other comprehensive income. Non-cash items measured at historical cost in foreign currency are translated into the functional currency by applying the exchange rate valid at the date of transaction.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. With instruments not recognised at fair value through profit or loss, fair value is increased by any directly attributable transaction costs associated with

the instrument's purchase or issue. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of the financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents comprise cash balances and sight 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.

The accounting of financial income and expenses is discussed in the chapter 'Financial income and expenses'.

Available-for-sale financial assets

Krka's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in profit or loss.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value and in accordance with the investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables and loans

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries

Non-current investments made in the equity of subsidiaries included in consolidated financial statements are valued at cost. Participation in the profit of a subsidiary is recognised in the profit or loss of the controlling company when an appropriate resolution referring to profit distribution has been passed. If the investment has to be impaired due to a subsidiary's loss, the amount of loss due to impairment is measured as the difference between the carrying amount of the investment and the present value of expected future cash flows.

Share capital

Repurchase of treasury shares

When treasury shares recognised as a part of share equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends

Dividends are recognised in the Company's financial statements in the period in which they are declared by the Annual General Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses (see accounting policy 'Impairment'). The cost of an item of property, plant and equipment as at 1 January 2004, the date of transition to *IFRS*, is determined by reference to its fair value at that date.

Costs include expenditures that are directly attributable to the acquisition of the asset. The costs of self-constructed assets include costs of materials and direct labour, any other directly attributable costs of making the asset ready for its intended use, and (if applicable) the costs of dismantling and removing the items and restoring the site on which they are located, as well as capitalised borrowing costs in line with the adopted strategy. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on the disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of property, plant and equipment and are recognised within other income or other expenses in profit or loss.

As from 1 January 2009, the costs of borrowings that may be directly attributable to the acquisition, construction or production of an asset under construction, are also part of the cost of an item of property, plant and equipment of the Company. If borrowings raised by the Company are earmarked and cannot be attributed directly to the acquisition of an asset under construction, the pro-rata amount of costs is capitalised only when borrowings exceed 10% of the value of all investments of the accounting period. The pro-rata amount of costs is calculated using the capitalisation rate as the weighted average costs of borrowings that have not been settled in the accounting period. The pro-rata amount of costs increases the cost of significant assets under construction; i.e. assets that account for more than 10% of total investments in the period and the construction of which extends over a period of more than 6 months.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expenses when incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

The estimated useful lives are as follows:

- for buildings, 15 to 60 years,
- for plant and equipment, 2 to 20 years,
- for furniture, 5 years,
- for computer equipment, 4 to 6 years, and
- for means of transportation, 5 to 15 years.

Intangible assets

Research and development

All costs referring to research and development work within the Company are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost, less accumulated amortisation and accumulated impairment losses (see accounting policy 'Impairment').

Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are made available for use.

The estimated useful lives for software, licences and other rights are 2 to 10 years.

Inventories

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 at the reporting date less sales expenses and other possible administrative expenses, which are usually connected with the sale.

An inventory unit of raw materials and materials, as well as supporting and packaging materials, is valued at cost, including all direct cost of purchase. Inventories of material are carried at moving average prices. Inventories of finished products and work in progress are carried at standard cost, which in addition to the direct cost of material includes the costs of production, such as direct labour cost, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Fixed price variations are determined in accordance with the current valuation of inventories by using production costs. An inventory unit of merchandise is valued at cost, including the cost of purchase, import duties and all costs directly attributable to the acquisition, reduced by discounts. Inventories of merchandise are carried at moving average prices.

Impairments

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss.

For available-for-sale financial assets that are equity securities, the reversal is recognised directly in comprehensive income.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to assets in the unit (group of units) on a pro rata basis of the asset's carrying amount.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value, less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the assets' recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Current employee benefits

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Non-current employee benefits

Provisions for post-employment benefits and other non-current employee benefits

Pursuant to the local legislation, the Company is liable to pay to its employees anniversary bonuses and termination benefits upon retirement, so Krka sets aside the relevant amount of provisions. The Company has no other pension obligations.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is performed by use of the projected unit credit method. Employee benefit costs, as well as cost of interest are recognised in profit or loss, whereas the restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in other comprehensive income.

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. Provisions are determined by discounting estimated future cash flows to their present value by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for lawsuits

The Company discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount if the indemnification claim has not yet been disclosed.

Revenues from sale of goods and services rendered

Revenues from the sale of goods are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenues from services rendered are recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

Transfers of risks and rewards vary, depending on the individual terms of the contract of sale, but transfer usually occurs when the product has left the Company's warehouse.

No revenues are recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods, and also continuing managerial involvement with the goods. Revenues from the sale of goods and services rendered are measured at the sales prices stated in invoices or other documents, reduced by rebates approved when the sale is made, including those granted for early payment.

Government assistance

Revenue referring to government grants are initially recognised when there is a reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grants. Deferred revenue that compensate the Company for expenses incurred are recognised on a systematic basis in the same periods in which the revenue is recognised. Revenues that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss by using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expenses on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss by using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates in force at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised by using the financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax is based on the expected method of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

Krka presents basic and diluted earnings per share (EPS) data. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Company belong to the same class of ordinary registered shares.

Segment reporting

An operating segment is a distinguishable component of the Company that is engaged in providing products or services within a particular geographically defined economic environment. Segments differ in terms of risks and returns. The Company's segment reporting is based on Krka's internal reporting system applied by the management in the decision-making process.

Inter-segment pricing is determined on an arm's-length basis.

The segments include the European Union (all countries of the European Union), South-East Europe (Serbia, Bosnia and Herzegovina, Macedonia, Montenegro, Kosovo, Albania) and East Europe (Russian Federation and other former Soviet Union countries excluding the Baltic countries).

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

Amendments to standards and interpretations

Standards and interpretations not yet adopted

The following new and amended standards had not come into effect by the financial statements' date and will be applied in future. Krka will apply the new and revised standards and interpretations when they are adopted.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of *IFRS 9 Financial Instruments*, bringing together the requirements of all individual phases of the IASB's project to replace *IAS 39 Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard is applied for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The amendments are to be applied retrospectively, however presentation of comparative data is not obligatory. Early adoption of the previous versions of *IFRS 9*, published in 2009, 2010 and 2013 is permitted providing, the entity has made a transfer to *IFRS* at any time before 1 February 2015. The standard has not yet been endorsed by the EU.

Krka estimates that the amendment will not have a significant impact on the financial statements.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard and permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt *IFRS*. Entities that adopt *IFRS 14* must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. *IFRS 14* is applied for annual periods beginning on or after 1 January 2016. The standard has not yet been endorsed by the EU.

Krka estimates that the amendment will not have a significant impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014 the IASB issued *IFRS 15* which establishes a five-step model that will apply to revenue earned from a contract with a customer. Under *IFRS 15* revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognising revenue. The new standard is applicable to all entities and will supersede all current revenue recognition requirements under *IFRS*. Full application of the new standard is applied for annual periods beginning on or after 1 January 2017, whereas a modified application must be used retrospectively. Early adoption is permitted. The standard has not yet been endorsed by the EU.

Krka is currently assessing the impact of *IFRS 15* and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisition of Interests

The amendments to *IFRS 11* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant *IFRS 3* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to *IFRS 11* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The standard has not yet been endorsed by the EU.

Krka estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in *IAS 16* and *IAS 38* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that

are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The standard has not yet been endorsed by the EU.

Krka estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of

The amendments to IAS 16 also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The standard has not yet been endorsed by the EU.

Krka estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments of IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Krka estimates that the amendment will not have a significant impact on the financial statements.

Annual improvements 2012–2014 Cycle

The IASB has issued the *Annual Improvements to IFRSs 2012–2014 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Changes in Methods of Disposal

The amendments clarify that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the

original plan. There is therefore no interruption of the application of the requirements in *IFRS 5*. The amendment applies for annual periods beginning on or after 1 January 2016.

The amendments introduce specific guidance in *IFRS 5* for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments:

- state that: such reclassifications should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied; and
- assets that no longer meet the criteria for held for distribution to owners (and do not meet the criteria for held for sale) should be treated in the same way as assets that cease to be classified as held for sale.

Krka estimates that the amendment will not have a significant impact on the financial statements.

IFRS 7 Financial Instruments: Disclosures relating to the Service Contracts and Application of Amendments in Separate Financial Statements with Consequential Impact on Amendments to IFRS 1

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the *IFRS 7* disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. Paragraph 42C(c) of *IFRS 7* states that a pass through arrangement under a servicing contract does not, in itself, constitute a continuing involvement for the purposes of the transfer disclosure requirements.

Applicability of the amendments to IFRS 7 Offsetting disclosure to condensed interim financial statements

Amendments to *IFRS 7* were made to remove uncertainty as to whether the disclosure requirements on offsetting financial assets and financial liabilities should be included in condensed interim financial statements.

Amendments to *IFRS 7* were made to remove uncertainty as to whether the disclosure requirements on offsetting financial assets and financial liabilities (introduced in December 2011 and effective for periods beginning on or after 1 January 2013) should be included in condensed interim financial statements, and if so, whether in all Interim financial statements after 1 January 2013 or only in the first year.

The amendments apply prospectively in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*.

Krka estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IAS 19 Employee Benefits: (Discount Rate: Regional Market Issue)

These amendments clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period. The amendments apply for annual periods beginning on or after 1 January 2016.

Krka estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IAS 34 Interim Financial Reporting: Disclosure of information elsewhere in the interim financial report"

The amendments clarify the requirements relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

The amendments apply retrospectively in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*.

Krka estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IAS 1: Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Krka estimates that the amendment will not have a significant impact on the financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Krka estimates that the amendment will not have a significant impact on the financial statements.

3. Determination of fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods presented below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price.

Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated on the basis of the present value of future principal and interest cash flows discounted at the market rate of interest at the reporting date.

4. Segment reporting

The Company reports in terms of certain geographical segments. Revenues generated by individual segments are presented in terms of customers' geographical location.

Segment reporting

	European Union		South-East Europe		East Europe		Other		Total	
In € thousand	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenues	680,820	673,432	51,484	52,233	318,742	379,308	35,480	29,196	1,086,526	1,134,169
Other operating income	22,364	63,715	15	64	1,030	826	0	0	23,409	64,605
Operating expenses	-591,902	-564,353	-42,610	-39,641	-283,906	-317,169	-25,355	-20,444	-943,773	-941,607
Operating profit	111,282	172,794	8,889	12,656	35,866	62,965	10,125	8,752	166,162	257,167
Interest income	1,005	2,009	0	0	651	1,058	0	0	1,656	3,067
Interest expenses	-1,372	-1,217	0	0	0	0	0	0	-1,372	-1,217
Net financial result	9,214	-4,817	282	-65	-15,306	-97,975	-979	-278	-6,789	-103,135
Income tax	-8,781	-6,482	-701	-475	-2,830	-2,362	-799	-328	-13,111	-9,647
Net profit	111,715	161,495	8,470	12,116	17,730	-37,372	8,347	8,146	146,262	144,385
Investments	69,592	137,473	0	0	0	0	0	0	69,592	137,473
Depreciation	56,913	48,938	1,689	1,489	18,338	15,306	282	266	77,222	65,999
Amortisation	3,518	3,592	266	279	1,647	2,023	183	156	5,614	6,050
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Total assets	1,294,913	1,306,443	39,325	40,679	420,117	413,517	7,357	7,848	1,761,712	1,768,487
Total liabilities	242,426	278,238	7,457	9,377	57,013	73,876	21,605	25,683	328,501	387,174

5. Revenues

In € thousand	2015	2014
Revenues from the sale of products	979,153	1,009,354
Revenues from the sale of services	5,372	3,758
Revenues from the sale of material and merchandise	102,001	121,057
Total revenues	1,086,526	1,134,169

6. Other operating income

In € thousand	2015	2014
Reversal of non-current provisions	20,000	38,930
Deferred revenues reversal	919	1,336
Gain on sale of property, plant and equipment and intangible assets	152	342
Collected written-off receivables	470	1,036
Other income	1,868	22,961
Total other operating income	23,409	64,605

Detailed information of non-current provisions reversal is included in Note 24.

7. Costs by nature

In € thousand	2015	2014
Costs of goods and material	335,882	308,976
Costs of services	313,056	313,442
Employee benefit costs	199,029	202,869
Amortisation and depreciation	82,836	72,050
Inventory write-offs and allowances	7,723	4,843
Receivables impairment and write-offs	3,517	1,110
Formation of provisions for lawsuits	0	20,000
Other operating expenses	23,214	22,078
Total costs	965,257	945,368
Change in the value of inventories of products and work in progress	-21,484	-3,761
Total	943,773	941,607

8. Employee benefit costs

In € thousand	2015	2014
Gross wages and salaries and continued pay	154,572	157,199
Social security contributions	11,648	11,647
Pension insurance contributions	20,158	20,221
Post-employment benefits and other non-current employee benefits	4,307	5,258
Other employee benefit costs	8,344	8,544
Total employee benefit costs	199,029	202,869

Post-employment benefits and other non-current employee benefits are explained in detail in Note 24. Other employee benefit costs primarily include vacation bonuses and commuting allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2015 amounted to €37,463 thousand (2014: €37,614 thousand). Additional pension insurance amounted to €6,073 thousand (2014: €6,138 thousand).

9. Other operating expenses

In € thousand	2015	2014
Grants and assistance for humanitarian and other purposes	1,443	1,666
Environmental protection expenses	2,156	1,927
Other taxes and levies	15,821	13,175
Loss on sale of property, plant and equipment and intangible assets	1,736	755
Other expenses	2,058	4,555
Total other operating expenses	23,214	22,078

10. Financial income and expense

In € thousand	2015	2014
Interest income	1,656	3,067
Change in fair value of investments through profit or loss	0	93
Derivatives income	23,368	0
– income	11,638	0
– change in fair value	11,730	0
Income from dividends and other profit shares	11,687	6,015
– dividends	1,288	22
– profits of Group companies	10,399	5,993
Other financial income	24	3
Total financial income	36,735	9,178
Net foreign exchange differences	-33,303	-99,611
Interest expenses	-1,372	-1,217
Change in fair value of investments through profit or loss	-78	-8,996
Derivatives expenses	-6,919	0
– expenses	-6,919	0
Other financial expenses	-1,852	-2,489
Total financial expenses	-43,524	-112,313
Net financial result	-6,789	-103,135

11. Income tax

Adjustment to effective tax rate

In € thousand	2015	2014
Income tax	13,531	2,996
Deferred tax	-420	6,652
Total income tax	13,111	9,648
Profit before tax	159,373	154,032
Income tax at the rate of 17-percent	27,094	26,185
Tax exempt expenses	4,170	1,999
Increased expenses	-872	0
Tax incentives	-15,300	-17,513
Revenues decreasing the tax base	-1,981	-1,024
Effect of changed tax rate on deferred taxes	0	0
Total income tax	13,111	9,647
Effective tax rate	8.2%	6.3%

The major share of tax incentives represent investments in R&D and investment relief.

12. Property, plant and equipment

In € thousand	31 Dec 2015	31 Dec 2014
Land	22,826	22,285
Buildings	275,657	286,874
Equipment	295,893	301,751
Property, plant and equipment being acquired	15,691	12,712
Total property, plant and equipment	610,067	623,622

K Krka's largest investments in 2015, in the amount of €16,589 thousand, were in the construction of the Notol 2 plant (2014: €77,334 thousand). Investments in the construction of the plant in Ljutomer for the production of the new generation pastilles amounted to €10,714 thousand (2014: €254 thousand); investments in the construction of the Sinteza 1 Plant in Krško for the production of pharmaceuticals reached €6,758 thousand (2014: €14,200 thousand); €2,496 thousand were invested in the construction of the development and control centre (2014: €3 thousand); and an investment of €2,393 thousand was made for the expansion of the production of pump sprays. The latter is a new project introduced in 2015 and thus no comparable data for 2014 exist.

A total of €2,555 thousand were spent on various projects in the area of information technology and telecommunications (2014: €4,140 thousand).

Movement of property, plant and equipment (PPE)

In € thousand	Land	Buildings	Equipment	PPE being acquired	Total
Costs					
Balance at 1 Jan 2014	19,348	422,527	640,294	114,979	1,197,148
Additions	0	0	0	126,546	126,546
Capitalisation – transfer from PPE under construction	2,940	98,409	127,464	-228,813	0
Disposals, deficit, surplus	-3	-558	-5,994	0	-6,555
Transfers, reclassification	0	-207	230	0	23
Balance at 31 Dec 2014	22,285	520,171	761,994	12,712	1,317,162
Balance at 1 Jan 2015	22,285	520,171	761,994	12,712	1,317,162
Additions	0	0	0	64,340	64,340
Capitalisation – transfer from PPE under construction	544	9,723	51,094	-61,361	0
Disposals, deficit, surplus	-3	-1,371	-8,764	0	-10,138
Transfers, reclassification	0	-215	322	0	107
Balance at 31 Dec 2015	22,826	528,308	804,646	15,691	1,371,471
Accumulated depreciation					
Balance at 1 Jan 2014	0	-215,741	-417,429	0	-633,170
Depreciation	0	-17,681	-48,318	0	-65,999
Disposals, deficit, surplus	0	45	5,602	0	5,647
Transfers, reclassification	0	80	-98	0	-18
Balance at 31 Dec 2014	0	-233,297	-460,243	0	-693,540
Balance at 1 Jan 2015	0	-233,297	-460,243	0	-693,540
Depreciation	0	-20,345	-56,877	0	-77,222
Disposals, deficit, surplus	0	982	8,431	0	9,413
Transfers, reclassification	0	9	-64	0	-55
Balance at 31 Dec 2015	0	-252,651	-508,753	0	-761,404
Carrying amount					
Balance at 1 Jan 2014	19,348	206,786	222,865	114,979	563,978
Balance at 31 Dec 2014	22,285	286,874	301,751	12,712	623,622
Balance at 1 Jan 2015	22,285	286,874	301,751	12,712	623,622
Balance at 31 Dec 2015	22,826	275,657	295,893	15,691	610,067

No borrowing costs refer to items of property, plant and equipment in 2015.

The carrying amount of items of property, plant and equipment, which are temporarily not used, amounted to €660 thousand at 31 December 2015 (2014 year-end: €1,150 thousand).

34% of total property, plant and equipment used as at 31 December 2015 were fully depreciated (24% as at 31 December 2014). The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

13. Intangible assets

In € thousand	31 Dec 2015	31 Dec 2014
Concessions, patents, licences and similar rights	27,642	27,660
Intangible assets being acquired	3,915	5,460
Total intangible assets	31,557	33,120

Intangible assets refer to software and registration documentation for new pharmaceuticals.

Movement of intangible assets (IA)

In € thousand	Concessions, patents, licences and similar rights	IA being acquired	Total
Costs			
Balance at 1 Jan 2014	74,334	4,969	79,303
Additions	0	10,927	10,927
Transfer from IA being acquired	10,436	-10,436	0
Disposals, deficit, surplus	-682	0	-682
Transfers, reclassification	-23	0	-23
Balance at 31 Dec 2014	84,065	5,460	89,525
Balance at 1 Jan 2015	84,065	5,460	89,525
Additions	0	5,252	5,252
Transfer from IA being acquired	6,447	-6,447	0
Disposals, deficit, surplus	-1,615	-350	-1,965
Transfers, reclassification	135	0	135
Balance at 31 Dec 2015	89,032	3,915	92,947
Accumulated amortisation			
Balance at 1 Jan 2014	-51,000	0	-51,000
Amortisation	-6,050	0	-6,050
Disposals, deficit, surplus	627	0	627
Transfers, reclassification	18	0	18
Balance at 31 Dec 2014	-56,405	0	-56,405
Balance at 1 Jan 2015	-56,405	0	-56,405
Amortisation	-5,614	0	-5,614
Disposals, deficit, surplus	764	0	764
Transfers, reclassification	-135	0	-135
Balance at 31 Dec 2015	-61,390	0	-61,390
Carrying amount			
Balance at 1 Jan 2014	23,334	4,969	28,303
Balance at 31 Dec 2014	27,660	5,460	33,120
Balance at 1 Jan 2015	27,660	5,460	33,120
Balance at 31 Dec 2015	27,642	3,915	31,557

79% of total intangible assets in use as at 31 December 2015 were fully amortised (32% as at 31 December 2014). The share of fully amortised intangible assets is calculated in consideration of their cost.

14. Investments in subsidiaries

Movement of investments in subsidiaries

In € thousand	Investments in subsidiaries
Costs	
Balance at 1 Jan 2014	288,323
Establishment of new companies	3
Subsequent payments	457
Share capital increase	19,512
Refund of subsequent payments	-185
Balance at 31 Dec 2014	308,110
Balance at 1 Jan 2015	308,110
Establishment of new companies	2
Subsequent payments	1,090
Share capital increase	2,446
Refund of subsequent payments	-543
Balance at 31 Dec 2015	311,105
Accumulated impairment	
Balance at 1 Jan 2014	0
Investment impairment	-8,991
Balance at 31 Dec 2014	-8,991
Balance at 1 Jan 2015	-8,991
Balance at 31 Dec 2015	-8,991
Carrying amount	
Balance at 1 Jan 2014	288,323
Balance at 31 Dec 2014	299,119
Balance at 1 Jan 2015	299,119
Balance at 31 Dec 2015	302,114

The Company checks whether there are any indicators of the impairment of investments in subsidiaries at least once a year. The fair value of investments that may be impaired is determined with application of methods that are most appropriate in terms of an individual investment.

The Company's investment in the subsidiary Terme Krka amounted to €45,407 thousand as at 31 December 2013. As the investment's value is in excess of the amount of equity of the subsidiary, the Company checked in 2014 financial year whether there were any indicators of the investment's impairment. In consideration of the valuation results using both methods (discounted cash flows and comparative method), Krka recognised an impairment of the investment in Terme Krka in the amount of €8,991 thousand in 2014. In 2015 Krka again checked whether there were any indicators of investment impairment and found that no further impairment was necessary.

Krka also holds an investment in subsidiary OOO KRKA-RUS in the Russian Federation. In view of markedly unfavourable fluctuation of the Russian rouble exchange rate in 2015, Krka carried out an impairment test of the investment and found that there was no need for impairment.

Ownership shares in subsidiaries

In € thousand	Share in equity	Share capital	Value of share in subsidiaries	
	31 Dec 2015	31 Dec 2015	31 Dec 2015	31 Dec 2014
OOO KRKA-RUS, Istra, Russian Federation	100%	49,104	100,571	98,175
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753	36,416	36,416
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	18,726	19,738	19,738
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	4,102	18,697	18,697
OOO KRKA FARMA, Istra, Russian Federation	100%	9,345	15,170	15,170
Krka France Eurl, Paris, France	100%	10	2,806	2,806
KRKA Pharma GmbH, Vienna, Austria	100%	37	2,344	2,344
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,279	1,279
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	1,002	1,260
KRKA Farmaceutici Milano S.r.l., Milan, Italy	100%	10	1,350	1,260
Farma GRS, d. o. o., Novo mesto, Slovenia	99.7%	1,003	1,000	1,000
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	797	802	802
KRKA Magyarország Kft, Budapest, Hungary	100%	142	363	548
KRKA Belgium, SA, Brussels, Belgium	95%	200	196	146
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	10	110
KRKA Sverige AB, Stockholm, Sweden	100%	16	16	16
TOO KRKA Kazakhstan, Almaty, Kazakhstan	100%	6	11	11
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	8	10	10
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	10	10	10
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	10	10	10
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
SIA KRKA Latvia, Riga, Latvia	100%	10	10	10
TOV KRKA UKRAINA, Kiev, Ukraine	100%	4	9	9
KRKA USA, LLC, Wilmington, USA	100%	9	8	8
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	4	4
KRKA Finland Oy, Espoo, Finland	100%	3	1,003	3
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA UK Ltd, London, Great Britain*	100%	1	2	/
Total			302,114	299,119

* the share capital has not been paid by 31 Dec 2014

The subsidiary Terme Krka held a 63.1 per cent interest in Golf Grad Otočec, d. o. o. at 31 December 2015; Farma GRS held a 100% per cent interest in its subsidiaries GRS TEHFARMA, d. o. o., GRS VIZFARMA, d. o. o., GRS PREK FARMA, d. o. o., GRS EKO FARMA, d. o. o., GRS TREN FARMA d. o. o. and GRS VRED FARMA d. o. o.; and the subsidiary Krka France Eurl held a 5 –per cent interest in the subsidiary KRKA Belgium, SA.

15. Loans

In € thousand	31 Dec 2015	31 Dec 2014
Non-current loans	26,300	27,588
– loans to subsidiaries	18,908	20,965
– loans to others	7,392	6,623
Current loans	75,907	47,752
– portion of non-current loans maturing next year	2,459	3,039
– loans to subsidiaries	37,040	44,306
– loans to others	36,230	129
– current interest receivable	178	278
Total loans	102,207	75,340

Non-current loans to other entities comprise non-current loans that are extended by the Company to its employees in accordance with the internal acts of Krka. These loans are used for the purchase or renovation of housing facilities. Loans bear the annual interest rate, which equals the contractually agreed rate set by the Minister of Finance in accordance with the *Corporate Income Tax Act*, which defines the interest rate for related parties. The actual interest rate fluctuated between 0.825% and 1.133% in 2015 (2014: between 1.138% and 1.422%). The maximum repayment period is 15 years.

Short-term loans to others include bank deposits totalling €36,000 thousand maturing in more than 30 days.

Loans granted to subsidiaries including related current interest receivable

In € thousand	31 Dec 2015	31 Dec 2014
Non-current loans to subsidiaries	20,550	23,311
OOO KRKA-RUS, Istra, Russian Federation	15,277	12,576
TOV KRKA UKRAINA, Kiev, Ukraine	1,509	1,509
TOO KRKA Kazakhstan, Almaty, Kazakhstan	1,013	1,013
KRKA Farmaceutici Milano S.r.l., Milan, Italy	990	1,081
KRKA Belgium, SA, Brussels, Belgium	959	589
KRKA Bulgaria EOOD, Sofia, Bulgaria	500	500
SIA KRKA Latvia, Riga, Latvia	300	300
KRKA Finland Oy, Espoo, Finland	2	207
OOO KRKA FARMA, Istra, Russian Federation	0	4,853
KRKA ROMANIA S.R.L., Bucharest, Romania	0	683
Current loans to subsidiaries	37,072	44,418
TERME KRKA, d. o. o., Novo mesto, Slovenia	37,067	38,905
Farma GRS, d. o. o., Novo mesto, Slovenia	3	5,509
KRKA FARMACÉUTICA, S.L., Madrid, Spain	1	0
KRKA UK Ltd, London, Great Britain	1	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	0	4
Total loans to subsidiaries	57,622	67,729

The maximum repayment period on non-current loans to subsidiaries is 6 years.

16. Investments

In € thousand	31 Dec 2015	31 Dec 2014
Non-current investments	7,578	7,386
– available-for-sale financial assets	7,578	7,386
Current investments including derivatives	11,808	575
– shares and interests held for trading	79	157
– derivatives	11,729	0
– other current investments	0	418
Total investments	19,386	7,961

Available-for-sale financial assets in the amount of €687 thousand refer to investments in shares and interests in companies in Slovenia (2014 year-end: €713 thousand), and €6,891 thousand to investments in shares of companies abroad (2014 year-end: €6,673 thousand).

The derivative financial instruments comprise short-term forward contracts, which Krka agreed to hedge against the risk arising from volatility of the Russian rouble.

Other current investments at the end of 2014 financial year refer to Slovenian mutual funds; in comparison, at the end of 2015, Krka had no investments in mutual funds.

Movement in available-for-sale financial assets

In € thousand	Available-for-sale financial assets
Balance at 1 Jan 2014	5,022
Adjustment to market value	2,364
Balance at 31 Dec 2014	7,386
Balance at 1 Jan 2015	7,386
Adjustment to market value	192
Balance at 31 Dec 2015	7,578

Adjustments of non-current investments (available-for-sale financial assets) to the market value or fair value are recognised in other comprehensive income in the amount of €192 thousand (2014: €2,368 thousand). No adjustment was recognised in profit or loss in 2015 (2014: adjustment of total €-4 thousand).

17. Deferred tax assets and liabilities

	Assets		Liabilities	
In € thousand	2015	2014	2015	2014
Available-for-sale financial assets	1,546	1,546	804	771
Receivables	2,217	1,779	0	0
Provisions for post-employment benefits and other non-current employee benefits	8,608	8,279	0	0
Total	12,371	11,604	804	771
Offsetting	-804	-771	-804	-771
Net	11,567	10,833	0	0

In € thousand	Balance at 1 Jan 2014	Recognised in income statement	Recognised in other comprehensive income	Balance at 31 Dec 2014	Recognised in income statement	Recognised in other comprehensive income	Balance at 31 Dec 2015
Available-for-sale financial assets	-351	1,528	-402	775	0	-33	742
Receivables	1,863	-84	0	1,779	438	0	2,217
Provisions for lawsuits	8,330	-8,330	0	0	0	0	0
Provisions for post-employment benefits and other non-current employee benefits	5,325	235	2,719	8,279	-17	346	8,608
Total	15,167	-6,651	2,317	10,833	421	313	11,567

18. Inventories

In € thousand	31 Dec 2015	31 Dec 2014
Material	103,895	93,578
Work in progress	61,941	54,794
Products	54,934	46,022
Merchandise	9,172	6,652
Inventory advances	626	35
Total inventories	230,568	201,081

Inventory write-offs and allowances amounted to €7,723 thousand (2014: €4,843 thousand).

19. Trade and other receivables

In € thousand	31 Dec 2015	31 Dec 2014
Current trade receivables	402,189	460,652
- current trade receivables due from subsidiaries	217,352	231,295
- current trade receivables due from customers other than Group companies	184,837	229,357
Other current receivables	16,602	34,333
Total receivables	418,791	494,985

Current trade receivables

Current trade receivables due from subsidiaries

In € thousand	31 Dec 2015	31 Dec 2014
OOO KRKA FARMA, Istra, Russian Federation	72,609	60,643
OOO KRKA-RUS, Istra, Russian Federation	70,266	57,239
TAD Pharma GmbH, Cuxhaven, Germany	8,980	37,002
KRKA Sverige AB, Stockholm, Sweden	8,507	7,746
KRKA FARMACÉUTICA, S.L., Madrid, Spain	8,495	8,974
KRKA-FARMA DOOEL, Skopje, Macedonia	8,277	10,031
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	7,794	8,546
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	7,764	7,443
KRKA-FARMA d. o. o., Zagreb, Croatia	4,854	21,075
TOO KRKA Kazakhstan, Almaty, Kazakhstan	4,709	484
Krka France Eurl, Paris, France	3,581	2,267
KRKA Farmaceutici Milano S.r.l., Milan, Italy	3,177	1,634
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	3,104	4,071
KRKA Pharma GmbH, Vienna, Austria	1,369	1,759
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1,185	1,131
Receivables due from other Group companies	2,681	1,250
Total current trade receivables due from subsidiaries	217,352	231,295

Current trade receivables due from customers other than Group companies

In € thousand	Gross value	Allowances for receivables	Net value at 31 Dec 2015	Net value at 31 Dec 2014
Current trade receivables due from Slovenian customers other than Group companies	8,058	21	8,037	7,841
Current trade receivables due from foreign customers other than Group companies	197,518	20,718	176,800	221,516
Total trade receivables due from customers other than Group companies	205,576	20,739	184,837	229,357

Receivable impairment and write-offs recorded within operating expenses amounted to €3,517 thousand in 2015 (2014: €1,110 thousand).

Of the total amount, 58% of trade receivables due from customers other than Group companies were secured with the SID - Prva kreditna zavarovalnica, d. d.

Other current receivables

The majority of other current receivables of total €16,602 thousand represent receivables due from the state on account of VAT in the amount of €11,769 thousand (€11,434 thousand as at 31 December 2014).

The Company recorded €355 thousand in advances for services (€151 thousand as at 31 December 2014).

20. Cash and cash equivalents

In € thousand	31 Dec 2015	31 Dec 2014
Cash in hand	1	5
Bank balances	24,621	8,198
Total cash and cash equivalents	24,622	8,203

Krka concluded contracts with four different banks on the authorised overdraft limit on bank accounts in the total amount of €2,500 thousand (the same as in the previous year). No negative balances were recorded on these bank accounts as at 31 December 2015, hence no overdraft facilities were used.

21. Equity

Share capital

Krka reduced its share capital by withdrawal of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with a resolution adopted at the 19th Annual Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. There is only one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Treasury shares

As at 31 December 2015, the Company recorded 326,277 treasury shares, which accounts for 0.99% of the share capital value.

At the 19th Annual Meeting held on 3 July 2014, the shareholders adopted a resolution authorising the Management Board of the controlling company to acquire treasury shares, with the condition that the combined share of all treasury shares acquired and already held could not exceed 10% of share capital or 3,279,344 of shares.

Based on this authorisation, the Company is allowed to acquire treasury shares on the regulated market at respective market prices. The Company may also acquire treasury shares outside the regulated market. When purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not exceed 25-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group, which is an approximation of the highest closing price of KRKG shares on the regulated market.

Treasury shares acquired on the basis of this authorisation may be disposed of in the following ways:

- exchanged for equity-stakes in other companies, based on its M&A strategy
- sold to a strategic partner.

Repurchase of treasury shares in 2015

	Number of shares	Weighted average share price (in €)	Value of shares (In € thousand)
Balance at 31 Dec 2014	173,279		10,677
Repurchases in 2015	152,998	61.40	9,394
Balance at 31 Dec 2015	326,277		20,071

Subscription fee is included in the weighted average price of shares.

The 2015 repurchase of treasury shares in terms of days is illustrated within Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

Krka's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves and fair value reserve.

Reserves for treasury shares amounted to €20,071 thousand as at the reporting date, and increased by €9,394 thousand based on their formation as a result of the additional repurchase of treasury shares.

The share premium is to be used under the terms and purposes as defined by the applicable act. The share premium was recorded at €105,897 thousand as at 31 December 2015, and consists of the general equity revaluation adjustment (€90,659 thousand) that was included among share premium during the transfer to IFRS; the share premium (€10,844 thousand) formed pursuant to a special regulation applicable in the ownership transformation of Krka; and €4,394 thousand of share premium resulting from a reduction in the share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2015, the value of reserves remained unchanged.

Legal reserves are to be formed up to 30% of the share capital. They amounted to €14,990 thousand as at 31 December 2015, remaining unchanged over the previous period.

Statutory reserves amounted to €30,000 thousand as at the reporting date, remaining unchanged over the previous period. Statutory reserves are formed by Krka up to the amount of €30,000 thousand. Statutory reserves may be used for loss coverage, the formation of reserves for treasury shares, to reduce share capital by share withdrawal, and to regulate dividend policy.

The fair value reserve includes the cumulative change in the fair value of available-for-sale financial assets and post-employment benefits. Compared to the previous period, the fair value reserve decreased by €3,562 thousand, and amounted to €-10,993 thousand as at 31 December 2015. The total change results from a decrease in the fair value of available-for-sale financial assets (by €192 thousand), a reduction of €33 thousand referring to the related deferred tax effect, a reduction on account of the restatement of post-employment benefits by €4,067 thousand, and an increase of €346 thousand referring to the related deferred tax effect due to the restatement of post-employment benefits.

Retained earnings

Retained earnings grew on the basis of profit in the amount of €146,262 thousand. The decrease, on the other hand, is a result of the allocation of accumulated profit to dividend pay-out (€81,408 thousand) in accordance with the resolution passed by the 21st Annual Meeting held on 20 August 2015, and of an additional formation of reserves for treasury shares in 2015 (€9,394 thousand).

The amount of the dividend pay-out shown in the statement of cash flows differs from the figure confirmed by the Annual Meeting and included in the statement of changes in equity by the amount of change between the opening and closing balance of liabilities for dividend pay-out, and amounted to €200 thousand (2014: €148 thousand).

Dividends per share

In 2015, the declared gross dividend per share was €2.50 (2014: €2.10).

Distributable profit

In € thousand	2015	2014
Compulsory appropriation of profit		
Net profit	146,262	144,385
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for treasury shares	-9,394	-15,140
– allocation to statutory reserves	0	0
Profit after compulsory appropriation	136,868	129,245
– formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	-3,000
Surplus of profit	136,868	126,245
Identification of distributable profit		
– surplus of profit	136,868	126,245
– retained earnings	50,040	55,244
Distributable profit	186,908	181,489

22. Earnings per share

Basic earnings per share amounted to €4.49 in 2015 and increased by 2.0% over the previous year, when it amounted to €4.41. The calculation of earnings per share took into account the profit for the period in the amount of €146,262 thousand (2014: €144,385 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 32,550,928 shares for 2015 and 32,768,062 shares for 2014. Treasury shares were eliminated from the calculation.

All shares issued by Krka are ordinary shares, hence the diluted earnings per share ratio equalled the basic earnings per share.

23. Borrowings

In € thousand	31 Dec 2015	31 Dec 2014
Non-current borrowings	0	2,000
– borrowings from subsidiaries	0	2,000
Current borrowings	66,244	102,020
– portion of non-current loans maturing next year	500	0
– borrowings from subsidiaries	65,443	63,898
– borrowings from domestic banks	0	38,000
– current interest payable	301	122
Total borrowings	66,244	104,020

Borrowings from subsidiaries, including current interest payable

In € thousand	31 Dec 2015	31 Dec 2014
Non-current borrowings from subsidiaries	0	2,000
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	0	2,000
Current borrowings from subsidiaries	66,244	64,001
TAD Pharma GmbH, Cuxhaven, Germany	62,863	61,587
Farma GRS, d. o. o., Novo mesto	1,305	56
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1,009	334
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	503	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	319	1,855
TERME KRKA, d. o. o., Novo mesto	245	169
Total borrowings from subsidiaries	66,244	66,001

Current borrowings are denominated in euros and were extended for one year. These borrowings were not secured.

24. Provisions

In € thousand	At 31 Dec 2014	Formation	Utilisation	Reversal	At 31 Dec 2015
Provisions for lawsuits	20,000	0	0	-20,000	0
Provisions for post-employment benefits and other non-current employee benefits	66,628	10,053	-3,096	0	73,585
Total provisions	86,628	10,053	-3,096	-20,000	73,585

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of an anticipated amount if the indemnification claim has not yet been disclosed. External advisers for disputes referring to intellectual property are engaged to define the anticipated amounts. Furthermore, every year, the management verifies the calculated amount of provisions for each individual claim not yet closed.

In 2014, other income included damages received and the reimbursement of court fees from a lawsuit between Krka and AstraZeneca for the unjustified temporary prohibition of the sale of Krka's pharmaceutical Esomeprazole in Great Britain over a period from mid-2010 to the summer of 2011. Since the plaintiff appealed the decision of the court, Krka set aside provisions of total €20,000 thousand in 2014. As all legal remedies have been exhausted in relation to the case, Krka reversed the total amount of the provisions in 2015.

In addition to the aforementioned lawsuits concerning intellectual property, 6 other lawsuits are in progress against Krka, totalling €250 thousand in indemnification claims, as well as 2 lawsuits referring to other areas (labour legislation, civil lawsuits) totalling €17 thousand. Based on its familiarisation with the content of the disputes and on the legal opinion of external experts, the management of Krka assessed that there was no need to set aside provisions relating to the above disputes and lawsuits.

Provisions for post-employment benefits and other non-current employment benefits are based on a calculation performed by a certified actuary and were accounted for under the following assumptions:

- the selected discounted interest rate is 1.92 per cent annually, which equals the return on 15-year corporate bonds with high credit rating in the euro area at the end of November 2015 (2014: 2.45 per cent);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal acts;
- employee turnover, depending in particular upon the employees' age;

- mortality rates calculated on the basis of the latest mortality tables available;
- increase in wages by 1.80% (the same as in 2014).

Provisions for post-employment benefits

In € thousand	2015	2014
Balance at 1 Jan	53,025	35,146
Employee benefit costs	2,517	1,496
Interest costs	1,328	1,786
Post-employment benefits paid	-2,089	-1,400
Actuarial surplus/deficit, of that:	4,067	15,997
– change in financial assumptions	4,094	14,519
– experience	-27	1,478
Balance at 31 Dec	58,848	53,025

Sensitivity analysis

	Discount rate		Salary increase	
Change in	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities in € thousand	-3,877	4,293	4,277	-3,900

25. Deferred revenue

In € thousand	Balance at 31 Dec 2014	Deferred revenues received	Deferred revenues reversal	Balance at 31 Dec 2015
Grants received from the European Fund for Regional Development and the Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	2,730	187	-267	2,650
Grants from the European Regional Development Fund received for the Sinteza 4 project	8	0	-4	4
Grants from the European Regional Development Fund – development of new technologies (FBD project)	535	0	-98	437
Grants from the European Regional Development Fund for setting up information and technology solutions system GEN-I	0	22	-3	19
Property, plant and equipment received free of charge	540	26	-530	36
Emission coupons	21	21	-20	22
Total deferred revenue	3,834	256	-922	3,168

Construction of the new Notol 2 plant for production of pharmaceuticals and FBD projects are partly funded by the European Union (European Regional Development Fund). The projects are carried out within the framework of the Operational programme for strengthening regional development potential for the period 2007–2013; Priority Axis 1: Competitiveness and Research Excellence: main type of activity 1.1.: Improvement of competitiveness and research excellence.

The recorded amounts of deferred revenues are reduced by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

26. Trade payables

In € thousand	31 Dec 2015	31 Dec 2014
Payables to subsidiaries	58,766	50,216
Payables to domestic suppliers	34,124	42,957
Payables to foreign suppliers	35,733	44,233
Payables from advances	3,442	2,554
Total trade payables	132,065	139,960

Payables to subsidiaries

In € thousand	31 Dec 2015	31 Dec 2014
KRKA-FARMA d. o. o., Zagreb, Croatia	13,160	3,648
OOO KRKA FARMA, Istra, Russian Federation	13,156	8,890
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	9,074	11,693
Farma GRS, d. o. o., Novo mesto	3,168	3,625
KRKA Magyarország Kft, Budapest, Hungary	3,158	3,105
KRKA ROMANIA S.R.L., Bucharest, Romania	3,141	5,428
TOV KRKA UKRAINA, Kiev, Ukraine	2,916	3,345
KRKA ČR, s. r. o., Prague, Czech Republic	2,448	1,780
TAD Pharma GmbH, Cuxhaven, Germany	2,333	3,512
OOO KRKA-RUS, Istra, Russian Federation	922	146
KRKA Slovensko, s.r.o., Bratislava, Slovakia	821	1,399
UAB KRKA Lietuva, Vilnius, Lithuania	755	480
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	452	455
TOO KRKA Kazakhstan, Almaty, Kazakhstan	402	515
KRKA Farmaceutici Milano S.r.l., Milan, Italy	401	239
KRKA Bulgaria EOOD, Sofia, Bulgaria	392	363
KRKA Pharma GmbH, Vienna, Austria	313	223
KRKA-FARMA DOOEL, Skopje, Macedonia	295	369
Krka France Eurl, Paris, France	286	289
KRKA Belgium, SA, Brussels, Belgium	269	259
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	198	186
SIA KRKA Latvia, Riga, Latvia	165	10
KRKA Finland Oy, Espoo, Finland	161	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	152	138
KRKA UK Ltd, London, Great Britain	90	0
TERME KRKA, d. o. o., Novo mesto	73	72
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	35	25
KRKA Sverige AB, Stockholm, Sweden	28	20
KRKA USA, LLC, Wilmington, USA	2	2
Total payables to subsidiaries	58,766	50,216

27. Other current liabilities

In € thousand	31 Dec 2015	31 Dec 2014
Accrued contractual discounts on products sold	12,985	18,489
Payables relating to unpaid equity of subsidiaries	0	258
Payables to employees – gross wages, other receipts and charges	26,185	27,543
Other	6,760	6,442
Total other current liabilities	45,930	52,732

Accrued contractually agreed discounts on products sold include discounts to which customers are entitled when the relevant terms and conditions are fulfilled; these discounts are not granted to customers in the year of sale.

The item 'Other' also includes current liabilities to the state on account of VAT payable in the amount of €5,009 thousand.

28. Contingent liabilities and commitments

In € thousand	31 Dec 2015	31 Dec 2014
Guarantees issued	21,306	19,792
Other	620	620
Total contingent liabilities	21,926	20,412

Major items of guarantees issued include a counter guarantee for the due payment of potential liabilities from a customs guarantee of €6,000 thousand issued in Belarus, a contract bond issued on behalf of the subsidiary Farma GRS in the amount of €5,300 thousand, a guarantee issued for the receivables of TAD Pharma amounting to €3,000 thousand, and a guarantee issued to the Financial Administration of the Republic of Slovenia in the amount of €2,500 thousand. The item 'Other' includes affected property in Serbia in the amount of €620 thousand.

In addition to the aforementioned lawsuits referring to intellectual property, 6 other lawsuits are in progress against Krka, totalling €250 thousand in indemnification claims, as well as 2 lawsuits referring to other areas (labour legislation, civil lawsuits) totalling €17 thousand. Based on its familiarisation with the content of the disputes and on the legal opinion of external experts, the management of Krka assessed that there was no need to set aside provisions relating to the above disputes and lawsuits.

Based on contracts that signed in connection with on-going investments, at year-end Krka accounted for €41,259 thousand of future liabilities resulting from the acquisition of property, plant and equipment (2014 year-end: €36,322 thousand).

Operating lease

In € thousand	31 Dec 2015	31 Dec 2014
Up to 1 year	974	907
1-5 years	1,012	829
More than 5 years	0	0
Total lease liabilities	1,986	1,736

Lease contracts with terms in excess of 5 years refer to the lease of real estate (primarily offices), whereas lease contracts for a period of up to one year and from 1 to 5 years also refer to lease of equipment.

29. Financial instruments and financial risks

The long-term stability of the Company's performance is managed by means of active risk management. Due to the extensive scope of its international import and export business, Krka is primarily exposed to foreign exchange risk and to credit risks.

Credit risk

The credit control process involves obtaining credit ratings for clients to which the controlling company and subsidiaries make product sales worth an annual €100,000 or more, and regular, dynamic monitoring of customer payment discipline.

At the end of the last year, more than 93% of receivables payable were included in the process of credit control.

Compared to the beginning of 2015, total receivables payable by buyers decreased at the end of the year. This resulted in part from the revaluation of receivables due to the depreciation of local currencies, primarily the Russian rouble. At the end of 2015, the amount of overdue receivables remained within the normal scope acceptable to Krka. Krka believes that the payment discipline of buyers did not change.

58% of total receivables payable by end buyers to the Krka Group were hedged by credit insurance coverage or financial instruments. Our policy of hedging receivables remained unchanged in 2015.

In 2015, Krka recorded no significant write-offs of overdue receivables payable by buyers, and no increase in problematic receivables payable.

Credit risk exposure

The carrying amount of financial assets represents the biggest exposure to credit risk as illustrated below.

In € thousand	Notes	31 Dec 2015	31 Dec 2014
Non-current receivables from subsidiaries		10,704	14,091
Loans	15	102,207	75,340
Investments	16	19,386	7,961
Trade receivables	19	402,189	460,652
Cash and cash equivalents	20	24,622	8,203
Total		559,108	566,247

As for the financial assets exposed to credit risk, the loans and trade receivables comprise the major items.

Loans by geographical region

In € thousand	31 Dec 2015	31 Dec 2014
Slovenia	81,564	51,880
South-East Europe	518	1,210
East Europe	17,873	20,068
Central Europe	300	300
West Europe	1,952	1,882
Overseas markets	0	0
Total	102,207	75,340

Trade receivables from subsidiaries by geographical region

In € thousand	31 Dec 2015	31 Dec 2014
Slovenia	8,239	8,022
South-East Europe	73,717	95,536
East Europe	209,600	206,208
Central Europe	58,836	74,907
West Europe	59,732	85,027
Overseas markets	2,769	5,043
Total	412,893	474,743

Of the total amount, 58% of trade receivables due from customers other than Group companies were secured with the SID – Prva kreditna zavarovalnica, d. d.

Maturity analysis of loans as at the reporting date

In € thousand	Gross 2015	Allowance 2015	Gross 2014	Allowance 2014
Not-past due	102,198	0	75,334	0
Past due up to 20 days	2	0	3	0
Past due between 21 and 50 days	0	0	1	0
Past due between 51 and 180 days	3	0	1	0
Past due more than 180 days	15	11	12	11
Total	102,218	11	75,351	11

Maturity structure of trade receivables including group companies as at the reporting date

In € thousand	Gross 2015	Allowance 2015	Gross 2014	Allowance 2014
Not-past due	396,064	1,361	447,932	2,066
Past due up to 20 days	7,380	64	7,569	53
Past due between 21 and 50 days	2,576	1	7,113	86
Past due between 51 and 180 days	5,739	428	10,031	135
Past due more than 180 days	22,674	19,686	17,678	13,240
Total	434,433	21,540	490,323	15,580

Krka agrees extended terms with some customers. If the Company did not extend payment terms to some customers, the maturity structure of receivables would be as follows at reporting date: not past due €389,241 thousand (2014: €438,320 thousand); past due up to 20 days: €7,981 thousand (2014: €10,306 thousand); past

due between 21 and 50 days €2,753 thousand (2014: €7,565 thousand); past due between 51 and 180 days €9,929 thousand (2014: €16,454 thousand); and past due more than 180 days: €2,988 thousand (2014: €17,678 thousand).

Movement of allowances for loans

In € thousand	2015	2014
Balance at 1 Jan	11	41
Impairment of loans	0	-30
Balance at 31 Dec	11	11

Movements in trade receivables including those due from subsidiaries

In € thousand	2015	2014
Balance at 1 Jan	15,580	15,524
Formation of allowances	6,408	1,071
Reversal of allowances	-467	-1,035
Effect of exchange rate differences	19	20
Balance at 31 Dec	21,540	15,580

Liquidity risk

Its stable performance with no major fluctuations or deviations, investment financing with own assets, organic growth and a stable cash flow from operations continued to ensure Krka's strong financial structure. In 2015, Krka's liquidity risk was assessed as low.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 Dec 2015

In € thousand	Carrying amount	Total	Contractual cash flows			
			Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Non-current borrowings from banks	0	0	0	0	0	0
Other non-current borrowings	503	505	505	0	0	0
Current borrowings from banks	0	0	0	0	0	0
Other current borrowings	65,741	65,646	63,276	2,370	0	0
Payables to suppliers	128,623	128,623	128,623	0	0	0
Other liabilities excluding amounts owed to the state, to employees and advances.	14,737	14,737	14,737	0	0	0
Total non-derivative financial liabilities	209,604	209,511	207,141	2,370	0	0
Total derivative financial liabilities	0	0	0	0	0	0
Total	209,604	209,511	207,141	2,370	0	0

Maturity of financial liabilities as at 31 Dec 2014

In € thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Other non-current borrowings	2,000	2,032	22	22	1,988	0
Current borrowings from banks	38,019	38,269	20,214	18,055	0	0
Other current borrowings	64,001	64,147	63,643	504	0	0
Payables to suppliers	137,296	137,296	137,296	0	0	0
Other liabilities excluding amounts owed to the state, to employees and advances.	20,571	20,571	20,571	0	0	0
Total non-derivative financial liabilities	261,887	262,315	241,746	18,581	1,988	0
Total derivative financial liabilities	0	0	0	0	0	0
Total	261,887	262,315	241,746	18,581	1,988	0

Currency risk

The Krka Company performs in diverse international markets and is exposed to foreign exchange risks in certain markets. Also in 2015, currency exchange rates had negative effect on the business performance of the Krka Company.

The exposure to fluctuation in the exchange rate of the Russian rouble has remained principal foreign exchange risk. 80% of foreign exchange losses presented in the 2015 income statement were accrued due to unfavourable exchange rate fluctuations of the Russian rouble.

During the year, the exchange rate was volatile. In the first quarter of the year, the value of the Russian rouble expressed in euros rose by 16%. It was rising also at the beginning of the second quarter. In June, however, the rouble's value fell to the initial value recorded in the second quarter. In the third quarter, its value decreased by a further 15%, followed by the 9% slump in the last quarter. At the end of 2015, the value of the rouble expressed in euros was 10% lower than at the beginning of the year.

The primary cause for the decrease in the value of the rouble was the downturn in oil prices. Other factors impacted its value as well, among them geopolitical circumstances, economic sanctions of certain countries against the Russian Federation, and the Russian Federation's retaliation, as well as macroeconomic circumstances in the Russian market.

Unfavourable currency fluctuations in countries whose economies depend on ties with the Russian Federation or oil prices caused 10% of foreign exchange losses. In 2015, the Kazakh tenge and Ukrainian hryvnia saw the sharpest declines in the value of the currency expressed in euros. The tenge plummeted by 42%, and hryvnia by 27%. The organised financial markets provide no hedging instruments for these currencies.

Other foreign exchange differences were accrued due to the unfavourable fluctuations of other currencies, but their impact on the Krka Group's performance was low.

In 2015, we changed the foreign currency risk management policy. Changes were necessary because of the changed and volatile situation in the market of energy commodities, with a direct impact on the value of the Russian rouble and other currencies in the area. At times of increased uncertainty in foreign currency markets in the second half of the year, we occasionally mitigated the risk posed by the volatile rouble with forward contracts. We generated financial income totalling €16,449 thousand by hedging. This put in balance more than half of foreign exchange losses accrued by the Krka Company due to the slump in the rouble.

In total, the Krka Company recorded €33,303 thousand of exchange rate losses in 2015. Combined with the income from hedging instruments, the financial result of the Group stood at €-16,584 thousand.

Risk management policy yielded good results in 2015. Total financial result (exchange rate differences and hedging effect) would have been, in the event of total hedging of the Russian rouble or in the event of non-hedging of the currency risk, even less favourable. If the hedging instruments had been used throughout the entire year, the annual financial income from hedging the rouble would have almost entirely been nullified by the cost of annual insurance. If, on the other hand, no hedging instruments had been applied, the Company would have reported net exchange rate losses in the profit or loss with no impact of the hedging instruments.

Currency risk exposure

31 Dec 2015					
In € thousand	EUR*	PLN	HRK	RUB	RON
Non-current receivables due from subsidiaries	0	0	0	10,704	0
Loans	86,929	0	0	15,277	0
Trade receivables	125,594	41,713	0	160,597	54,584
Borrowings	-66,244	0	0	0	0
Trade payables	-90,335	-9,227	0	-14,132	-3,174
Financial position exposure (net)	55,943	32,486	0	172,446	51,410

* The EUR is the functional currency and is not exposed to foreign currency risk.

31 Dec 2014					
In € thousand	EUR*	PLN	HRK	RUB	RON
Non-current receivables due from subsidiaries	0	0	0	14,091	
Loans	48,348	0	0	26,992	0
Trade receivables	204,027	37,993	0	142,814	56,713
Borrowings	-104,020	0	0	0	0
Trade payables	-95,282	-11,693	0	-9,166	-5,495
Financial position exposure (net)	53,073	26,300	0	174,731	51,218

* EUR is the functional currency and is not exposed to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2015	2014	2015	2014
PLN	4.18	4.18	4.26	4.27
HRK	7.61	7.63	7.64	7.66
RUB	68.09	50.93	80.67	72.34
RON	4.45	4.44	4.52	4.48

* number of local currency's units for one euro

The exchange rates above were used to calculate items in the financial statements as at 31 December, and equal the reference exchange rate of the ECB effective on 31 December.

Sensitivity analysis

A 10% or 1% per cent increase in the euro exchange rate in respect of currencies stated as at 31 December 2015 or 31 December 2014 would have increased or decreased profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining elements, particularly interest rates, remain unchanged. The calculation of the above-stated exchange rates volatility impact took into account the balance of receivables, liabilities and borrowings denominated in the local currencies.

In € thousand	Effect on the profit or loss before tax			
	2015		2014	
Currency fluctuation	+10%	-10%	+10%	-10%
RUB	17,245	-17,245	17,473	-17,473
Currency fluctuation	+1%	-1%	+1%	-1%
PLN	325	-325	263	-263
HRK	0	0	0	0
RON	514	-514	512	-512

Any additional 10% change in the Russian rouble's value or any additional 1% change in the Polish zloty, the Croatian kuna or the Romanian leu in respect of the euro's value would result in an additional change in profit or loss before tax in the above-stated amounts.

Interest rate risk

In 2015 the reference interest rate changes had no impact on Krka's interest rate exposure as the only non-current borrowings from a subsidiary in Portugal, were raised in euros at a fixed interest rate.

Exposure to interest rate risk

In € thousand	2015	2014
Financial instruments at fixed interest rate	-709	-44,538
Financial assets	64,989	36,192
Financial liabilities	-65,698	-80,730
Financial instruments at variable interest rate	36,795	15,702
Financial assets	37,040	38,870
Financial liabilities	-245	-23,168

Analysis of cash flow sensitivity by applying a variable interest rate

A decrease/increase in the interest rate by 100 basis points would have increased/decreased profit or loss for 2015 by €368 thousand. A decrease/increase in the interest rate by 100 basis points would have increased/decreased profit or loss for 2014 by €157 thousand. The analysis prepared in the same manner for both years assumes that all other remaining variables, particularly the foreign exchange rate, remain unchanged.

A detailed schedule of non-current and current borrowings is presented below.

Non-current borrowings

In € thousand	31 Dec 2015	31 Dec 2014
Non-current borrowings	0	2,000
Average balance of non-current borrowings in the year	1,000	2,000
Interest paid in the financial year	23	46
Other expenses for non-current borrowings	0	0
Average effective costs of non-current borrowings in the financial year	2.30%	2.30%
Maturity of up to three years	/	100%
Currency of non-current borrowings		
– USD	/	0%
– EUR	/	100%
Structure of non-current borrowings in terms of interest rates		
– variable	/	0%
– fixed	/	100%

Current borrowings

In € thousand	31 Dec 2015	31 Dec 2014
Current borrowings inclusive of current portion of non-current borrowings	65,943	101,898
– from banks	500	38,000
– other	65,443	63,898
Current borrowings exclusive of current portion of non-current borrowings	65,443	101,898
Average balance of current borrowings	83,671	85,998
Interest paid in the financial year	1,329	1,168
Other costs of raising current borrowings	31	14
Average effective costs of current borrowings (financial year)	1.63%	1.37%
Currency structure of current borrowings		
– EUR	100%	100%
Structure of current borrowings in terms of interest rates:		
– variable	0%	0%
– fixed	100%	100%

Capital management

Krka reduced its share capital by withdrawing 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution passed at the 19th Annual Meeting of shareholders on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand is represented by 32,793,448 ordinary no-par value shares. There is only one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Krka's capital management is aimed at ensuring a high credit rating and relevant financing indicators in order to ensure the proper development of its transactions and to generate the maximum value for its shareholders.

Krka follows changes in the economic environment by managing and adjusting its equity structure. Dividends are paid out on an annual basis. Up to 50% of consolidated profit of the majority owners generated in the preceding year will be appropriated to dividends, in line with the applicable development strategy for the 2016-2020 period. In setting the amount of profit to be allocated to dividends, Krka's financial needs in terms of its investments and

major takeovers are also considered. Krka has no specific goals as regards the ownership share held by employees, as well as no share option plans.

There were no changes in the Company's approach to capital management in 2015 or 2014.

Krka monitors capital by using a gearing ratio, which is net debt divided by total net debt plus total equity. Within net debt, the Company includes interest bearing borrowings and trade payables, less cash and cash equivalents.

In € thousand	31 Dec 2015	31 Dec 2014
Borrowings	66,244	104,020
Trade payables and other current liabilities	177,995	192,692
Cash and cash equivalents	24,622	8,203
Net indebtedness	219,617	288,509
Equity	1,433,211	1,381,313
Equity and net indebtedness	1,652,828	1,669,822
Gearing (debt/equity) ratio	13.3 %	17.3 %

Fair value

In € thousand	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current receivables due from subsidiaries	10,704	10,704	14,091	14,091
Non-current loans	26,300	26,977	27,588	28,675
Available-for-sale financial assets	7,578	7,578	7,386	7,386
Current loans	75,907	75,907	47,752	47,752
Short-term financial investments	11,808	11,808	575	575
– shares and interests held for trading	79	79	157	157
– derivatives	11,729	11,729	0	0
– other current investments	0	0	418	418
Trade receivables	402,189	402,189	460,652	460,652
Cash and cash equivalents	24,622	24,622	8,203	8,203
Non-current borrowings	0	0	-2,000	-2,302
Current borrowings	-66,244	-66,244	-102,020	-102,020
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-143,360	-143,360	-157,867	-157,867
Total	349,504	350,181	304,360	305,145

In terms of fair value, investments are classified into three levels

- level 1 – assets at market price;
- level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- level 3 – assets whose value cannot be determined by using observable market data.

Assets at fair value

In € thousand	31 Dec 2015				31 Dec 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	6,217	0	1,361	7,578	6,025	0	1,361	7,386
Shares and interests held for trading	79	0	0	79	157	0	0	157
Derivatives	0	0	11,729	11,729	0	0	0	0
Other current investments (mutual funds and assets in management)	0	0	0	0	418	0	0	418
Total assets at fair value	6,296	0	13,090	19,386	6,600	0	1,361	7,961
Assets for which fair value is disclosed								
Non-current receivables due from subsidiaries	0	0	10,704	10,704	0	0	14,091	14,091
Non-current loans	0	0	26,977	26,977	0	0	28,675	28,675
Current loans	0	0	75,907	75,907	0	0	47,752	47,752
Trade receivables	0	0	402,189	402,189	0	0	460,652	460,652
Cash and cash equivalents	0	0	24,622	24,622	0	0	8,203	8,203
Total assets for which fair value is disclosed	0	0	540,399	540,399	0	0	559,373	559,373
Total	6,296	0	553,489	559,785	6,600	0	560,734	567,334

Liabilities at fair value

In € thousand	31 Dec 2015				31 Dec 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Total liabilities at fair value	0	0	0	0	0	0	0	0
Liabilities for which fair value is disclosed								
Non-current borrowings	0	0	0	0	0	0	2,302	2,302
Current borrowings	0	0	66,244	66,244	0	0	102,020	102,020
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	143,360	143,360	0	0	157,867	157,867
Total liabilities for which fair value is disclosed	0	0	209,604	209,604	0	0	262,189	262,189
Total	0	0	209,604	209,604	0	0	262,189	262,189

The fair value of non-current loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for 2015 and 2014 was computed based on the 2 per cent annual interest rate.

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not reduced by any costs that may arise upon the sale or purchase of securities.

30. Related party transactions

Intragroup transactions

Transactions with subsidiaries in 2015 are presented below.

In € thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto; Slovenia*	211	781	0	11,354
Farma GRS, d. o. o., Novo mesto, Slovenia**	513	12,744	1,961	3,785
KRKA-FARMA d. o. o., Zagreb, Croatia	34,158	38,737	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	14	23,988	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	8,246	2,339	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	14,386	1,394	0	0
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	4	303	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	20	1,995	0	0
OOO KRKA-RUS, Istra, Russian Federation	90,588	2,842	0	0
OOO KRKA FARMA, Istra, Russian Federation	92,366	64,170	0	0
TOV KRKA UKRAINA, Kiev, Ukraine	106	9,060	0	0
TOO KRKA Kazakhstan, Almaty, Kazakhstan	5,461	4,617	0	0
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	32,886	40,797	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	29	13,675	0	0
KRKA Magyarország Kft, Budapest, Hungary	3	13,554	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	5	6,848	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	3	4,570	0	0
SIA KRKA Latvia, Riga, Latvia	0	2,731	0	0
KRKA Finland Oy, Espoo, Finland	1,916	657	0	0
TAD Pharma GmbH, Cuxhaven, Germany	60,004	17,266	93,325	0
KRKA Sverige AB, Stockholm, Sweden	31,019	562	0	0
KRKA Pharma GmbH, Vienna, Austria	2,429	2,037	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	9,803	813	0	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	31,112	1,315	32,149	3,690
KRKA Farmaceutici Milano S.r.l., Milan, Italy	4,512	1,984	0	0
Krka France Eurl, Paris, France	2,465	1,110	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	4,044	0	995	0
KRKA UK Ltd, London, Great Britain	1,207	162	0	624
KRKA Belgium, SA, Brussels, Belgium	573	1,143	0	0
KRKA USA, LLC, Wilmington, USA	0	9	0	0
Total	428,083	272,203	128,430	19,453

* Including the subsidiary Golf Grad Otočec, d. o. o.

** Including the subsidiaries GRS TEHFARMA, d. o. o., GRS VIZFARMA, d. o. o., GRS PREK FARMA, d. o. o., GRS EKO FARMA, d. o. o., GRS TREN FARMA d. o. o. and GRS VRED FARMA d. o. o.

Transactions between Krka and the above-mentioned Group companies were based on sales contracts, which included the rendering of products and services at market prices.

The annual rate of interest agreed on the conclusion of loan contracts within the Group companies, is the rate of interest set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. In 2015, the interest rate ranged between 0.839% and 1.975%.

The balance of loans to subsidiaries is presented in Note 15; the balance of borrowings from subsidiaries is presented in Note 23; the balance of receivables due from Group companies is presented in Note 19, and the balance of short-term operating liabilities to subsidiaries is presented in Note 26.

Data on groups of persons

By the end of the year, members of the Management Board of Krka held 37,303 of Krka shares, i.e. 0.1138% of total equity or 0.1149% of voting rights.

By the end of the year, the current members of the supervisory board of the Company held 1,882 of Krka shares, i.e. 0.0057% of total equity or 0.0058% of voting rights.

Equity stakes held by members of the Management and Supervisory Boards of Krka and their shares of voting rights

	31 Dec 2015			31 Dec 2014		
	Number of shares	Equity share (in %)	Share of voting rights (in %)	Number of shares	Equity share (in %)	Share of voting rights (in %)
Members of the Management Board						
Jože Colarič	22,500	0.0686	0.0693	22,500	0.0686	0.0690
Aleš Rotar	13,023	0.0397	0.0401	12,770	0.0389	0.0391
Zvezdana Bajc	1,660	0.0051	0.0051	1,660	0.0051	0.0051
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
Danica Novak Malnar	0	0	0	0	0	0
Total members of the Management Board	37,303	0.1138	0.1149	37,050	0.1130	0.1136
Members of the Supervisory Board (owner representatives) whose term expired on 20 June 2015						
Jože Lenič				180	0.0005	0.0006
Matjaž Rakovec				0	0.0000	0.0000
Vincenc Manček				11,543	0.0352	0.0354
Mojca Osolnik Videmšek				452	0.0014	0.0014
Sergeja Slapničar				0	0.0000	0.0000
Members of the Supervisory Board (owner representatives) whose term began on 20 August 2015						
Matej Pirc	152	0.0005	0.0005			
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Jože Mermal	0	0.0000	0.0000			
Simona Razvornik Škofič	0	0.0000	0.0000			
Andrej Slapar	0	0.0000	0.0000			
Anja Strojín Štampar	0	0.0000	0.0000			
Members of the Supervisory Board (employee representatives)						
Tomaž Sever	500	0.0015	0.0015	500	0.0015	0.0015
Franc Šašek	1,000	0.0030	0.0031	540	0.0016	0.0017
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total members of the Supervisory Board	1,882	0.0057	0.0058	13,445	0.0410	0.0412
Total	39,185	0.1195	0.1207	50,495	0.1540	0.1548

Treasury shares were eliminated from the calculation of voting rights (326,277 treasury shares as at 31 December 2015 and 173,279 as at 31 December 2014).

Remuneration paid to groups of persons (gross)

In € thousand	2015	2014
Members of the Management Board	2,540	2,373
Members of the Supervisory Board	189	209
Total gross remuneration paid to groups of persons	2,729	2,582

Gross earnings paid to employees employed under individual employment contracts in 2015 amounted to €10,121 thousand (2014: €9,773 thousand).

Remuneration paid to members of the Management Board in 2015

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net pay-out	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	393	151	14	433	169	826	334
Aleš Rotar	306	123	9	290	114	596	246
Zvezdana Bajc	276	111	9	263	103	539	223
Vinko Zupančič	222	91	10	207	81	429	182
Danica Novak Malnar	140	63	6	10	5	150	74
Total members of the Management Board	1,337	539	48	1,203	472	2,540	1,059

	Net fringe benefits and other earnings					
				Refund of work- related costs	Vacation bonus	
In € thousand	Executive health insurance	Supplementary pension insurance	Other bonuses			Total
Jože Colarič	4.22	2.82	6.58	0.03	0.54	14.19
Aleš Rotar	3.38	2.82	1.44	0.92	0.55	9.11
Zvezdana Bajc	3.38	2.82	1.21	0.97	0.55	8.93
Vinko Zupančič	3.37	2.82	2.81	0.78	0.55	10.33
Danica Novak Malnar	1.47	2.82	0.06	0.91	0.64	5.90
Total members of the Management Board	15.82	14.10	12.10	3.61	2.83	48.46

Remuneration paid to members of the Management Board in 2014

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net pay-out	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	381	148	13	377	147	758	308
Aleš Rotar	296	120	9	259	102	555	231
Zvezdana Bajc	271	109	9	235	92	506	210
Vinko Zupančič	218	88	11	185	73	403	172
Danica Novak Malnar	141	63	6	10	5	151	74
Total members of the Management Board	1,307	528	48	1,066	419	2,373	995

In € thousand	Net fringe benefits and other earnings					
	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	4.21	3.05	4.89	0.03	0.54	12.72
Aleš Rotar	3.37	3.05	0.82	0.91	0.54	8.69
Zvezdana Bajc	3.37	3.05	1.72	0.99	0.55	9.68
Vinko Zupančič	3.38	3.05	3.31	0.76	0.55	11.05
Danica Novak Malnar	1.47	3.05	0.02	1.01	0.64	6.19
Total members of the Management Board	15.80	15.25	10.76	3.70	2.82	48.33

The item of other bonuses includes the use of a company car for private purposes, as well as other similar bonuses. The refund of work-related costs comprises commuting and meal allowances. Members of the Management Board do not receive attendance fees or any other income for exercising their functions on the Management and Supervisory boards of subsidiaries.

Remuneration paid to members of the Supervisory Board in 2015

In € thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives) whose term expired on 20 June 2015								
Jože Lenič	10.98	7.99	3.30	2.40	0.00	0.00	14.28	10.39
Vincenc Manček	9.15	6.65	1.76	1.28	0.00	0.00	10.91	7.93
Mojca Osolnik Videmšek	10.06	7.32	2.20	1.60	0.28	0.20	12.54	9.12
Matjaž Rakovec	9.88	7.19	2.20	1.60	0.37	0.27	12.45	9.05
Sergeja Slapničar	9.15	6.65	2.20	1.60	0.40	0.29	11.75	8.55
Members of the Supervisory Board (owner representatives) whose term began on 20 August 2015								
Matej Pirc	8.50	6.18	1.27	0.92	0.09	0.07	9.86	7.17
Julijana Kristl*	15.46	11.25	3.03	2.20	0.55	0.40	19.04	13.84
Jože Mermal	7.65	5.56	1.49	1.08	0.09	0.07	9.23	6.71
Simona Razvornik Škofič	7.79	5.67	1.49	1.08	0.18	0.13	9.46	6.88
Andrej Slapar	7.79	5.67	1.49	1.08	0.00	0.00	9.28	6.75
Anja Strojín Štampar	7.08	5.15	1.49	1.08	0.00	0.00	8.57	6.23
Members of the Supervisory Board (employee representatives)								
Franc Šašek	17.53	12.75	3.69	2.68	0.00	0.00	21.22	15.43
Tomaž Sever	16.23	11.81	3.69	2.68	0.55	0.40	20.47	14.89
Mateja Vrečer	17.15	12.47	3.25	2.36	0.00	0.00	20.39	14.83
Total remuneration paid to members of the Supervisory Board	154.41	112.30	32.51	23.64	2.51	1.82	189.42	137.77

*Julijana Kristl also served as a representative of the owners on the Supervisory Board; her term expired on 20 June 2015.

In accordance with a resolution passed at the 16th Annual General Meeting held on 7 July 2011, members of the controlling company's supervisory board are entitled to an attendance fee, which for each individual member of the controlling company's supervisory board amounts to €275.00 gross. Members of the supervisory board committee receive an attendance fee for their participation in sessions, which for each individual committee member amounts to 80% of the attendance fee for supervisory board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the number of attendances, each member of the supervisory board is in every financial year entitled to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the supervisory board or sessions of the supervisory board committees – reaches 50% of the basic pay for exercising the function for each supervisory board member taking into account the actual pay-outs on an annual level.

In addition to attendance fees, members of the Company's supervisory board also receive on annual basis also a basic pay for exercising the function in the amount of €15,500 gross each. The president of the supervisory board is further entitled to an additional fee in the amount of 50% of the basic pay for exercising the function of a

member of the supervisory board, whereas deputy president of the supervisory board is entitled to an additional fee of 10% of the basic pay for exercising the function of a member of the supervisory board. Members of the supervisory board committee receive an additional fee for exercising the function in the amount of 25% of the basic pay for exercising the function of a member of the supervisory board. The president of the committee is further entitled to a bonus corresponding to 50% of the additional fee for exercising the function of a member the supervisory board committee.

Members of the Company's supervisory board and members of the supervisory board committee receive basic pay and an additional fee for exercising the function, in proportionate monthly payments to which they are entitled during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the supervisory board committee is in entitled in every financial year entitled regardless of the above-mentioned or the number of commissions of which he/she is a member or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each supervisory board member taking into account the actual pay-outs on an annual level.

Loans to groups of persons

In € thousand	Balance		Repayments	
	31 Dec 2015	31 Dec 2014	2015	2014
Members of the Management Board	1	2	1	1
Members of the Supervisory Board (employee representatives)	0	0	0	0
Total loans to groups of persons	1	2	1	1

Loans granted to staff employed under individual employment contracts as at 31 December 2015 were recorded at €72 thousand (€84 thousand as at 31 December 2014). Repayments of loans by staff employed under individual employment contracts in 2015 reached €12 thousand (2014: €20 thousand). The loans granted to the above-mentioned persons were used for housing purposes.

31. Educational structure of employees

	2015		2014	
	Average headcount	Share (in %)	Average headcount	Share (in %)
PhD	107	2.2	92	2.0
MSc	216	4.5	207	4.4
University education	1461	30.6	1372	29.3
Higher professional education	554	11.7	512	11.0
Vocational college education	213	4.4	211	4.5
Secondary school education	1209	25.3	1232	26.3
Skilled workers	783	16.4	1007	21.5
Unskilled workers	233	4.9	47	1.0
Total (average for the period)	4776	100.0	4680	100.0

32. Transactions with the audit company

The agreed fee for the audit services performed in 2015 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to €129 thousand, as in 2014. In addition, the audit company also provided a translation of the 2015 Financial Report of Krka, charging a translation fee of €9 thousand.

33. Subsequent events

Below is a presentation of events that have taken place since the end of 2015 and up to 31 March 2016.

- Since 1 January 2016, the company Krka, d. d., Novo mesto has had a new management board with a term of office until 31 December 2021. In addition to the President of the Management Board and CEO Jože Colarič and Worker Director Milena Kastelic, Dr. Aleš Rotar, Dr. Vinko Zupančič and David Bratož are also members of the Management Board.
- From the beginning of 2016 to 4 February 2016 (followed by the closed period until the annual report is published), we acquired 29,900 treasury shares worth €1,838,131. The balance of treasury shares totals 356,177 (i.e. 1.086% of total shares).
- On 25 February 2016 Krka informed the public that Krka's subsidiary Krka Sverige AB in Stockholm (hereinafter Krka Sverige) received the decision of the Maritime and Commercial Court in Copenhagen in the alleged patent infringement case of patent EP 1 020 461 in Denmark brought against Krka Sverige by the companies AstraZeneca in Sweden and AstraZeneca in Denmark (hereinafter AstraZeneca).

Patent EP 1 020 461 protects the active ingredient esomeprazole with high optical purity, which is the reason the medication containing this active ingredient is supposed to have better pharmacological effects. The active ingredient esomeprazole as such is not protected by patent. The medicine marketed by Krka Sverige in Denmark does not contain the active ingredient esomeprazole with high optical purity. Regardless of this fact, the Maritime and Commercial Court in Copenhagen decided that by selling its product in Denmark Krka Sverige allegedly infringed the patent of AstraZeneca because crystals of high optical purity esomeprazole appeared at some stage in the reaction mixture during the production process of the active ingredient esomeprazole by Krka.

Therefore, the Maritime and Commercial Court in Copenhagen found that this infringement by Krka Sverige had caused damages to AstraZeneca in Denmark in the amount of DKK 50 million (€6.7 million). The first instance decision by the Maritime and Commercial Court is not final, so Krka Sverige will not pay any compensation until the decision becomes final. Krka Sverige will appeal the decision, as it is of opinion that the Court's decision contradicts the patent interpretation of the European Patent Office and contradicts established legal practice in the European Union when deciding on such patents (known as 'Swiss type claims').

Krka published statements on the dispute regarding esomeprazole in Denmark on 15 January 2010 and 11 April 2013.

Independent Auditor's Report



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Krka, d.d., Novo mesto

Report on the Financial Statements

We have audited the accompanying financial statements of Krka d.d., which comprise the statement of financial position as at December 31, 2015, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

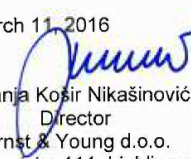
In our opinion, the financial statements present fairly, in all material respects, the financial position of Krka d.d., as of December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

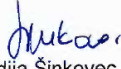
Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited financial statements.

Ljubljana, March 11, 2016


Sanja Kosir Nikašinović
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1


Lidija Šinkovec
Certified auditor

ENCLOSURE 1

Repurchased treasury shares in 2015 by days

Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)
5 Jan 2015	448	59.99	27	13 April 2015	469	64.99	30	17 Sept 2015	2,131	60.79	130
6 Jan 2015	4,101	59.88	246	14 April 2015	1,090	66.76	73	18 Sept 2015	3,032	61.44	186
7 Jan 2015	1,006	60.30	61	15 April 2015	1,494	68.11	102	21 Sept 2015	1,320	60.96	80
8 Jan 2015	3,996	60.27	241	16 April 2015	1,411	68.75	97	22 Sept 2015	502	60.60	30
9 Jan 2015	2,756	59.35	164	17 April 2015	1,196	67.64	81	23 Sept 2015	1,118	60.73	68
12 Jan 2015	954	58.67	56	20 April 2015	1,602	66.45	106	24 Sept 2015	1,435	60.67	87
13 Jan 2015	2,672	58.58	157	21 April 2015	1,078	68.18	73	25 Sept 2015	680	60.63	41
14 Jan 2015	3,610	57.25	207	22 April 2015	3,968	68.13	270	28 Sept 2015	1,667	60.99	102
15 Jan 2015	1,806	57.15	103	24 April 2015	145	68.11	10	29 Sept 2015	776	60.68	47
16 Jan 2015	2,614	57.08	149	27 Aug 2015	1,190	61.73	73	30 Sept 2015	758	60.76	46
19 Jan 2015	3,539	57.07	202	28 Aug 2015	2,680	62.17	167	1 Oct 2015	1,628	61.09	100
20 Jan 2015	1,820	56.90	104	31 Aug 2015	2,362	61.98	146	2 Oct 2015	416	60.67	25
21 Jan 2015	2,668	56.70	151	1 Sept 2015	295	60.85	18	5 Oct 2015	1,600	60.70	97
22 Jan 2015	2,049	56.77	116	2 Sept 2015	1,567	61.48	96	6 Oct 2015	55	60.62	3
23 Jan 2015	2,910	57.18	166	3 Sept 2015	1,506	61.08	92	7 Oct 2015	1,210	60.67	73
26 Jan 2015	1,248	57.09	71	4 Sept 2015	894	60.80	54	8 Oct 2015	12	60.75	1
27 Jan 2015	140	56.74	8	7 Sept 2015	1,891	61.10	116	9 Oct 2015	307	60.87	19
28 Jan 2015	1,198	56.74	68	8 Sept 2015	2,110	61.09	129	12 Oct 2015	600	60.80	37
29 Jan 2015	1,154	56.99	66	9 Sept 2015	2,825	61.10	173	13 Oct 2015	1,649	60.61	100
30 Jan 2015	376	56.85	21	10 Sept 2015	2,800	61.10	171	14 Oct 2015	1,600	61.10	98
7 April 2015	495	62.18	31	11 Sept 2015	1,032	60.75	63	15 Oct 2015	736	61.20	45
8 April 2015	853	63.48	54	14 Sept 2015	2,899	61.47	178	16 Oct 2015	1,470	61.14	90
9 April 2015	526	64.62	34	15 Sept 2015	2,925	61.34	179	19 Oct 2015	423	61.49	26
10 April 2015	1,700	65.24	111	16 Sept 2015	681	60.80	41	20 Oct 2015	456	61.79	28

Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)
22 Oct 2015	257	61.35	16	26 Nov 2015	394	63.21	25	11 Dec 2015	2,219	61.28	136
23 Oct 2015	1,408	62.83	89	27 Nov 2015	1,433	63.26	91	14 Dec 2015	2,324	61.15	142
26 Oct 2015	21	63.52	1	30 Nov 2015	990	63.20	63	15 Dec 2015	1,378	61.06	84
27 Oct 2015	1,423	63.68	91	1 Dec 2015	2,073	62.10	129	16 Dec 2015	2,221	61.84	137
30 Oct 2015	1,437	64.51	93	2 Dec 2015	400	62.60	25	17 Dec 2015	1,513	62.03	94
2 Nov 2015	326	65.60	21	3 Dec 2015	531	62.75	33	18 Dec 2015	2,052	62.31	128
3 Nov 2015	1,580	65.91	104	4 Dec 2015	453	62.64	28	21 Dec 2015	2,058	63.08	130
4 Nov 2015	312	66.00	21	7 Dec 2015	2,118	62.89	133	22 Dec 2015	17	63.12	1
20 Nov 2015	941	63.61	60	8 Dec 2015	1,885	62.80	118	23 Dec 2015	1,013	63.55	64
23 Nov 2015	46	64.07	3	9 Dec 2015	2,135	62.50	134	28 Dec 2015	591	63.30	37
24 Nov 2015	1,897	64.46	122	10 Dec 2015	2,195	62.17	137	29 Dec 2015	1,862	64.01	119
25 Nov 2015	1,165	63.85	74					Total repurchases in 2015	152,998	61.40	9,394

The broker's fee is included in the weighted average price of shares.

SIGNING OF THE 2015 ANNUAL REPORT AND ITS CONSTITUENT PARTS

President and members of Krka, d. d., Novo mesto Management Board are aware of the content of the integral parts of the Annual Report 2015 of Krka and the Krka Group, and hence of the full Annual Report of Krka and the Krka Group for the year 2015. We hereby acknowledge the Report by our signatures.

A blue ink signature consisting of a large, sweeping loop followed by a horizontal line.

Jože Colarič,
President of the Management Board and CEO

A blue ink signature with several vertical strokes on the left and a horizontal line crossing them.

Dr. Aleš Rotar,
Member of the Management Board

A blue ink signature with a large, stylized 'V' shape.

Dr. Vinko Zupančič,
Member of the Management Board

A blue ink signature with a large, stylized 'B' shape.

David Bratož,
Member of the Management Board

A blue ink signature with a cursive, flowing style.

Milena Kastelic,
Member of the Management Board – Worker Director

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