



# 2017 ANNUAL REPORT



*Living a healthy life.*

Krka, d. d., Novo mesto

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## INTRODUCTION

### Statement by the President of the Management Board

**Dear Shareholders, Business Partners and Employees,**

The year that is now behind us was successful, with the business situation in most of our markets also improving. The results give us a sense of optimism, based on the Krka Group Development Strategy and the ambitious goals we have set ourselves. I would like to present to you the key figures regarding our sales, new products, investments and dividend payouts, and our new Krka Group Development Strategy for the 2018–2022 period.

#### **Good business results**

In 2017, we sold €1 billion 266.4 million worth of products and services, an increase of 8% compared to 2016. The Krka Group sales saw a 1% increase in terms of quantity. We again recorded the highest monthly, quarterly, and annual production volume of products, and packed 13.9 billion units of products.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 34.4% to €306.6 million, and earnings before interest and taxes (EBIT) increased by 62.3% to €198.7 million, while net profit generated by the Krka Group was €152.6 million, or 40.7% more than in 2016. Return on equity (ROE) improved by almost 3 percentage points and amounted to 10.4%.

#### **In several markets we ranked among the top generic producers**

We are pleased that our customers recognise the investment we make in the development, production and quality of our products. Our medicines are among the best-sellers in several markets. Doctors, pharmacists and patients alike are well acquainted with Krka and our products. We are present in pharmacies across Europe, in recent years also on a broader scale.

We ranked fourth among predominantly foreign generic companies in the Russian Federation, first in Ukraine, fourth in Poland, third in the Czech Republic, and second in Hungary and Croatia. We ranked first in Romania among predominantly foreign generic companies. We have been gaining recognition in Western European markets as well. In Germany, we are the leading supplier, in terms of quantities, of sartans – an important group of medicines for the treatment of cardiovascular diseases – and the leading supplier of generic medicines for treating reflux diseases and ulcers.

Krka's sales were highest in Region East Europe, where they totalled €388.2 million, or 30.7% of total Krka Group sales. In this vast territory comprising many east European and central Asian markets, we recorded double-digit growth in eight out of thirteen markets and a sales increase of 17% compared to 2016. The Russian Federation remains Krka's key and largest individual market. We managed to further strengthen our status as a domestic manufacturer there, which is very important for our operations. This is made possible by our manufacturing plant Krka-Rus 2, which was upgraded and expanded in 2017. We exceeded the 2016 results by 20% in the Russian market, selling €270.9 million worth of products.

Product sales in Region Central Europe amounted to €303.6 million, up 6% compared to 2016. We recorded the highest growth in terms of value and relative growth in the Czech Republic, and reached double-digit growth in Latvia. In Poland, our largest market in the region, our sales amounted to €145.0 million, a 3% increase compared to 2016.

In the markets of Region West Europe that rank among Krka's key markets, our sales amounted to €286.1 million, a 1% increase compared to 2016. The most successful markets in this region in terms of sales were Germany, France and Spain.

In Region South-East Europe, Krka sold €160.9 million worth of products, a 6% increase in terms of value compared to 2016. Sales growth was recorded in most markets, and most notably in Serbia.

In 2017, Krka sold €88.0 million worth of products and services in Slovenia, or 3% more than the year before. In Slovenia, one of our key markets, we maintain the leading position among pharmaceutical suppliers. One in four prescription pharmaceuticals sold in Slovenia are produced by Krka.



Our smallest sales region, Region Overseas Markets, is becoming more and more important. Sales there reached €39.5 million, 11% higher compared to 2016. In China, we established a new company, Ningbo Krka Menovo, with a local partner. Our expectations are high for this joint venture, which in the coming years will contribute to Krka Group's sales results.

### Entering the Chinese market with a new company

Important changes have occurred in the Chinese market over the past few years. The state began encouraging the use of modern pharmaceutical products and introducing standards similar to those applied in the European Union and the US into the Chinese pharmaceutical legislation. This means that products must comply with the highest standards of efficacy, safety and quality. This is an opportunity for Krka to launch its products on this large market.

We established a joint venture, Ningbo Krka Menovo, with our long-term Chinese partner Menovo in the city of Ningbo. The *Memorandum* and the company's *Articles of Association* were signed in November 2017, and the company was established at the beginning of 2018. The company is run by a three-member board of directors, two of them Krka representatives, one of whom presides over the board. The initial share capital totalling €30 million has been allocated to finance development activities, land purchases, and building production capacities. The newly established company will focus on the development, production and marketing of finished products. Its first task will be to obtain as many marketing authorisations for products from Krka's portfolio as possible in China in two to three years, which will then be manufactured there. The first sales results in China are expected in three years. The company will also manufacture certain products for the European and other Krka markets.

### Twenty-three new products in 2017

Krka's research and development activity is above average among suppliers of generic medicines. It is an essential part of our vertically integrated business model, which enables us to be among the first generic producers in the market and respond quickly to market opportunities with a wide range of products. Innovation allows us to introduce new, modern pharmaceutical forms of products, advanced technologies and innovative approaches to treatment, putting us on a par with the best in the global generic pharmaceutical market.

Long-term growth depends primarily on the constant expansion of our product range, so it is no coincidence that every year we develop new products based on our own patented research and development solutions. In 2017, Krka obtained marketing authorisations for 23 new products in 46 pharmaceutical dosage forms and strengths. A total of 555 new marketing authorisations were obtained for 119 products in various markets. With this, we topped the 2016 result, when we obtained marketing authorisations for 19 new products in 41 pharmaceutical dosage forms and strengths.

Most of the new products in 2017 were prescription pharmaceuticals. We obtained marketing authorisations for 17 new medicines in 38 pharmaceutical forms and strengths in different therapeutic areas. We also complemented our range of non-prescription products with three new products in five pharmaceutical forms and strengths. We also obtained marketing authorisations for three new animal health products.

### Numerous investment projects

In 2017, the Krka Group allocated €105.1 million to investments, of which €85.3 million went to the controlling company and €19.8 million to subsidiaries.

We are continually expanding our research and development infrastructure in Novo mesto. The new development and control centre 4 (RKC 4) will allow us to further strengthen our facilities for research and development activities and quality assurance.

We must extend our facilities for pharmaceutical production and also rationalise the use of existing ones to accommodate the growing production volume. We will complete our top-notch production plant for solid dosage forms, Notol 2, Krka's biggest investment to date, with new lines in order to keep to the plan and produce 4.5 billion tablets, film-coated tablets and capsules annually.

The most important investments in Krka's subsidiaries abroad were the second phase of equipment installation in the Krka-Rus 2 plant in Istra in the Russian Federation, and the establishment of new laboratory, development and production

facilities for oncology medicines in solid dosage forms in Jastrebarsko, Croatia. An important investment was also made in the multi-purpose warehouse in Novo mesto, which now provides additional pallet spaces, allowing for faster and more flexible production.

### **More than half of net profit allocated to dividend payouts**

Krka is known among generic pharmaceutical companies for its high dividend payouts, a reputation we intend to keep. In line with our revised development strategy for the 2018–2022 period, we intend to allocate at least 50% of net profit attributable to equity holders of the controlling company to dividend payout (previously up to 50%).

### **Krka employees – focused on achieving business goals**

At the end of 2017, the Krka Group employed 10,832 people, 55% of whom have at least a university degree. At Krka, we encourage the further education and training of our employees. On average, every Krka employee undergoes 45 hours of training per year. We devote special attention to the early identification of essential and promising personnel and their systematic development. We are the only company in Slovenia to offer six programmes of national vocational qualifications for the pharmaceutical industry, which is important not only for Krka, but also for preserving this knowledge in the wider area. Organisational climate and energy surveys show that Krka employees are loyal to the company, hard-working, and focused on achieving the company's business goals and results.

### **Balanced sustainable development**

Social responsibility and encouraging people to adopt a healthy life style are two of our fundamental guiding principles. We pursue balanced sustainable development, which in turn guides our research, production process improvement, employee training and education, and investment in employees and technologies for reducing environmental impacts, all the while striving for a pleasant working environment and contributing to the development of our community.

We always seek the best available technologies and follow modern guidelines to rationalise our use of natural sources and energy, and reduce environmental emissions. We process or recycle 86% of non-hazardous waste, while our own alternative sources provide for 15% of electricity. Over the last 5 years, we have reduced water consumption by 45%, even though our production has expanded. In 2017, in accordance with our mission, we helped more than 800 institutions, associations and organisations achieve their goals. We allocate the highest percentage of our sponsorship and donation resources to sports, culture, health, science, education, and humanitarian activities.

### **The business environment is generally improving**

The generic pharmaceutical industry has remained very competitive, although the prospects in most of our markets are better now than they were a year ago. The drop in margins has slowed down. Even so, customers remain cautious and prefer to buy well-established products. In most markets, we expect to record moderate single-digit growth in terms of value.

Foreign currency fluctuations have also slightly stabilised. The Russian rouble accounted for the major share of the currency position of the Krka Group with 55%, followed by the Romanian leu and the Polish zloty with 15% and 11%, respectively. We generally mitigated currency risks by natural hedging, primarily by purchasing goods and services and by increasing liabilities in currencies in which sales invoices were issued. Due to the importance of the Russian rouble, we in part provided for hedging against the related risks with derivative financial instruments.

### **Renewed Krka Group Development Strategy**

In 2017, the Management Board and Supervisory Board members renewed and updated the Krka Group Development Strategy for the 2018–2022 period. Krka has entered the Chinese market, and has many new products in the pipeline. We also updated our dividend and investment policies.

In the coming five-year strategic period, average annual sales growth in terms of quantity and/or value is projected to be at least 5%. Krka will remain focused on the European and Central Asian markets, with an increased focus on China.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) are expected to average from 21 to 25%, and return on equity (ROE) from 9 to 12%.

In addition to the range of products making up 'the gold standard', Krka plans to maintain the largest possible proportion of new products in total sales and the share of vertically integrated products. We will strengthen our range of prescription pharmaceuticals in key therapeutic areas, primarily medicines for treating cardiovascular and central nervous system diseases and diseases of the alimentary tract and metabolism. We will also focus on promising therapeutic areas, such as analgesics, oncology medicines, antidiabetics, antivirals and antibiotics. We intend to enter the field of biosimilar medicines, primarily with medicines for treating autoimmune diseases and diabetes. In this segment, Krka has been establishing connections with other companies, and formed a team of experts on recombinant technologies and products. We intend to further strengthen our range of non-prescription products in selected therapeutic areas and our range of animal health products, primarily products for companion animals. The proportion of expenditure for research and development is planned at up to 10% of sales revenues.

We intend to selectively reduce investments to a total of €136 million annually and increase contract manufacturing. We are also seeking opportunities for acquisitions and establishing long-term business connections, including joint ventures similar to the project in China.

As I have mentioned, we intend to maintain a stable dividend policy, allocate more than one half of net profit attributable to equity holders of the controlling company to dividend payout, of course taking into consideration investments and the financial requirements of the Krka Group.

### Continued sales growth also in 2018

We plan to grow in 2018 as well. Our sales are planned at €1 billion 300 million and net profit at €153 million. The Management Board will be committed to Krka exceeding the planned objectives in favourable business circumstances. We intend to allocate €135 million to investment projects for increasing and upgrading production facilities and infrastructure. The number of Krka Group employees is planned to grow by 2%.

From start to finish, in more than 70 markets across the world, everything we do revolves around our patients and our attempts to help them preserve and strengthen their health. Therefore, our commitment lies in the production of top-quality medicines. We have every reason to feel optimistic, primarily because our personnel are qualified and motivated and know how to adapt to changes. I believe that we will continue to develop as a company to the benefit of our shareholders, buyers, employees and the environment in which we operate.



Jože Colarič  
President of the Management Board and CEO

## 2017 Report of the Supervisory Board

### Dear Shareholders and Stakeholders,

In 2017, the members of the Supervisory Board diligently and responsibly monitored the operations of Krka and the Krka Group in accordance with legislation, good practices and internal rules. Krka operated well, and substantially exceeded the 2016 results according to all major indicators. Its development strategy for the next mid-term period was renewed in close cooperation between the Management and Supervisory Boards.

Below, I outline our work in 2017 on behalf of the members of the Supervisory Board.

### The work of the Supervisory Board

Krka's Supervisory Board has nine members. The shareholder representatives are Prof. Dr. Julijana Kristl, President of the Supervisory Board Jože Mermal, Deputy President of the Supervisory Board Andrej Slapar, Dr. Boris Žnidarič, Borut Jamnik, and Hans-Helmut Fabry. The employee representatives are Deputy President of the Supervisory Board Franc Šašek, Dr. Mateja Vrečer and Tomaž Sever. Krka's Supervisory Board has two women and seven men, whose qualifications, work experience, age and the fields in which they work differ. The Supervisory Board members are aged from 45 to 69 years. They have knowledge of various fields, including pharmacy, chemistry, law, economics, psychology, mathematics, social sciences, organisational sciences and management. Throughout their careers, they have managed and supervised many companies, organisations and processes. Until the AGM on 6 July 2017, the members of the Supervisory Board were Simona Razvornik Škofič, who resigned from the Board, and Anja Strojín Štampar MBA, who was removed from the Board by the AGM.

The work and decision-making of the Board is based on the objectives of Krka 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 2017 we received all the requisite data, reports and information. Krka's departments promptly implemented improvements and offered organisational support to the Supervisory Board. The Management Board submitted the materials seven days before each Supervisory Board meeting and published the materials using the eNS application (English abbreviation: eSB). In November 2017, we fully digitalised the system for the electronic distribution of materials, and since then the Supervisory Board members access the materials through the secure website.

Apart from three members who were absent once for good reason, the members regularly attended the meetings. Generally, the members of the Supervisory Board, members of the Management Board and the Supervisory Board Secretary attend the meetings. If necessary, but definitely when adopting the annual report, certified auditors from an external auditing company attend the meetings. Depending on the agenda, meetings are occasionally attended also by representatives of Krka's relevant departments as rapporteurs.

In 2017, the Supervisory Board members met at six regular meetings and discussed 54 items on the agenda. Members of the Supervisory Board committees held seven meetings and discussed 34 items on the agenda. They reported to and advised the Supervisory Board.

The Supervisory Board discussed Krka's past and current operations, financial, regulatory and business risks; we were promptly informed about human resources, investments, products and implementation of the current strategy; we followed expert and analysts' opinions about Krka, compared Krka's operations with those of competitors and we were kept up to date with new developments in the company, the pharmaceutical industry and the business environment. We also evaluated the work of the Management Board. Together with Management Board members, we devoted special attention to the renewed development strategy of the Krka Group for the 2018–2022 period and the annual business and financial plan for 2018. Also in 2017, the Board continued to improve its work, evaluated its own activities and adopted an action plan.

## Key areas discussed at Supervisory Board meetings in 2017

**The Annual Report** Within the statutory time frame, the Supervisory Board thoroughly examined the 2016 report of Krka and the Krka Group, and discussed the auditor's report in which the auditor Ernst & Young d. o. o., Ljubljana found that the financial statements which form part of the annual report give a true and fair view in all respects of the financial position of Krka and the Krka Group, their operating profit, cash flow and changes in equity. The Board had no comments on the auditor's work or the report. The Board also compiled and adopted a report on its work in 2016 and, together with the Management Board, drew up the *Statement of Compliance* regarding Krka's compliance with the *Corporate Governance Code* and the *Code of Best Practice for Warsaw Stock Exchange Listed Companies*.

**Interim results** The Supervisory Board regularly reviewed the first-quarter, half-year and nine-month reports of the operations of Krka and the Krka Group for 2017. The Audit Committee considered the accounting and financial aspects of the interim results and risks, and reported to the Supervisory Board on all interim operational results. When analysing interim results, the Audit Committee and the Supervisory Board learnt about foreign exchange risks and their management in great detail.

**Supervision of Krka Group subsidiary operations** The Supervisory Board discussed the operations of Krka's 30 subsidiaries – mostly production and distribution, distribution and marketing, and marketing companies abroad – whose number of employees make up approximately one half of all of the Krka Group. The Management Board reported to the Supervisory Board about the business model, work and performance of these companies, any challenges encountered in business operations and similar. The members were informed about all significant accounting data about these companies, especially the updated book value of Krka's investments in them, the number of employees, the value of inventories, assets, equity, operating revenues and operating costs, as well as the operating profit or loss, and net operating results. Of all subsidiaries, we would like to point out Terme Krka. The subsidiary improved its operations substantially in 2017, and recorded favourable profitability.

**Krka Group's long-term and short-term operational plans** The Members of the Supervisory Board together with the Management Board members focused on the renewal of the development strategy of the Krka Group for the next mid-term period from 2018 to 2022. The topic was discussed several times and the key bases of the existing strategy were gradually upgraded. At a meeting of the Supervisory Board in March, the Management Board reported about the recent development of Krka's strategy, developments in the industry, and draft guidelines for a renewed strategy. At the July meeting, the Supervisory Board considered the formal bases for a draft Krka Group development strategy from 2018 to 2022 and approved it. Accordingly, the Management Board drafted a strategy, which was examined by the Supervisory Board. Both boards discussed the draft strategy at a workshop in November 2017. The draft strategy was viable, with some amendments proposed by the Supervisory Board. By the November meeting of the Supervisory Board, the Management Board had prepared a clean copy, and the Supervisory Board had approved it.

Based on a consideration of the existing strategy, the 2018–2022 strategy was completely renewed. China was added to the list of Krka sales markets. Krka has entered the Chinese market by establishing a long-term business partnership. Ample marketing opportunities have arisen in this market for modern generic companies like Krka due to the increasing consumption of advanced generic pharmaceuticals and regulatory changes.

As far as the new products are concerned, the new strategy is more precise than the old one, and also includes many innovative solutions. Key therapeutic areas remain medicines for treating cardiovascular diseases, medicines for treating the central nervous system, medicines for treating the alimentary tract and metabolism. Krka intends to add new key therapeutic areas and also introduce new generic products, fixed-dose combinations, strengths, pharmaceutical forms, and delivery systems. It will add new medicines to prospective therapeutic areas, including analgesics, antidiabetics, oncology medicines and antimicrobials, antibiotics and antiviral medicines for the treatment of HIV infections, and anticoagulant medicines. The company plans to provide an extensive range of medicines from other therapeutic groups, such as for the treatment of allergies, the urinary tract, and blood and blood-forming organs. Krka aims to enter at least one new therapeutic area. It will also extend the portfolio of medicines by entering the market for biosimilar medicines, primarily with autoimmune agents, and antidiabetics.

According to the renewed strategy, investments will be lower than before, and amount to an annual average of €136 million.



The company plans to allocate at least 50% of the net profit generated by the Krka Group for dividends. So far, up to 50% of net profit generated by the Krka Group has been allocated to dividends.

The strategy optimises several other areas. Some changes stem from new regulations and stricter laws.

In the coming five-year strategic period, average annual sales growth in terms of quantity and/or value is projected to be at least 5%.

At a meeting in November, Supervisory and Management Board members discussed the 2018 business plan of Krka and the Krka Group and approved it. According to the 2018 plans, Krka Group sales are projected to be €1 billion 300 million and net profit at €153 million. Krka intends to allocate €135 million for investment projects to increase and upgrade production capacities and infrastructure. In 2018, Krka plans to increase the number of employees in Slovenia and abroad by 2%; the total number of regular employees is projected to exceed 11,200.

The plan includes detailed information about sales by regions and product groups, planned investments in research and development, the purchase of fixed assets and investments, the employment plan and projections of business results. The 2018 business plan originates from the revised development strategy for the period from 2018 to 2022.

**Convening and holding the Annual General Meeting** Together with the Management Board, as in previous years, the Supervisory Board drafted the agenda and materials for the AGM on 6 July 2017, and prepared a proposal for distributing of accumulated profit. The Supervisory Board proposed that the AGM discharge the Management and Supervisory Boards of liability for 2016.

Following a proposal from the Management and Supervisory Boards, the AGM again authorised the Management Board to acquire treasury shares. However, the total share of all treasury shares may not exceed 10% of share capital, i.e. 3,279,344 shares. The authorisation remains in force for 36 months.

The Board proposed to the AGM that Ernst & Young d. o. o., Ljubljana be appointed auditors for 2017.

**Investments** The Management Board regularly reports to the Supervisory Board on all of the Group's major investments in the first-quarter, half-year, nine-month and annual business reports. In addition to this, the Management Board prepares an annual detailed overview of all the significant investments. The Management Board reported to the Supervisory Board on the course of work, meeting of deadlines, and cost estimates. It also presented building plans and photographs of construction sites. The Management Board informed the Supervisory Board of current events relating to investments. In 2017, members discussed in particular information about the Notol 2 plant, Krka's major investment in the production of solid pharmaceutical dosage forms, where test production started in February 2015. Regular production began in 2016 and 2017. The company has been gradually installing additional production lines according to market needs and projected production growth. One of the main investments finished in 2017 about which members were informed promptly is the new RKC 4 research and development centre, intended for research and quality assurance. Works began in July 2015, and by the end of 2016 the building was ready to have the equipment built in and qualified. The new facilities were made available to users at the end of 2017. The members also discussed the construction of Krka's new development and production facilities for solid dosage form of oncology medicines in Jastrebarsko in Croatia, which were completed in spring 2017. The members were informed of an important new investment, a multi-purpose warehouse at Krka's main location in Novo mesto. Its construction started in the winter of 2017. They also discussed small investments.

**Risks** The Management Board regularly reported to the Supervisory Board about various risks, and in great detail about the currency risk, and various business and legal risks, particularly those relating to intellectual property. Like every year, the Management Board presented by individual products and markets the procedures, scheduled deadlines, and risks related to patent- and similar disputes in which Krka was involved.

When considering interim reports, the Management Board reported to the Supervisory Board about potential market and regional risks, such as measures taken by authorities or regulatory bodies in individual countries and special characteristics of individual markets, such as changes in methods for determining the prices of medicines.

Krka's Internal Audit reported to the Audit Committee, which then reported to the Supervisory Board on risks established in internal audit reviews.

**Business trends in the pharmaceutical industry and analytical reports on Krka** In 2017, Krka's operations were monitored by 12 financial analysts from banks or financial companies, seven of whom were foreign, and by analysts of large owners. Also in 2017, the Supervisory Board was informed of the findings of external analysts, assessments of fair value of Krka shares, and the costs and benefits with respect to Krka's operations as described by analysts. The Board also discussed current information about the pharmaceutical industry.

**Benchmarking Krka's performance with comparable companies** The Supervisory Board regularly compares Krka's operations with its competitors. Also in 2017, it was informed about the operational results of the Krka Group in comparison to other generic pharmaceutical companies, in particular Gedeon Richter, Stada, Lek, Hikma, and occasionally also to other companies. It especially compared sales, their structure by region and groups of products, gross profit, operating profit (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), profit before tax and profit in the period, margins, ROE and ROA indicators, a presentation of cost structure, income statement, and share price indicators.

**Works Council's report on worker participation in management** Krka is distinguished for its good relations between employees and management. It has received several awards also in 2017 as the most reputable employer. The Management Board reported to the Supervisory Board about results of the measurements of the organisational climate. The President of the Works Council informed the Supervisory Board about Krka's participation agreement with employees, and reported about worker participation in management. In accordance with the participation agreement, the Management Board consults with and informs the Works Council about agreed topics. Joint decision making and the possibility for the Works Council to delay certain decisions are also foreseen. Cooperation was very good. Any problems were resolved promptly. In accordance with Article 80 of the *Worker Participation in Management Act*, the President of the Works Council presented the Works Council's report. He commended the cooperation between the Management Board, worker representatives and employees, as agreements were respected, information sharing and relations were good, as was the working atmosphere.

**Cooperation with Internal Audit** The Supervisory Board approves the appointment, dismissal and remuneration of the head of Internal Audit, documents that regulate the purpose, meaning and tasks of internal audit, and the annual and mid-term plans of internal audit. It is also informed about the annual report on the work of internal auditing.

In 2017, the Supervisory Board determined the performance bonus for the head of Internal Audit for 2016 and for the first half of 2017. The Board discussed and approved Internal Audit 2018 work plan. It was also informed about the annual report of Internal Audit. In each case, the Audit Committee reported and advised the Supervisory Board.

**The work and remuneration of the Management Board** The Supervisory Board regularly monitored the work of the Management Board, and especially closely twice a year when setting the variable amount of 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.

Performance is defined according to quantitative and qualitative criteria. The quantitative criteria include the sales value growth and growth in sales volume, increases in cash flows from operations, as well as operating profit and return on equity. Qualitative criteria include activities in new indication areas, the implementation of new requirements related to quality, regulatory and other areas, entry to new markets, new product launches, social responsibility, Krka's reputation, as well as investor relations and public relations.

The variable amount of the Management Board's salaries is paid in two parts: the first part according to the interim performance results, and the second depending on annual performance.

**Shares and shareholding structure** Every quarter, the Supervisory Board obtained current information about shares, and reviewed the report on the acquisition of treasury shares, the current shareholding structure, trading in shares, and the company's share price. In 2017, no major changes occurred in the shareholding structure, share price, or dynamics of acquiring treasury shares. In 2017, the AGM once again authorised the Management Board for a period of 36 months to acquire treasury shares. However, total treasury shares may not exceed 10% of share capital. The Supervisory Board was



also informed about the calendar of closed trading windows, when persons – including all members of the Supervisory Board – with access to insider information are forbidden to trade in Krka shares. The Supervisory Board was informed of amendments to the *Rules on Trading in the Financial Instruments of the Company* adopted by the Management Board in July 2017 with respect to legislative changes and explanation by the regulatory authorities. The *Rules* were first updated and harmonised with new legislation back in 2016.

**Strengthening the good practice of Supervisory Board operations** The Supervisory Board performed a periodic self-assessment according to the methodology of the Slovenian Directors' Association. The members submitted the completed questionnaires to the Secretary, based on which the Secretary and the President of the Supervisory Board prepared the report. The average grade was 3.6 out of 4. The grades showed that the work of the Supervisory Board is of the highest standards. The members also proposed some improvements to their work. They agreed to start using the application for electronic distribution of the materials.

**Technical developments in Supervisory Board operations** In 2017, we introduced two new major innovations: e-distribution of the materials for the Supervisory Board, and simultaneous interpretation at all meetings.

The members access Supervisory Board materials through a secure and dedicated website. It gives ample opportunity for work, and can be accessed anywhere and at all times. The members generally access the website via their tablets. The Slovenian company Ixtlan developed the application on the basis of security requirements, legislation and good practice.

Simultaneous interpretation and translations of all necessary materials are provided for Hans-Helmut Fabry, a member from Germany.

**Presentation of individual work processes** In addition to regularly considering operations, the Supervisory Board occasionally receives detailed information about individual work processes. The Board members generally observe work processes on site. In 2017, the Board was acquainted with the production of raw materials and finished products.

**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.

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

## Work of Supervisory Board committees

The Supervisory Board appointed the Audit Committee and the Human Resource 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.

### Audit Committee

In 2017, the Audit Committee met five times and discussed 28 items on the agenda. The first three meetings were presided over by Simona Razvornik Škofič. Due to her resignation from the Supervisory Board, Borut Jamnik was elected President of the Audit Committee at a meeting in July. The committee members are Boris Žnidarič, Tomaž Sever, Franc Šašek, and Borut Šterbenc. Borut Šterbenc is an outsourced accounting and auditing expert and is not a member of the Supervisory Board. The other members are members of the Supervisory Board.

The committee invited the President of the Management Board and the member of the Management Board responsible for accounting, finance and controlling, and the head of Internal Audit to all its meetings. The President of the Supervisory Board may attend meetings at his own discretion. The Supervisory Board Secretary attends all meetings. In 2017, two meetings were also attended by representatives of the audit company Ernst & Young d. o. o., Ljubljana. The Director of Krka's Corporate Performance Management reported at one meeting.

The Audit Committee dedicated most of its time to discussing the following:

**Annual Report** The committee considered the 2016 Annual Report of Krka and the Krka Group, the auditor's report and the Supervisory Board report for 2016, and proposed that the Supervisory Board approve them. The auditing partner and coordinator of the external auditor Ernst & Young d. o. o., Ljubljana reported twice on the audit procedures to the members of the committee.

**Interim results** When considering the interim reports, the Audit Committee primarily discussed these with regard to accounting and finance and reported about them to the Supervisory Board. In 2017, no accounting or financial particularities or changes to the past practice were established.

**Accounting policies and cooperation with the external auditor** The committee regularly monitors the implementation of external audit procedures and works 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 prepared a proposal from the auditor to audit the business results for 2017. The proposal was discussed by the Supervisory Board, and the auditor was appointed by the AGM. The Audit Committee reviewed the contractual provisions with the auditor and advised the Supervisory Board to approve them. Consistent with good practice, the president and member of the committee met with the auditors, and together with the auditors proposed areas of business which should be closely examined in the regular performance audit for 2017. The committee was informed about the composition of the auditing team and their planned activities and schedule before the audit.

**Protocol for managing non-audit services** According to *Regulation (EU) no. 537/2014*, a company within the group of Ernst & Young, the certified auditor for 2017 financial statements of Krka as a public-interest entity, may not provide any prohibited non-audit services to Krka or its subsidiaries in the territory of the European Union, and may carry out other non-audit services only if so previously allowed by the Audit Committee of the Supervisory Board of Krka. For approval purposes, the Audit Committee adopted the *Protocol* for the preliminary approval of non-audit services. The *Protocol* stipulates the basic principles for approval, cost limits, the procedure and the duration of the permitted non-audit services.

In 2017, the Audit Committee also followed other current issues in external auditing.

**Internal audit** In 2017, the committee discussed several other topics related to internal audit. It reviewed the report on the work of Internal Audit for 2016 and the self-evaluation report of the Internal Audit for 2016. It also discussed the report on the work of Internal Audit for the period January–June 2017 and the plan of work for 2018. The committee proposed performance bonuses for the head of Internal Audit for 2016 and for the first half of 2017. In accordance with legislation, the Audit Committee may give guidelines for their work to Internal Audit. In 2017, the Audit Committee discussed this subject for the second time. It did not change the method of work, as it decided that it was good.

The head of Internal Audit regularly informs the members of the committee of the findings of internal audits. At a meeting in March 2017, she reported about audits performed in Sales in Region East Europe; Health and Safety at Work; Supply Chain Planning and Operations, Corporate Performance Management; and Information Technology and Telecommunications. She also reported about audits conducted in subsidiaries and representative offices: Terme Krka, Bulgaria, Latvia, Belgium, Finland, Ukraine, Uzbekistan, the United Kingdom, Ireland, and Estonia. At a meeting in July, the head of Internal Audit reported about audit findings with respect to the API research and development process, the process of analytic development, operations of the Region Overseas Markets, operations of representative offices in the Russian Federation and Belarus, and operations of subsidiaries in Macedonia and Sweden. No significant deviations were established.

**Risk management** The Audit Committee regularly discussed financial risks and reported about them to the Supervisory Board. It considered currency risks at every meeting, and focused especially on risks related to the currency exchange rate fluctuation of the Russian rouble, which accounts for most of Krka's currency exposure for Krka. The committee also dealt with other business risks. The Management Board informed the members of the largest cost items and any discrepancies in comparison to 2016 and the plan, and the reasons for them. There were no anomalies.

**Annual General Meeting** The Audit Committee discussed the appointment of the auditor for the 2017 financial year and suggested at the AGM that the Supervisory Board propose the audit company Ernst & Young Revizija, poslovno

svetovanje, d. o. o., Ljubljana as the auditor. The AGM approved the proposal. The selected auditing company has been conducting audits at Krka since 2012.

**Current issues** Depending on current issues or following the proposal of committee members, it also discussed other information from the accounting and financial perspective and risks.

## Human Resource Committee

In 2017, the Human Resource Committee met twice and discussed six agenda items. The Committee is presided over by Andrej Slapar; the members are Julijana Kristl and Mateja Vrečer. The committee invited the President of the Management Board and the member of the Management Board responsible for accounting, finance and and controlling, and the Supervisory Board Secretary to all meetings. The President of the Supervisory Board may attend the meetings at his own discretion.

**Management Board remuneration** In 2017, the committee evaluated the work of the Management Board twice, for the entire year of 2016 and separately for the first half of 2017. It applied quantitative and qualitative measures of performance from the *Rules Defining the Bonus Element of 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 2016 and the first half of 2017.

## Evaluation of the work of the Management and Supervisory Boards

The Supervisory Board monitors the management and business operations of Krka and the Krka Group, especially compliance with the *Companies Act* (ZGD-1) and good practice, in particular with the *Corporate Governance Code*, the guidelines of the Slovenian Directors' Association and *Code of Best Practice for Warsaw Stock Exchange Listed Companies*.

The Management Board regularly attended all the meetings of the Supervisory Board in 2017. The President of the Management Board reported and answered questions in the name of the company. Other members of the Management Board provided the Supervisory Board with clarifications.

The President of the Supervisory Board and the President of the Management Board remained in contact between the meetings in 2017, consulted each other, and together considered various topics.

In 2017, the Management Board timely collected all the necessary data, reports and information, so that the Supervisory Board could do its work properly. The Management Board responded quickly and effectively to the decisions of the Supervisory Board.

In 2017, in accordance with its recent practice, the Supervisory Board considered the work of the Management Board twice a year as a separate agenda item when setting the performance bonus. It assessed the performance of the Management Board with a described model which contains quantitative and qualitative measures of performance. For this purpose, the Management Board prepares a detailed report in which the achievement of individual measures is described. The Supervisory Board promptly evaluated the work of the Management Board upon each discussion of interim results, compared Krka's operations with competitors and considered external analysts' opinions about Krka. The Management Board was fully committed to the Krka Group achieving the best results possible. The Board was successful, as the Krka Group in 2017 improved all major indicators of operating in comparison to 2016.

The Management and Supervisory Boards cooperated professionally and productively, especially in revising the Krka Group development strategy for the 2018–2022 period.

In line with recommendations of the *Corporate Governance Code*, all members of the Supervisory Board completed statements on independence, which Krka published. All members remained independent in their work in 2017. Should a conflict of interest arise, the *Rules of Procedure of the Supervisory Board* take precedence. A member must refrain from voting in such cases.

Regarding conflicts of interest, member Hans-Helmut Fabry informed the Supervisory Board in November 2017 that he had been considering the possibility of making a private investment in the amount of €300,000 in Medoderm GmbH, a start-up company. This would make him a company stakeholder and member of its supervisory body. The company would engage in developing and manufacturing topical agents classified as medical devices, and not as prescription medicines, non-prescription products, or animal-health products marketed by Krka. He presented the planned investment to the members, and explained why Medoderm, its product, his membership of the company's supervisory body, and his financial contribution would not constitute a violation of non-compete obligation or conflict of interest. Based on the explanation provided by Mr Fabry, the Supervisory Board concluded that the investment was not a violation of Article 41 of the *Companies Act* (ZGD-1) on the non-compete obligation, Article 38a of the *Companies Act* on eliminating any conflict of interest, and the *Rules of Procedure of the Supervisory Board* on conflicts of interest of Supervisory Board members, and that his impartial and objective performance of duties of Krka's Supervisory Board member would not be compromised due to his personal economic interest.

Krka allocated €230,450 for the work of the Supervisory Board and its committees (pay for exercising the function, attendance fees, travel expenses) in 2017, whereas €232,741 were spent. In 2017, Krka paid €7,000 for membership fees to the Slovenian Directors' Association. Also, Krka incurred costs related to simultaneous interpretation services totalling €2,615, and the application eNS lease totalling €2,692. There were no other expenses payable to contractors or consultants.

## Approval of the annual report and proposal for the allocation of the 2017 accumulated profit

The Supervisory Board discussed the 2017 Annual Report at **two** Supervisory Board meetings and **two** Audit Committee meetings.

**The draft 2017 annual report and 2017 unaudited financial statements of Krka and the Krka Group** were considered by the Supervisory Board and the Audit Committee at their meetings on 21 March 2018. The certified auditor Ernst & Young d. o. o., Ljubljana reported to the Audit Committee **on the findings and 2017 audit procedures** before the meeting of the Supervisory Board on the same day.

The members of the Supervisory Board and of the Audit Committee received the **2017 annual report and audited 2017 financial statements of Krka and the Krka Group** on 3 April 2018, and discussed them at their meetings on 11 April 2018. 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 review by the Audit Committee, the Supervisory Board established that the Management Board's annual report is a true and fair account of events, and presented a comprehensive view of the performance of Krka and the Krka Group in 2017, and provided detailed information that was otherwise sent to the Board throughout the financial year. As the Supervisory Board had no comments on or reservations in that regard, it unanimously approved the 2017 annual report at their meeting on 11 April 2018. **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 2017, Krka generated total net profit of €153,730,414.74, of which €10,897,931.61 was appropriated to reserves for treasury shares, and €0.00 to other revenue reserves. The remaining profit of €142,832,483.13 and the retained net profit of €26,398,055.35 comprised the accumulated profit, which as at 31 December 2017 amounted to €169,230,538.48.

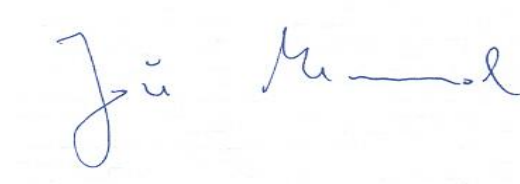
The Management Board and the Supervisory Board proposed to the AGM that the accumulated profit be allocated as follows:

- dividends €92,900,670.60, or €2.90 gross per share;
- other revenue reserves €38,164,933.94; and
- for retained earnings €38,164,933.94.

The proposal was drawn up by considering the number of treasury shares on 10 April 2018. As the number of treasury shares changes, the number of shares paying 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 to be altered accordingly.

## Conclusion

Companies continue to encounter numerous challenges in sales markets. However, conditions have been improving in most markets. Krka, too, is constantly striving to improve its operations, looking for new business opportunities, and monitoring its performance. Krka is known for sound business operations, stable dividends, low indebtedness, a vertically integrated business model with a cutting-edge range of products sold successfully in traditional markets from Vladivostok to Lisbon. Krka has also entered the Chinese market. The members of the Supervisory Board find Krka's operations in 2017 have been financially sound, successful and trustworthy.

A handwritten signature in blue ink, appearing to read 'Jože Mermal', is centered on the page. The signature is fluid and cursive.

Jože Mermal  
President of the Supervisory Board

## Financial Highlights of the Krka Group's Performance

In € thousand	2017	2016	2015	2014	2013
Revenues	1,266,392	1,174,424	1,164,607	1,191,614	1,200,827
Operating profit (EBIT) <sup>1</sup>	198,741	122,435	199,434	276,953	227,588
EBITDA <sup>2</sup>	306,638	228,238	306,742	374,535	321,732
Net profit	152,576	108,456	158,185	166,161	172,766
Non-current assets (year-end)	1,033,008	1,038,067	986,598	1,008,830	973,954
Current assets (year-end)	886,123	873,451	822,606	786,915	785,930
Equity (year-end)	1,487,699	1,444,444	1,405,984	1,351,899	1,332,611
Non-current liabilities (year-end)	121,182	115,313	110,982	125,421	128,833
Current liabilities (year-end)	310,250	351,761	292,238	318,425	298,440
R&D costs	125,864	117,994	115,393	108,370	97,235
Investments	105,088	131,817	95,889	173,721	157,268
<b>RATIOS</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
EBIT margin	15.7%	10.4%	17.1%	23.2%	19.0%
EBITDA margin	24.2%	19.4%	26.3%	31.4%	26.8%
Net profit margin (ROS)	12.0%	9.2%	13.6%	13.9%	14.4%
Return on equity (ROE) <sup>3</sup>	10.4%	7.6%	11.5%	12.4%	13.4%
Return on assets (ROA) <sup>4</sup>	8.0%	5.8%	8.8%	9.3%	10.2%
Liabilities/Equity	0.290	0.323	0.287	0.328	0.321
R&D expenses/Revenues	9.9%	10.0%	9.9%	9.1%	8.1%
<b>NUMBER OF EMPLOYEES</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Year-end	10,832	10,889	10,564	10,499	10,048
Average	10,823	10,774	10,532	10,284	9,783
<b>SHARE INFORMATION</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Total number of shares issued	32,793,448	32,793,448	32,793,448	32,793,448	35,426,120
Earnings per share (EPS) in € <sup>5</sup>	4.74	3.35	4.86	5.07	5.24
Dividend per share in €	2.75	2.65	2.50	2.10	1.61
Closing price on LJSE at the end of the period in €	57.50	52.90	65.20	59.60	60.00
Price/Earnings ratio (P/E)	12.14	15.81	13.41	11.75	11.46
Book value in EUR <sup>6</sup>	45.37	44.05	42.87	41.22	37.62
Price/Book value (P/B)	1.27	1.20	1.52	1.45	1.60
Market capitalisation in € thousand (31 Dec)	1,885,623	1,734,773	2,138,133	1,954,490	2,125,567

<sup>1</sup> The difference between operating income and expenses

<sup>2</sup> The difference between operating income and expense plus accumulated depreciation

<sup>3</sup> Net profit/Average shareholders' equity in the year

<sup>4</sup> Net profit/Average total asset balance in the year

<sup>5</sup> Profit of the year attributable to equity holders of controlling company/Average number of shares issued in the year, excluding treasury shares

<sup>6</sup> Equity as at 31 Dec/Total number of shares issued



## ID card of the Krka Group

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 29 subsidiaries outside Slovenia, of which Ningbo Krka Menovo Pharmaceutical Company Limited was in the process of establishing on 31 December 2017 (the procedure was completed at the beginning of 2018).

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, but 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, and Talaso Strunjan. Terme Krka is also the majority owner of Golf Grad Otočec, d. o. o.

The company Farma GRS, d.o.o. was established in partnership with companies from the pharmaceutical, and pharmaceutical and process manufacturing industry. The company develops new pharmaceutical products, new technological products for pharmaceutical production and contributes to more efficient pharmaceutical production in terms of energy, environment, and business operations. Farma GRS is the sole owner of six micro companies: 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. The share of Krka in Farma GRS, d. o. o. is 99.7%.

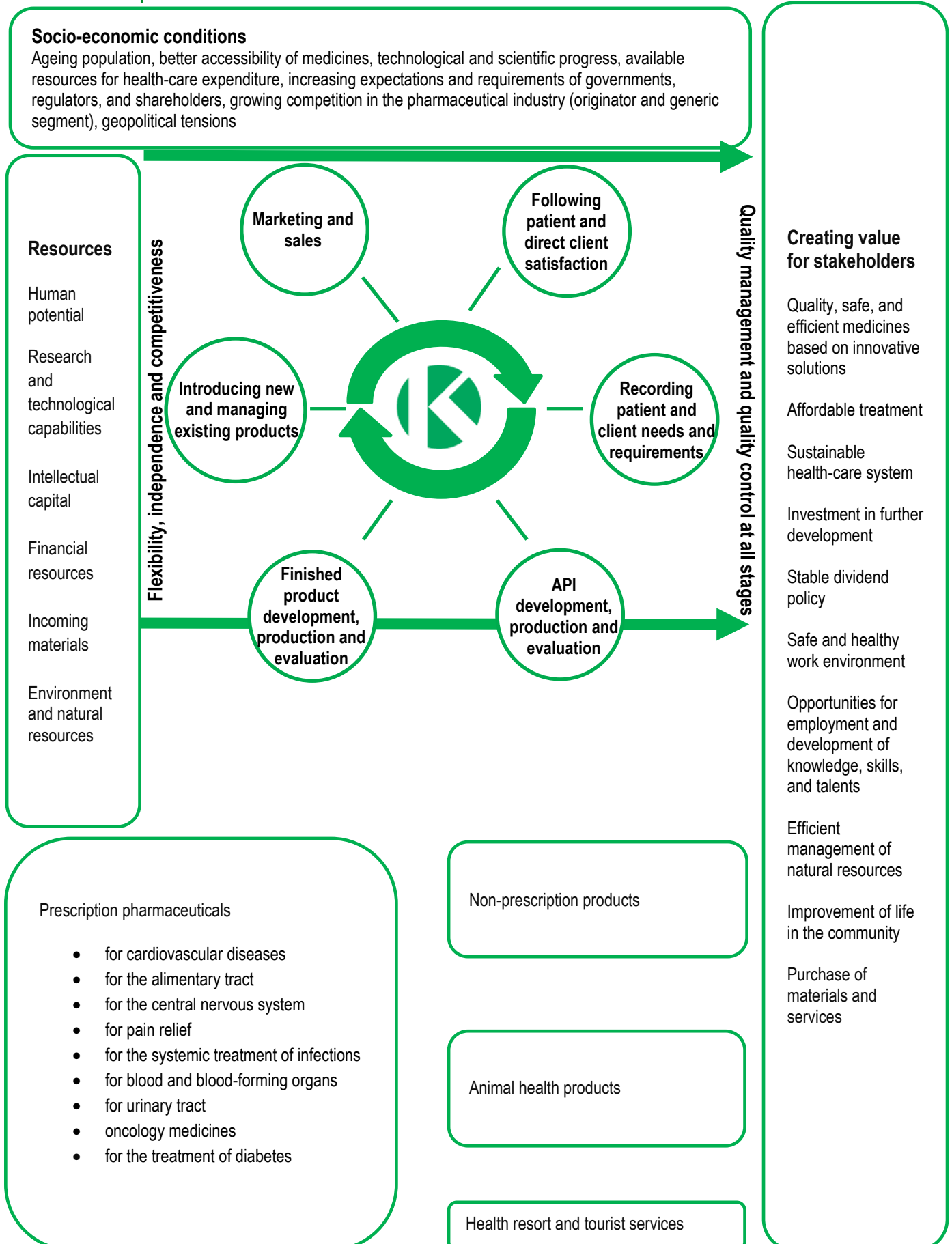
## Information on the controlling company

### KRKA, d. d., Novo mesto

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



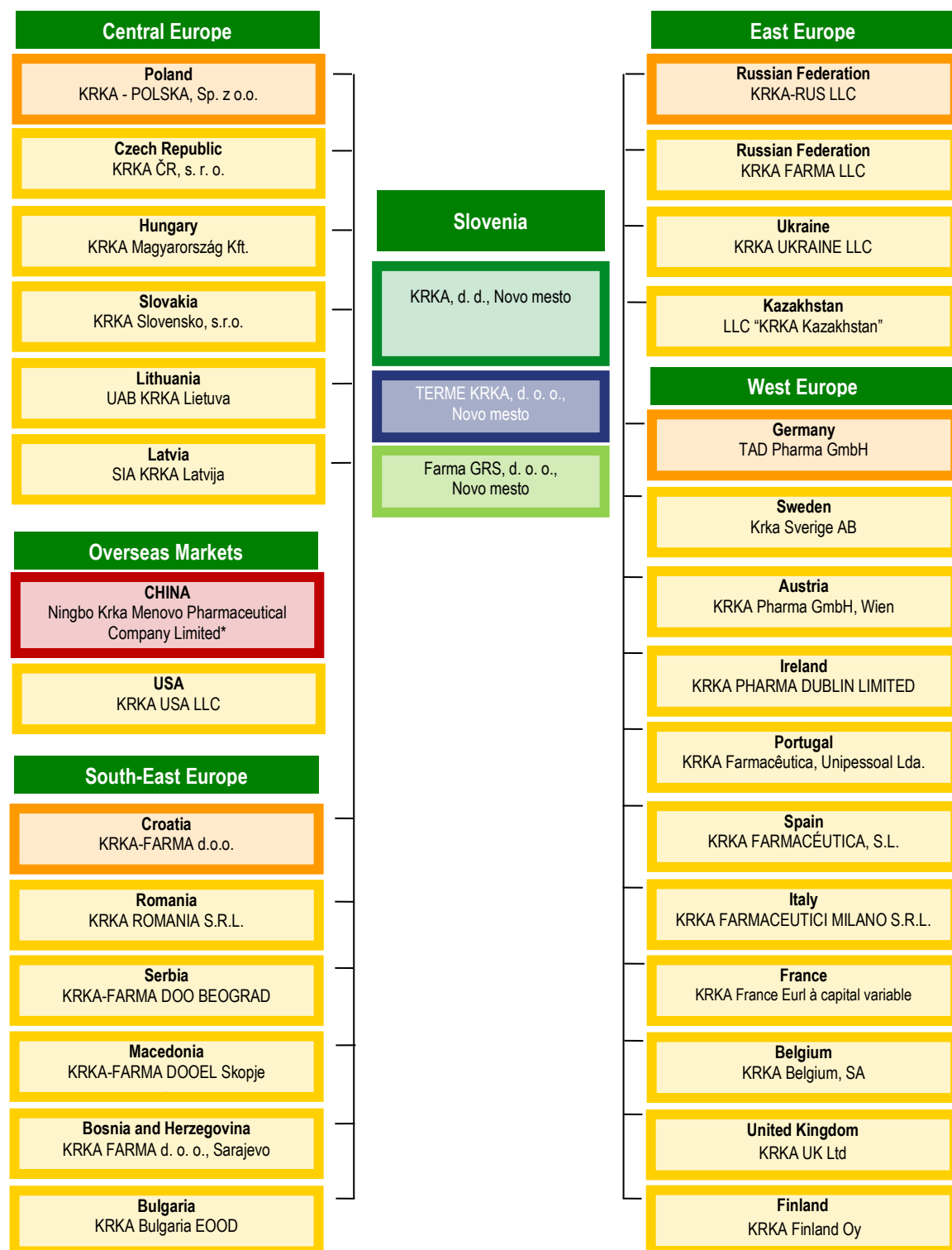
## Krka Group Business Model



Our company's mission is living a healthy life. We contribute to this by working entirely for the benefit of patients and our other clients. Our business model provides affordable products of high quality and enables long-term responsible and sustainable value creation. The vertically integrated business model allows us to plan and maintain an integrated management system, thus ensuring adequate processes as well as the marketing of quality, safe, and efficient products through their entire life cycle.

Our values determine the manner of cooperation to implement our visions and guide our business decisions. Our mission is balanced, natural, and sustainable development by which we contribute to protection of health, the preservation of the environment, and development of the community.

## Krka Group Organisation Chart



The chart includes companies in operation on 31 December 2017.

Production and distribution companies

Joint venture for development, production and distribution

The EU project: research and development company

Other subsidiaries outside Slovenia

Health resort and tourist services company

\*In the process of establishing on 31 December 2017. The procedure was completed at the beginning of 2018.

Further on, short company names are used.

## Krka's Presence in Global Markets



## Overview of Significant Events and Awards in 2017

Events and awards are listed chronologically.

### Events

- Fifteen worker assemblies were held at the beginning of the year at Krka Slovenia, where the President and members of the Board informed employees about the performance results and plans for the current year and the strategy, as well other current information. In this way, we enable direct communication between the employees and management, build interpersonal relationships and improve cooperation among organisational units.
- In March, we organised the eleventh consecutive meeting with local sponsored parties whose main sponsor is Krka. At the meeting, we focused on working with young people and, for the first time, we awarded recognitions for the best talent in sports and culture in 2016.
- In March, we held a meeting with Novo mesto residents living in the immediate vicinity of Krka's pivotal location in Novo mesto. We engage in an open dialogue and exchange opinions with residents. We consider the information obtained in planning environmental goals and sustainable environmental care.
- In April, we organised a socially responsible campaign, Krka's Week of Charity and Volunteering, for the sixth consecutive time. The charity event under the slogan 'Charity Is Also a Part of Us' brought together almost 1,200 Krka volunteers.
- At a ceremony for Krka Awards Day, we conferred plaques and thanked those employees who celebrated their many years of service, best employees and best managers, as well as those who suggested the most useful proposals and improvements.
- Marketing Awards were conferred on the best marketing employees for the 19th consecutive year. The most successful employees in regulatory affairs were also awarded.
- At the 23rd Annual General Meeting of the Company, the proposed dividend per share of €2.75 gross, which is 4% more than the year before, was approved.
- Two new members of the Supervisory Board were appointed in July for a five-year term of office. After Anja Strojín Štampar was removed from her position as a member of the Supervisory Board, Hans-Helmut was elected as the new member of the Board. As Simona Razvornik Škofič resigned from the Supervisory Board, Borut Jamnik was elected as a new member.
- As part of the 47th Krka Prizes, we awarded the best secondary school research projects and the best undergraduate and postgraduate research projects.
- According to a study by Competo and Stratkom that included 1,562 respondents, Krka ranked at the top of the most attractive employers.
- In October, we successfully passed the 22nd audit of our integrated management system conducted by the Slovenian Institute of Quality and Metrology. In addition to five management systems adapted to the requirements of various standards (ISO 9001, ISO 14001, HACCP, BS OHSAS 18001 and ISO/IEC 27001), the auditors also inspected the system of environmental care and occupational health and safety. The audit was concluded with no non-compliance and confirmation of the process management as well as progress and improvements in all areas of operation.
- Krka's subsidiary Krka Farma LLC in Istra was listed among the 500 largest companies in the Russian Federation in 2017.
- On 15 November, Krka established a joint venture with our long-term Chinese partner Ningbo Menovo Pharmaceutical. Krka holds a 60% share and the partner a 40% share in the joint venture Ningbo Krka Menovo Pharmaceuticals.

## Awards

- As part of the research conducted by the Slovenian employment portal MojeDelo.com about the reputation of Slovenian employers, in 2017 Krka received an award for the most reputable employer twice: in February for 2016 and in November for 2017.
- At a ceremony held by the Dnevnik daily in March, Krka was awarded the 2016 Golden Thread Award for the fourth time for the best employer in the category of large companies.
- Krka was awarded by Russian doctors at the Russian national congress 'Man and Medicines' in Moscow in April. The professional public awarded Krka for its efforts to contribute to increasing the quality of Russian patients' lives with a broad range of modern, effective and safe medicines for treating the most common diseases.
- In the Russian Federation, our companies Krka-Rus and Krka Farma were awarded with a certificate of trust by the state labour inspectorate of the Moscow Region for complying with Russian labour legislation.
- In May at the 22nd Slovenian Marketing Conference, Krka was among the finalists for Excellence in Marketing Awards for the second time in the B2B category. This recognition confirms our comprehensive marketing strategy and innovative marketing approaches, with which we express our marketing orientation and are an inspiration for the business community.
- The Chamber of Commerce of Dolenjska and Bela krajina awarded Krka, d. d., Novo mesto and Farma GRS, d. o. o., Novo mesto two gold and four silver awards for best innovations.

The Slovenian Chamber of Commerce and Industry awarded Krka, d. d., Novo mesto and Farma GRS, d. o. o., Novo mesto gold and silver awards on the occasion of Innovation Day. The gold award was conferred on researchers for improving the manufacturing procedure for candesartan cilexetil, and the silver award for prolonged-release tablets of metoprolol succinate. Both innovations are the result of research and development concerning medicines for the treatment of cardiovascular diseases.

- At the Occupational and Vocational Rehabilitation Days in Portorož in September, Krka was awarded by the Ministry of Labour, Family, Social Affairs and Equal Opportunities for following good practice in employing disabled persons.
- At the 2017 Education Management Conference, held for the 17th time, Krka received the TOP 10 award for the thirteenth time, and was therefore once again among the ten Slovenian companies that make great investments in employees' knowledge, education and training.
- In the 2017 Corporate Reputation survey conducted by Kline & Partner, Krka was again voted among the well-known, highly reputable companies with an investment appeal. A quality product range, clear vision and leadership excellence were the factors that especially contributed most to Krka's reputation. The survey included 60 of the most prominent companies in Slovenia, or 800 representatives of the business world.

## Events after the accounting period

- Krka established a joint venture with its Chinese partner Ningbo Menovo Pharmaceutical, in which Krka holds a 60% share and the partner a 40% share. The agreement establishing Ningbo Krka Menovo Pharmaceutical and its articles of association were signed by the partners on 15 November 2017. Immediately after the signing of the agreement, activities were initiated for the joint venture's approval by the Chinese authorities and its registration. The company was registered with the Chinese authorities on 5 December 2017. In January 2018, Ningbo Krka Menovo Pharmaceutical opened its bank account and, a few days later, on 22 January 2018, the partners paid in the first tranche of subscribed capital. The joint venture is headed by a three-member board of directors, in which Krka has two representatives, one being the president. The first meeting of the board took place on 14 March 2018.



## 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 one share class only: 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. Upon request, all the materials for each AGM may be viewed 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 23rd AGM of 6 July 2017, the shareholders:

- received information about the annual report of the Management Board 2016, 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 2016 Annual Report;
- adopted a resolution on the appropriation of accumulated profit for 2016;
- discharged the Management and Supervisory Boards from liability in 2016;
- authorised the Management Board for a period of 36 months to acquire and dispose of treasury shares;
- appointed the auditor for 2017;
- removed Anja Strojín Štampar from her position as a member of the Supervisory Board as of 6 July 2017;
- elected Hans-Helmut Fabry and Borut Jamnik members to the Supervisory Board for a five-year term of office, starting on the day after their election at the AGM.

According to the financial calendar for 2018, this year's AGM is due on 5 July. The call, with 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 newspaper *Delo*, 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. In accordance with the stipulations of the *Articles of Association*, the Supervisory Board approves the annual business and financial plan, and the strategy of the company. The body meets at least four times a year. It also carries out other tasks in accordance with the *Companies Act* (ZGD-1). It primarily gives approval to the appointment, removal, and remuneration of the head of Internal Audit, and to the act which regulates the purpose, meaning, and duties of an internal audit, as well as to the annual and multi-year plan of Internal Audit. It is also informed

about the annual Internal Audit report. The President of the Supervisory Board concludes a contract with the external auditor.

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 Supervisory Board for a five-year term of office, starting on 20 August 2015. In line with the *Corporate Governance Code*, a nomination committee was formed to advise on the selection of members. Matej Pirc, who was elected a member of the Supervisory Board by the AGM in 2015, resigned from the Supervisory Board, so his term of office expired on 7 July 2016. On the same day, the AGM appointed Dr. Boris Žnidarič as a new member. His term of office lasts until the end of the term of office of the other Supervisory Board members. On 6 July 2017, the term of office terminated for Simona Razvornik Škofič due to her resignation, and for Anja Stojin Štampar due to her removal by the AGM. The AGM elected Hans-Helmut Fabry and Borut Jamnik to their positions as members of the Supervisory Board for five-year terms of office, starting on the day after their election at the AGM of 6 July 2017.

The President of the Supervisory Board is Jože Mermal. His deputies are Andrej Slapar, the shareholder representative, and Franc Šašek, the employee representative. If the President of the Supervisory Board is absent, the shareholder representative replaces him, and if the latter is also absent, the employee representative replaces him.

**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 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 in 2011.

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 accordingly. All members have completed the questionnaire on conflicts of interest, which is available on the Krka website. Members' conduct in any case of a **conflict 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 operations of the Supervisory Board and its committees in 2017 are presented in the Supervisory Board report.

## Shareholder representatives

### Jože Mermal

*President of the Supervisory Board*

Jože Mermal, born in 1954, is from Ljubljana. He graduated in economics and has been successfully managing the BTC company for 22 years. He has worked in many management 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. As the founder and strategist of BTC, an advanced company, he has been supporting investments in development to reach the company's long-term goal: to make BTC an open company for future generations. Under his management, the company has established connections with long-term business partners through various activities and is becoming a unique business ecosystem, seeking new opportunities and finding challenges in a wide society, globalisation, innovation and sustainable development.

He has received several awards for his work, including Manager of the Year in 1997 and the Primus Award for excellence in communication in 2001 by the Slovenian Public Relations Society. He is a keen supporter of culture and received the title of 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 at BTC earned him the Vision Manager Award in 2012, which is conferred by public relations experts from the South-Eastern Europe. In 2014, the Chamber of Commerce and Industry of Slovenia awarded him for exceptional business and entrepreneurial achievements in the category of large companies for the year 2013. Under Mermal's management, BTC has become the first (and, to this date, the only) Slovenian company listed on the London Stock Exchange. In 2015, he received a gold plaque from the Managers' Association of Slovenia for more than two decades of support, followed by the highest managerial lifetime achievement award, the Best Manager of South-East and Central Europe 2016 award, which is bestowed by the Independent Agency for the Selection and Promotion of Managers. He was awarded the title of a 2017 honorary citizen of Ljubljana, which is the highest honour bestowed by the Municipality of Ljubljana, for his contribution to the reputation, significance and development of the municipality and its inter-city and international relations. BTC itself has received several important awards for various projects in its wider environment under Mermal's management.

Jože Mermal is a member of the presidency of the Slovenian Association of Economists (Zveza ekonomistov Slovenije), a member of the Council of Slovenian Science Foundation, and a member of the Council of the Faculty of Economics, University of Ljubljana. He also holds key managerial functions in various sports organisations. Under his management, the ABC Accelerator was established in 2015. Its main function is the development of a start-up business ecosystem. Since 2016, Mermal has been the president of the strategic council at ABC Accelerator, which has extended beyond the borders of Slovenia due to extremely dynamic and advanced business activities. In 2016, it opened for business in Germany (Munich) and America (San Jose, Silicon Valley).

#### **Andrej Slapar**

*Deputy President of the Supervisory Board and President of the Human Resource Committee*

Andrej Slapar, born in 1972, is from Ljubljana and holds a degree in law. In May 2013, he became the president of the management board of Zavarovalnica Triglav, where he began his career as a lawyer in the field of international damages. Andrej Slapar has been employed at Pozavarovalnica Triglav RE for a good ten years, in the last few years as a member of the management board. He joined the board of this leading Slovenian insurance company in November 2009.

He represents Zavarovalnica Triglav, the leading insurance and financial group in Slovenia and the Adriatic Region, on the Council of the Slovenian Insurance Association, where he also acts as the chairman. He chairs the supervisory boards of Pozavarovalnica Triglav Re (a reinsurance company), Jedrski pool GIZ (a nuclear insurance and reinsurance pool), the board of directors at Triglav INT holding, and is a member of the supervisory boards of Krka and Triglav Skladi, and the management board of the Slovenian Directors' Association.

#### **Borut Jamnik**

*President of the Audit Committee*

Borut Jamnik, born in 1970, is from Ljubljana. After graduating from the Faculty of Natural Sciences and Engineering, University of Ljubljana, he completed an internship and started his career as a manager of ownership transformation projects. Later, he started working for the Capital Fund (Kapitalska družba Ltd), where he gained experience in IT and analysis, and was involved in drafting the First Pension Fund in Slovenia. In the periods 2003–2005 and 2008–2011, he was the chairman of the management board at the Capital Fund Company and, in between, a board member at the Hit d. d. company and Probanka Asset Management. In October 2011, he became the chairman of the management board at Modra zavarovalnica, the largest specialist pension insurance company in Slovenia, and is responsible for asset management, insurance development and sales, actuarial matters, compliance, planning and controlling, as well as legal and HR matters.

He has been a member of the management board of the Slovenian Directors' Association for ten years and its president for the last six. Borut Jamnik engages in the development of corporate governance professional and practical fields, and supervisory and management board functions. Since 2015, he has chaired the supervisory board of Cinkarna Celje. He was reappointed to the management board of the European Association of Public Sector Pension Institutions (EAPSPI) in 2017. The Association brings together the representatives of pension fund management institutions from 16 European

countries actively involved in constructing a social Europe. They exchange experience and good practices regarding the development and implementation of pension schemes.

As an executive and member on the supervisory boards of large Slovenian companies, he has been engaged in various complex corporate campaigns and contributed to resolving complex business issues with his long experience in managing relationships between management bodies and stakeholder groups. He has taken part in many restructuring and rehabilitation projects, and demonstrated his negotiating skills in crisis management and resolving stakeholder conflicts. His extensive and diverse experience also include purchasing, sales and M&A procedures.

### **Hans-Helmut Fabry**

Hans-Helmut Fabry was born in 1956 in Germany. He studied psychology in Belgium and Germany, where he graduated at the University of Münster in 1981. His career spans the fast-moving consumer goods industry (Henkel, Bongrain, L'Oréal) and the pharmaceutical industry (Novartis), where he has held positions with growing responsibility in European markets (Germany, France, Switzerland, Austria, Czech Republic, Slovakia). Most recently, he has been the CEO of Hexal AG, the German subsidiary of Sandoz (Novartis) and the leading generics company in Germany, and the Global Commercial Head of the OTC Division of Novartis.

Mr. Fabry served as General Manager of Novartis Deutschland GmbH and he has headed the supervisory boards of various pharmaceutical production companies owned by Novartis: Salutas GmbH (Magdeburg, Germany), Sandoz GmbH (Kundl, Austria).

Since 2016, he has been engaged as a mentor and advisor. He was appointed to Krka's Supervisory Board in July 2017.

### **Prof. Dr. Julijana Kristl**

Prof. Dr. Julijana Kristl, born in 1953, holds a PhD in pharmaceutical sciences. Since 1977, she has been employed at the Faculty of Pharmacy at the University of Ljubljana. In the meantime, she upgraded her knowledge in the pharmaceutical industry and at the University of Geneva. She has successfully carried out numerous scientific, teaching and managerial tasks. Her research focuses on biomaterials, modern active substance delivery systems, and nanotechnology. Her research articles have been published in numerous renowned international scientific and professional journals, and she also owns three patents. She has been a university lecturer in Slovenia and abroad and a guest lecturer at universities in Austria, France, Italy, Germany, and elsewhere. In the course of her career, she has served as Vice-Dean, Head of the Chair of Pharmaceutical Technology, Dean of the Faculty of Pharmacy for two terms, and for two terms as Vice-Rector at the University of Ljubljana in charge of education, enrolment and quality. She has been acting as a member of numerous prominent commissions and committees at the Health Council of the Ministry of Health of the Republic of Slovenia and the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia. She is still active in the Slovenian Research Agency and serves on committees at the University of Ljubljana and the Faculty of Pharmacy. For the second term, she has been a member of Krka's Supervisory Board, holding a certificate of the Slovenian Directors' Association.

Julijana Kristl is renowned in international circles as a member of several important associations and journal editorial boards, such as the *Journal of Drug Delivery Science and Technology*, *Journal of Biomedical Nanotechnology* and *European Journal of Pharmaceutics and Biopharmaceutics*. She has been a reviewer of many scientific journals and frequently assesses doctoral dissertations and research projects at foreign universities and agencies. Her expertise covers planning, and the development and assessment of medicines, as well as new trends in the field of pharmacy.

### **Dr. Boris Žnidarič**

Dr. Boris Žnidarič holds a doctorate in social sciences and a master's degree in law; until his retirement he served on the board of the investment manager, Kapitalska družba, d. d., Ljubljana. Before that, he was successfully employed by several departments of an insurance company, the Triglav Group. He was the deputy president of the management board of Zavarovalnica Triglav, where, in addition to managing directors of organisational units, he was also responsible for strategic human resource management in subsidiaries. He was on the management board of Triglav Osiguranje in Zagreb, Croatia. He also managed the Celje regional organisational unit of Zavarovalnica Triglav, and led the central department for prevention and detection of insurance fraud. Before taking up that position, he was an adviser to the member of the

management board for the strategic human resource management in the Triglav Group, and an assistant director for legal, human resources and general affairs at the Ljubljana unit. He holds a certificate of professional competence for supervisory board membership. Besides his diverse career in insurance, he is also a university lecturer.

### Employee representatives

#### **Franč Šašek**

*Deputy President of the Supervisory Board*

Born in 1967, Franč 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 as 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 team leader for maintenance and was later appointed process owner for maintenance in Krka. 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 as an employee representative on 21 June 2014.

#### **Dr. Mateja Vrečer**

Dr. Mateja Vrečer was born in 1966 and has worked at Krka since 1990. She started out as a pharmaceutical engineering graduate and later passed the certification examination in pharmaceutical engineering, obtained a master's degree, and gained a doctorate in pharmaceutical sciences. 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**

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 on 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 already a member of the Krka Supervisory Board as an employee representative 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.

### Independent expert, member of the Audit Committee

In accordance with Article 280 of the *Companies Act* (ZGD-1), the Supervisory Board appointed Borut Šterbenc, who is an independent expert on accounting and auditing, to the Audit Committee. He is not a member of the company's Supervisory Board.



## Borut Šterbenc

*Independent expert on accounting and audit, member of the Audit Committee*

Certified auditor, Borut Šterbenc, born in 1978 in Ljubljana, is an economist by occupation. He graduated from the Faculty of Economics, University of Ljubljana. He is the financial director and deputy director of Kolpa, a Slovenian company. Until 2011, he was a project manager at KPMG and planned, led and conducted highly complex audits in many Slovenian companies, including: Krka, Intereuropa, Sava, NEK, and Lama. He is an experienced rapporteur to management and supervisory bodies. He is fluent in English, Croatian, and Russian.

## Management Board

The Management Board's **duties** are to:

- manage the company and make business decisions directly and independently;
- adopt the development strategy of the Krka Group, with the prior approval of the Supervisory Board;
- 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. Members may be reappointed.

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 coordinate opinions and make 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 duties. Every Management Board member is responsible for a certain number of organisational units, which permits direct cooperation between the Management Board and directors of organisational units.

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

- Director's Committee;
- 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-making 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 conditions.

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

Members of the Management Board and their related parties report to the company and competent institutions regarding any acquisition or disposal of the company's or related parties' shares 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 accordingly. 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

Please, find the CVs of the members of the Management Board presided over by Jože Colarič stated below. Their six-year term of office commenced 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 at Krka since 1982, starting in the Finance Sector, where he was initially 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 one of the leading generic pharmaceutical companies 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 payments. On 21 January 2015, the Supervisory Board unanimously appointed Mr 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 earned his 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 on 29 July 2009, the Supervisory Board reappointed him to the Management Board for a further six-year term of office, starting on 1 January 2010. Aleš Rotar has contributed significantly to the know-how and establishment of business functions relating to research and development at Krka. Because of his good performance and following a proposal by Jože Colarič on 18 November 2015, 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 R&D, Production and Supply Chain*

Vinko Zupančič was born in 1971 in Novo mesto, where he also completed his secondary education. 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 on 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 department of Finance, 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 President of the Board of Directors.

Bratož led his team to make Krka-Polska one of the largest and most successful Krka 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. At its meeting on 18 November 2015, following a proposal from Jože Colarič, the Supervisory Board 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 Bršljín Department, which she still manages. 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 mutual cooperation.

Milena Kastelic is well-trusted by employees, so the Works Council proposed her as the new Worker Director at the 15th regular meeting on 28 September 2015, and on 18 November 2015, the Supervisory Board unanimously appointed her to the Management Board for a term of office from 2016 to 2021.

## Management and Supervisory Board Diversity Policy

Krka's *Corporate Governance Policy* includes a commitment to prevent discrimination. Accordingly, 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 additional independent policies to govern the management and supervisory body structures in terms of gender, age, level of education, or other personal particulars. We do not take any other measures currently.

## 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 incorporated 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 some subsidiaries, but do not receive additional payment for their function.

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 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.

An exception with regard to the above is Ningbo Krka Menovo Pharmaceutical Company Limited, the joint venture in China, in which Krka holds a 60%, and the Chinese partner, Ningbo Menovo, a 40% ownership share. Krka has two representatives in the company's three-member board of directors, one being the president.

## Corporate compliance

A Chief Compliance Officer is appointed at the Krka Group level, whose autonomous and independent function is monitoring of corporate integrity. The Chief Compliance Officer is supported by Risk Management and Corporate Compliance, Legal Affairs, and employees from individual organisational units involved in regulating compliance of operations in individual areas.

The *Code of Ethics*, containing principles and standards of ethical conduct, is the umbrella document for this area. This framework arrangement is a guideline, while local legislation specifics and transparent business practices are considered in

subsidiaries. The *Code of Ethics* applies to all Krka employees. It emphasises that all employees must endeavour to comply with the principles of ethical, uncorrupted and legal conduct.

We continuously improve education and employee awareness with regard to the importance of corporate compliance and corporate integrity. Any breach of the *Code of Ethics* or potential fraudulent, corruptive, or other non-compliant activities at the expense of Krka are regulated by internal documents and relevant legislation.

We strive to continuously improve the culture of ethics and protect Krka's reputation and property, so we constantly raise employee awareness regarding fraud indications, non-compliance, and other breaches, as well as how to manage them and responsibility in identifying and reporting them.

## Internal audit

Internal auditors carry out their tasks in the Krka Group on the basis of medium-term and annual work plans in accordance with the applicable rules (*International Standards for the Professional Practice of Internal Audit*, *Code of Ethics*).

In compliance with the 2017 annual plan, fifteen regular internal audits were carried out by using the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) methodology.

This methodology is globally recognised and serves as the basis for comprehensive risk management. Internal auditors use these methods to assess the fulfilment of audit objectives in several categories: business operations, reporting and compliance with the regulations for each audited scope.

Internal audits were carried out in compliance with the said methodology for: sales, investment projects, human resources management, development of APIs and analytical methods, environmental protection, and information technology. Regular internal audits were also conducted in several subsidiaries and representative offices abroad. Moreover, internal auditors provided consultations in line with the aforementioned standards.

Internal auditors gave assurance that the audited scopes and processes had functioning and effective internal control systems in place for achieving set objectives. However, improvement could be made, they made recommendations, categorised them by individual risk levels and regularly verified their implementation.

The internal auditors also work with Krka's Supervisory Board and its Audit Committee, as well as with the external auditors.

## 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 audit firm Ernst & Young d. o. o., Ljubljana, audits the financial statements of the controlling company and the consolidated financial statements of the Krka Group. The external auditor reports its findings on audits to the Management Board, Supervisory Board and the Audit Committee of the Supervisory Board.

Transactions between the Krka Company and the audit firm Ernst & Young d. o. o., Ljubljana, and transactions between Group companies and individual audit firms are disclosed in the notes to the financial statements Transactions with Audit Firm.

## Composition of the Supervisory Board of Krka as at 31 December 2017

Name and surname	Jože Mermal	Borut Jamnik	Andrej Slapar	Julijana Kristl	Boris Žnidarič	Hans-Helmut Fabry	Franc Šašek	Mateja Vrečer	Tomaž Sever
Position	President	Member	Deputy President	Member	Member	Member	Deputy President	Member	Member
First appointment	2015	2017	2015	2010	2016	2017	2009	2005	2005
Duration of current term of office	2020	2022	2020	2020	2020	2022	2019	2019	2019
Representative of shareholders/employees	shareholders	shareholders	shareholders	shareholders	shareholders	shareholders	employees	employees	employees
Attendance at meetings	6/6	2/2 since a member	6/6	5/6	6/6	2/2 since a member	6/6	6/6	6/6
Gender	male	male	male	female	male	male	male	female	male
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	German	Slovenian	Slovenian	Slovenian
Year of birth	1954	1970	1972	1953	1948	1956	1967	1966	1967
Education and qualifications	University graduate in economics	University graduate in mathematics	University graduate in law	Doctor of pharmaceutical sciences	Doctor of social sciences and master of legal science	University graduate in psychology	University graduate in organisational sciences	Doctor of pharmaceutical sciences	University graduate in mechanical engineering and master of management and organisational sciences
Independent according to the <i>Corporate Governance Code</i>	yes	yes	yes	yes	yes	yes	yes	yes	yes
Conflicts of interest in the financial year	In 2017, no permanent or relevant conflicts of interest were established for any board members. Individual appointments to the functions did take place; also insurance was provided against the liability of top managers when the Supervisory Board passed a resolution regarding a member or a company legally represented by that member, and also a private investment of one board member according to Articles 42 and 38 a of the <i>Companies Act</i> (ZGD-1) was established. These, however, did not constitute permanent or relevant conflicts of interest. In all the aforementioned cases, the members in question refrained from voting in compliance with the <i>Rules of Procedure of the Supervisory Board</i> .								
Membership in committees	–	President of the Audit Committee	President of the Human Resource Committee	Member of the Human Resource Committee	Member of Audit Committee	–	Member of Audit Committee	Member of the Human Resource Committee	Member of Audit Committee
Attendance at regular committee meetings	–	1/1, since a member	2/2	2/2	5/5	–	5/5	2/2	5/5
Membership of supervisory bodies of other companies	Members of the Supervisory Board, especially representatives of shareholders, take on responsibilities also as members of supervisory and management bodies of other companies, but not to an extent that would influence their work on the Supervisory Board of the company.								

## Composition of the Management Board as at 31 December 2017

Name and surname	Jože Colarič	Aleš Rotar	Vinko Zupančič	David Bratož	Milena Kastelic
Position	President	Member	Member	Member	Member, Worker Director
Area of work in the Management Board	Marketing, sales, human resources, investments, public relations, legal affairs, new products to a certain extent, certain administrative services	Research and development of finished products, new products, quality management, health and safety at work	API research and development, supply chain management	Corporate performance management, finance, information technology, relations with trade unions and works council, certain administrative services	Acts as a workers' representative and represents their interests in human resources and social issues.
First appointment to the Management Board	1997	2001	2010	2016	2016
Duration of current term of office	2021	2021	2021	2021	2021
Gender	male	male	male	male	female
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1955	1960	1971	1976	1968
Education and qualifications	University graduate in economics	Doctor of pharmaceutical sciences	Doctor of pharmaceutical sciences	University graduate in economics	University graduate in food technology
Membership of supervisory bodies of companies not associated with Krka	no	no	no	no	no

## Corporate Governance Code Compliance Statement

In 2017, Krka's code of reference was the *Corporate Governance Code* (hereinafter: the *Code*) adopted on 27 October 2016 by the Ljubljana Stock Exchange and the Slovenian Directors' Association. The *Code* entered into force on 1 January 2017 and is published on the Ljubljana Stock Exchange website.

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declare that in 2017 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 and recommendations of the *Code*. Some of the recommendations of the *Code* were not implemented in full in 2017. However, we have always worked towards realising these recommendations and tried to provide appropriate ways to implement them.

Individual deviations from the *Code* in 2017 are explained below.

In 2017, the Management Board and Supervisory Board of Krka did not adopt any special document titled 'Diversity Policy'. However, the company implements the principles of this policy through other internal acts, policies and procedures, including the *Code of Ethics*, *Corporate Governance Policy*, *Rules of Procedure of the Supervisory Board* with regard to proposing candidates for Supervisory Board members, procedures and commitments of the Human Resource Committee of the Supervisory Board, and the Nomination Committee for the preparation of voting proposals for Supervisory Board members. In practice, diversity is ensured through the procedures for nominating and appointing members to the management and supervisory bodies, since Krka always strives to provide equal opportunities to candidates and prohibits any kind of discrimination. When appointing members to the Supervisory Board in 2017, their expertise, experience, education, skills, independence, personal integrity and ethics were considered. This composition of bodies is optimal for providing responsible supervision and decision-making with diversity ensured to the greatest extent possible (Chapter 4 of the *Code*).

In 2017, due to the resignation of one and the removal of one Supervisory Board member, the AGM elected two new Supervisory Board members, who were not nominated by the Supervisory Board, but by a shareholder directly at the meeting. The presentation of the candidates at the AGM was therefore not completely in line with the criteria under Items 8.5 and 8.6 of the *Code*, but the shareholder nonetheless presented all the key points as a basis for their election and the members were validly elected at the meeting.

In 2017, Krka ensured that the recommendation under Item 12.5 of the *Code* was complied with, since it introduced fully electronic distribution of materials for Supervisory Board meetings, which are available from the secure website, E-nadzorni svet (eSB in English). This solution was first used at the Supervisory Board meeting in November 2017.

In the context of self-assessment, the Supervisory Board of Krka can establish an annual training plan for its members and determine indicative training costs. In 2017, no proposal for additional training was made, so the plan was not adopted (item 13.1 of the *Code*).

The evaluation of the Supervisory Board performance was carried out by the members themselves while fully following the methodology and *Supervisory Board Assessment Manual* prepared by the Slovenian Directors' Association. The evaluation procedure was carried out professionally and objectively. Therefore, there was no need for external professional support in 2017, which is why an external assessment of the Supervisory Board's performance in collaboration with a specialised institution or other experts was not carried out (Items 14.2 and 14.4 of the *Code*).

Krka's *Rules of Procedure of the Supervisory Board* stipulate that the President of the Supervisory Board has two deputies – a shareholder representative and an employee representative. This is necessary to ensure the inclusion of employee representatives in the most important activities of the bodies. The *Rules of Procedure of the Supervisory Board* also state that the shareholder representative is the first to assume the duties of the president, and only in the event of the former's absence does the employee representative assume this role. In this manner, we do not deviate significantly from the *Code*, which stipulates that only a shareholder representative may act as Deputy President of the Supervisory Board (Item 15.4 of the *Code*).

In 2017, Krka's Corporate governance statement was reviewed by a qualified, independent external auditor with relevant professional references. Therefore, no additional external assessment of the statement's adequacy was made (Item 5.7 of the *Code*).



The 'Corporate Governance Statement' of the *2017 Annual Report of Krka* does not indicate any association of members of the Management and Supervisory Boards with any governance or supervisory bodies of non-related companies. The information is included in members' CVs, which also state their managerial functions and jobs (Items 5.5. and 29.5 of the *Code*).

Krka published the *Rules of Procedure of the Supervisory Board* and disclosed the composition, competences, and other aspects with regard to operation of the company's bodies, and thereby all the essential information on corporate governance, in the 2017 Corporate Governance Statement. No other operational documents were published in 2017 (item 29.9 of the *Code*).

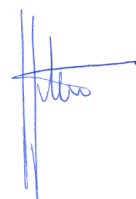
Krka also complied with most of the provisions of the code relating to companies listed on the Warsaw Stock Exchange, i.e. the *Best Practice for GPW Listed Companies 2016*. The discrepancies are explained in a separate document, published in the dissemination system of the Warsaw Stock Exchange.

Novo mesto, 11 April 2018

## Signing the governance statement and its constituent parts



Jože Colarič  
President of the Management Board and CEO



Dr. Aleš Rotar  
Member of the Management Board



Dr. Vinko Zupančič  
Member of the Management Board



David Bratož  
Member of the Management Board



Milena Kastelic,  
Member of the Management Board – Worker Director



## Non-financial statement

The Management Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declares that Krka follows the policies of the Krka Group relating to the **environment, the social sphere, and human resources, respect for human rights and diversity, as well as anti-corruption and anti-bribery management.**

The Krka Group operates in accordance with the business model presented in the 'Krka Group Business Model' and also monitors its own placement in various environments. See also 'Risk management'.

The definition of responsibility to the natural environment is included in our environmental policy, and thereby we undertake to take care of the environment in accordance with the requirements of the newly issued SO 14001 2015 standard, and to prevent or reduce our environmental impact to the largest extent possible. More information is available under 'Responsibility to Our Natural Environment'.

The Krka Group places strong emphasis on the social sphere and human resources. We realise that employees and their knowledge, experience, and mutual cooperation are the key source for achieving the planned results of the entire Krka Group. Our success depends on employees' commitment, good and constructive relationships, as well as contemporary and stable management methods which guide our employees towards efficiency, proactivity, improvement and development, and thus support Krka's values. We try to make our overall operations reflect responsibility for employees, the environment, and stakeholders. Krka's values lead us in setting the objectives, reaching the results, and cooperating with employees, as well as in their management and development of their potential. Together, we encourage a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible, efficient, and sustainable work. Krka's employees are known to be loyal, innovative, flexible, diligent, and focused on achieving the business objectives and results of the Krka Group. For further information, please see 'Responsibility to Employees' and 'Social Corporate Responsibility'.

We respect human rights as defined in internationally recognised principles and guidelines, and the *United Nations Universal Declaration of Human Rights*. We operate in line with all regulatory requirements and standards relating to human rights in all countries where Krka is present. As we are committed to high ethical standards, all employees are educated about the *Krka Code of Ethics*. The *Code* includes values and principles which all Krka Group employees undertake to respect. The basic principle is acting in accordance with the highest moral standards. Employees are expected to demonstrate honesty, integrity, and compliance with laws and other regulations.

Our work is based on preventing any form of discrimination and ensuring equal opportunities for all employees, 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 traits, cultural differences, and regulatory norms, and an ethical attitude to the people and wider social environment. Krka measures employee performance by their work results.

With regard to the *Diversity Policy*, Krka applies the principle of integration and equal opportunities also in respect of the composition of the supervisory and managerial bodies, among others. When considering candidates for such functions, we take into account the criteria in the *Diversity Policy*, such as sex, age, education, professional experience and skills. We also take into consideration professional diversity in an international environment, since we wish to ensure complementarity in the highest managerial bodies and smooth replaceability of members in order to maintain the continuous business process of the Krka Group.

We regulate the prevention of corruption and other fraud, the responsibility of employees in their detection, and potential measures with the prevention policy and the *Rules on Fraud Prevention, Detection and Investigation*. In accordance with the legislation and other rules, norms, recommendations, good business practice, and ethical standards, we constantly improve the existing measures and strive for ethical and legal conduct by all employees. Any unethical and/or illegal act intended to gain an unlawful or unfair advantage at the expense of the company represents fraud. By managing fraud risk, we endeavour to reduce its probability and thus the vulnerability of Krka due to fraud to an acceptable level. Krka applies the principle of zero tolerance in the event of fraud risk. Additional information is available in the *Rules on Fraud Prevention, Detection and Investigation* and *Fraud Prevention, Detection and Investigation Policy* on the company's website (<https://www.krka.biz/en/for-investors/documents/corporate-governance-documents/>).

The company is also preparing a *Code of Conduct*, specifying the principles and rules of ethical conduct, good business practices and standards of behaviour. The *Code of Conduct* will apply to all employees in Krka and its subsidiaries. It is the basis for all other internal rules of employee conduct in the Krka Group.

The non-financial risks of the Krka Group are described under 'Risk Management' and non-financial indicators under 'Sustainable Development'.



Jože Colarič  
President of the Management Board and CEO



Dr. Aleš Rotar  
Member of the Management Board



Dr. Vinko Zupančič  
Member of the Management Board



David Bratož  
Member of the Management Board



Milena Kastelic,  
Member of the Management Board – Worker Director

## Krka Group Development Strategy

The current development strategy of the Krka Group covers the five-year period from 2018 to 2022. The Supervisory Board of Krka adopted it in November 2017. It includes all areas of operation within the Krka Group, focusing on the core pharmaceutical and chemical activity. The strategy considers the Krka Group as an international company, since it operates through subsidiaries and representative offices abroad, and cooperates with partners wherever it is present. It incorporates all business processes within the Krka Group, from development and production to marketing and sales, including all supporting processes, and is focused on reaching the highest possible added value for the Group as well as for investors. The Krka Group updates its development strategy every two years. The next update is planned in autumn 2019.

Development strategy is based on the mission, vision and values of the Krka Group.

### Mission, vision and values

#### MISSION

Living a healthy life.

#### VISION

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

#### VALUES

Speed and flexibility

Partnership and trust

Creativity and efficiency

The basis of the development strategy is an in-depth analysis of Krka's position in the global generic pharmaceutical industry. It presents the characteristics of the originator and generic pharmaceutical industry, growth projections for the generic market, and Krka's placement in the international generic pharmaceutical industry. Based on this, possibilities and opportunities for further development and independent existence in the future were formed.

In addition to these starting points, it also comprises three different categories: the strategy and objectives at the Krka Group level, objectives by regions and territories with a product range strategy, and strategies of individual business functions or processes. The strategy also includes a draft multi-annual development, financial, and investment business plan.

The achievement of strategic objectives is measured at three levels: the Krka 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 (Sales Committee; Development Committee; Human Resource Committee; Quality Committee; Economics and Finance Committee; and Corporate Identity Committee).

In order to maintain and improve the Krka Group's position in an international context, we use all external opportunities and, as much as possible, all internal ones, especially the coordinated and synergistic functioning of organisational units within the Krka Group, and quality management of all partnerships in the value-added chain.

### Key strategic objectives of the Krka Group up to 2022

To attain at least 5% average annual sales growth in terms of volume and/or value.

To ensure sufficient quantities of manufactured products through an efficient and optimised development-and-production chain in accordance with the required quality standards in a timely manner in line with target sales growth and market needs.

To keep the focus on maximising the long-term profitability of the products sold from development and production to the sales of finished products, including all other functions within the Krka Group.

To ensure growth by acquisitions and long-term partnerships (including joint ventures) in addition to organic growth, when interesting and available target companies become available. The primary goals are to secure new products and/or markets.

To maintain the largest possible share of new products in total sales in addition to the existing range of products, also referred to as 'the golden standard'.

To maintain the largest possible share of vertically integrated products.

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

To increase the competitive advantage of our product portfolio.

To improve the cost-effective use of all assets.

To increase the degree of innovation across all business functions.

To maintain independence.

## Key strategic guidelines of the Krka Group up to 2022

### Markets

To focus primarily on European, Chinese and central Asian markets.

To focus especially on key markets (the Russian Federation, markets of Western Europe, Poland, Slovenia, Romania, Hungary, Ukraine, the Czech Republic, and Croatia), with an emphasis on key customers and key products.

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

To include a few markets of the Region Overseas Markets among the key markets.

To establish and strengthen our presence in Western European markets by operating through our own marketing-and-sales subsidiaries and by marketing products under our own brands (Krka and TAD Pharma).

To seek opportunities for acquisitions of local pharmaceutical companies, business acquisitions, and various types of long-term partnerships (joint ventures) in selected markets with the primary objective of attaining new products and thus entering new therapeutic areas and/or markets.

### Products and services

To strengthen the pharmaceutical and chemical sectors and increase the range of medicines in three key therapeutic areas of prescription pharmaceuticals (medicines for the treatment of cardiovascular diseases, the central nervous system, and the alimentary tract and metabolism) as well as in other promising therapeutic areas (analgesics and oncology medicines, antidiabetics, antivirals, and antibiotics) while entering new therapeutic areas. We will introduce innovative products in key therapeutic areas (innovative fixed-dose combinations of two or three substances, new strengths, pharmaceutical dosage forms, and new delivery systems).

To strengthen the range of non-prescription products and animal health products (primarily pet products) in selected therapeutic areas.

To enter the market of similar biological medicines.

To further develop health resort and tourist services, including the possibility of seeking strategic partners outside the Krka Group.

### Development and manufacture of products

To strengthen vertical integration from product development to manufacture.

To ensure a permanent supply of incoming materials and optimise supply. Our aim is the continuous reduction of purchase prices.

To increase the proportions of research, development, and production of certain active ingredients and finished products outside Krka (outsourcing).

To develop generic medicines and prepare relevant marketing authorisation documents before the product patent on the original medicine expires.

To strengthen all types of connections in the field of development and other fields as well as with external institutions and companies.

### Quality

To ensure functioning and continuous improvement of the integrated management and quality systems, which provide for the manufacture of safe, effective and quality products in accordance with cGMP guidelines and rules on quality in the pharmaceutical industry.

### Investments and financial stability

To invest in production, development and infrastructure facilities in a stable and optimal manner.

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

To pursue a stable dividend policy and also consider the Group's financial requirements for investments and acquisitions when determining the net profit share for dividend payout each year, and to allocate at least 50% of net profit of major shareholders for dividend payouts.

### Digitalisation of operations

To introduce information technology and provide high availability and information security of implemented IT solutions effectively and in accordance with the regulatory standards.

To continue the digitisation of operations: introduce information (digital) technology in business processes due to automation and optimisation of processes and procedures, support or strengthen cooperation within the Krka Group and in the entire supply chain, and acquire relevant information for business decisions. Our aim is to offer customers added value.

### International group with responsibility to its business environment

To strengthen professional and cost synergies within the Krka Group, and maximise the utilisation of competitive advantages in the business environments of Krka's subsidiaries abroad.

To strengthen internationalisation within the Krka Group by managing employee potential in an international environment and ensure the activation of all human resource potential.

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

To strengthen corporate integrity and operate in accordance with legislation, rules, ethical principles and good practices.

To maintain the reputation of the Krka Group and emphasise zero tolerance for fraud and corruption.

## Objectives by markets

To make widely available products that are competitive in terms of prices in all the major systems of medicine distribution and supply in accordance with market demand.

To achieve sales growth in relation to strategic and, primarily, marketing objectives at least in line with the growth of local pharmaceutical markets or average growth of the leading suppliers of generic medicines in all major markets of individual regions. To maximise absolute growth in the markets of Eastern and Western Europe, pursue relative growth in overseas markets, and maintain sales growth in Central Europe.

To retain the position of the leading pharmaceutical manufacturer, to remain among the leading manufacturers of non-prescription products in the Slovenian market, and maintain the position of one of the leading generic pharmaceutical companies in the markets of Central, South-Eastern and Eastern Europe. To ensure this by strengthening the reputation and awareness of the Krka brand with the target public by entering into new therapeutic areas and selling products primarily under our own brands.

To increase market shares in Western European markets by expanding the portfolio in existing therapeutic areas and entering new areas by exploiting the sales potential of already introduced products and also by increasing Krka brand awareness (Krka and TAD Pharma brands) through subsidiary operations and partner relations with unrelated customers.

To develop sales in existing overseas markets through partner relations with unrelated customers, as well as by establishing conditions for own marketing and entering new markets (China and other markets) by marketing products in selected markets and targeting selected groups.

## Product and service portfolio

### Prescription pharmaceuticals

Key therapeutic areas: cardiovascular diseases, diseases of the central nervous system, and of the alimentary tract and metabolism. To add a new key therapeutic area to our existing key therapeutic areas, i.e. medicines for pain relief.

To introduce new innovative products, in addition to generic products, in the market of leading medicines (innovative fixed-dose combinations, strengths, dosage forms, and new delivery systems) in the key therapeutic areas.

To introduce fixed-dose combinations of two or three active substances for the treatment of high blood pressure, and innovative fixed-dose combinations for the advanced treatment of concomitant high blood pressure and cholesterol levels.

To strengthen promising therapeutic areas, including antidiabetics, oncology medicines and antibiotics, and enter the market of antiviral medicines for the treatment of HIV, and anticoagulant medicines.

To provide an extensive range of medicines from other therapeutic areas, such as antimicrobial medicines, medicines for the treatment of allergies, the urinary tract, and blood and blood-forming organs.

To expand the range of medicines by entering the market of similar biological medicines.

To make a plan for entering at least one new therapeutic area.

### Non-prescription products

To strengthen all key therapeutic areas, including cough and cold remedies, analgesics, vitamin and mineral products, products for the alimentary tract and metabolism, and products improving cerebral and peripheral circulation.

To supplement umbrella brands with products with a new composition and pharmaceutical form within the group of cough and cold remedies.

To supplement the group of vitamin and mineral products with remedies of similar composition in new pharmaceutical dosage forms for children.

### Animal health products

To strengthen the key therapeutic areas for companion animals (antiparasitics and analgesics) and farm animals (antimicrobials and antiparasitics).

To expand the portfolio of animal health products with medicines for the treatment of the cardiovascular system and dermatologicals.

To supplement the range of products for companion animals with specific combinations and pharmaceutical dosage forms.

### Health resorts and tourist services

To develop and improve health services, such as medical rehabilitation, the prevention programme, health promotion, and active leave programmes marketed under the Terme Krka brand in domestic and selected foreign markets.

### Achieving objectives in 2017

Sales of products and services reached €1.2664 billion, which was more than the initially planned €1.220 billion. In terms of quantities, sales increased by approximately 1% in comparison to 2016.

Good regional dispersion of sales among the sales regions Slovenia, East Europe, West Europe, Central Europe, and South-East Europe, as well as Overseas Markets. The largest sales region was Region East Europe. The Russian Federation remained the largest individual market.

Sales in markets outside Slovenia amounted to 93%, which corresponds to the plan.

Prescription pharmaceuticals remained the most important product group, accounting for 83% of total sales (the plan was over 82%).

The number of employees in the Krka Group remained at the 2016 level (a 4% increase had been planned).

We used €105 of the projected €174 million on investments, especially for increasing and modernising production and research-and-development facilities and infrastructure, which accounted for 60% of the projections.

All major performance indicators: shares of earnings before interest and tax (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA), and return on sales (ROS), return on equity (ROE), and return on assets (ROA) were higher than planned.

### Krka Group business objectives for 2018

Sales of products and services are estimated at €1.300 billion.

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

Prescription pharmaceuticals remain the most important product group, comprising 81% of overall sales.

Profit is planned at €153 million.

The total number of employees in Slovenia and abroad is projected to grow by 2%. The total number of regular employees is projected to exceed 11,200.

We plan to allocate €135 million to investments, primarily for expanding and modernising production, research-and-development facilities and infrastructure.

The business plan for 2018 originates from the Krka Group development strategy 2018–2020, and was prepared in October 2017. It is based on expectations, assessments, projections, and other available data the Management Board had on disposal at the time. The Management Board believe the projections are suitable. If business conditions in 2018 differ significantly from the projections, operating results may also be different from the plan. Risk factors include: ongoing uncertain conditions in some of Krka's markets, fluctuating foreign exchange rates, additional restrictive health policy measures in certain countries, the implementation of various forms of marketing and sales levies; originator's activities reflected in price policy adjustment in view of the available generic pharmaceuticals and generic product launches in the markets; increasing price erosion and standardisation of prices of generic products; increasing presence of low-cost competitors; tightening of the regulatory environment due to 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. The management of the company will endeavour to make sure that Krka and the Krka Group reach the best possible results and, in favourable business conditions, also exceed the planned objectives.



## 2018 Macroeconomic Forecast

Dispersed international operations and the vertically integrated business model adequately support the stable performance of Krka, despite challenging macroeconomic situations in individual key markets. According to projections by the Organization for Economic Cooperation and Development (OECD), the European Commission, and independent financial institutions, a gradual improvement in the macroeconomic situation is expected in individual markets in 2018. Risks related to macroeconomic environments in individual markets still remain.

### 2018 macroeconomic forecast in figures

Country	Pharmaceutical market growth (%)	Projected value of pharmaceutical market at wholesale prices (€ million)	FX rate (currency/€)
Slovenia	5	650	euro area
Croatia	5	940	7.5
Romania	0	3,100	4.7
Russian Federation	8	15,200	69.5
Ukraine	5	2,000	33
Poland	4	6,300	4.2
Hungary	4	2,450	310
Czech Republic	2	2,170	25.5
Western Europe	6.2	195,000	primarily euro area

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 forecasts by external analysts and independent institutions that regularly monitor the macroeconomic situation in these markets.

### Slovenia

In 2017, the Slovenian economy recorded higher economic growth than forecast by Slovenian and foreign institutions. The estimated growth in gross domestic product (GDP) for 2017 was 4.7%. The labour market situation is gradually improving. Unemployment, which amounted to 8% in 2016 and 6.7% in 2017, is expected to drop to 5.2% in 2018. Consumer optimism is strengthening, which positively influences growth in private consumption. Also in 2018, the inflation rate will remain low. According to the latest forecasts by the European Commission, real economic growth will amount to 4%. In addition to foreign demand, the main growth driver will be domestic consumption enhanced by rising employment, pay increases, and increased bank lending. Along with the risks related to the international economic environment, such as the risk of a slow-down in economic growth of key business partners, and the risk of a further erosion of international financial markets, the shortage of an adequate workforce is particularly regarded as one of the main threats to economic growth. Growth risks also arise from private and government investments.

In 2018, we estimate the sales value of pharmaceuticals at approximately €650 million, or 5% higher than the year before.

### Croatia

In 2017, Croatia recorded a 3.2% annual increase in economic growth. Tourism is vitally important, and is the leading Croatian industry. It saw a rise of more than 10% last year. In 2018 and 2019, lower GDP growth rates are expected. Only in 2019 are GDP values expected to exceed their pre-crisis peak, recorded in 2018. In the years to come, ownership and business restructuring of a supermarket chain will negatively influence growth. The unemployment rate, which was progressively decreasing already in 2017, will also decline further in the coming years. Stable macroeconomic conditions are expected for the Croatian economy in 2018.

We expect the value of the Croatian pharmaceutical market to grow by 5% in 2018, and amount to approximately €940 million.

## Romania

In 2017, Romania reached 5.7% economic growth and thus exceeded the most optimistic analyst forecasts. The reasons for such growth lie in higher household consumption, favourable labour market trends and stimulating fiscal measures of the government. Investments increased substantially as well, and were additionally encouraged by the absorption of EU funds. In 2018, economic growth rate is forecast to be lower, reaching around 4%. Lack of structural reforms, tax reductions in 2017, strong growth in government spending, increasing inflation, and a rising trade deficit all pose a risk of overheating the economy in the next medium-term period. The same reasons also led to depreciation of the leu exchange rate in 2017. The leu will remain unstable in 2018 as well. Until 2023, Romania will remain included in the funding programme of the International Monetary Fund and the European Commission, which represents a certain degree of reliability with regard to expected movements of macroeconomic indicators.

In 2018, we expect the value of the Romanian pharmaceutical market to remain at approximately the same level as the year before, i.e. approximately €3.1 billion.

## Russian Federation

In 2017, the Russian authorities' monetary and fiscal policy was very restrictive, which resulted in a more rapid decline in inflation than expected. It fell below under 3% at the end of 2017. In 2018, inflation is expected to be approximately 3.5%. In 2017, the central bank continued to gradually soften the highly restrictive monetary policy, and the same is projected for 2018. Last year, GDP growth amounted to 1.7%, whereas 2% growth is expected in 2018. High real interest rates will hinder economic growth also in 2018; however, more stable oil prices, the better overall economic situation, and improved lending conditions for the general population encourage investment and consumption. After two years of decline, private consumption rose by 3% in 2017, and is expected to grow further in 2018. The central bank has been leading a free-floating rouble exchange rate regime since 2014. Currency fluctuations of the rouble, due to changing oil prices and the ratio between the euro and US dollar, are regulated by the Ministry of Finance through interventions in the currency market. Consequently, the dependence of the rouble exchange rate on oil price movements was weakened in 2017. In the future as well, the rouble should be more stable compared to previous years, provided that movements of oil prices are moderate; however, any global fluctuations will continue to influence the Russian economy and the value of the rouble.

We expect the value of the Russian pharmaceutical market to grow by 8% and reach €15.2 billion in 2018.

## Ukraine

In 2017, the International Monetary Fund froze the absorption of a \$17.5 billion bailout to Ukraine due to a failure to fulfil the commitments according to the agreement. The government did not implement the requirements related to tackling corruption and is also late with the introduction of economic and social reforms. Ukrainian economic growth stagnated in 2017 and amounted to 2% at the end of the year. A weak 3% strengthening is expected in 2018. At the end of 2017, inflation reached 14.5%, whereas a gradual decrease is projected for this year, with the rate dropping to under 10%. In the second half-year of 2017, the central bank further raised the key interest rate, which is now 14.5%. The value of the hryvnia was very unstable in 2017, since it dropped by over 15% against the dollar and euro. The volatility of the Ukrainian currency will continue in 2018, which indicates a difficult macroeconomic environment.

In 2018, we expect the value of the Ukrainian pharmaceutical market to increase by 5% and reach €2 billion.

## Poland

The Polish economy grew by over 4.2% in 2017 and is projected to slow down somewhat in 2018. The growth is stimulated by domestic demand, which is a result of increasing social transfers, labour market recovery, and investment growth due to payments from EU structural funds. Inflation, standing at 1.6% at the end of 2017, will rise gradually in 2018, in accordance with pay increases. This will demand a more restrictive monetary policy by the central bank and will at the same time lower the risk of domestic currency depreciation. Political opposition to the EU guidelines poses a risk to the Polish economy, whereas certain risks also arise from the banking sector's performance, which continues to be threatened by a potential conversion of mortgage loans denominated in foreign currencies.

Given the expected 4% growth, the value of the Polish pharmaceutical market will reach approximately €6.3 billion.

## Hungary

In 2017, Hungary recorded 3.7% economic growth, which was higher than in 2016. Private consumption in particular has risen significantly. After a 1% drop in unemployment to 4.3% at the end of 2017, further strengthening of employment is expected in 2018. Economic growth is projected to be somewhat weaker in 2018 than it was the year before, but still above 3.5%. Favourable economic conditions will increase inflation to up to 3%, which is the target level of the central bank. In 2018, the bank will gradually abandon expansionary monetary measures, which, in combination with positive movements in macroeconomic indicators, will also stimulate pressures to strengthen the domestic currency.

We expect the Hungarian pharmaceutical market to grow by 4% in 2018, and its value to reach €2.45 billion.

## Czech Republic

The GDP of the Czech Republic rose by 4.3% last year, well above the 2016 increase of 2.6%. Strong but somewhat more moderate growth will continue in 2018 as well, which is a consequence of increased private demand and a dynamic external sector. Pay increases will result in higher household consumption, and low interest rates will raise equity investments. The shortage of labour, given the record low unemployment, poses a risk to accelerated economic growth. The historically low unemployment will boost inflation to over 2%, the central bank's target level. After removing the currency cap in April 2017, the value of the Czech koruna has risen somewhat. Further, but weak, strengthening of the koruna might occur in 2018 as well. The central bank will continue to tighten monetary policy as inflationary pressures increase.

The Czech pharmaceutical market is expected to grow by 2% and its value to reach approximately €2.17 billion.

## Western Europe

The economic situation improved in 2017 and, accordingly, the projections of the OECD and European Commission. Following the favourable 2% growth in 2017, the European Commission expects further growth in the euro zone as well as in the European Union, by 2.1% in 2018 and 1.9% in 2019. The European economy performed better than anticipated, based on private consumption, stronger global growth and a decline in unemployment. Favourable financing conditions and a significantly improved economic climate boosted investment as well. The European Central Bank (ECB) enhanced the growth by pursuing a stimulating monetary policy. Despite the projections of a gradual suspension of certain expansionary monetary measures, a positive contribution to economic growth from the ECB is expected in 2018 as well. The majority of the euro zone member states will adopt expansionary fiscal policies in 2018. Rising employment is also projected in most of Western European economies.

After more moderate political factions won the elections in the Netherlands, France and Germany, the political risks in the European Union and euro zone lessened significantly in 2017. The main internal risks to Western European economies are related to the Brexit negotiation results, stronger growth of the euro and higher long-term interest rates. External negative risks are potential additional geopolitical tensions, stricter financing conditions at the global level and spreading protectionist economic policies.

We expect the value of the Western European generic market to reach €40 billion in 2018, a 2.9% increase compared to last year. The total value of the Western European pharmaceutical market is projected to increase by 6.2% to €195 billion.

## Risk Management

In the Krka Group, specific types of risk are managed by the organisational units whose operations are most closely associated with them. The business continuity management system (BCMS, SUNP in Slovene) provides for the correct response in the event of an emergency. Krka encounters, and is exposed to, certain types of risk; these and the related risk management are described below.

The Krka Group monitors its exposure to various forms of risk on a daily basis 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 includes a complete list of risks and corrective measures in the Group (updated at least every two years), 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.

Risk management helps us to ensure compliance at the Group level. The corporate compliance programme emphasises the ethical and legal conduct of all employees. Reputation and credibility are two of our significant virtues, which is why we apply a zero tolerance policy with regard to any fraudulent, corruptive or other non-compliant forms of conduct.

BUSINESS RISKS			
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 activities	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 management	Inadequacy of incoming materials for the production process; inadequate quality of development, production and finished products	Precise implementation of systematically prescribed quality management and quality control procedures in all key development and production processes	Moderate
Investment projects	Incorrect decisions on investing in production, development, 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	Changes in key and qualified personnel (recruiting and retaining personnel), and other operational staff, as well as social dialogue with employees	Systematic work with key personnel, the remuneration system, employee development, permanent education and training, measuring the organisational climate	Moderate
Legal matters	Inadequate legal support for all operating processes	Engagement of Legal Affairs in all legal issues of the Group, cooperation with external legal experts	Moderate
Corporate compliance	Unethical or illegal conduct	Introduction of corporate compliance system to all areas	Moderate
Environmental protection	Breach of legislation and loss of reputation due to excessive environmental pollution	Effective control of the environmental management system and continuous emission monitoring.	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 improve process resilience against disturbance, incidence/accident response procedures, business continuity plans	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	Loss of a manufacturing authorisation, distribution permit, or marketing authorisation	Compliance with legal and regulatory requirements, and implementation of all good practice activities in the Krka Group that are critical from the aspect of good quality practices	Moderate
Technical services	Inadequate supplies of production media to processes and unsuitability of technical maintenance, and risks related to environmental protection	Redundant power supply resources, robust demand planning for media supply, redundant capacities and planned maintenance processes, use of best available techniques to reduce environmental impacts, and cooperation with several quality business partners with regard to waste management	Moderate
Information technology	Business process disruption due to a disruption in information resources	Independent security checks and preventive measures to rectify disruptions; risk assessment and information technology business continuity plan	Moderate
Employees	Accidents or injuries in the workplace resulting in an unplanned increase in absences and lack of personnel in the labour market	Measures based on workplace risk assessments, employee interchangeability, new recruitment methods, adequate and regular communication with employees, employee education and trainings	Moderate
Protection of property	Alienation and destruction of property	Systematic threat assessment, security plan, and implementation of necessary measures	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	Moderate
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 prompt receivable write-off accrual	Credit rating calculations; limiting maximum exposure to individual customers; active management of receivables; utilisation of payment insurance instruments and hedging for receivables with a credit insurance company	Moderate
Liquidity risk	Inadequate liquid assets for settling operating and financial 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 resulting from 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



## 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 in compliance with regulatory requirements and standards. Risks to products and technologies comprise 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 as well as technology.

We reduce these risks at 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 is important, because it allows us to control the entire course of development and production, from a raw material through to the finished product.

We maintain the vertically integrated development model with investments, yearly achievements, and research-and-development results related to:

- Medicines and therapeutic areas: We enter new therapeutic areas with new medicines and provide for their research, development and evaluation, and prepare new combinations of active ingredients with patients in mind. We aim to achieve the same therapeutic effect with lower concentrations of ingredients and at the same time reduce the number of daily doses.
- Krka's active ingredients: We introduce innovative preparation procedures and new synthesis routes.
- Pharmaceutical dosage forms: We prepare advanced pharmaceutical dosage forms that allow for easier dosage and administration.
- Research and development capacities: We introduce the most advanced development and technological processes, and invest in research and development capacities.

Regulatory risk management, associated with changes in legislation and their interpretation, starts at the early stages of developing a new product and continues throughout its life cycle. Through official consultative mechanisms, Krka verifies with regulatory bodies its development solutions for each product and the planned content of marketing authorisation documents. 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, and is exposed to different sales and marketing risks of varying intensities.

In individual markets, our key advantages over the competition are our quick response to changed business conditions and prompt adjustment of sales and marketing activities. 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 clawback requirement) with Krka's in-house services and by using independent data sources.

We monitor the risks related to entering new markets, lowering prices of medicines in compliance with local regulations, cross-border reference country impacts, and changing practises regarding the prescribing and/or dispensing of medicines and/or reimbursing medicines. 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, have been identified as moderate 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 customers, primarily wholesalers), at the secondary level (wholesalers' sales to final customers, mainly pharmacies), and at the tertiary level



(sales in pharmacies to end users), and optimise inventories throughout the distribution chain. We duly monitor pharmacy networks and any changes by individual markets, and adjust our actions accordingly.

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. Based on these, we design both the product portfolio which we plan to market and our actions according to the current market positions of particular active ingredients and the vision of their development. The number of important new active ingredients available for marketing to generic manufacturers at present and in the future has been declining, so we are seeking opportunities for new fixed-dose combinations of existing active ingredients and in new therapeutic areas, and are striving to further improve the establishment of our products that contain existing active ingredients in less developed markets. We monitor the efficiency of our marketing strategies and tactics with performance indicators, and exert systematic control over marketing activities, which we plan, implement, 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, recommendations of the European Medicines Agency, 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 one of the basic principles of Krka Group operations. We therefore start the development of a new product by analysing the extent 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 and adopt relevant measures.

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 Assurance 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 documents. We follow standard procedures and requirements throughout the production process, from the purchase of incoming materials, other purchases, and manufacturing processes to the manufacture of finished products, quality control, warehousing, and distribution, and ensure that the pharmaceutical product manufacturing complies with the relevant quality standards and the product's marketing authorisation documents. When the product is already on the market, the pharmacovigilance system is used to establish, evaluate, and respond to new findings on adverse effects and other safety aspects of medicines. We apply a special system to process customer feedback, and pursue constant internal improvements according to the PDCA principle to upgrade and improve processes and products.

Product quality management 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 the detected risks, we plan audits and other activities within the procedure of supplier and contractor approval.

We ensure the compliance of our production and control equipment and production rooms by qualifications and validations of equipment, production rooms, production environment, manufacturing 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. Monitoring and documenting all processes, procedures, and controls are crucial for product quality assurance. We therefore regularly examine, overhaul, and upgrade them, and ensure that any necessary process changes are made correctly.

Our employees undergo regular training in order to ensure compliance with standard production and pharmaceutical control procedures. We control production processes, intermediate products, bulk products, finished products, and the production environment to ensure product compliance and conformity with the requirements of national laws and GMP principles in the European Union and other countries where we market our products.

For non-compliant products (deviations, complaints), we apply control mechanisms, perform tests, investigate causes, and implement preventive and corrective actions in order to prevent any other non-compliance.

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

We regularly and systematically check the efficiency and effectiveness of 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 reviews, audits, Quality Committee, quality indicators) 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, quality, and changes to the original plan. We reduce these risks by document planning and production, and implementing the established system for selecting contractors and equipment suppliers, and regularly reviewing them. We supervise all execution phases. We review the compliance of project documents from the technical, technological, and regulatory points of view, and the compliance of contractual documents from legal and accounting aspects. 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 at 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 Krka 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 allows us to win new employees required to meet our strategic, development, and sales plans. Due to the scarcity of suitably qualified workers in the labour market, we systematically educate and train our employees to acquire national vocational qualification certificates.

### **Corporate compliance**

The Krka Group applies the corporate compliance programme in order to guarantee quality assurance, transparency, safety, and efficient performance. The aim is to establish unity and integrity of activities and documents, which comply with the legislation and other rules, norms, recommendations, good business practices, and ethical principles. Further information is available under 'Corporate Compliance', 'Corporate Governance Statement'.

## Environmental protection risk

Krka recognises and controls any environment-related risks according to the requirements of the ISO 14001 standard and by managing the business continuity system. Every year, we review all environmental aspects, the associated risks and extraordinary events, and evaluate their impacts on the environment. We mitigate environment-related risks and provide for efficient actions in the event of emergency by using the best available techniques in manufacturing, warehousing, wastewater treatment, waste air treatment, waste management, preventive examinations and maintenance of equipment, employee training, and by employing our own fire brigade, which is qualified to intervene in cases of emergency, and emergency event drills.

In 2017, we were exposed to the risk of waste solvent disposal due to a major fire at our key contractor for hazardous waste management. In cooperation with the Chamber of Commerce and Industry of Slovenia, the Ministry of Environment and Spatial Planning of the Republic of Slovenia, the company Kemis, and other business partners, we ensured the regular disposal of waste and maintained the planned production volume.

## Operational risks and business continuity

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

Major emergencies that stop the production and sales of products for a lengthy period 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. We have designed action plans and disaster relief measures for emergencies, measures for reducing direct damage, and emergency operations plans until normal operations can be restored.

### Product supply risk

We constantly monitor the supply market, suppliers, and prices of raw materials. We carefully plan our inventories and keep contingency stocks in order to ensure uninterrupted access to the materials required for manufacturing 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.

We guarantee the timely supply of finished products by keeping every phase of product supply under control. Raw material inventories are planned according to sales forecasts. Inventory levels are checked regularly, and we have contingency stocks, as well as several independent sources of supply for strategically important raw materials.

We carefully 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 our own production capacities and expand contractual alliances.

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. In the event of major emergencies, we can ensure the production of key products at several plants.

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

### Technical service risk

Technical service risks include risks related to utility supplies, including power and other utilities used in processes, the reliability and availability of technical systems, and risks associated with metrology.

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 a public utility from two pumping stations.

We mitigate risks related to the inadequate production and distribution of power and process utilities (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 potential failures.

We mitigate risks related to the 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 and disruptions 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.

The management system for monitoring and measuring devices is implemented. We regularly carry out measurements, calibrations, and maintenance of weighing equipment.

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

### Information technology risk

We manage information security risks with an information security management system certified according to the ISO 27001 standard.

Krka specifies the criticality of information resources according to criticality assessments of processes and information resources. Individual information services and applications are regarded as the principal information resources. Their criticality level is summarised by all infrastructural elements on which the information service or application depends.

We have identified threats and risks to all critical information resources. We take actions to eliminate unacceptable risks according to risk assessments. Another method of threat detection involves independent security inspections of our information resources.

To mitigate risks of major emergencies, we introduced duplicated computer capacities for all critical information resources in two separate locations, in back-up system rooms at the headquarters (i.e. the Disaster Recovery Centre) and at an appropriately distant location, where daily storage of data back-up copies of all critical data is carried out.

We also mitigate risks by advanced tools such as intrusion detection and intrusion prevention systems (IDS/IPS), a security information and event management (SIEM) system, and vulnerability management.

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. In 2017, the Management Board of the company appointed a data protection officer at the company and Group level, who ensures that personal data are protected in accordance with Regulation 2016/679 of the European Union or the valid local legislation insofar it lays down different or stricter rules.

### 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 workplaces. 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 facilitate a 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 risks

The Krka Group manages financial risks centrally in the Finance division of the controlling company in Slovenia. Financial departments of subsidiaries and representative offices abroad perform risk management operational tasks in accordance with the guidelines set out by the controlling company. Key financial risks include credit, market, liquidity, and insurance-related risks.

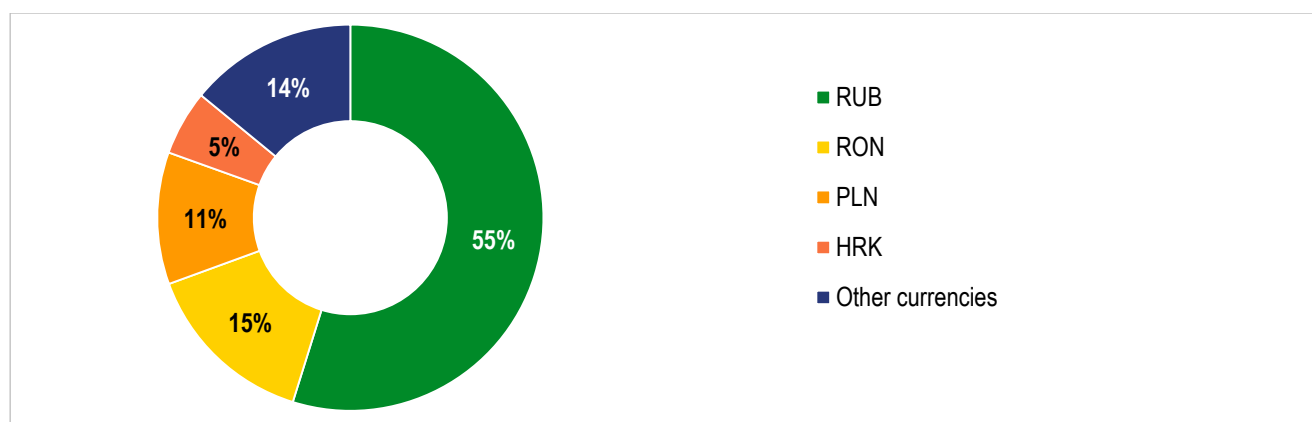
The main market risk of the Krka Group is foreign exchange risk. We regularly monitor interest rate risk; however, we are not taking any active measures at the moment due to the low interest rate exposure. The risk of changes in market values of raw materials and the risk of changes in the market value of shares and bonds do not have a major impact on the net financial result of the Krka Group, which is why we monitor changes in exposure to the aforementioned risks, but do not implement any risk management measures.

### Foreign exchange risk

The Krka Group operates in diverse international markets and is exposed to foreign exchange risks in certain markets.

Currency exposure arises due to a surplus of assets over liabilities in a particular currency in the statement of financial position of the Group, also referred to as the long position. The key accounting categories composing a long position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

#### Breaking down the currency position of the Krka Group



The Russian rouble accounts for 55% and the major share of the currency position of the Krka Group. The position in roubles arises from trade receivables in the Russian market, and partly also from subsidiary funding by the controlling company of manufacturing capacities in the Russian Federation.

We pay special attention to the risk management of the Russian rouble because of the importance of the Russian sales market, level of currency exposure, and volatility of the Russian rouble.

The exposure to the Romanian leu accounts for 15% of the currency position and arises from trade receivables accrued due to lengthy payment terms in Romania. The exposure to the Croatian kuna and Polish zloty is the result of trade receivables and manufacturing facilities held by the Group in the two markets and accounts for a total of 16% of the currency position. Other currencies, among them the British pound, US dollar, Swedish krona, Hungarian forint, Czech koruna, Ukrainian hryvnia, Serbian dinar, Macedonian denar, and Kazakh tenge, constitute 14% of the currency position of the Krka Group.

### 2017 currency markets

Also in 2017, Krka closely monitored volatile currencies to which the Krka Group was exposed.

The value of the Russian rouble expressed in euros was increasing from the beginning of the year until mid-April. The reason can be found in the stable macroeconomic conditions in the Russian Federation and the euro being under severe pressure of political risk prior to the elections in the Netherlands, France, and Germany. After the French presidential elections, the value of the euro rose, while the value of the rouble expressed in euros dropped to its lowest in 2017, to 71.81 roubles to one euro.

The impact of oil prices declined in 2017 compared to previous years, when it critically affected the value of the rouble. From the beginning until the end of the year, the Brent oil price in dollars increased by 17.7%, while the rouble value in dollars strengthened by only 5.4%. In the second half-year only, the Brent oil price rose by 40% whereas the rouble by only 2.3% in the same period. At the end of the year, the Brent oil price per barrel amounted to \$66.9, which was the highest since May 2015.

In 2017, the value of the rouble was greatly affected by the activities of the Russian central bank, which decreased the key interest rate by 225 basis points due to falling inflation. International investors also exerted considerable influence by exploiting the high level of real interest rates in the Russian Federation in individual periods, thus creating additional demand and supply for the rouble in the currency market. The value of the rouble expressed in euros dropped by 7.3% in 2017, while its average value in euros was 12.5% higher compared to 2016.

The value of the Polish zloty was more stable than in previous years. Stable macroeconomic situation provided little fluctuation of the zloty exchange rate and its value was increasing from the beginning until the end of 2017. Last year, the zloty gained 5.6% against the euro. The Polish central bank did not change its monetary policy, so there were no distinct differences compared to the European Central Bank (ECB) policy to increase the depreciation risk of the Polish currency.

The Romanian leu has fallen by 2.6% against the euro since the beginning of 2017. Tax reductions, a high increase in government spending, growing inflation, and a rising trade deficit were the main reasons for the lower depreciation of the exchange rate.

The value of the Croatian kuna recorded higher growth compared to previous years due to improved macroeconomic conditions, while the movement in the exchange rate was in line with the expectations and patterns of recent years. Once again, the British pound experienced volatility in 2017 due to the Brexit and internal political processes increasing the risk related to the British currency. The Krka Group has a long position in the Croatian kuna and the British pound among others; however, the volatility of the two exchange rates does not significantly influence the net financial result of the Group.

The value of the US dollar expressed in euros peaked at the beginning of 2017, and the US economy showed encouraging indicators of recovery. At the beginning of the year, markets were optimistic regarding the impact on the US currency of the projected tax and economy reforms of the new American president. Faster tightening of the US monetary policy was also anticipated. The euro was under the pressure of election risks in economically more important members of the European Economic and Monetary Union (EMU), and the economic recovery of the EMU was falling behind the recovery of the USA



as well. In the first half of 2017, the ECB's measures supported the weaker value of the euro, whereas the market advantages of the US dollar against the euro gradually declined during the year. The political risk related to the euro reduced in April, the EMU recovery accelerated, and the ECB projected the faster elimination of expansionary monetary measures. However, the optimistic expectations in the USA have been decreasing despite the good macroeconomic indicators.

The dollar value expressed in euros fell by 12.1% from the beginning until the end of 2017. The average dollar value against the euro was 2% lower than in 2016. The Krka Group is exposed to the US dollar primarily in purchasing; the currency position in dollars is relatively low, so the value of the US dollar does not significantly affect the exchange rate differences of the Krka Group recorded in the net financial result of the Group.

### Currency risk management results

The Krka Group generally mitigates currency risks by natural hedging, primarily by increasing purchases and liabilities in currencies in which sales invoices are issued. When this is not possible, we use derivative financial instruments, or do not provide hedging for the risk. Generally, only forward contracts are used for hedging.

Krka continued with its policy of partial hedging against the Russian rouble-related risk in 2017. It generated a negative financial result from forward contracts. The cost of hedging against the Russian rouble is accrued due to the differences between the interest rates in the rouble and the euro. Partial hedging ensured a more stable net financial result for the Group, while hedging costs were half as much as they would have been if we had used hedging throughout the year.

Due to the fall of the rouble value from the beginning until the end of the year, we generated net foreign exchange losses of €-18 million.

We generated net foreign exchange gains from other currencies in 2017. Exposure to other currencies was not hedged. A multi-year analysis of exchange rate differences and hedging costs for the Romanian leu, Polish zloty, Czech koruna, Hungarian forint, and Croatian kuna has shown that full hedging for these currencies would not be effective in the case of the Krka Group. These currencies are generally subject to less marked fluctuations against the euro.

The currency exposure of the Krka Group includes the Ukrainian hryvnia, Kazakh tenge, Serbian dinar, and some other currencies. The exposure to these is less significant, and no financial instruments to mitigate risk exposure to them are available.

The currency risk management balance totalled €-22.5 million in 2017. In 2017, the Krka Group's net financial result amounted to €-22.6 million, a deterioration on 2016.

### 2018 objectives

In 2018, we intend to continue the existing policy of partial hedging against the Russian rouble by lowering the share of the hedged foreign currency position. We aim to mitigate foreign currency risk exposure primarily by natural hedging, while derivative financial instruments will be used as an exception.

	31 Dec 2016	31 Dec 2017	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation*
RUB	64.30	69.39	59.66	71.81	65.93	3.42	5.2%
HRK	7.56	7.44	7.39	7.58	7.46	0.05	0.7%
RON	4.54	4.66	4.49	4.66	4.57	0.04	0.9%
PLN	4.41	4.18	4.17	4.41	4.26	0.05	1.2%
CZK	27.02	25.54	25.41	27.06	26.33	0.53	2.0%
HUF	309.83	310.33	303.35	314.84	309.20	2.61	0.8%
UAH	27.17	33.15	27.91	33.78	30.03	1.26	4.2%
RSD	123.60	118.66	118.29	124.02	121.41	2.07	1.7%
USD	1.05	1.20	1.04	1.21	1.13	0.05	4.5%
GBP	0.86	0.89	0.83	0.93	0.88	0.02	2.3%

\* Standard deviation to mean value ratio

## Interest rate risk

The interest rate risk is defined as a threat of the Krka Group suffering an increase in financing costs from non-current borrowings or a decrease in income from long-term investments due to the changed reference market interest rates.

The interest rate risk with current borrowings and short-term investments is managed within the liquidity risk of the Group.

The Krka Group had no non-current borrowings in 2017. Long-term financial investments are not related to reference market interest rates, which is why the Krka Group was not exposed to the reference interest rate risk.

## 2018 objectives

It is anticipated that the ECB will gradually tighten monetary policy in the mid-term and long-term perspective, whereas the reference interest rates are expected to grow. If any non-current loans exposing us to the interest rate risk are to be obtained, we will consider all options to mitigate any such risk with relevant financial instruments.

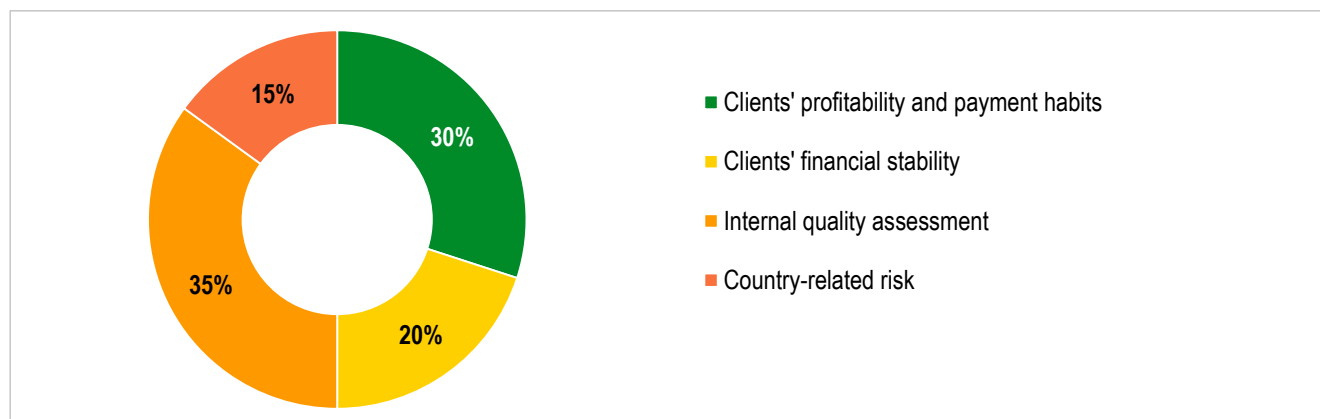
## Credit risk

The key credit risk of the Krka Group relates to trade receivables; this is the risk that a client might fail to settle liabilities by maturity dates.

### Credit risk management procedure

The Krka Group introduced a centralised credit control process in 2004. The credit control process involves all clients with whom Krka's annual sales exceeds €100,000. At the end of 2017, trade receivables included in the credit control process accounted for more than 90% of total receivables, and involved more than 400 clients.

The credit control process with these clients involves two steps. The first step involves a credit risk assessment of each client, determining the insurance of payments, and assigning relevant credit limits. Each new client is assessed, and in addition to this, the credit ratings of all clients are reviewed twice every year. Each credit rating includes more than 130 financial and non-financial indicators, which fall into four classes; each has a different weight in the final assessment.



Each client is assigned a credit limit according to the credit rating assessment and the expected shipment and payment dynamics.

The second step involves regular dynamic monitoring of a client's payment discipline. The information systems of all Krka Group companies engaged in sales employ controls of available limits and overdue receivables. Control is exercised for each shipment of Krka products to clients. A shipment is automatically blocked if a client is late on payments or if receivables together with the new shipment exceed the approved credit limit. Employees engaged in sales must start a payment collection procedure or arrange insurance for the outstanding settlements.

The process of credit control and authorisations for granting credit limits to clients are determined by company rules. Credit control engages also the system of regular reporting on trade receivables and the clients' payment discipline. The reporting

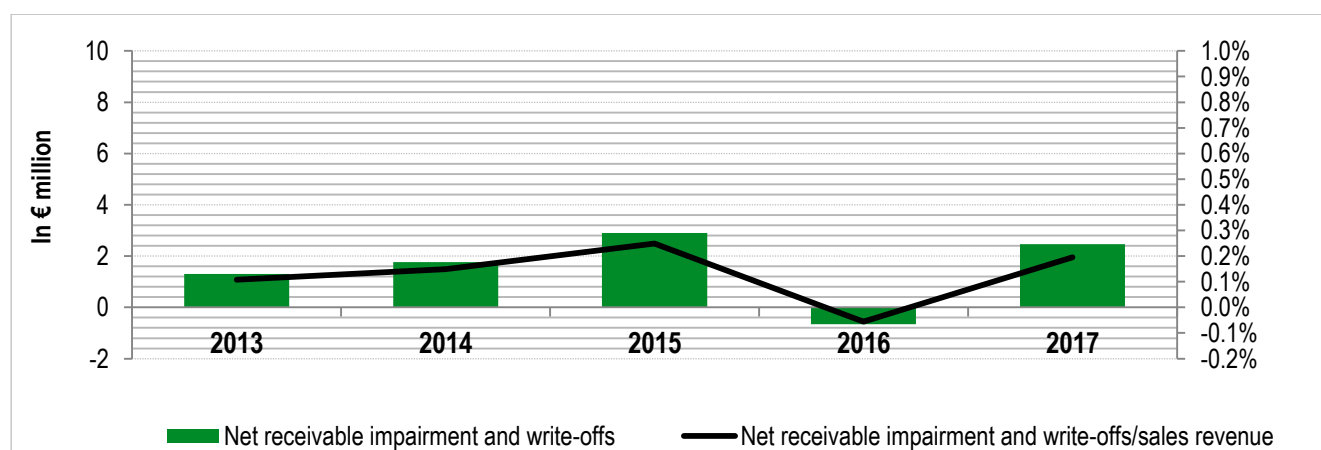
system supports the early detection of clients at increased risk of defaulting on payments, and facilitates effective credit risk management.

### Credit risk management results

Credit control guarantees permanent control of the quality of trade receivables portfolios. The result of credit control is a low share of receivable write-offs and impairments in total group sales.

The amount of receivable write-offs and impairments is low also because receivables are dispersed across a large number of clients and sales markets, and the majority of outstanding receivables are payable by clients with whom Krka has been doing business for some years.

The credit risk management balance in 2017 was favourable. Net receivable write-offs and impairments amount to 0.2% of the Krka Group's annual sales.

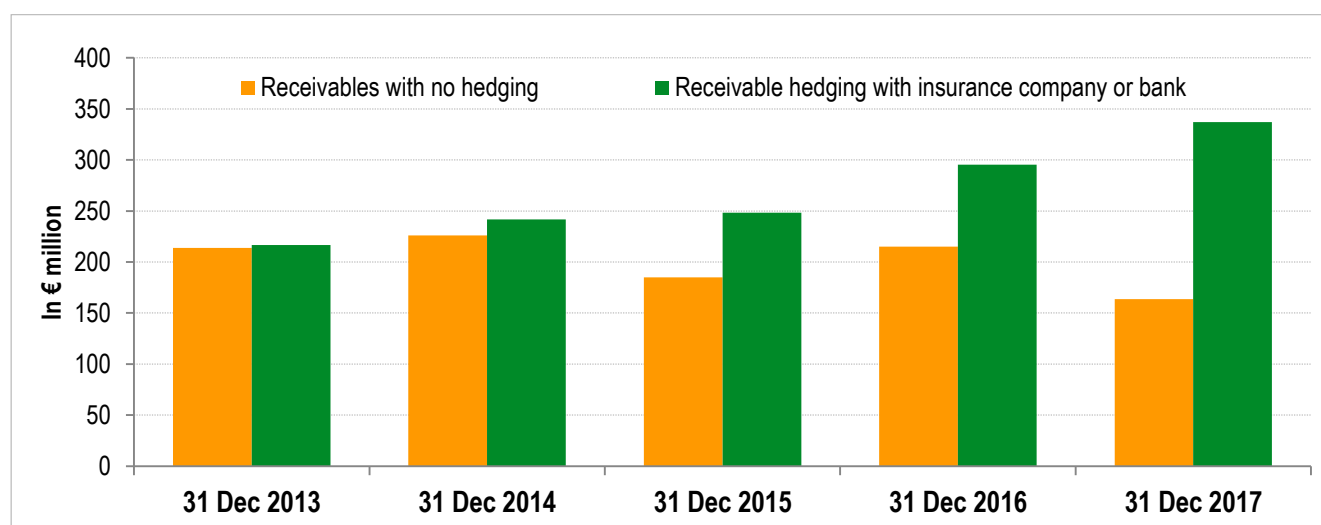


### Insurance for trade receivables

Since 2009, the Krka Group has secured a part of its trade receivables with a credit insurance company. Trade receivables owned by clients from countries with increased credit risk ratings have been insured. Bank guarantees and letters of credit are used as insurance for payments to a lesser extent.

In 2017, we extended the trade receivables insurance with the existing credit insurance company and additionally included a major Russian client and several smaller clients.

At the end of 2017, 67% of trade receivables were insured at a credit insurance company or with financial instruments.

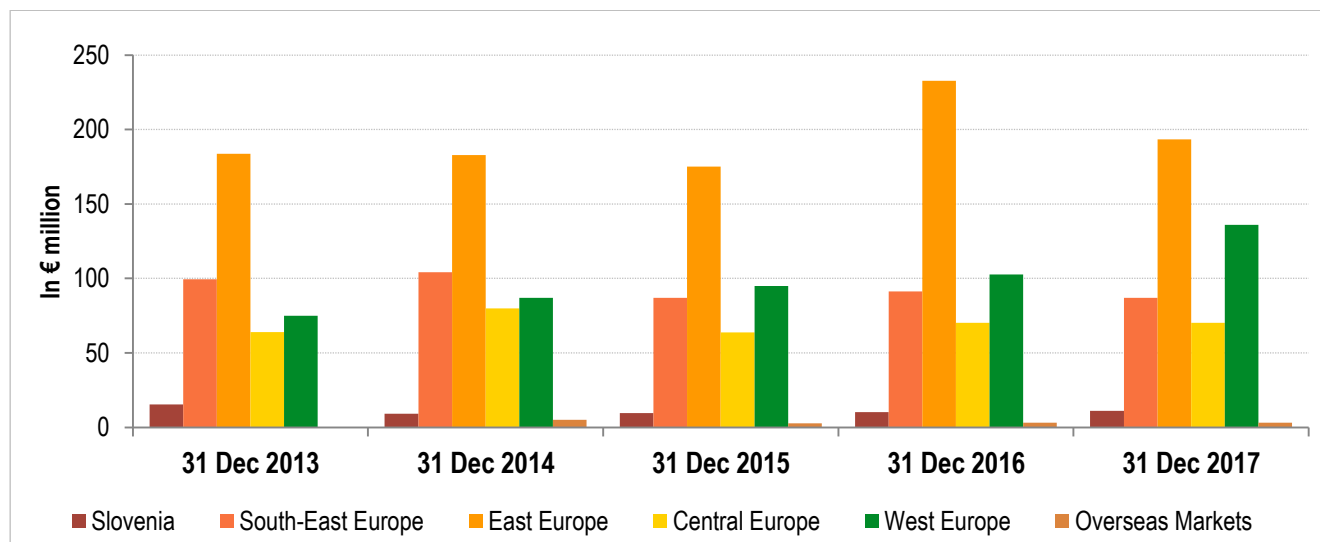


### Trade receivables by region

The structure of receivables by sales regions has been solid for some years now, and conforms to the structure of sales and payment terms in individual countries.

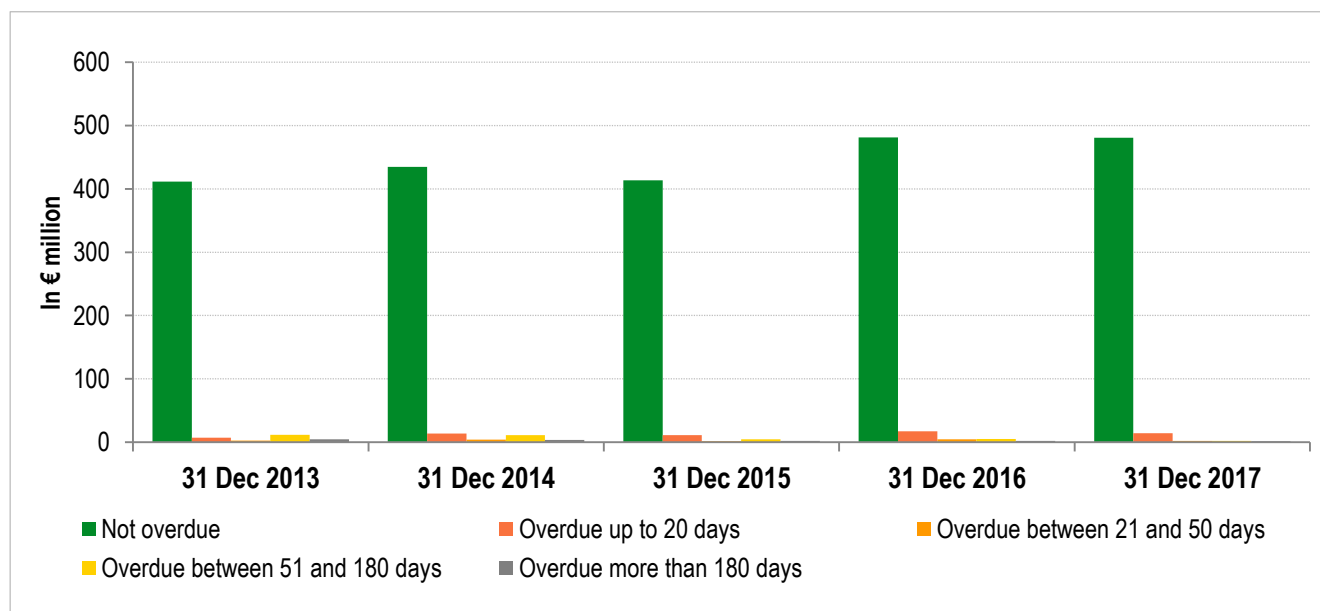
The total value of trade receivables in euros decreased by 2% at the end of 2017 compared to the beginning of the year.

### Trade receivables by region



### Maturity structure of trade receivables

The maturity structure of receivables remained stable. The percentage of past due receivables compared to total trade receivables remained low also at the end of 2017.



### 2018 objectives

We will continue standard credit risk management activities in 2018. We intend to keep the payment insurance policy unchanged. As has been the case so far, we plan to monitor even more closely clients from markets with a less favourable macroeconomic environment and markets where we have detected increased risks in the wholesale distribution of medicines. Where exposure above the acceptable levels is detected with individual clients, we will introduce individual measures to gradually reduce exposure. Our goals are low receivable impairment and write-off total at the Group level.

## Liquidity risk

Among its business partners, Krka is known for its financial discipline, low indebtedness, and stable cash flows. In accordance with Krka's reputation, non-current borrowings were used only during some parts of last year. An occasional surplus of cash was placed in bank deposit during the year. Krka settled all of its financial liabilities regularly and at maturity. The exposure of the Krka Group to liquidity risk in 2017 was low.

Krka d. d., the controlling company, manages liquidity risk centrally and at the Group level. Subsidiaries are financed by the controlling company through intra-group loans. Any potential excess cash assets are deposited with the controlling company. In addition, due to growing competitiveness among banking service providers, Krka managed to further reduce transaction and trade finance costs in 2017.

By the end of 2017, we implemented targeted cash pooling at Citibank London for eight of Krka's EU subsidiaries. In this way, we improved cash management, which has already ensured a more transparent overview of liquidity in the Group companies, reduced funding needs and therefore lowered financing costs, as well as decreased costs related to monetary transactions and improved monetary transaction security.

## 2018 objectives

In order to eliminate the risks of cash pooling and liquidity management of the Group related to Brexit, we will transfer the main bank accounts of the controlling company from the UK to the euro area in 2018. This will ensure unhindered access to payment services and the euro area infrastructure for Krka Group companies before the end of Brexit negotiations and regardless of their final outcome.

Please see liquidity ratios in the table below. Liquidity ratios were stable and favourable.

## Liquidity ratios of the Krka Group

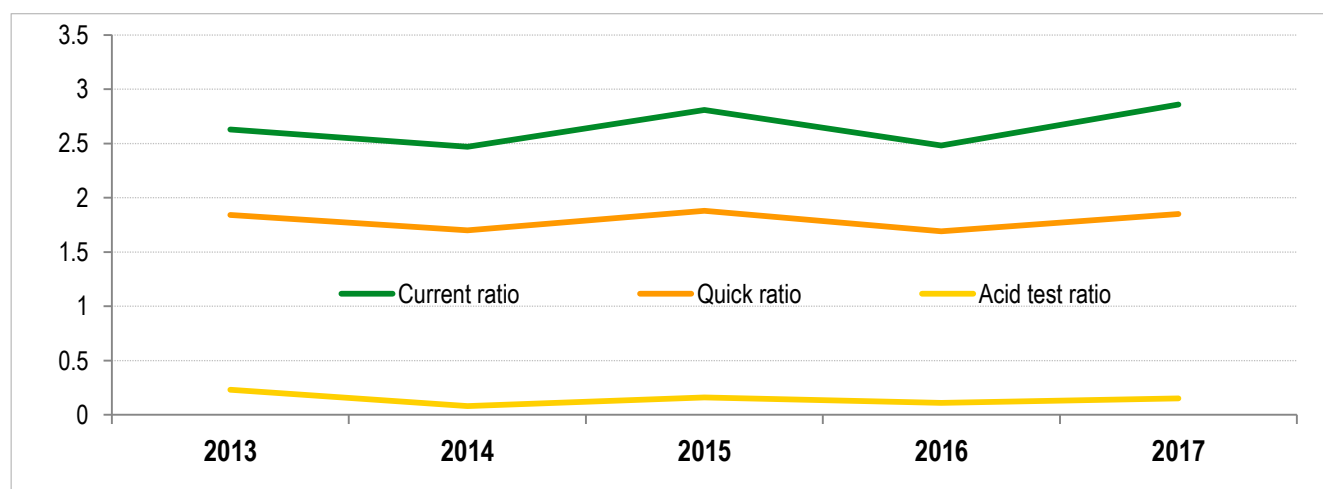
Liquidity ratios	2017	2016	2015	2014	2013	5-year average
Current ratio	2.86	2.48	2.81	2.47	2.63	2.65
Quick ratio	1.85	1.69	1.88	1.70	1.84	1.79
Acid test ratio	0.15	0.11	0.16	0.08	0.23	0.15
Receivables turnover ratio	2.36	2.33	2.38	2.44	2.74	2.45

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

The Krka Group holds insurance policies from domestic and foreign insurance companies to insure property, liabilities, and financial losses in the event of a business interruption. We adjust the scope and type of insurance coverages to business growth, property value, risks, and the recommendations of insurance inspectors.

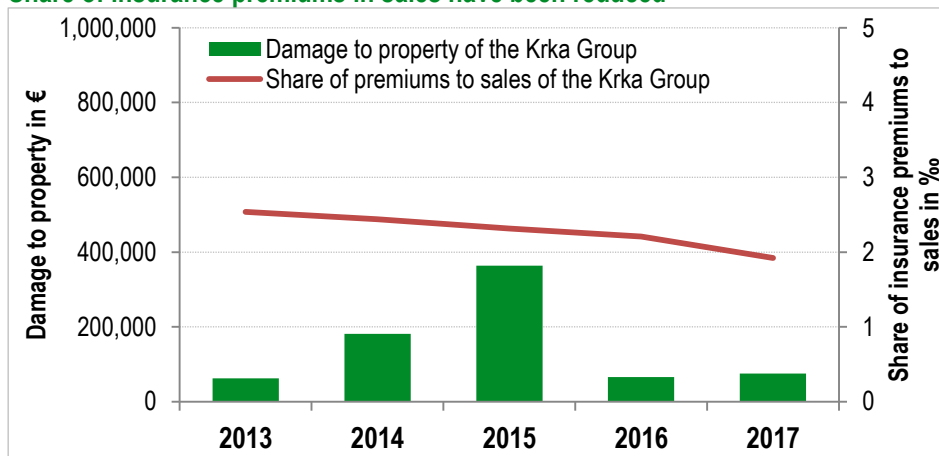
The controlling company manages the insurance policies of all Krka Group companies, except local car insurance policies and potential exceptions. The entire Krka Group is insured in compliance with uniform principles that did not change in 2017. When selecting insurance companies, we consider the quality of coverage, premium rates, references, and national legal requirements.

Krka introduces gradual improvements every year, and at the same time assumes part of the risks by its own contribution to damages or by cancelling insurance with reduced risk. The competitiveness of individual insurance companies is reviewed every year. Also in 2017, Krka further reduced the insurance premium total by inquiries and negotiations, even though total coverage increased.

Krka has been investing systematically in preventing damage. Our buildings are designed so that their hazard exposure is as low as possible. They are equipped with active fire protection systems, for example fire and fume alarms, sprinkler systems, fire flaps, and safety lighting. Preventive inspections and fire watches are arranged regularly. Employees undergo theoretical and practical training in order to respond correctly in emergencies.

The Krka Group has been planning its preventive actions and concluded appropriate insurance policies, so in 2017 the volume of damage to property amounted to less than 0.1% of the Group's total property value, and all insurance claims were solved promptly.

### Share of insurance premiums in sales have been reduced



Note: This chart does not include car and personal insurances.



## Investor and Share Information

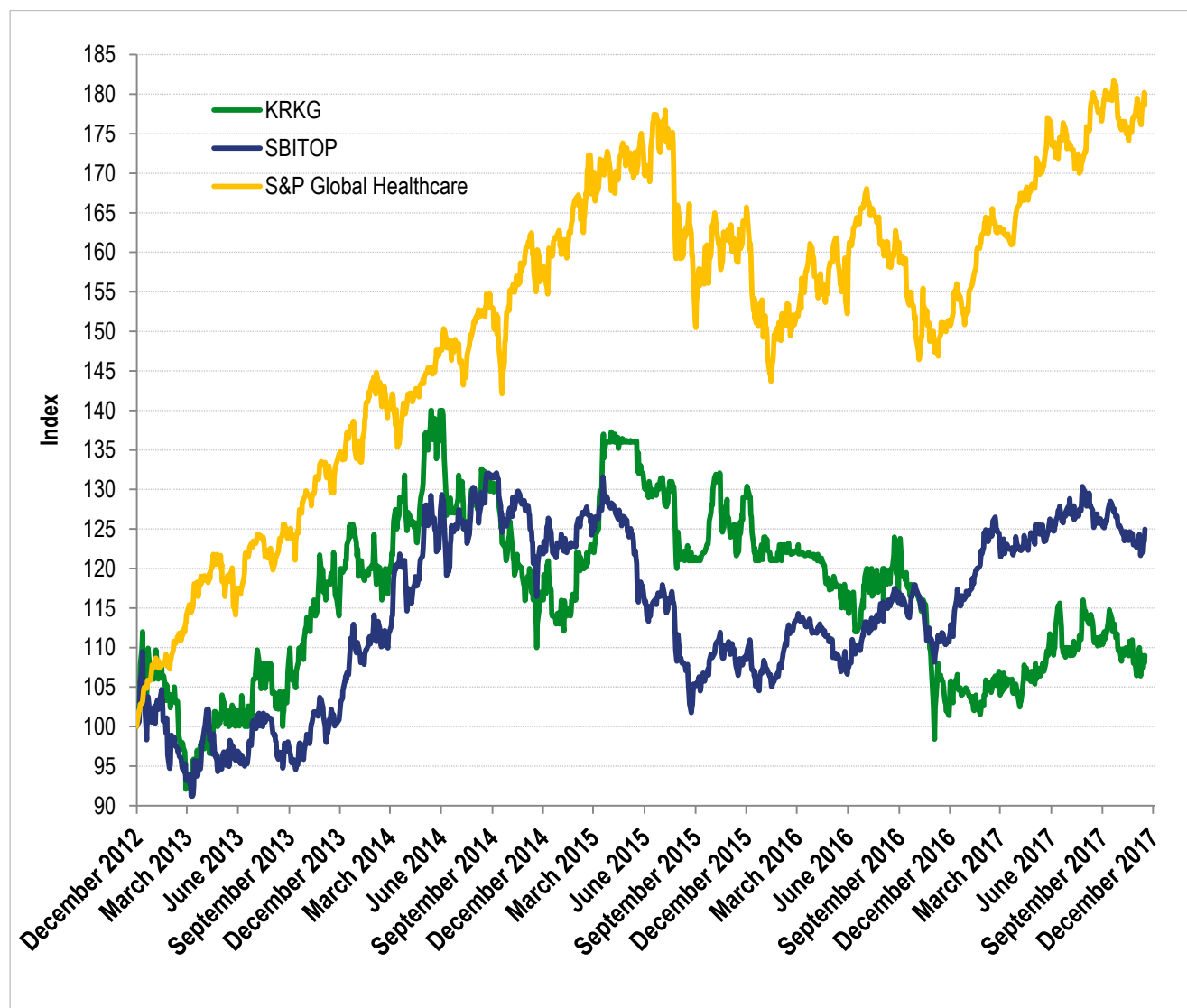
### Shareholder return

#### Krka share price

In €	2017	2016	2015	2014	2013
Year high	58.00	64.50	68.65	70.00	61.00
Year low	50.75	49.21	56.03	55.00	46.05
31 December	57.50	52.90	65.20	59.60	60.00
Annual change (in %)	9	-19	9	-1	20

In 2017, the Krka share price rose by 9%. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) rose by 12%.

#### Krka share price performance in comparison with selected share indices (beginning of 2013 = 100)



The rise in the Krka share price over the past five years has failed to follow the rise in the SBITOP index and the S&P Global Healthcare index.

## Dividend policy

The Annual General Meeting decides on the proposed dividend amount. In 2017, we allocated 82% of the consolidated profit attributable to equity holders of the controlling company generated in 2016 for the payout of dividends; gross dividend per share increased by 3.8%. In November 2017, the Krka Group's Development Strategy for 2018-2022 was adopted. It includes a guideline to pursue a stable dividend policy and also consider the Group's financial requirements for investments and acquisitions when determining the dividend payout each year, as well as to allocate at least 50% of the net profit of controlling company's equity holders for dividends.

	2017	2016	2015	2014	2013
Earnings per share <sup>1</sup> (in €)	4.74	3.35	4.86	5.07	5.24
Gross dividend per share <sup>2</sup> (in €)	2.75	2.65	2.50	2.10	1.61
Dividend payout ratio <sup>3</sup> (%)	82.1	54.5	49.3	40.1	33.5
Dividend yield <sup>4</sup> (%)	4.8	5.0	3.8	3.5	2.7

<sup>1</sup> Net profit of the year attributable to equity holders of the controlling company/Average number of shares issued in the period, excluding treasury shares

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

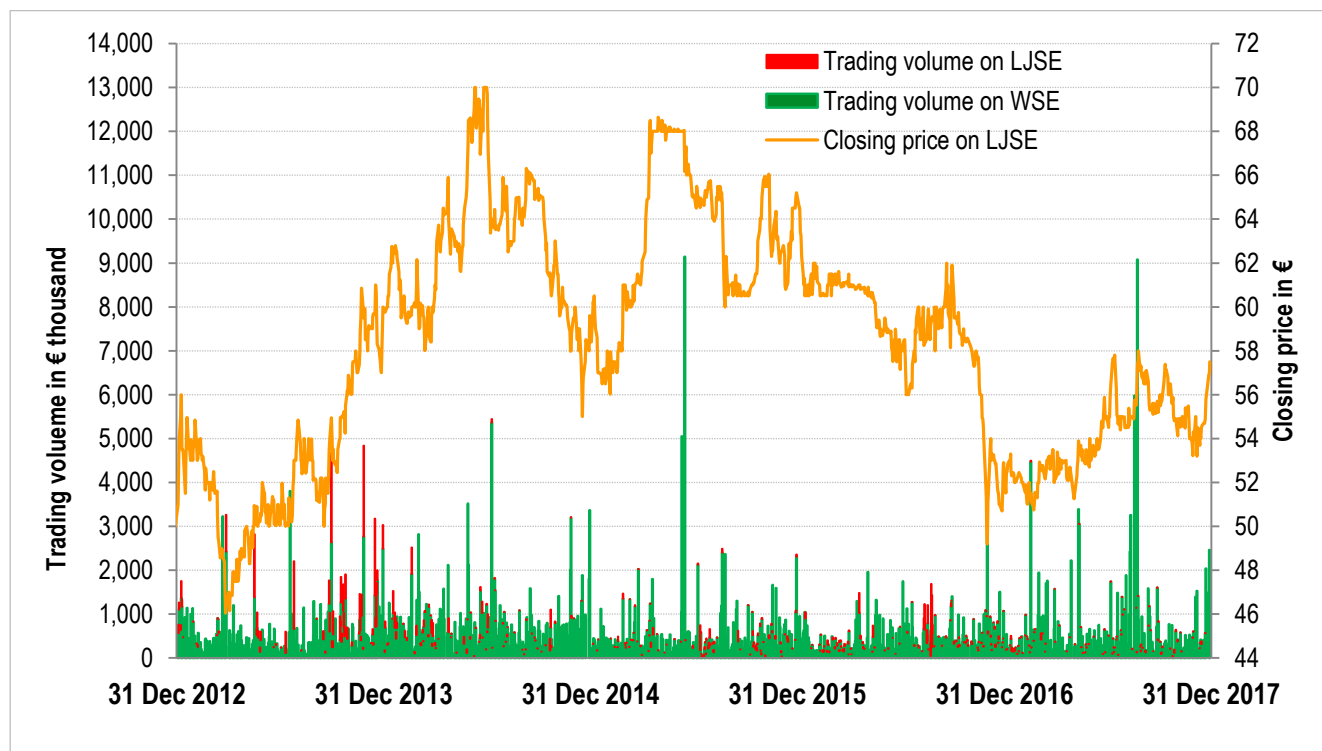
<sup>3</sup> Gross dividend per share/Earnings per share from the previous period

<sup>4</sup> 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 2013 to 2017



Source: The Ljubljana and Warsaw Stock Exchanges

Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2017, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.6 million.

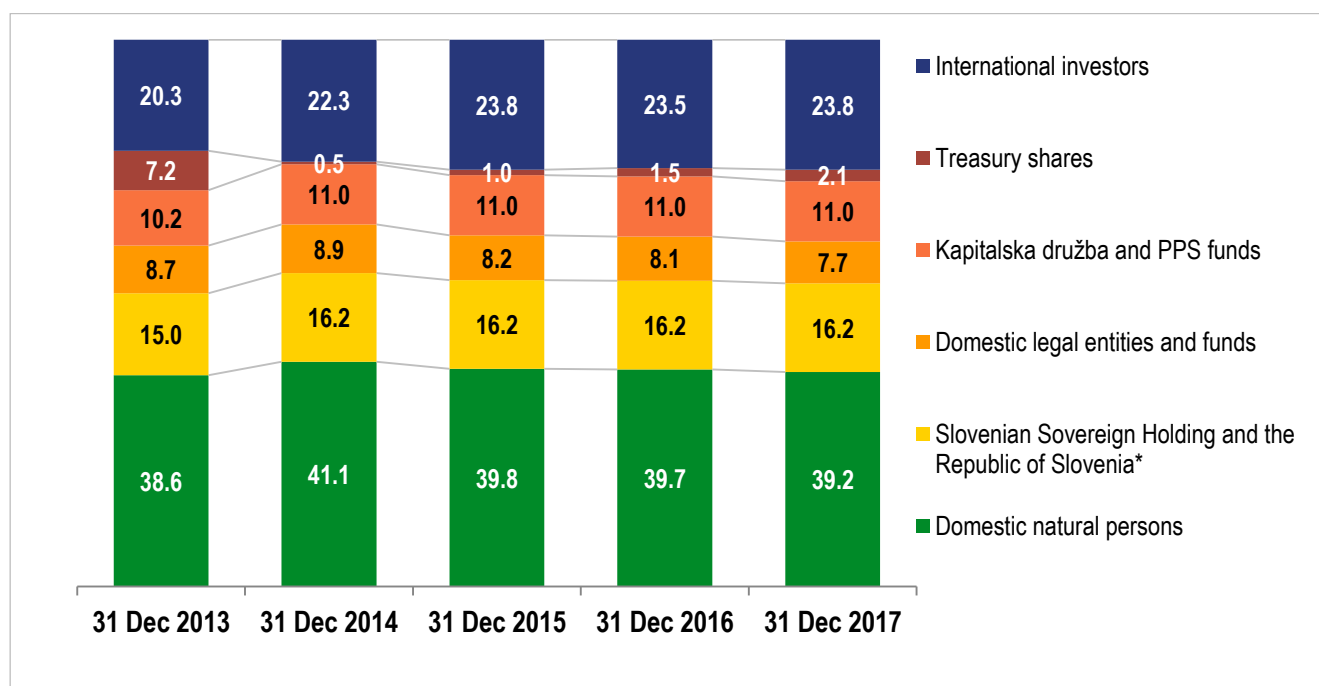
## The ten largest shareholders on 31 December 2017

	Shareholder	Number of shares	Proportion to total shares issued (%)
1	KAPITALSKA DRUŽBA, D. D.	3,493,030	10.65
2	SDH, D. D.*	2,949,876	9.00
3	REPUBLIC OF SLOVENIA*	2,365,096	7.21
4	SOCIETE GENERALE-SPLITSKA BANKA D. D.	1,698,161	5.18
5	ADDIKO BANK D. D.	1,219,433	3.72
6	CLEARSTREAM BANKING SA	494,936	1.51
7	KDPW	467,663	1.43
8	LUKA KOPER, D. D.	433,970	1.32
9	UNICREDIT BANK AUSTRIA AG	413,376	1.26
10	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.18
		<b>13,923,841</b>	<b>42.46</b>

\* In accordance with the resolution of the government of the Republic of Slovenia, Slovenski državni holding (SDH, Slovenian Sovereign Holding) transferred 2,362,194 unpaid Krka shares to the Republic of Slovenia at the end of 2017. Before the transfer, the Republic of Slovenia owned 2,902 Krka shares.

Krka had 51,884 shareholders at the end of 2017, or around 4% less than at the end of 2016.

## Shareholder structure (%)



\* In accordance with the resolution of the government of the Republic of Slovenia, Slovenski državni holding (SDH, Slovenian Sovereign Holding) transferred 2,362,194 unpaid Krka shares to the Republic of Slovenia at the end of 2017. Before the transfer, the Republic of Slovenia owned 2,902 Krka shares.

Due to the cancellation of treasury shares in 2014, the ownership structure and ownership stakes at the end of 2013 cannot be directly compared to subsequent periods.

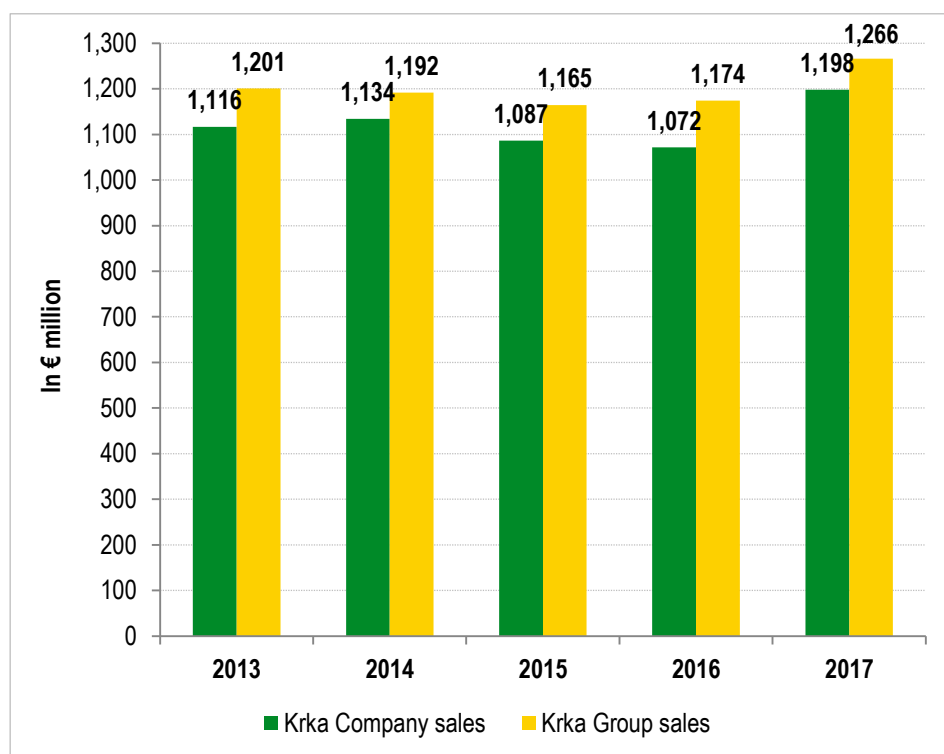
The shareholdings of Slovenian state financial companies, i.e. Slovenski državni holding and the Republic of Slovenia and Kapitalaska družba with its funds, remained unchanged. The shareholding of international investors somewhat increased, while the other groups of Slovenian shareholders slightly reduced their shareholdings.

In 2017, the company acquired 201,116 treasury shares on the regulated market, valued at €11,038,772, and held 691,717 treasury shares on 31 December 2017.

## Business Operations Analysis

### Operating income

#### Sales of the Krka Group and Krka Company



The Krka Group sold products and services worth €1,266.4 million, i.e. €92.0 million or 8% more than in 2016. Over the past five years, average sales growth reached 5.5% in terms of volume, and 2.1% in terms of value.

Other operating income amounted to €10.4 million, an increase of €2.6 million or 33% compared to 2016.

### Operating expenses

The Krka Group incurred operating expenses totalling €1,078.1 million, up €18.2 million or 2% compared to 2016. Krka Company incurred €1,059.9 million in operating expenses, up €1,005.7 million or 3% compared to 2016.

The Krka Group's operating expenses included costs of goods sold, totalling €538.5 million, selling and distribution expenses of €340.5 million, research and development expenses in the amount of €126.4 million, and general and administrative expenses of €72.7 million. The operating expenses to sales ratio was 85%, and in the past five years ranged between 82% in 2013 and 90% in 2016.

The biggest operating expense item was costs of goods sold, which declined by 2% compared to 2016; its ratio to sales was 43%, whereas in 2016 it accounted for 47%. Product portfolio and changes in the inventories of work in progress and finished products primarily influenced the total costs of goods sold. Selling and distribution expenses increased by 7% in comparison to the year before, accounting for 27% of total sales, which was the same as in 2016. Research and development expenses amounted to 10% of total sales, the same as in 2016, up 7% compared to 2016. General and administrative expenses amounted to 6% of total sales, a decrease of 5% compared to 2016, while their ratio to sales dropped by one percentage point.

The Krka Company's operating expenses included a total of €511.9 million for costs of goods sold, selling and distribution expenses of €304.0 million, research and development expenses in the amount of €131.2 million, and general and administrative expenses of €58.6 million.

The biggest operating expense item of the Krka Company was costs of goods sold, which remained at the 2016 level; its ratio to sales was 43%, whereas in 2016 it accounted for 48% in 2016. Product portfolio and changes in the inventories of work in progress and finished products primarily influence the total costs of goods sold. Selling and distribution expenses increased by 8% in comparison to the year before, accounting for 25% of total sales, which was one percentage point less than in 2016. The same as in 2016, research and development expenses amounted to 11% of total sales and were up 7% compared to 2016. General and administrative expenses amounted to 5% of total sales, a decrease of 5% compared to 2016, while their ratio to sales dropped by one percentage point.

## Financial income and expenses

In € thousand	Krka Group					Krka Company				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Financial income	24,041	65,679	25,561	1,486	2,114	24,908	78,225	36,735	9,178	5,316
Financial expenses	-46,608	-71,816	-44,283	-103,126	-28,361	-46,599	-72,733	-43,524	-112,313	-28,967
<b>Net financial result</b>	<b>-22,567</b>	<b>-6,137</b>	<b>-18,722</b>	<b>-101,640</b>	<b>-26,247</b>	<b>-21,691</b>	<b>5,492</b>	<b>-6,789</b>	<b>-103,135</b>	<b>-23,651</b>

In 2017, the Krka Group's net financial result amounted to €-22.6 million, while the net financial result of the Krka Company totalled €-21.7 million.

Currency exposure arises due to a surplus of assets over liabilities in a particular currency in the financial position statement of the Group, also referred to as the long position. The key accounting categories composing a long position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

The Krka Group generally mitigates currency risks by natural hedging, primarily by increasing purchases and liabilities in currencies in which sales invoices are issued. When this is not possible, we use derivative financial instruments, or do not provide hedging for the risk. Generally, only forward contracts are used for hedging.

Krka continued with its policy of partial hedging against the rouble-related risk in 2017. The company generated negative financial results from the forward contracts. The cost of hedging against the Russian rouble was accrued due to differences between the interest rates in the rouble and the euro. Partial hedging ensured a more stable net financial result for the Group, while hedging costs were half as much as they would have been if we had used hedging throughout the year.

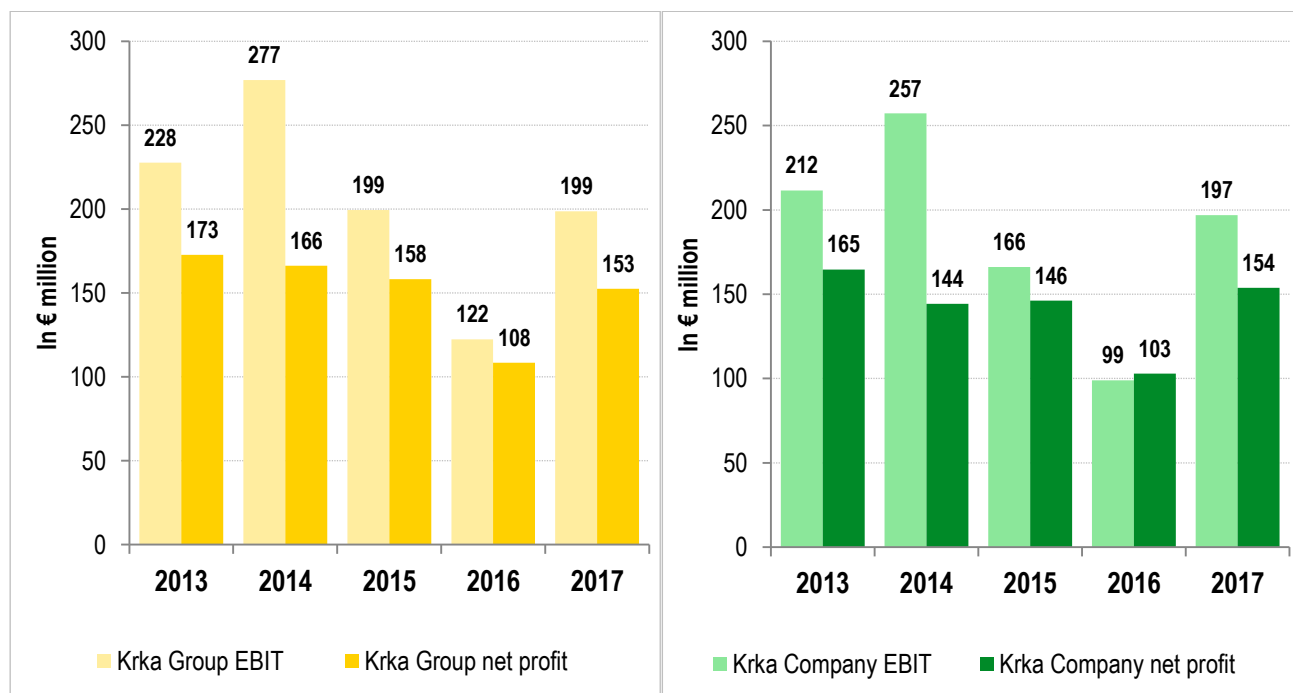
Due to the fall in the rouble from the beginning until the end of the year, we generated net foreign exchange losses of €-18 million from the long position in Russian roubles. Exposure to other currencies was not hedged. The currency risk management balance in 2017 totalled €-22.5 million.

The financial income of the Krka Group included interest income totalling €0.9 million and a total of €1.0 million from dividends and other profit shares paid. Financial expenses comprised interest expenses for borrowings in the amount of €0.2 million and €1.8 million of other financial expenses.

The financial income of the Krka Company included interest income totalling €0.7 million and a total of €2.0 million from dividends and other profit shares paid. Financial expenses comprised interest expenses for borrowings in the amount of €0.9 million and €1.4 million of other financial expenses. The currency risk management balance of the Krka Company in 2017 totalled €-22.2 million.

## Operating results

### Operating profit and net profit for the year



The operating profit (EBIT) of the Krka Group totalled €198.7 million, up €76.3 million or 62% compared to 2016. The reason is that sales grew relatively faster than expenses. The Krka Group generated operating profit increased by amortisation and depreciation (EBITDA) in the amount of €306.6 million, up by €78.4 million or 34%.

The operating profit (EBIT) of the Krka Company amounted to €197.0 million, while operating profit increased by amortisation and depreciation (EBITDA) of the Krka Company was €278.6 million.

The profit before tax of the Krka Group grew by €59.9 million, or 51%, and totalled €176.2 million in 2017. The effective tax rate of the Krka Group was 13.4%. The profit before tax of the Krka Company amounted to €175.3 million.

The Krka Group generated net profit of €152.6 million, an increase of € 44.1 million or 41% compared to 2016. The net profit of the Krka Company reached €153.7 million.



## Assets

In € thousand	Krka Group					Krka Company				
	2017	Share (in %)	2016	Share (in %)	Index 2017/16	2017	Share (in %)	2016	Share (in %)	Index 2017/16
<b>Non-current assets</b>	<b>1,033,008</b>	<b>53.8</b>	<b>1,038,067</b>	<b>54.3</b>	<b>100</b>	<b>1,032,595</b>	<b>56.2</b>	<b>1,024,176</b>	<b>55.7</b>	<b>101</b>
Property, plant and equipment	864,842	45.0	874,100	45.7	99	611,341	33.3	609,543	33.2	100
Intangible assets	110,992	5.8	113,511	5.9	98	28,299	1.5	29,302	1.6	97
Investments and loans	18,358	1.0	18,939	1.0	97	341,899	18.6	349,623	19.0	98
Other	38,816	2.0	31,517	1.7	123	51,056	2.8	35,708	1.9	143
<b>Current assets</b>	<b>886,123</b>	<b>46.2</b>	<b>873,451</b>	<b>45.7</b>	<b>101</b>	<b>804,887</b>	<b>43.8</b>	<b>813,527</b>	<b>44.3</b>	<b>99</b>
Inventories	310,671	16.2	280,653	14.7	111	264,174	14.4	236,214	12.9	112
Trade receivables	500,735	26.1	510,406	26.7	98	456,265	24.8	479,234	26.1	95
Other	74,717	3.9	82,392	4.3	91	84,448	4.6	98,079	5.3	86
<b>Total assets</b>	<b>1,919,131</b>	<b>100.0</b>	<b>1,911,518</b>	<b>100.0</b>	<b>100</b>	<b>1,837,482</b>	<b>100.0</b>	<b>1,837,703</b>	<b>100.0</b>	<b>100</b>

At the end of 2017, the Krka Group assets amounted to €1,919.1 million, an increase of €7.6 million or 0.4% compared to the end of 2016. The proportion of non-current and current assets in the total asset structure were negligibly different compared to the end of 2016: non-current assets decreased by 0.5 of a percentage point, accounting for 53.8%.

At the end of 2017, the Krka Company's assets totalled €1,837.5 million, €0.2 million less than at the end of 2016. The proportion between non-current and current assets in total asset structure was slightly different compared to the end of 2016: non-current assets increased by 0.5 of a percentage point, accounting for 56.2%.

Non-current assets of the Krka Group amounted to €1,033.0 million, down €5.1 million or 0.5% compared to the end of 2016. The most important item in the Krka Group's asset structure was property, plant and equipment (PP&E) totalling €864.8 million or 45% (of which the Krka Company's PP&E accounted for €611.3 million or 71% of the Krka Group's PP&E). Intangible assets worth €111.0 million accounted for 6% of total assets (of which the Krka Company's intangible assets accounted for €28.3 million or 25% of the Krka Group's intangible assets). Non-current loans of the Krka Group totalled €9.5 million or 0.5% of total Krka Group's assets.

The current assets of the Krka Group totalled €886.1 million, up €12.7 million or 1% compared to the end of 2016. Trade receivables due from customers outside the Krka Group totalled €500.7 million (of which Krka Company accounted for €191.1 million or 38% of trade receivables due from customers outside the Krka Group), and inventories totalled €310.7 million (of which Krka Company accounted for €264.2 million). In order to ensure sufficient quantities of a large number of various products in accordance with the needs of over 70 markets, the inventories of work in progress increased by €14.5 million or 23% and the inventories of finished products by €15.8 million or 18%. The current loans of the Krka Group totalled €1.4 million.

The non-current assets of the Krka Company totalled €1,032.6 million, up €8.4 million or 1% compared to the end of 2016. The most important item in the amount of €611.3 million was property, plant and equipment, which accounted for one third of total assets of the Krka Company. Investments in subsidiaries amounted to €321.9 million or 18% of the Krka Company's assets, while trade receivables due from subsidiaries totalled €38.6 million or 2% of the assets of the Krka Company. Intangible assets in the value of €28.3 million accounted for 2% of total assets. Non-current loans of the Krka Company totalled €11.2 million or 0.6% of total Krka Company assets.

The current assets of the Krka Company amounted to €804.9 million, €8.6 million or a 1% decrease compared to the end of 2016. Trade receivables totalled €456.3 million, while inventories amounted to €264.2 million. Inventories of work in progress increased by €14.1 million or 23%, and inventories of finished products by €11.1 million or 21%. Current loans of the Krka Company totalled €34.9 million, or 2% of total Krka Company assets.

## Equity and liabilities

In € thousand	Krka Group					Krka Company				
	2017	Share (in %)	2016	Share (in %)	Index 2017/15	2017	Share (in %)	2016	Share (in %)	Index 2017/15
Equity	1,487,699	77.5	1,444,444	75.6	103	1,493,325	81.3	1,440,448	78.4	104
Non-current liabilities	121,182	6.3	115,313	6.0	105	87,911	4.8	81,691	4.4	108
Current liabilities	310,250	16.2	351,761	18.4	88	256,246	13.9	315,564	17.2	81
<b>Total equity and liabilities</b>	<b>1,919,131</b>	<b>100.0</b>	<b>1,911,518</b>	<b>100.0</b>	<b>100</b>	<b>1,837,482</b>	<b>100.0</b>	<b>1,837,703</b>	<b>100.0</b>	<b>100</b>

As at 31 December 2017, the Krka Group's equity saw a €43.3 million or 3% increase compared to the end of 2016. The increase was attributed to the Krka Group's net profit of €152.6 million. Equity was reduced by the dividend payout in total of €88.6 million, further repurchase of treasury shares in the amount of €10.9 million, and other comprehensive income after tax totalling €-9.7 million. Translation reserves of €-8.4 million accounted for the largest item of that amount (foreign exchange losses arising from the translation of individual items of the financial statements of foreign operations into the reporting currency).

The provisions of the Krka Group totalled €98.1 million (of which post-employment and other non-current employee benefits accounted for €92.7 million, provisions for lawsuits €4.5 million, and other provisions €0.9 million). Compared to the end of 2016, the 8% increase may be attributed primarily to the actuarial increase of provisions for post-employment and other non-current employee benefits of €2.7 million and provisions for lawsuits of €4.3 million, of which €4.0 million were for potential lawsuits relating to intellectual property of the controlling company.

Among Krka Group's current liabilities, trade payables dropped by €20.1 million (of which payables to foreign suppliers accounted for €16.9 million and payables to domestic suppliers €2.5 million), while other current liabilities decreased by €35.9 million (of which accrued discounts on products sold accounted for €24.4 million and derivative financial instruments €12.4 million).

The Krka Group recorded no current or non-current borrowings at the end of 2017.

As at 31 December 2017, the Krka Company's equity saw a €52.9 million or 4% increase compared to the end of 2016. The increase was attributed to the Krka Company's net profit of €153.7 million, while the reduction was attributed to other comprehensive income after tax of €-1.3 million, dividend payouts in the amount of €88.6 million, and repurchase of treasury shares in total of €10.9 million.

The provisions of the Krka Company totalled €85.5 million (of which post-employment and other non-current employee benefits accounted for €81.5 million, and provisions for lawsuits €4.0 million) and increased by 8% compared to the end of 2016 due to the forming of provisions for potential intellectual property lawsuits in the amount of €4.0 million and due to an actuarial increase in provisions for post-employment and other non-current employee benefits of €2.6 million.

Of the Krka Company's current liability items, trade payables rose by €10.6 million, while other current liabilities saw a decrease of €7.3 million. At the end of 2017, the Krka Company's current borrowings from subsidiaries totalled €27.5 million.

## Cash flow statement

In € thousand	Krka Group		Krka Company	
	2017	2016	2017	2016
Net cash flows from operating activities	227,827	213,492	272,448	120,082
Net cash flows used in investing activities	-120,132	-115,149	-84,089	-63,440
Net cash flows used in financing activities	-100,091	-95,916	-178,141	-57,809
<b>Net change in cash and cash equivalents</b>	<b>7,604</b>	<b>2,427</b>	<b>10,218</b>	<b>-1,167</b>

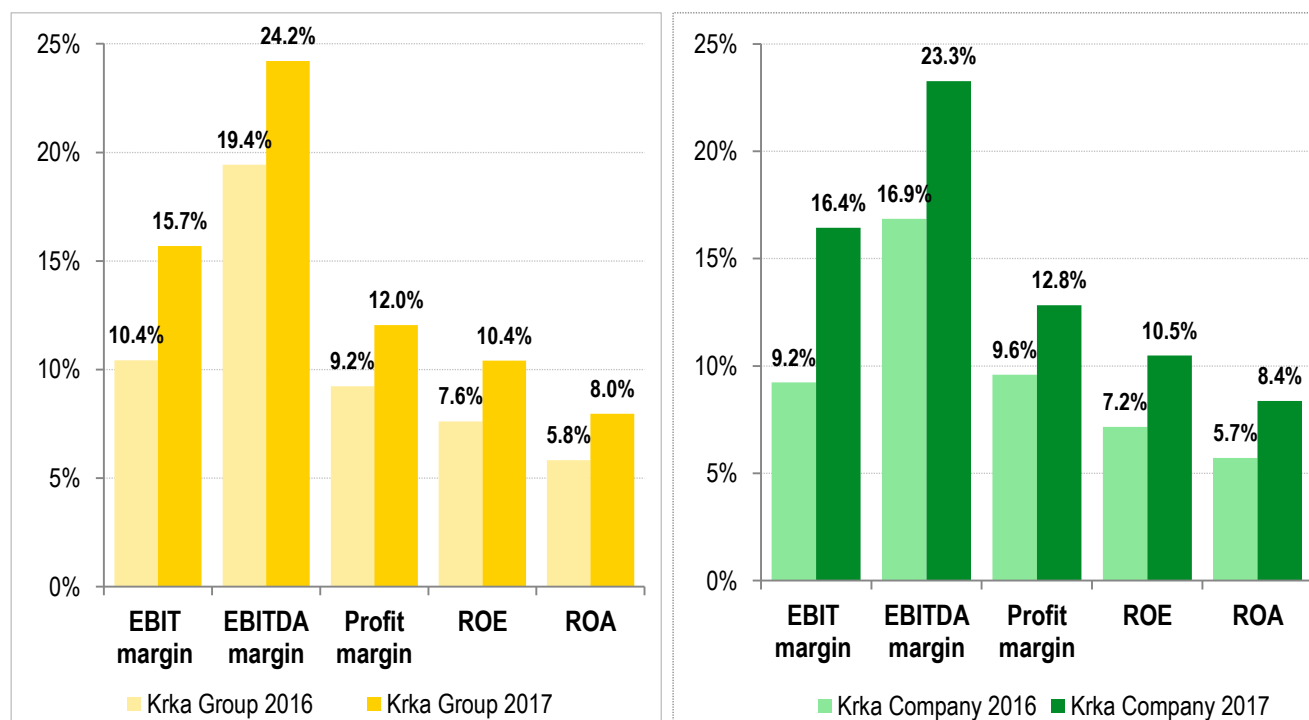
The Krka Group increased its cash and cash equivalents by €7.6 million in 2017, because positive cash flow from operating activities exceeded the negative cash flows from investment and financing activities.

The Krka Group generated profit from operations before changes in net current assets totalling €289.3 million. The changes in current assets that increased profit included changes in trade receivables and provisions, while changes in inventories, trade payables, deferred revenues and other current liabilities had a negative effect on profit.

Negative cash flows from investment activities totalling €120.1 million were accrued due to the acquisition of property, plant and equipment, net outflows related to derivative financial instruments, the acquisition of intangible assets, and non-current loans; positive cash flows were generated by current investments and loans. The negative cash flow from financing activities in the amount of €100.1 million primarily resulted from payouts of dividends and other profit shares totalling €88.8 million, and repurchased treasury shares in the amount of €10.9 million.

The net change in cash and cash equivalents (with no impact of exchange rate fluctuations) of the Krka Company amounted to €10.2 million in 2017.

## Performance ratios



All performance ratios for 2017 are better than in 2016.

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

In € thousand	Krka Group					Krka Company				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Revenues	1,266,392	1,174,424	1,164,607	1,191,614	1,200,827	1,197,756	1,071,709	1,086,526	1,134,169	1,116,339
EBIT	198,741	122,435	199,434	276,953	227,588	196,953	98,920	166,162	257,167	211,527
– Profit margin	15.7%	10.4%	17.1%	23.2%	19.0%	16.4%	9.2%	15.3%	22.7%	18.9%
EBITDA	306,638	228,238	306,742	374,535	321,732	278,627	180,685	248,998	329,217	282,993
– Profit margin	24.2%	19.4%	26.3%	31.4%	26.8%	23.3%	16.9%	22.9%	29.0%	25.4%
Net profit	152,576	108,456	158,185	166,161	172,766	153,730	102,872	146,262	144,385	164,673
– Profit margin	12.0%	9.2%	13.6%	13.9%	14.4%	12.8%	9.6%	13.5%	12.7%	14.8%
Assets	1,919,131	1,911,518	1,809,204	1,795,745	1,759,884	1,837,482	1,837,703	1,761,712	1,768,487	1,701,235
ROA	8.0%	5.8%	8.8%	9.3%	10.2%	8.4%	5.7%	8.3%	8.3%	10.1%
Equity	1,487,699	1,444,444	1,405,984	1,351,899	1,332,611	1,493,325	1,440,448	1,433,211	1,381,313	1,332,246
ROE	10.4%	7.6%	11.5%	12.4%	13.4%	10.5%	7.2%	10.4%	10.6%	12.8%

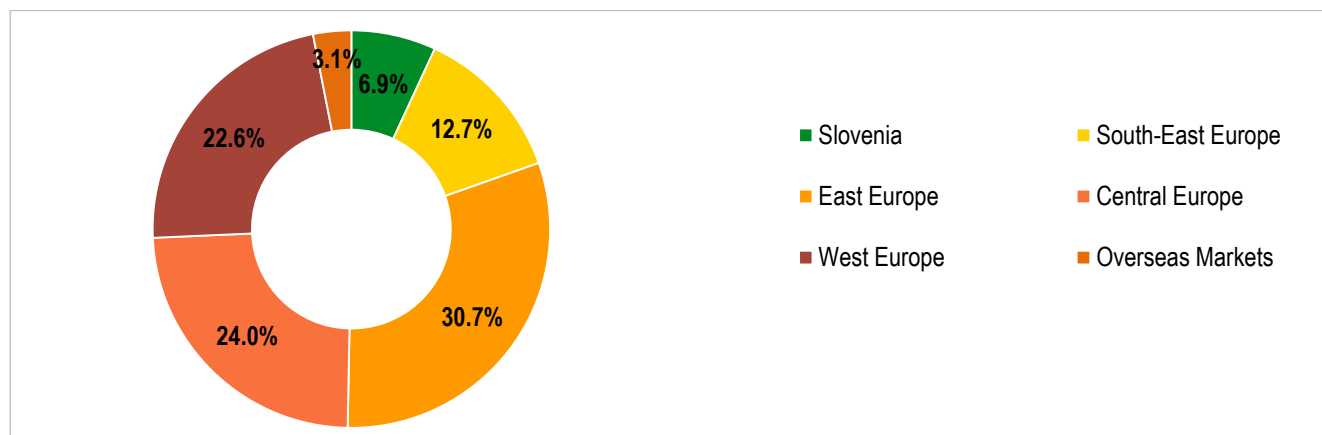
## Marketing and Sales

In 2017, the Krka Group generated sales worth €1 billion 266.4 million, up 8% from 2016, while the overall sales of the Krka Company totalled €1 billion 197.8 million, a 12% increase compared to 2016. In terms of volume, the Krka Group achieved 1% sales growth in 2017.

### Sales by Region

Krka's sales were highest in Region East Europe, where they totalled €388.2 million, or 30.7% of total Krka Group sales. Region Central Europe recorded the second highest sales at €303.6 million, or 24.0% of total Krka Group sales. The third highest sales were recorded by Region West Europe, accounting for €286.1 million, or 22.6%. Region South-East Europe generated sales in total of €160.9 million (12.7%), and Region Overseas Markets €39.5 million (3.1%). Sales in Slovenia amounted to €88 million, or 6.9% of total Krka Group sales.

#### Group Sales by Region in 2017



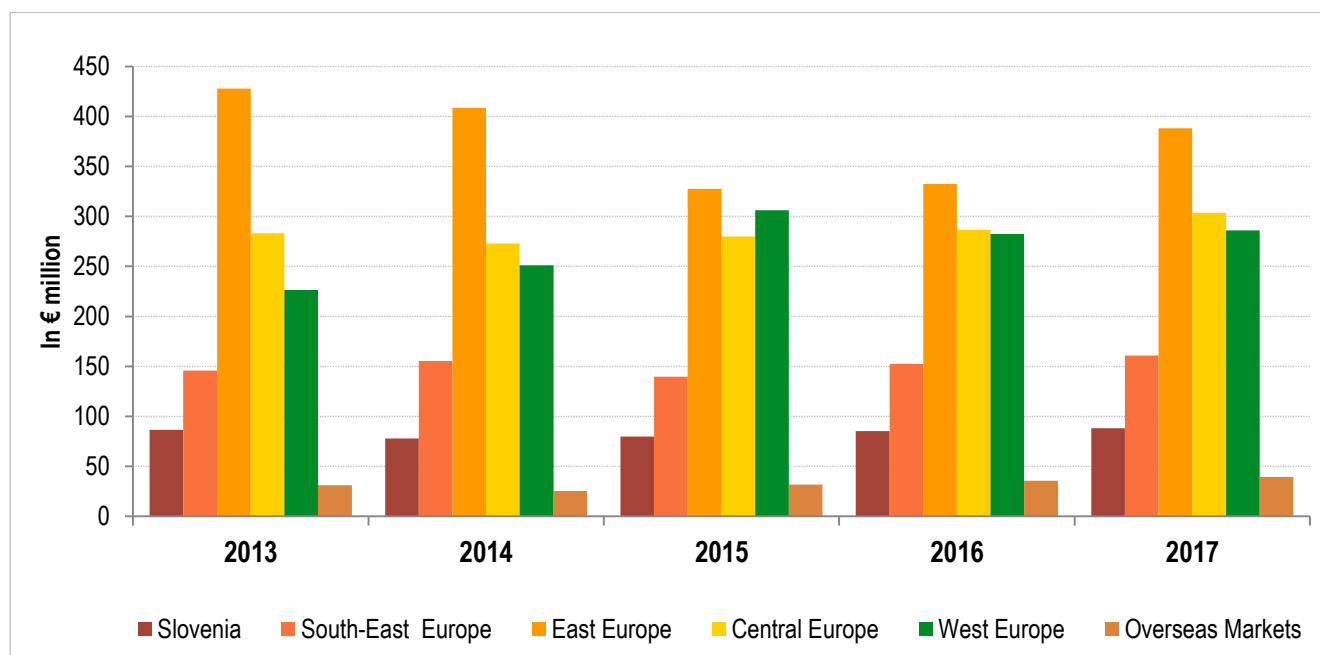
#### Krka Group and Krka Company sales by Region

In € thousand	Krka Group			Krka Company		
	2017	2016	Index 2017/16	2017	2016	Index 2017/16
Slovenia	88,039	85,143	103	53,742	52,897	102
South-East Europe	160,937	152,374	106	162,172	159,181	102
East Europe	388,220	332,286	117	379,600	300,682	126
Central Europe	303,610	286,693	106	305,604	293,454	104
West Europe	286,089	282,412	101	260,684	232,818	112
Overseas Markets	39,497	35,516	111	35,954	32,677	110
<b>Total</b>	<b>1,266,392</b>	<b>1,174,424</b>	<b>108</b>	<b>1,197,756</b>	<b>1,071,709</b>	<b>112</b>

#### Krka Group quarterly sales by Region

In € thousand	2017				2016			
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter
Slovenia	21,090	21,888	23,674	21,387	20,151	21,010	22,734	21,248
South-East Europe	38,674	41,123	36,461	44,679	37,744	39,055	34,671	40,904
East Europe	101,795	112,189	57,450	116,786	80,117	95,425	54,454	102,290
Central Europe	76,919	77,480	71,644	77,567	72,984	68,444	67,646	77,619
West Europe	71,668	71,565	74,487	68,369	80,002	70,410	60,624	71,376
Overseas Markets	10,902	9,753	9,489	9,353	9,894	8,567	8,453	8,602
<b>Total</b>	<b>321,048</b>	<b>333,998</b>	<b>273,205</b>	<b>338,141</b>	<b>300,892</b>	<b>302,911</b>	<b>248,582</b>	<b>322,039</b>

### Krka Group sales by Region in the past five years



### Slovenia

Sales of products and services in Slovenia, one of Krka's key markets, amounted to €88 million in 2017. Sales of products contributed most to total sales. Sales growth in terms of value reached 3%, and in terms of quantity 2%. Sales of products totalled €50.1 million. Prescription products accounted for the largest share in total sales (79%), followed by non-prescription products (17%), and animal health products (4%). We maintained our position as the leading supplier of medicines in Slovenia with a 9% market share. Health resort and tourist services generated €35.7 million.

In the leading group of prescription pharmaceuticals, the most important contributors to total sales were the promoted pharmaceuticals from Krka's key therapeutic groups: medicines for treating cardiovascular diseases, the treatment of diseases of the central nervous system, the treatment of diseases of the alimentary tract and metabolism, and for the treatment of pain. Within these groups, Krka's leading market shares of medicines for treating hypertension and hyperlipidemia, medicines for reducing gastric acid, and medicines for treating pain were further increased.

Prenessa (perindopril), Prenewel (perindopril/indapamide), Amlessa (perindopril/amlodipine), and Amlewel (perindopril/amlodipine/indapamide) were among the key brands of medicines for the treatment of cardiovascular diseases, and we earned further recognition with them in the market of antihypertensive agents. Among statins, we strengthened the market positions of Sorvasta (rosuvastatin) and Rosmela (rosuvastatin/amlodipine), two medicines for controlling blood pressure and cholesterol. This therapeutic group was supplemented by Bixebra (ivabradine), a medicine for the treatment of angina pectoris and heart failure.

Among the medicines for treating pain, we focused on an analgesic, Doreta (tramadol/paracetamol), and on our new anti-inflammatory medicine, Roticox (etoricoxib). We added a new strength of antipsychotic Aryzalera (aripiprazole) 5 mg to our medicines for the treatment of the central nervous system. We entered a new therapeutic area of antiretroviral medicines with Emtricitabin/dizoproksiltenofovirat Krka (emtricitabine/tenofovir). Our portfolio of medicines for treating benign prostatic hyperplasia was supplemented by Dortilla (dutasteride) and Tadilecto (tadalafil) for treating erectile dysfunction. We launched Gliklada (gliclazide) 90 mg, Deksametazon Krka (dexamethasone) 4 mg and 20 mg tablets, and Linezolid Krka (linesolide) solution for infusion.

Our range of non-prescription products was supplemented by Magnezij Krka 300 (magnesium), and a new flavour was added to our well-established brand Septabene (benzylamine/cetylpyridinium). A new animal health product is Otoxolan (marbofloxacin/clotrimazole/dexamethasone) for treating otitis externa in dogs.



### Krka Group market position in Slovenia

With a 9% market share, we retain the leading position among pharmaceutical companies.

Every fourth prescribed pharmaceutical sold is a Krka product.

Our medicines are the market leaders in:

- the group of non-steroidal anti-inflammatory and antirheumatic products, with a market share of more than 65%;
- the proton pump inhibitor group, with a market share of approximately 55%;
- the statin group, with a market share of over 50%;
- the group of agents acting on the renin-angiotensin system, with a market share of more than 50%; and
- the group of antipsychotics, anti-dementia medicines and antidepressants, with a market share of over 20%.

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

We are the leading supplier of generic medicines containing duloxetine, gliclazide, imatinib and sildenafil.

Among non-prescription products, we are the leading supplier of non-steroidal antirheumatics, products acting on the pharynx, and B-group vitamin products.

The best-selling prescription pharmaceuticals include Nalgesin (naproxen), Nolpaza (pantoprazole), Prenewel (indapamide/perindopril), Doreta (paracetamol/tramadol), Sorvasta (rosuvastatin), and Prenessa (perindopril).

## South-East Europe

Sales in Region South-East Europe recorded growth of more than 4% in terms of quantity. In this region, Krka sold products worth €160.9 million, a 6% increase in terms of value compared to 2016. Sales growth was recorded in most markets of this region. Sales growth in terms of value was highest in Serbia, where we generated €4.1 million more than a year ago. In our key market Croatia, sales value increased by €3.2, and in Bulgaria by €1.4 million. In comparison to the year before, sales decreased in Bosnia and Herzegovina.

Our group of prescription pharmaceuticals recorded the highest growth, 7%. They accounted for slightly less than 85% of total sales of the region. Non-prescription products followed, with an almost 12% share and slightly lower sales than the year before. Animal health products recorded 5% growth and their share in total sales of the region amounted to slightly below 4%.

**Romania** remained Krka's key and largest market in the region, where we sold €54.2 million worth of products, almost the same as the year before. We ranked first among mainly foreign providers of generic medicines on the Romanian market with a 2.5% market share.

Sales of prescription pharmaceuticals accounted for the largest proportion of total sales, constituting a 7.6 per cent market share in terms of quantities. The most important products in terms of sales were Atoris (atorvastatin), Co-Prenessa (perindopril/indapamide), Roswera (rosuvastatin), Karbis (candesartan), Tramadol (tramadol), and Doreta (tramadol/paracetamol). Non-prescription products saw a decline in comparison to the 2016 sales figure. Our top-selling product was Bilobil (ginkgo biloba), while Herbion and Nalgesin (naproxen) brands recorded the fastest growth. The sales increase in animal health products was achieved particularly with sales of products for treating companion animals.

### Krka Group market position in Romania

With a 2.5% market share, we rank first among mainly foreign providers of generic medicines.

Krka outperformed the entire market in sales growth in 2017.

Our medicines are among the market leaders in:

- the SNRI antidepressant group, with a market share of more than 45%;
- the statin group, with a market share of approximately 25%;
- the 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 group of analgesics and antipyretics, with a market share of more than 15%;
- the ACE inhibitor group and their combinations with diuretics, with a market share of approximately 15%;
- the cerebral and peripheral vasotherapeutic group with a market share of over 10%; and
- the proton pump inhibitor group, with more than a 10% market share.

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

We are the leading supplier of generic medicines containing amlodipine, atorvastatin, esomeprazole, candesartan, pantoprazole and perindopril in all combinations with amlodipine and indapamide.

In **Croatia**, one of our key markets, we sold €31.1 million worth of products. We strengthened our market share and recorded 12% growth, which was above average for the market, and ranked fourth among all manufacturers of generic medicines, and second among manufacturers of medicines for veterinary use. Sales grew in all three product groups.

The following prescription pharmaceuticals contributed most to sales in terms of value: Co-Perineva (perindopril/indapamide), Atoris (atorvastatin), Helex (alprazolam), Roswera (rosuvastatin), Emanera (esomeprazole), Doreta (tramadol/paracetamol), and Dalneva (perindopril/amlodipine). Our best-selling non-prescription products were Nalgesin (naproxen) and the Septotele brand products. Sales of the oral antiseptic Septotele Duo (benzylamine/cetylpyridinium) made a considerable contribution to the sales growth of non-prescription products. Our most successful animal health product in terms of sales was Fypryst (fipronil).

#### Krka Group market position in Croatia

With a 4.6% market share, we rank second among foreign suppliers of generic medicines.

Krka outperformed the entire market in sales growth in 2017.

Our medicines are the market leaders in:

- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of more than 35%; and
- the statin group, with a market share of approximately 30%.

Our medicines are among the market leaders in:

- the group of antitussives, with a market share of approximately 40%;
- the fluoroquinolone antimicrobial group, with a market share of around 30%;
- the group of sulphonamide antidiabetics, with a market share of approximately 25%;
- the ACE inhibitor group and their combinations with diuretics, with a market share of over 20%;
- the proton pump inhibitor group, with a market share of more than 20%;
- the anxiolytic group, with a market share of approximately 20%;
- the SSRI antidepressant group, with a market share of more than 15%; and
- the protein kinase inhibitor group, with a market share of approximately 15%.

We are the leading supplier of medicines containing alprazolam, atorvastatin, bromazepam, butamirate, dexamethasone, escitalopram, esomeprazole, imatinib, clarithromycin, loperamide, norfloxacin, perindopril, including the combination with indapamide; rosuvastatin, and valsartan in combination with hydrochlorothiazide.

We are the leading supplier of generic medicines containing desloratadine, gliclazide and perindopril in combination with amlodipine and simvastatin.

In **Bosnia and Herzegovina**, we recorded a decrease in sales compared to 2016 due to administrative measures protecting local manufacturers in accordance within specific national regulations, and substantial price reductions in mid-2017. In addition, the agency for medicinal products introduced uniform highest prices at the state level for the first time. We remained the first foreign supplier of generic medicines in the market despite all that, and generated sales worth €14.8 million. In terms of sales, our most important prescription pharmaceuticals included Enap H/HL (enalapril/hydrochlorothiazide), Roswera (rosuvastatin), Enap (enalapril), Lexaurin (bromazepam), Naklofen (diclofenac), and Atoris (atorvastatin). Key non-prescription products were Nalgesin (naproxen), and products of the Septotele and Bilobil (ginkgo biloba) brands. The sales value of animal health products remained the same as last year.

Sales in **Serbia** reached €17.8 million, an increase of slightly more than 30% compared to 2016. Prescription pharmaceuticals substantially contributed to fast growth and a market share that increased to 3.6% in pharmacy sales, and recorded growth of 37%. Their share in total sales was slightly below 82%, and the leading medicines were Nalpaza (pantoprazole), Roxera (rosuvastatin), Atoris (atorvastatin), Ampril (ramipril), and Valsacor (valsartan). Nalpaza in terms of sales volume reached over three million packages, and ranked among the five best-selling medicines in Serbia. Our best-selling non-prescription products were Nalgesin (naproxen), followed by Bilobil (ginkgo biloba), and the Septotele brand products. Animal health products recorded a drop, while Fypryst (fipronil), Enroxil (enrofloxacin), and Calfoset generated the highest sales figures.

In **Macedonia**, we recorded sales growth for the thirteenth year in a row, amounting to slightly less than 10% in 2017. We remain the leading foreign supplier of generic medicines, with sales in total of €18 million. The most important products in terms of sales were prescription pharmaceuticals: Enap (enalapril), Roswera (rosuvastatin), Tanyz (tamsulosin), Atoris (atorvastatin), and Nalpaza (pantoprazole). In terms of sales, our most important non-prescription products were Bilobil (ginkgo biloba), Daleron (paracetamol), and the Herbion and Septanazal (xylometazoline/dexpantenol) brand products. New launches on the Macedonian market included the prescription pharmaceuticals Co-Amlessa

(perindopril/amlodipine/indapamide), Memando (memantine) and Pragiola (pregabalin), and animal health products Otoxolan (marbofloxacin/clotrimazole/dexamethasone) and Dehinel for cats (pyrantel/praziquantel).

In **Bulgaria**, we reached one of the highest sales growths in the region, which amounted to 12%. Prescription pharmaceuticals constituted the largest share of total sales, with €13.3 million, in particular Roswera (rosuvastatin), Co-Valsacor (valsartan/hydrochlorothiazide), Lorista H/HD (losartan/hydrochlorothiazide), and Co-Prenessa (perindopril/indapamide). The highest growth among prescription pharmaceuticals was generated by Bixebra (ivabradine). Sales of non-prescription products exceeded 2016 sales by 29%. Our animal health products reached 10% growth. The leading animal health products were Floron (florfenicol) and Fyprist (fipronil).

In **Kosovo**, Krka continues to rank among the leading suppliers of medicines, recording slightly more than one per cent sales growth. Sales reached €6.1 million. In **Albania**, we sold €4.5 million worth of products and reached 12% growth. Prescription pharmaceuticals remain the most important in terms of sales. We also recorded sales growth in **Montenegro**: 23% in terms of value and 27% in terms of quantity. Sales were primarily generated through public tenders.

## East Europe

In Region East Europe, which includes several eastern European and central Asian markets, Krka sold products worth €388.2 million, a 17% increase compared to 2016. This was chiefly driven by growth in both key markets, in particular in the Russian Federation. Performance is demonstrated by the fact that a double-digit growth was achieved in eight out of thirteen markets, and sales growth in terms of quantity was achieved in most markets, which amounted to 1% at the level of the region. We sold less than the year before only in Turkmenistan and Mongolia.

In the **Russian Federation**, which remains Krka's key and largest individual market, we further strengthened our status as a domestic manufacturer, which is very important for our operations. Our local manufacturing plant makes this possible. Product sales amounted to €270.9 million, exceeding 2016 sales by 20%. Prescription pharmaceuticals recorded a 21% increase and contributed most to continuing the above-average growth dynamics and increasing Krka's market share. The best-selling pharmaceuticals were medicines for treating cardiovascular diseases, including Lorista (losartan), Lorista H/HD (losartan/hydrochlorothiazide), Atoris (atorvastatin), Enap (enalapril), Enap H/HL (enalapril/hydrochlorothiazide), Perineva (perindopril), and Co-Perineva (perindopril/indapamide). They were followed by a medicine for treating the alimentary tract and metabolism, Nolpaza (pantoprazole), which was in turn followed by Zyllt (clopidogrel), Orsoten (orlistat), and Roxera (rosuvastatin). The products that were successfully launched in the last three years include Co-Dalneva (perindopril/amlodipine/indapamide), Vamloset (valsartan/amlodipine), Dalneva (perindopril/amlodipine), Dilaxa (celecoxib), Lortenza (losartan/amlodipine), and Telmista (telmisartan) – launched in 2017.

The Herbion brand products and new Septotele Total (benzylamine/cetylpyridinium) were among the non-prescription products, which recorded a more than 15% sales increase. Products launched last year included Flebaven (diosmin/hesperidin), Panatus (butamirate), and Ulcavis (bismuth). Sales of animal health products increased by 21%. Enroxil (enrofloxacin) was the best-selling product.

### Market position of the Krka Group in the Russian Federation

We rank fourth among mostly foreign suppliers of generic medicines, with a 1.79% market share.

Krka outperformed the entire market in sales growth in 2017.

Our medicines were the market leaders in:

- the group of other non-mineral multivitamins, with a market share of approximately 40%; and
- the group of angiotensin II receptor antagonists and their combinations, with a market share of approximately 30%.

Our medicines are among the market leaders in:

- the statin group, with a market share of approximately 20%;
- the ACE inhibitors and their combinations with diuretics, with a market share of approximately 20%;
- the appetite suppressants group without diet products, with a market share of more than 15%;
- the proton pump inhibitor group, with a market share of more than 15%;
- the platelet aggregation inhibitor group (ADP receptor antagonists), with a market share of more than 15%; and
- the atypical antipsychotic group, with a market share of more than 10%.

We are the leading supplier of medicines containing atorvastatin, dexamethasone, enalapril, including the combination with hydrochlorothiazide; losartan, naproxen, norfloxacin, olanzapine, orlistat and pantoprazole.

We are the leading supplier of generic medicines containing esomeprazole, clarithromycin, clopidogrel, quetiapine, perindopril, including combinations with amlodipine and indapamide; rosuvastatin and risperidone.

The pharmaceutical market in **Ukraine** started to grow again in 2017 after years of decline and stagnation. Krka maintained the position of the leading foreign supplier of generic medicines there and generated sales worth €45.2 million, presenting 14% growth. Growth was fastest in the most important group of prescription pharmaceuticals and reached 17%. Our key medicines were Vasilip (simvastatin), Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), and Nalpaza (pantoprazole). The best-selling products in the non-prescription group were Herbion, Septotele and Panzynom brand products, achieving a 17% growth. Sales of animal health products were by one quarter lower than in 2016.

#### Krka Group market position in Ukraine

We rank first among foreign suppliers of generic medicines, with a 2.2% market share.

Krka outperformed the entire market in sales growth in 2017.

Our medicines are the market leaders in:

- the statin group, with a market share of approximately 45%;
- the group of parenteral corticosteroids, with a market share of approximately 40%; and
- the ACE inhibitor group and their combinations with diuretics, with a market share of approximately 20%.

Our medicines are among the market leaders in:

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

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

We are the leading supplier of generic medicines containing betamethasone and enalapril.

After the stabilisation of the business environment, the **Kazakh** pharmaceutical market recorded fast growth. We increased our sales there by 22%, which was still short of the general market growth. Sales totalled €15.6 million, of which over 70%, or €11.3 million, were generated by prescription pharmaceuticals. The best-selling medicines were Atoris (atorvastatin), Nalpaza (pantoprazole), Enap (enalapril), and Valodip (amlodipine/valsartan), followed by Zyllt (clopidogrel), Prenessa (perindopril), and Roxera (rosuvastatin). We extended our product range with a medicine for treating high blood pressure Tenlisa (lisinopril/amlodipine), and a medicine for controlling gastric acid, Zalbex (rabeprazole). Sales of non-prescription products exceeded 2016 sales by 25%. The best-selling products were Herbion, Duovit, Septotele and Pikovit brand products, while sales growth was highest with Septotele Total (benzylamine/cetylpyridinium). Our portfolio was extended with Ulcavis (bismuth).

In **Uzbekistan**, the decrease in purchasing power further continued until September 2017, when the official and market exchange rates were balanced, and other measures were taken to open and liberalise the Uzbek market and economy. Sales amounted to €14.5 million, an increase of 7% compared to 2016. Prescription products accounted for the largest share in sales, including in particular Lorista (losartan), Amlessa (perindopril/amlodipine), and Enap (enalapril). The leading non-prescription products were Pikovit and Septotele brand products. We successfully launched Ulcavis (bismuth).

In **Belarus**, Krka sold €10.3 million worth of products, an increase of 13% compared to 2016, even though the economic environment favoured domestic manufacturers. Sales growth in terms of quantity reached 25%. We increased our market share because Krka sales growth surpassed the average growth in the Belarus pharmaceutical market. The following prescription pharmaceuticals were among the most important in terms of sales: Nalpaza (pantoprazole), Lorista H/HD (losartan/hydrochlorothiazide), Lorista (losartan), Fromilid (clarithromycin), and Atoris (atorvastatin). Good results were also recorded for a new medicine containing irbesartan launched in cooperation with a local manufacturer. Sales of non-prescription products increased by one third compared to 2016, in particular due to the successful launch of Septotele Total (benzylamine/cetylpyridinium), and Herbion brand products.

In **Moldova**, Krka sold €7.1 million worth of products and slightly exceeded the 2016 results despite pressure to reduce prices. We increased Krka's market share to more than 5% and ranked third among all suppliers of medicines in the market. In terms of sales, the most important prescription pharmaceuticals, accounting for slightly less than 70% of sales, were Rawel SR (indapamide), Ampiril (ramipril), Lorista (losartan), and Nalpaza (pantoprazole). Sales of non-prescription products increased substantially, exceeding €2 million. The leading products were Septotele, Herbion, Septanazol (xylometazoline/dexpanthenol), and Nalgessin (naproxen). Our portfolio was supplemented by Daleron COLD3 (paracetamol/pseudoephedrine/dextromethorphan).



The total value of medicines imported by foreign producers stagnated in **Mongolia** in 2017. We sold €5.8 million worth of products in the market which is 5% less compared to 2016. We successfully launched Ulcavis (bismuth) in the first half of the year. We started marketing Doreta (tramadol/paracetamol) and Emanera (esomeprazole). Among non-prescription products, we successfully launched Septotele Total (benzylamine/cetylpyridinium).

Moderate growth was achieved in **Azerbaijan** in 2017 after two years of falling market value. Sales amounted to €4.6 million, an increase of 22% over 2016. Prescription pharmaceuticals saw an increase in a quarter that contributed significantly to above-average growth and also compensated for a 15% decrease in sales of non-prescription products. The quantity index followed the value index. Our market share amounts to 2.9%, placing us among the leading suppliers of generic medicines in Azerbaijan.

Sales in **Georgia** totalled €3.8 million and increased by 12% compared to 2016. We achieved a 3.1% market share, so Krka ranked seventh among all suppliers of medicines in the market. The most important products in terms of sales were prescription pharmaceuticals, especially Enap H/HL (enalapril/hydrochlorothiazide), Lorista H/HD (losartan/hydrochlorothiazide), and Co-Amlessa (perindopril/amlodipine/indapamide). The best-selling non-prescription products were Herbion, Panzynom, and Nalgesin (naproxen) brand products.

In **Turkmenistan** in 2017, securing timely payments for purchased goods by buyers was a challenge due to difficulties in obtaining foreign currencies. Sales amounted to €3.5 million, 33% less than in 2016, and were primarily driven by sales of prescription pharmaceuticals, in particular Naklofen (diclofenac), Efloran (metronidazole), Nolpaza (pantoprazole), and Ciprinol (ciprofloxacin). The best-selling non-prescription products were products of the Herbion and Pikovit brands.

In **Kyrgyzstan**, sales in total of €3.2 million increased by 9% compared to 2016. Prescription pharmaceuticals contributed most to sales, especially Atoris (atorvastatin), Lorista (losartan), and Nolpaza (pantoprazole). Non-prescription products also contributed to growth, among them Herbion and Septotele brand products. In 2017, we started marketing Septotele Total (benzylamine/cetylpyridinium).

In **Armenia**, Krka sold €2.6 million worth of products, an increase of 27% compared to 2016. Krka's market share presented above-average growth dynamics and rose to 2.7%, placing us into the fifth place among suppliers of generic medicines. The bulk of sales was generated by prescription pharmaceuticals, in particular Atoris (atorvastatin), Enap H/HL (enalapril/hydrochlorothiazide) and Kaptopril (captopril). Non-prescription products presented a 32% increase in terms of value. The best-selling products were products of the Septotele and Herbion brands.

Despite 30% growth, **Tajikistan** remained our smallest market in the region recording sales of €1.2 million. Due to the reduced purchasing power of the local population and imports of medicines from nearby countries, we expanded our portfolio with larger pack units at more affordable prices. We recorded modest sales growth with our new products, including Nolpaza (pantoprazole) – particularly powder for solution for injection, Lorista (losartan), and Tramadol (tramadol) – particularly capsules.

## Central Europe

Product sales in Region Central Europe amounted to €303.6 million, up 6% compared to 2016. The highest value and relative growth was achieved in the Czech Republic, while double-digit growth was also achieved in Latvia. Other markets in the region followed, with the exception of Lithuania, where sales results were slightly lower than in 2016.

**Poland** remained our largest market among three key markets in the region. Sales amounted to €145 million, which was 3% more than in 2016, and prescription pharmaceuticals from the reimbursement list contributed most to sales. New pharmaceuticals introduced over the past few years also significantly contributed to total sales. Among therapeutic groups, most attention was devoted to medicines for the treatment of cardiovascular diseases. In the group of medicines for lowering cholesterol, especially due to strong sales of Atoris (atorvastatin) and Roswera (rosuvastatin), we achieved 9% growth and increased market share to 32%. In the group of medicines for lowering blood pressure, the best-selling products were Valsacor (valsartan) and Co-Valsacor (valsartan/hydrochlorothiazide), Tolura (telmisartan) and Tolucombi (telmisartan/hydrochlorothiazide), as well as Karbis (candesartan) and Karbicombi (candesartan/hydrochlorothiazide). Within this group, Krka enjoyed 4% growth and accounted for a 30% market share. Doreta (tramadol/paracetamol) and Aclixa (celecoxib) contributed to the 13% growth of the group of analgesics. In the group of medicines for treating

depression with Dulsevia (duloxetine), we reached 14% growth. Dexamethasone Krka (dexamethasone) is Krka's new medicine. We put it on the market in several strengths as the first generic manufacturer.

We retained the leading position among all producers as far as prescription pharmaceuticals from the reimbursement list free for patients older than 75 years are concerned, as we have more products on the list than any other producer. In the group of non-prescription products, sales were lower than in 2016 due to work reorganisation in the market. The best-sellers, Septotele brand products, were followed by Bilobil (ginkgo biloba). Sales of animal health products reached €6.3 million and a 9% growth rate. The best-selling products were Floron (florfenicol) and Milprazon (milbemycin/praziquantel).

#### Krka Group market position in Poland

We rank fourth among foreign suppliers of generic medicines, with a 2.4% market share.

Our medicines are the market leaders in:

- the statin group, with a market share of over 30%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of more than 30%; and
- the SSRI and SNRI antidepressant groups, with a market share of approximately 15%.

Our medicines are among the market leaders in:

- the oral fluoroquinolone antimicrobial group, with a market share of approximately 25%;
- the intestinal aminosalicilate products group, with a market share of over 15%;
- the group of ACE inhibitors and their combinations with diuretics, with a market share of approximately 15%;
- the proton pump inhibitor group, with a market share of approximately 15%;
- the group of sulphonamide antidiabetics, with a market share of over 10%; and
- the group of antiparkinsonians, with a market share of over 10%.

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

We are the leading supplier of generic medicines containing gliclazide, ivabradine and perindopril, including in all combinations with amlodipine and indapamide.

In the **Czech Republic**, we recorded 21% sales growth in the amount of €45.8 million and reached a 2.3% market share. We ranked third among foreign suppliers of generic medicines. Prescription pharmaceuticals maintained the leading position in sales, especially Lexaurin (bromazepam), Atoris (atorvastatin), Asentra (sertraline), Pragiola (pregabalin), Tonarssa (perindopril/amlodipine), and Doreta (tramadol/paracetamol). In the Czech market, we remain the leading producer of medicines containing sertraline, esomeprazole, and finasteride.

Sales of non-prescription products were 19% higher than in 2016, especially due to better cooperation with a larger number of pharmacy chains. Nalgesin S (naproxen) and Septotele brand products remained the best-selling products in 2017. Sales of animal health products increased by 32%. The leading products were Fypryst (fipronil) and Dehinel (febantel).

#### Krka Group market position in the Czech Republic

We rank third among foreign suppliers of generic medicines, with a 2.3% market share.

Our medicines are the market leaders in:

- the group of mono-component products used to treat benign hypertrophy of the prostate, with approximately a 25% market share; and
- the group of sulphonamide antidiabetics, with a market share of approximately 25%.

Our medicines are among the market leaders in:

- the anxiolytic group, with a market share of more than 30%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 30%;
- the proton pump inhibitor group, with a market share of approximately 25%;
- the SSRI and SNRI antidepressant groups, with a market share of more than 15%;
- the statin 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 atypical antipsychotic group, with a market share of approximately 10%.

We are the leading supplier of medicines containing esomeprazole, finasteride, gliclazide, lansoprazole and valsartan, including the combination with hydrochlorothiazide.

We are the leading supplier of generic medicines containing aripiprazole, atorvastatin, escitalopram, olanzapine, pantoprazole, perindopril, including all combinations with amlodipine and indapamide; pregabalin, sertraline, tamsulosin and telmisartan in combination with hydrochlorothiazide.



**Hungary** ranked third among markets in the region, with 3% growth and sales worth €45.1 million. We retained our market share and consolidated our second-place position among mainly foreign suppliers of generic medicines in the country. Prescription pharmaceuticals constituted the majority of sales, especially Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), Roxera (rosuvastatin), Zyllt (clopidogrel), Emozul (esomeprazole), and Co-Dalnessa (perindopril/amlodipine/indapamide). Non-prescription products generated €2.2 million, 12% growth compared to 2016. Septotele Extra, Bilobil (gingko biloba), and Septanazal (xylometazoline/dexpanthenol) were the most important products in terms of sales. Sales of animal health products increased by 4%. The main contributors were again Fypryst (fipronil) and Enroxil (enrofloxacin).

#### Krka Group market position in Hungary

We rank second among mainly foreign suppliers of generic medicines, with a 2% market share.

Our medicines are the market leaders in:

- the platelet aggregation inhibitor group, with a market share of more than 30%;
- the group of mono-component thiazide diuretics, with a market share of over 25%; and
- the oral fluoroquinolone antimicrobial group, with a market share of over 25%.

Our medicines are among the market leaders in:

- the SNRI antidepressant group, with a market share of approximately 30%;
- the statin group, with a market share of more than 20%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, 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%;
- the macrolide and pyranoside antibiotic group, with a market share of approximately 20%;
- the proton pump inhibitor group, with a market share of more than 15%; and
- the group of sulphonamide antidiabetics, with a market share of approximately 15%.

We are the leading supplier of medicines containing indapamide, clarithromycin, clopidogrel, and mirtazapine.

We are the leading generic supplier of medicines containing aripiprazole, duloxetine, and gliclazide.

In **Slovakia**, we sold products worth €33.3 million and, compared to 2016, recorded growth of slightly more than 5%. Prescription pharmaceuticals were the largest contributor, especially Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), Nalpaza (pantoprazole), Prenessa (perindopril), and Co-Amlessa (perindopril/amlodipine/indapamide). Non-prescription products, including the leading Nalgesin S (naproxen) and Septotele brand products, and animal health products recorded slightly lower sales than in 2016.

In **Lithuania**, we sold €15.5 million worth of products, slightly less than in 2016, and we remained second among suppliers of generic medicines in the market. Krka recorded a 3.2% market share in terms of value, and a 4.2% market share in terms of volume. The most important prescription pharmaceuticals in terms of sales were Atoris (atorvastatin), Valsacombi (valsartan/hydrochlorothiazide), Nalpaza (pantoprazole), Renewel (perindopril/indapamide), and Canocombi (candesartan/hydrochlorothiazide). Sales of non-prescription products increased by 16% compared to 2016. The leading products were Septabene and Nalgesin (naproxen). Sales of animal health products also increased by 20%.

In **Latvia**, we sold products worth €12.1 million. We strengthened the market share, which grew by a little less than 17%. Our market share in terms of value was 3.6%, and 6% in terms of volume. With this achievement, Krka retained the leading position among suppliers of generic medicines in the Latvian market. The bulk of sales was generated by sales of prescription pharmaceuticals. The main contributor was Atoris (atorvastatin), followed by Renewel (perindopril/indapamide), Sorvasta (rosuvastatin), and Nalpaza (pantoprazole). Septabene and Daleron COLD3 (paracetamol/pseudoephedrine/dextromethorphan) contributed most to the 14% sales growth of non-prescription products. Sales growth of animal health products was recorded at 12%.

In **Estonia**, Krka sold €6.7 million worth of products, a 9% increase compared to 2016. The following prescription pharmaceuticals were among those which remained the most important in terms of sales: Co-Prenessa (perindopril/indapamide), Roswera (rosuvastatin), Atoris (atorvastatin) and Co-Dalnessa (perindopril/amlodipine/indapamide). Non-prescription products saw a 17% increase in sales compared to 2016, among which Septotele brand products were the best-selling products, and were also the third best-selling of Krka's products in the Estonian market.

## West Europe

In the markets of Region West Europe, which are regarded as Krka's key markets, our sales reached €286.1 million, an increase of 1% compared to 2016. In Germany, we recorded lower sales than in 2016 due to lower sales of products through public tenders. Sales were strongest in Germany, France and Spain. Sales through subsidiaries accounted for approximately two thirds of total sales in the region. We generated €98.9 million from sales through third partners. Our business operations in the United Kingdom and France were successful, contributing substantially to the 4% sales increase.

Sales of prescription pharmaceuticals saw a 3% increase in terms of value compared to the year before, and accounted for nearly 91% of total sales. The most important products were medicines containing esomeprazole, pregabalin, pantoprazole, quetiapine, valsartan, clopidogrel, and candesartan. Among the newly launched medicines were those containing acetylsalicylic acid, amoxicillin in combination with clavulanic acid; etoricoxib, and olmesartan in various combinations. Sales of animal health products decreased by 16% compared to 2016 and contributed a little less than 8% to total sales. Non-prescription products ranked third. Compared to 2016, they recorded 9% growth, and accounted for just short of 2% in total sales.

In **Germany**, which remains our most important market in the region, sales totalled €80.8 million, but decreased by 13% compared to sales in 2016 due to lower sales of products through public tenders. We sold €73.7 million worth of products through our subsidiary TAD Pharma, a 9% decrease compared to 2016. In terms of sales, our most important products were medicines for treating cardiovascular diseases and diseases of the alimentary tract and metabolism, followed by medicines for treating the central nervous system. We remain the leading supplier of sartans in terms of quantities in the German market. With Pantoprazol TAD (pantoprazole) and Esomeprazol TAD (esomeprazole), we became the leading supplier of generic medicines for treating reflux disease and ulcers. In the second half of the year, we launched an emtricitabine/tenofovir disoproxil fixed-dose combination and entered a new therapeutic area of medicines for the treatment of HIV infections. We also launched the fixed-dose combination of olmesartan and amlodipine, and imatinib dispersible tablets, and made an intensive entry in the market of oncology medicines.

**France** ranked second in the region by generating sales in total of €36.8 million, an 11% increase compared to 2016. The largest share in sales was generated through third partners. The best-selling products were products containing esomeprazole, glimepiride and clopidogrel. Sales of animal health products contributed significantly to growth, which was 7% higher compared to 2016.

In **Spain**, sales amounted to €35.7 million, down 8% compared to 2016. In Andalusia, we continue to successfully market our products through our subsidiary, which entered a public tender, and also strengthen sales of our own brands. The best-selling products were medicines containing a fixed-dose combination of tramadol and paracetamol, and those containing bisoprolol, donepezil, quetiapine, and duloxetine.

In **Scandinavian countries**, Krka sold €29.8 million worth of products, an increase of 13% compared to 2016. **Norway**, **Finland** and **Denmark** followed the leading Swedish market. The highest growth, 43%, was achieved in Finland, mainly through our subsidiary Krka Finland. Sales of the subsidiary increased by 60% and accounted for four fifths of total sales in this market.

In the **United Kingdom**, product sales amounted to €26.2 million, an increase of 36% compared to 2016. In terms of sales, our most successful products were medicines containing quetiapine, olanzapine, and pregabalin. Product sales in **Italy** amounted to €23.5 million, an increase of 16% compared to 2016. Sales under our own brands increased by a quarter and accounted for already 61% of Krka's sales in this market. The leading prescription pharmaceuticals are products containing esomeprazole, clopidogrel and pantoprazole. In **Portugal**, our next market in the region, we generated sales in total of €21.1 million, or 19% more than in 2016, and maintained one of the leading generic market shares there. Product sales under our own brands exceeded 60% in this market. In **Ireland**, we increased sales by 17.6% in 2017, and sold products worth €9.5 million. Sales through the subsidiary Krka Pharma Dublin increased by 23.2% and amounted to €8.1 million. In **Benelux**, we sold €8.2 million worth of products. We recorded a million euro drop in sales compared to a year ago due to a reduction of business operations through third partners. This was not fully compensated for by a 40% rise in sales through the subsidiary Krka Belgium. In **other European countries**, most sales were made through third partners. We sold products worth €7.5 million, or by a quarter less than in 2016. In **Austria**, sales amounted to €7 million, or 3% more than in 2016. Our subsidiary Krka Pharma Wien increased its sales by 14%.

## Overseas Markets

In Region Overseas Markets, sales reached €39.5 million, 11% more than in 2016. Sales growth was recorded by all three sales offices. Prescription pharmaceuticals accounted for the biggest increase. We primarily market them under our own brands, and they accounted for slightly less than 90% of total regional sales.

In the markets of the **Middle East**, we sold €21.8 million worth of products, reaching 14% growth compared to 2016. **Iran** remained the largest individual market, with 11% sales growth compared to 2016. Our best-selling products were Asentra (sertraline), Nolpaza (pantoprazole), Vizarsin (sildenafil), Letizen (cetirizine), and Emozul (esomeprazole). In **Iraq**, we increased our sales by more than one half, despite challenging business circumstances. In Lebanon, we launched a few new products. We remained present and continued sales business in **Yemen** despite the war.

In the markets of **Far East and Africa**, we recorded overall sales of €16.7 million, up 7% compared to 2016. The **Republic of South Africa** remained the most important individual market, where we achieved 5% sales growth. The best-selling products were medicines containing lansoprazole, amlodipine, carvedilol, enalapril, and doxazosin. In **Vietnam**, we extended sales of our product range, and achieved 18% sales growth compared to 2016. In **China**, where we sell products of our subsidiary TAD Pharma, we sold one fifth more products. We increased sales in **Malaysia** by more than one half, and in **Singapore** by 36%. In **Ghana**, sales remained at the similar level as in 2016.

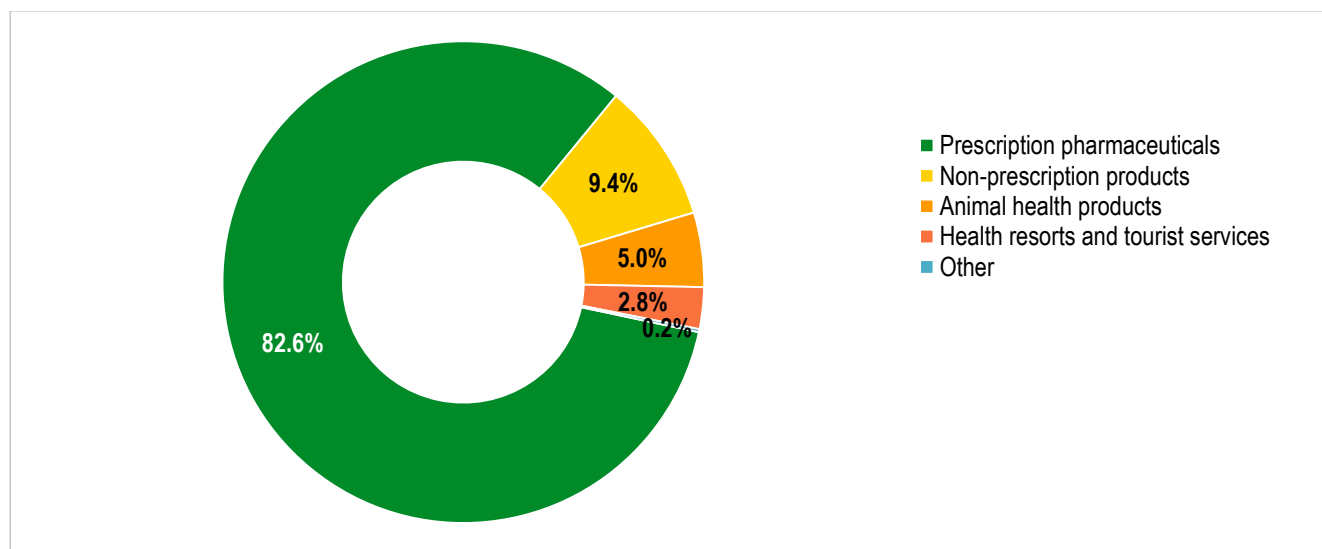
The sales through our sales office of the **Americas** continued to be strongest in the **markets of Central America**. Sales totalled slightly more than one million euros, and accounted for 16% growth compared to 2016. The best-selling brands were Valsaden (valsartan/hydrochlorothiazide), Valsacor (valsartan), and Atoris (atorvastatin).

## Product\* and Service Groups

\* Products marketed under different product brand names in individual markets are marked with an asterisk and listed at the end of the chapter on page 101. Products may also be marketed under the Krka trademark in individual markets.

In 2017, sales of prescription pharmaceuticals accounted for 82.6% of total sales, followed by non-prescription products with 9.4%, animal health products with 5%, and health resort and tourist services with 2.8%. Sales revenues of the Krka Group increased by 8% in 2017. Sales of prescription pharmaceuticals increased by 9%, non-prescription products by 7%, animal health products by 1%, and health resort and tourist services by 6%.

### Krka Group sales by product group in 2017



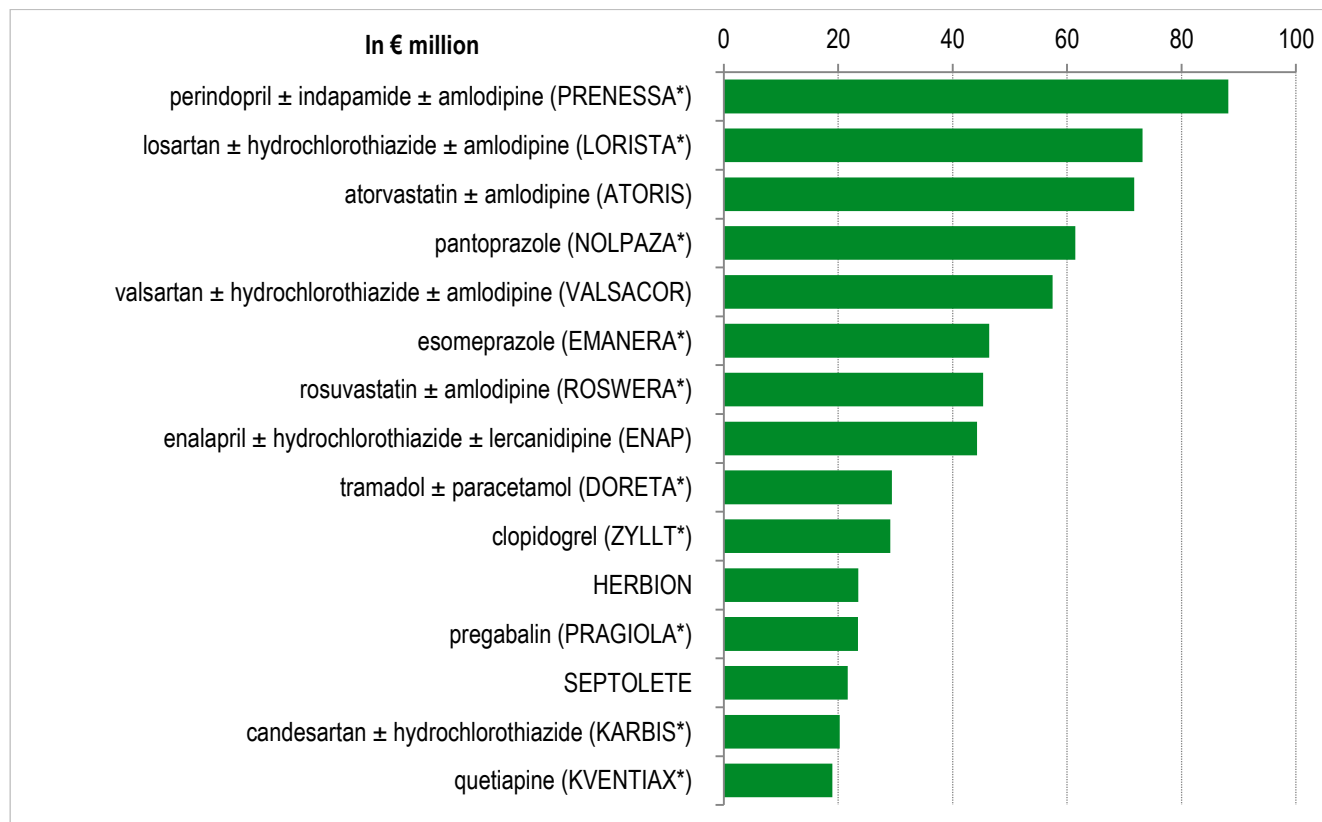
### Krka Group and Krka Company sales by product and service group

In € thousand	Krka Group			Krka Company		
	2017	2016	Index 2017/16	2017	2016	Index 2017/16
Human health products	1,165,277	1,074,954	108	1,133,407	1,005,442	113
– Prescription pharmaceuticals	1,046,086	963,727	109	1,029,129	908,406	113
– Non-prescription products	119,191	111,227	107	104,278	97,036	107
Animal health products	63,213	62,793	101	60,745	61,861	98
Health resorts and tourist services	35,696	33,708	106			
Other	2,206	2,969	74	3,604	4,406	82
<b>Total</b>	<b>1,266,392</b>	<b>1,174,424</b>	<b>108</b>	<b>1,197,756</b>	<b>1,071,709</b>	<b>112</b>

### Krka Group quarterly sales by product and service group

In € thousand	2017				2016			
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter
Human health products	295,210	307,201	248,629	314,237	271,204	278,504	224,899	300,347
– Prescription pharmaceuticals	264,356	283,828	220,006	277,896	243,853	255,547	199,693	264,634
– Non-prescription products	30,854	23,373	28,623	36,341	27,351	22,957	25,206	35,713
Animal health products	17,624	17,363	13,393	14,833	21,765	15,570	13,069	12,389
Health resorts and tourist services	7,588	8,948	10,623	8,537	7,154	8,271	9,752	8,531
Other	626	486	560	534	769	566	862	772
<b>Total</b>	<b>321,048</b>	<b>333,998</b>	<b>273,205</b>	<b>338,141</b>	<b>300,892</b>	<b>302,911</b>	<b>248,582</b>	<b>322,039</b>

## Sales of leading products\*\* in 2017



\*\* For the first time, sales of the leading products in 2017 are shown by the leading active ingredient. All fixed-dose combination products containing the active ingredient are also included.

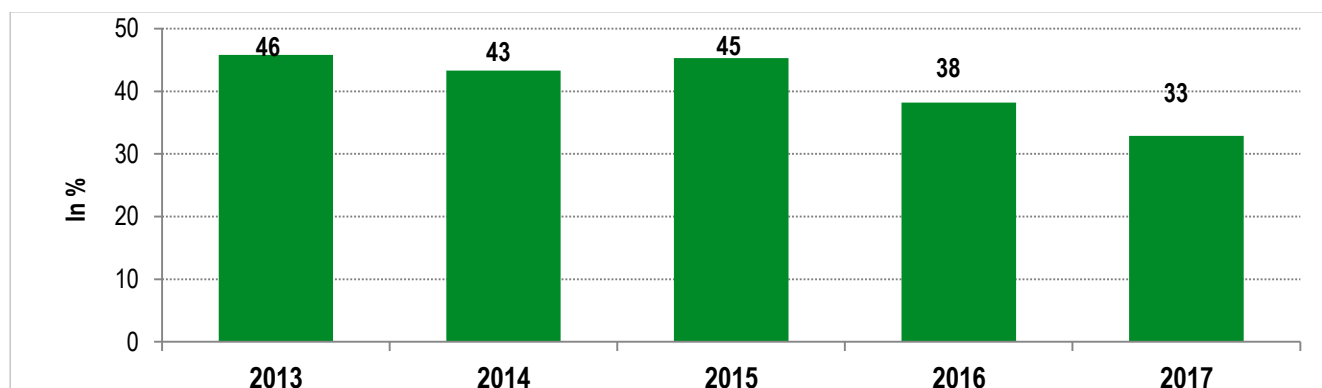
## New products

In 2017, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 32.8% of the Krka Group's total sales. Their share decreased compared to recent years. In bigger markets, Karbis\* (candesartan), Kventiax\* (quetiapine) and Asentra (sertraline) were no longer included in the new product group.

The most important new products were Pragiola\* (pregabalin), launched at the end of 2014, and Dulsevia\* (duloxetine), launched in 2015. They ranked among the 20 leading products in terms of 2017 sales. The leading products in terms of absolute sales growth were Vamloset\* (valsartan/amlodipine), Meaxin\* (imatinib), and Roticox\* (etoricoxib), launched in 2017.

In 2017, we launched several new products containing new generic active ingredients and their combinations, and added new pharmaceutical dosage forms or pack sizes to the existing range, and started marketing them in new markets.

## Share of new products\*\* in Krka Group sales



\*\* The share of new products including products launched in individual markets in the past five years

## New products in 2017

Prescription pharmaceuticals	
Medicines for treating cardiovascular diseases	Rameam/Ramidipin (ramipril/amlodipine) Teldipin/Telassmo (telmisartan/amlodipine) Olmeamlo (olmesartan/amlodipine) Abrea/Bartal/ASA Krka/Aspirin Krka (acetylsalicylic acid)
Medicines for treating diabetes	Gliclada (gliclazide) 90 mg prolonged-release tablets
Medicines for the systemic treatment of bacterial infections	Betaklav/Hiconcil combi (amoxicillin/clavulanic acid)
Medicines for treating HIV infections	Emtenovo (emtricitabine/tenofovir disoproxil)
Medicines for the treatment of diseases of the urinary tract	Tadilecto/Tadagis (tadalafil) Dutrys/Dutascar/Dortilla (dutasteride)
Analgesics	Adolax/Oxynador (oxycodone/naloxone) Roticox/Bericox/Etoxib/Etoriax (etoricoxib)
Non-prescription products	
Products acting on the oral cavity and pharynx	Septabene/Septolete Total (benzylamine chloride/cetylpyridinium chloride) with lemon and elder flavour
Vitamins and minerals	Magnezij Krka 300
Animal health products	
Antiparasitic products for companion animals	Dehinel/Anthelmin (praziquantel/pyrantel embonate) tablets for cats
Antimicrobial pharmaceuticals for companion animals	Otoxolan (marbofloxacin/clotrimazole/dexamethasone acetate) ear drops

## Prescription pharmaceuticals

In 2017, the Krka Group sold prescription pharmaceuticals worth €1 billion 46.1 million, an increase of 9% compared to 2016. Sales of prescription pharmaceuticals exceeded one billion euros for the first time in Krka's history.

Among the ten largest individual markets, sales of prescription pharmaceuticals saw the highest relative growth in the Russian Federation, Czech Republic and Ukraine, and in the United Kingdom, Finland and Serbia among other markets.

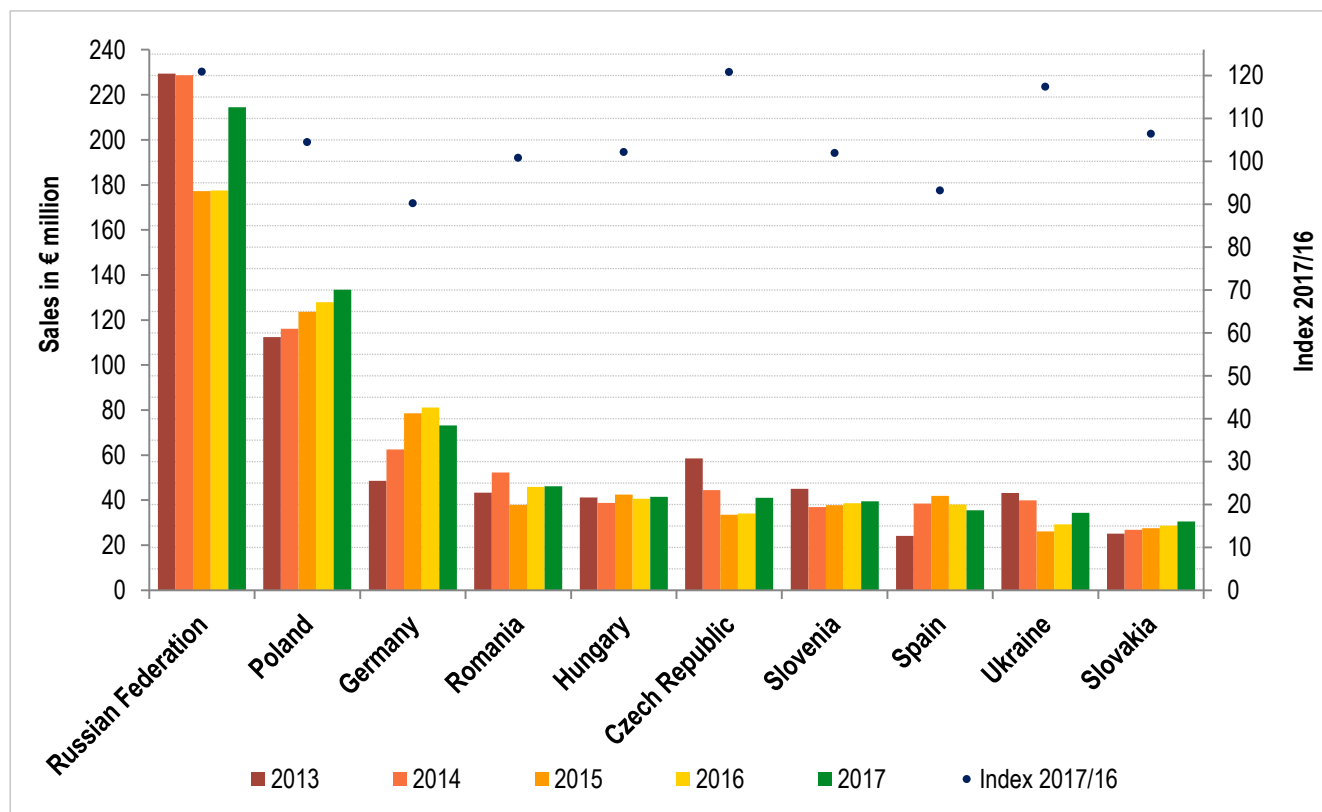
As far as sales of prescription pharmaceuticals are concerned, medicines for treating cardiovascular diseases remained the key therapeutic group in 2017, followed by pharmaceuticals for diseases of the central nervous system, and medicines for alimentary and metabolic diseases.

Medicines containing perindopril (Prenessa\*, Co-Prenessa\*, Amlessa\*, Co-Amlessa\*) remained the leading group in terms of sales in 2017. They were followed by medicines containing losartan (Lorista\*, Lorista H\*, Tenloris\*), atorvastatin (Atoris, Atordapin\*), pantoprazole (Nolpaza\*), and valsartan (Valsacor, Valsacombi\*, Vamloset\*). Among the ten leading prescription pharmaceuticals in terms of sales were medicines containing esomeprazole (Emanera\*), rosuvastatin (Roswera\*, Rosudapin\*), enalapril (Enap, Enap-H\*, Elnap\*), tramadol (Doreta\*, Tadol), and clopidogrel (Zyllt\*).

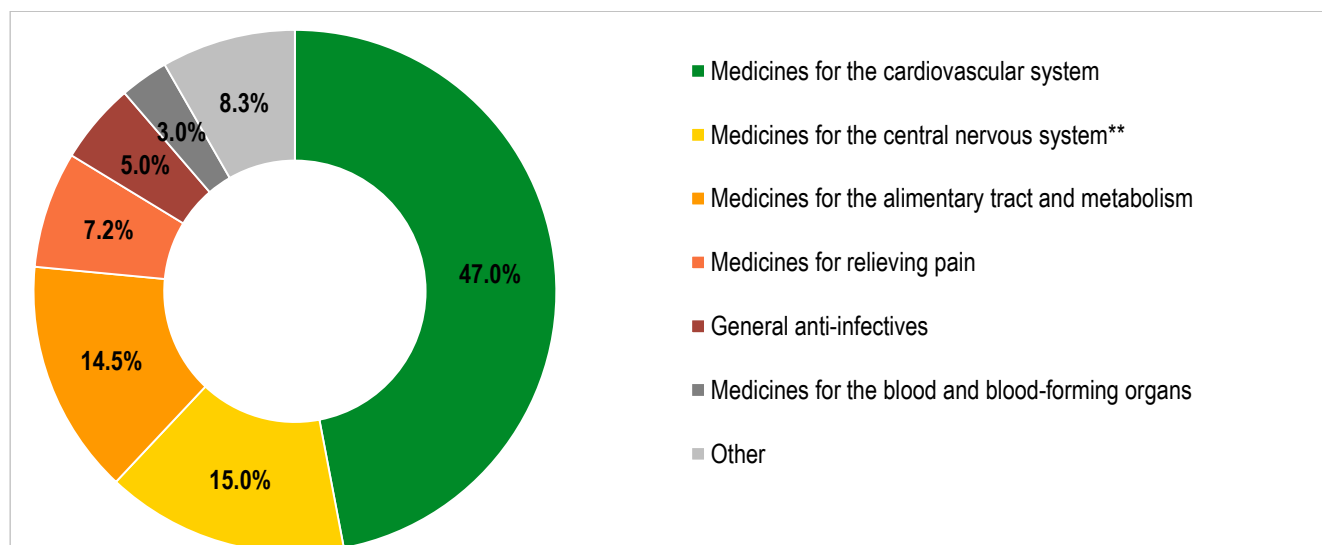
In most European markets, we market our prescription pharmaceuticals under our own brand names through our own marketing-and-sales network. We have one of the strongest marketing-and-sales networks among the pharmaceutical companies in countries where we have been present for a long time. We have been strengthening it in particular in Western European markets, which we have been managing through our network. We use it to communicate with the expert public, especially doctors and pharmacists.



## Sales of prescription pharmaceuticals in the ten biggest markets



## Sales of prescription pharmaceuticals by therapeutic class



\*\* In 2017, we excluded medicines for pain relief from the group of medicines for treating the central nervous system. We now present them in the group of medicines for relieving pain, together with non-steroidal, anti-inflammatory, and anti-rheumatic medicines.

## Medicines for treating cardiovascular diseases

### Statins

Statins are medicines for lowering the level of lipids and cholesterol in the blood. With respect to sales, they are one of the most important groups of medicines for treating cardiovascular diseases. As in the past several years, Krka was the leading producer of statins also in 2017 in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. Our market share is 25%, and we hold the leading place in 15 markets. Our most important statin medicines, Atoris and Roswera\*, are the most frequently prescribed statins in the area.

**Atoris** (atorvastatin) is Krka's leading statin in terms of sales. It is the leading statin in the above-mentioned area, with its share accounting for more than 30% of atorvastatin sales, and 15% of total statin sales. Atoris is the most frequently prescribed statin in 17 markets, including large markets, such as the Russian Federation and Poland. We are the manufacturer with the most diversified portfolio of atorvastatin strengths in the area. We market it in six strengths, and we are the only pharmaceutical company that also supplies 60 mg tablets.

**Roswera\*** (rosuvastatin) is the leading generic rosuvastatin in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. In terms of the frequency of prescribing, it lags behind only Atoris. The market share of Roswera\* was over 20% among rosuvastatin products, and in many markets, including the larger ones like Poland, the share exceeded 30%. Krka is the first pharmaceutical company to market new strengths of 15 mg and 30 mg, and in 2017 we were one of the few manufacturers with a comprehensive range of rosuvastatin strengths.

Our portfolio of statins is supplemented with two products that combine two ingredients for treating hyperlipidemia and high blood pressure. These are **Atordapin\*** (atorvastatin/amlodipine) and **Rosudapin\*** (rosuvastatin/amlodipine). We started to market it as the first manufacturer in Europe in 2016.

Although we focused on newer products in marketing statins, we also increased sales and the market share of **Vasilip** (simvastatin).

#### Krka's statins and their fixed-dose combinations

rosuvastatin (Roswera/Roxera/Sorvasta)
rosuvastatin/amlodipine (Rosudapin/Rosmela)
atorvastatin (Atoris)
atorvastatin/amlodipine (Atordapin/Atorcombo)
simvastatin (Vasilip)
lovastatin (Holetar)

#### ACE inhibitors

ACE inhibitors are medicines for treating high blood pressure. Together with their combinations with diuretics, they are the leading group of medicines for treating cardiovascular diseases in terms of sales. Krka has been the leading generic producer of ACE inhibitors in the markets of Slovenia, Central, Eastern, and South-Eastern Europe for several years, and maintained this position in 2017. We increased our market share to over 15%. In the area, Krka's ACE inhibitors are the most often prescribed of all competitors' products. Krka's ACE-inhibitor group comprises 15 medicines, among them five fixed-dose combinations with a diuretic, four fixed-dose combinations with a calcium channel blocker, and one fixed-dose combination with active ingredients from all three groups.

Perindopril and its fixed-dose combinations are among the leading ACE inhibitors in Europe in terms of sales. Krka has the most comprehensive range of medicines containing perindopril among all generic pharmaceutical manufacturers in Europe. It comprises four medicines in 15 strengths, making the treatment of all stages of hypertension possible. Our range includes **Prenessa\*** (perindopril), **Co-Prenessa\*** (perindopril/indapamide), **Amlessa\*** (perindopril/amlodipine), and **Co-Amlessa\*** (perindopril/amlodipine/indapamide), a triple fixed-dose combination. Krka launched it in 2014 as the first pharmaceutical company in the world. Medicines containing perindopril are among the leading Krka pharmaceuticals in terms of sales and absolute sales growth. The greatest contributors to sales growth were fixed-dose combinations of perindopril with indapamide or amlodipine. In 2017, Krka started marketing Prenessa\* also in Uzbekistan, and Co-Amlessa\*, a triple fixed-dose combination, in Armenia, Macedonia, Bosnia and Herzegovina, and Turkmenistan. For several consecutive years, Krka was the leading generic manufacturer of medicines containing perindopril in Europe also in 2017.

Although Krka has recently focused on promoting newer ACE inhibitors, **Enap** (enalapril) – including combinations with hydrochlorothiazide – has remained among the leading Krka medicines in terms of sales. In the markets of Slovenia, Central, Eastern, and South-Eastern Europe, Enap retained more than a 30% market share and is the leader among medicines containing enalapril. Krka was also among the leading suppliers of enalapril in Germany. We also market the combination with a calcium channel blocker, **Elernap\*** (enalapril/lercanidipine), which we launched in 2017 in Germany, Austria, and as the first generic manufacturer in Belgium. In Europe, Krka is the leading generic manufacturer of this fixed-dose combination.

We also market **Ampril\*** (ramipril) and its fixed-dose combinations with hydrochlorothiazide. In 2017, we started marketing it in new markets in Western Europe: Italy, Austria, Belgium and Portugal. We added the combination with a calcium channel blocker, **Rameam\*** (ramipril/amlodipine), to the list of medicines containing ramipril, and started marketing it in Croatia, Estonia, and as the first generic manufacturer in Germany.

#### 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/Dalnecombi/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)
ramipril/amlodipine (Rameam/Ramidipin)
lisinopril (Laaven/Zonixem)
lisinopril/hydrochlorothiazide (Laaven-HL/Zonixem-HL, Laaven-HL 20/Zonixem-HL 20, Laaven-HD/Zonixem-HD)
lisinopril/amlodipine (Tenlisa)
cilazapril (Cazaprol)
cilazapril/hydrochlorothiazide (Cazacombi)

#### Sartans (angiotensin II receptor antagonists)

Like ACE inhibitors, sartans are also used for treating high blood pressure, but have a different mechanism of action. In terms of sales, they are one of the leading groups of medicines for this indication. In 2017, our range of products containing sartans was supplemented with two fixed-dose combinations with amlodipine. Sixteen products with sartans have been launched so far, among them combinations with a calcium channel blocker, as well as combinations with a diuretic. Our sartans are available in 60 markets around the world. Krka has for years been the leading sartan manufacturer, holding more than a 25% market share in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. Krka's sartans are used to treat more than six million patients every day.

**Lorista\*** (losartan) is Krka's most important sartan, and the range is supplemented by its combinations with hydrochlorothiazide and amlodipine. In 2017, holding more than a 40% market share in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, Krka was the leading manufacturer of medicines containing losartan, and we further increased our market share in comparison to the year before. **Lorista\***, including combinations, stood out among all sartans marketed in the area. Krka was the first manufacturer to start marketing **Tenloris\***, a combination of losartan and amlodipine, in Turkmenistan, and we were still the only generic manufacturer of this combination in Germany.

Our valsartan products include **Valsacor** (valsartan) and its fixed-dose combinations with a diuretic and a calcium channel blocker. In Europe, Krka is among the leading generic manufacturers of valsartan and its combinations with hydrochlorothiazide. We are the leading manufacturer of valsartan products in the Czech Republic, Poland and Kazakhstan, and in several other markets. In 2017, we increased the number of countries in which we market **Vamloset\*** (valsartan/amlodipine). We started marketing it also in Croatia and Bulgaria, and as the first generic manufacturer also in Lithuania and Latvia. **Vamloset\*** is the leading generic combination of valsartan and amlodipine in the markets of Slovenia, Central, Eastern, and South-Eastern Europe.

**Tolura\*** (telmisartan) including combinations with hydrochlorothiazide are leaders among generic medicines in the area. In 2017, we started marketing it in the Russian Federation. **Teldipin\*** (telmisartan/amlodipine) was first launched in several markets. We started marketing it in Bulgaria, Estonia, Slovakia, and as the first generic manufacturer in Slovenia.

We also market **Karbis\*** (candesartan) and its combinations containing hydrochlorothiazide. Krka is among the leading generic manufacturers of candesartan in Europe.

The Krka sartan group includes **Olimestra\*** (olmesartan). In 2017, we started marketing it in several new Western European markets: Germany, Italy, Spain, and certain other countries. In Germany, we also started marketing the combination containing a calcium channel blocker **Olmeamlo** (olmesartan/amlodipine).

**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)
telmisartan/amlodipine (Teldipin/Telassmo)
candesartan (Kabis/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)
olmesartan/amlodipine (Olmeamlo)

**Other medicines for treating high blood pressure**

Krka's range of medicines for treating high blood pressure in addition to ACE-inhibitors and sartans also includes medicines from other groups. Krka markets a calcium channel blocker **Tenox\*** (amlodipine), a diuretic **Rawel SR** (indapamide), and several adrenergic receptor blockers, among them **Coryol** (carvedilol), **Niperten\*** (bisoprolol), a fixed-dose combination **Sobycombi\*** (bisoprolol/amlodipine), and the latest **Bloxazoc\*** (metoprolol). Bloxazoc\* prolonged-release tablets were added to our product range in 2016, and in 2017, we also launched the medicine in Georgia. We are the leading manufacturer of the fixed-dose combination of bisoprolol and amlodipine in Germany.

**Other medicines for treating cardiovascular diseases**

**Bravadin\*** (ivabradine) reduces increased heart rate and is used for treating stable angina pectoris and chronic heart failure. We started marketing it in 2015, and in 2017 we also entered several new markets. We were the first generic manufacturer to launch it in Romania, Lithuania, the Czech Republic, and several other markets. In the markets of Slovenia, Central, Eastern, and South-Eastern Europe, Bravadin\* is the leading generic ivabradine.

**Medicines for treating the central nervous system****Antidepressants**

Krka has been the leading generic manufacturer of antidepressants in the markets of Slovenia, Central, Eastern, and South-Eastern Europe for many years. In Romania, Croatia, and several other markets, Krka is the most successful among all manufacturers of antidepressants, holding more than a 15% market share.

**Dulsevía\*** (duloxetine) is Krka's latest and most important antidepressant. Krka is among the leading generic manufacturers of duloxetine in Europe. The market share of our duloxetine accounts for more than 35% in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. Dulsevía\* is the leader among all competitors' products in Romania, Poland, Ireland and in several other markets, and among the leading generic duloxetine in Germany and the United Kingdom. In 2017, Krka was the first and only manufacturer in Europe to launch a new 90 mg strength of duloxetine. We started marketing it in Germany, Spain and Hungary.

**Elicea\*** (escitalopram) has been for many years the leading generic escitalopram in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. It is the leading escitalopram in Serbia and Croatia. In 2017, we started marketing Elicea in Azerbaijan. Krka was the first manufacturer to market escitalopram orodispersible tablets in Serbia.

Our range of antidepressants includes **Asentra** (sertraline), the leading generic sertraline in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, and **Mirzaten** (mirtazapine), the leading mirtazapine in the area. In Germany, Krka's mirtazapine is among the leading generic mirtazapines. Asentra places first among all competitors' products in Romania, Slovakia, and in several other markets. In 2017, we started marketing it in Belarus, where we also launched an antidepressant **Alventa\*** (venlafaxine).

**Krka's antidepressants**

duloxetine (Dulsevia/Duloxalta)

escitalopram (Elicea/Ecytara/Escitalex/Anxila)

venlafaxine (Alventa/Olwexya)

sertraline (Asentra)

mirtazapine (Mirzaten)

**Antipsychotics**

Also last year, like several years before, Krka was the leading generic manufacturer of antipsychotics in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. We sell most antipsychotics in Western Europe, where we are among the leading generic manufacturers of olanzapine and risperidone orodispersible tablets.

**Kventiax\*** (quetiapine) is Krka's most important antipsychotic, and also one of Krka's leading medicines in terms of absolute sales growth. It is available in tablets and prolonged-release tablets. It is among the leading generic quetiapines in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. We also started marketing quetiapine tablets in the market of the United Kingdom in 2017, where we are the leading generic manufacturer of quetiapine in this form. We started marketing prolonged-release tablets in Romania, Slovenia, the Russian Federation, Finland, and in Lithuania as the first generic manufacturer.

**Aryzalera\*** (aripiprazole) is our newest antipsychotic, which we started marketing in 2014. In 2017, it was the leading generic aripiprazole in the Czech Republic, Hungary and Lithuania, and it was among the leading aripiprazoles in the Russian Federation.

In the Russian Federation, against all competitors also **Zalasta\*** (olanzapine) took the lead. Krka ranks among the leading generic manufacturers of olanzapine in Europe, and holds first place among all generic manufacturers in the United Kingdom. In 2017, we started marketing it in Azerbaijan.

Our range of antipsychotics also includes **Zypsilan\*** (ziprasidone), which ranks among the leading generic ziprasidone products in Germany, and **Torendo\*** (risperidone), the leading generic risperidone in the markets of Slovenia, Central, Eastern, and South-Eastern Europe.

**Krka's atypical antipsychotics**

aripiprazole (Aryzalera/Aripipan/Arisppa/Zylaxera)

olanzapine (Zalasta/Zolrix)

quetiapine (Kventiax/Quentiax)

risperidone (Torendo/Rorendo)

ziprasidone (Zypsilan/Zypsila/Ypsila)

**Medicines for treating Alzheimer's disease**

Krka's portfolio comprises all four active ingredients used in the treatment of Alzheimer's disease. Krka manufactures **Marixino\*** (memantine), **Yasnal\*** (donepezil), **Galsya SR\*** (galantamine), and **Nimvastid** (rivastigmine), and is the only manufacturer in the markets of Slovenia, Central, Eastern, and South-Eastern Europe that makes it available in orodispersible tablets. In Europe, Krka is the leading generic manufacturer of galantamine prolonged-release tablets, and ranks among the leading generic manufacturers of memantine and donepezil. In Portugal, our memantine is more successful than any competing products. In 2017, Krka started to market Marixino\* in Azerbaijan and Macedonia.

**Krka's medicines for treating Alzheimer's disease**

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

galantamine (Galsya SR/Galnora)

donepezil (Yasnal/Yasnor)

rivastigmine (Nimvastid)

## Medicines for treating Parkinson's disease

The Krka portfolio comprises three medicines for the symptomatic treatment of Parkinson's disease. All three place us among the leading generic manufacturers in Europe.

**Oprymea** (pramipexole) is the leading generic pramipexole in many markets. In the Czech Republic, Portugal, Romania, and certain other markets, it takes first place among all competitors' products and accounts for more than a 30% market share. In 2017, we started marketing Oprymea in Bosnia and Herzegovina. For several years, Krka has been the leading generic manufacturer of prolonged-release pramipexole in Europe.

**Rolpryna SR\*** (ropinirole) is the leading ropinirole in Poland, Croatia, Romania, and in several other markets. Krka is among the leading generic manufacturers of prolonged-release ropinirole in the United Kingdom and Germany. Krka remained the leading generic manufacturer in Europe also in 2017.

Krka's new medicine for treating Parkinson's disease is **Rasagea\*** (rasagiline). Krka started marketing it in 2015, in 2017 also in Poland. We increased sales most and almost doubled our market share among all manufacturers of rasagiline in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. Krka ranked among the leading generic manufacturers of rasagiline in Europe also in 2017.

## Other medicines for treating diseases of the central nervous system

**Pragiola\*** (pregabalin) from the group of antiepileptic agents is among our new medicines for treating diseases of the central nervous system. We started marketing it in 2014, and in 2017 launched it in new markets: Poland, Serbia and Macedonia, and as the first generic in Kosovo. Krka ranks among the leading generic manufacturers of pregabalin in Europe.

## Analgesics

Krka's portfolio of analgesics comprises medicines from various groups. They are comprised of non-steroidal anti-inflammatory and antirheumatic medicines, including coxib products, and opioids, among which we market certain fixed-dose combinations. Our portfolio also comprises medicines from other groups that are particularly used for treating neuropathic pain. In 2017, Krka started marketing two new medicines: etoricoxib from the group of coxib products, and a combination of opioid analgesic and opioid antagonist, oxycodone and naloxone. Prescription analgesics are complemented by non-prescription products.

**Doreta\*** (tramadol/paracetamol) is our most important prescription analgesic. Krka is among the leading generic manufacturers of the tramadol/paracetamol fixed dose combination in Europe. In Germany and in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, we outstripped all our competitors. We increased our market share to more than 45%. In 2017, we started marketing Doreta\* in Ireland, and as the first generic manufacturer in Italy and Hungary. In that market, we were the only manufacturer to make available Doreta\* prolonged-release tablets, which we started marketing also in Romania. Krka is the only manufacturer in Europe that markets the fixed-dose combination of tramadol and paracetamol in this form.

In 2017, Krka's portfolio of opioid analgesics was supplemented with a new combination, **Adolax\*** (oxycodone/naloxone). It is used for treating severe pain that can be properly controlled only with opioid analgesics, while the opioid antagonist naloxone is added for relieving certain adverse effects of oxycodone. We started marketing the medicine as the first generic manufacturer in Poland and Croatia, and in future we intend to extend our marketing activities.

**Aclexa\*** (celecoxib) from the group of coxib products is our new analgesic. We started marketing it in 2014. In 2017, Krka ranked among the leading generic manufacturers of celecoxib in Europe. In Poland, the Czech Republic, Lithuania and several other markets, Aclexa\* is more successful than any competing products. It is the leading generic in Ireland.

In 2017, Krka started marketing a new coxib, **Roticox\*** (etoricoxib), which we launched in over 15 markets, including Germany, Italy and Spain. As the first generic manufacturer we launched it in Poland, Romania, Belgium and several other markets. Roticox\* is the leading generic etoricoxib in Romania, Slovenia and Bulgaria. Krka ranks among the leading generic manufacturers of etoricoxib in Europe.



Krka's analgesics also include **Naklofen duo** (diclofenac) and **Nalgesin\*** (naproxen), which is also marketed as a non-prescription medicine. Nalgesin\* (naproxen) is the leading analgesic with naproxen in the markets of Slovenia, Central, Eastern, and South-Eastern Europe.

## Medicines for treating diseases of the alimentary tract and metabolism

### Proton pump inhibitors

Krka has been the leading manufacturer of proton pump inhibitors for several years in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. Last year, we increased our market share and further strengthened our leading position. In Europe, Krka is the leading generic manufacturer of esomeprazole. We are also among the leading manufacturers of pantoprazole, lansoprazole and rabeprazole. In Germany and several other markets, we are the first among all manufacturers of proton pump inhibitors with a market share of over 20%.

**Nolpaza\*** (pantoprazole) is Krka's most important medicine from this group, and we market it in 40 countries. More than 3.5 million patients use it every day to ease their gastric problems. It is the leading generic pantoprazole in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. Among all pantoprazole products in the area, sales of Nolpaza\* saw the highest growth in absolute terms. In 2017, its market share exceeded 30%. Nolpaza\* is the second most often prescribed proton pump inhibitor in the area. In many markets, such as Germany, the Russian Federation and Ukraine, Krka has taken the lead among all pantoprazole manufacturers.

**Emanera\*** (esomeprazole) is Krka's second most important proton pump inhibitor. Krka has for several years been the leading generic manufacturer of esomeprazole in Europe. In the markets of Slovenia, Central, Eastern, and South-Eastern Europe, Emanera\* recorded the highest sales growth among esomeprazole products and increased its market share to over 25%. In Poland, Croatia, Slovakia, and several other markets, Emanera\* is the leading esomeprazole product. We started marketing Emanera\* in 2017 in Turkmenistan and as the first generic manufacturer in Montenegro.

#### Krka's proton pump inhibitors

esomeprazole (Emanera/Emozul/Escadra)
pantoprazole (Nolpaza/Appryo)
rabeprazole (Gelbra/Zulbex)
lansoprazole (Lanzul/Lansoptol)
omeprazole (Ultop)

### Other medicines for acid-related disorders

We launched **Ulcavis\*** (bismuth subcitrate) as a non-prescription medicine in the Russian Federation in 2016. In 2017, we launched it in many new markets: in Eastern Europe as a non-prescription medicine, and in other markets as a prescription medicine. In Hungary, Poland, Croatia, and Romania, we started marketing it as the only medicine containing bismuth for the treatment of acid-related disorders in the market. In Kazakhstan and Turkmenistan, we placed it as the first generic manufacturer, and also started marketing it in Mongolia and Uzbekistan.

### Medicines for treating obesity

This group of medicines includes Krka's **Orsoten** (orlistat). Orsoten Slim, a medicine which contains 60 mg of orlistat, is also available as a non-prescription product. Orsoten is successfully marketed in the Russian Federation, where it is the leader among all products that contain orlistat, with a market share of over 50% market share. In 2017, it was one of Krka's leading products in terms of absolute sales growth.

## Medicines for treating diabetes

In the markets of Slovenia, Central, Eastern, and South-Eastern Europe, Krka is the leading generic manufacturer of sulfonylureas. Krka's most important oral anti-diabetic agent, **Gliclada\*** (gliclazide), belongs to this group. Gliclada\* is the leading generic gliclazide in Poland, Hungary, Romania, Kazakhstan, and several other markets, while in the Czech Republic it is the leader among all gliclazide products, with a market share of over 50%. In 2017, as the first manufacturer in Europe, we started marketing 90 mg gliclazide prolonged-release tablets, which permit dose adjustment in patients with

type-2 diabetes. The medicine was launched in Poland, Portugal, Croatia and several other markets. Krka is among Europe's leading generic manufacturers of gliclazide prolonged-release tablets.

Our portfolio of antidiabetics also includes **Meglimid** (glimepiride) and **Enyglid\*** (repaglinide), which is the leading repaglinide in the Czech Republic.

## Medicines for the systemic treatment of bacterial infections

Krka's portfolio includes antibiotics from different groups. Krka has been among the leading macrolide manufacturers for years in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. It has also been the leading manufacturer of fluoroquinolones in the area. In terms of pack units sold, one out of two Europeans has been treated with one of Krka's antibiotics.

The macrolide antibiotic **Fromilid** (clarithromycin) has been the leading generic macrolide for a few years in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, and the fourth best-selling brand of macrolides in these markets. Krka is the leading manufacturer among all clarithromycin manufacturers in Croatia, Ukraine, Georgia, Hungary, and certain other markets. In 2017, Krka started marketing clarithromycin in several new Western European markets: Spain, Italy, Ireland, Portugal, and several other markets. In the 20 years since we first put it on the markets, more than 50 million patients have been treated with Krka's clarithromycin.

More than 7 million patients have been treated so far with our other macrolide antibiotic agent, **Azibiot** (azithromycin). In 2017, our portfolio was supplemented with Azibiot powder for oral suspension. We started marketing it in Italy, Bulgaria and Albania.

**Furocef\*** (cefuroxime) from our group of beta-lactam antibiotics is the leading generic cefuroxime in the form of tablets in Hungary, Estonia, Latvia, and Bosnia and Herzegovina. In 2017, it was launched in France.

In 2017, we added **Betaklav\*** (amoxicillin/clavulanic acid) to our range of beta-lactam antibiotics, and started marketing it in Croatia, Hungary, Poland, and several other markets. Our portfolio of beta-lactam antibiotics was supplemented with one of the most often prescribed and top-selling antibiotics.

In addition to macrolides and beta-lactam antibiotics, we market four fluoroquinolones. The most important is **Moloxin\*** (moxifloxacin), which places Krka among the leading generic manufacturers of moxifloxacin in Europe. In Poland, Hungary, Slovakia, and certain other markets, Moloxin\* takes the lead among the competitors. In 2017, we started marketing it in Estonia, Latvia and the Russian Federation. In addition to tablets, we started marketing a solution for infusion in Austria and Croatia. We launched **Levalox\*** (levofloxacin) in 2015. In 2017, we launched it in Ukraine and Georgia, and a solution for infusion in Croatia. Krka's fluoroquinolone group also includes **Nolicin** (norfloxacin), the leading norfloxacin in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, and **Ciprinol** (ciprofloxacin), also one of the leading fluoroquinolones in the area.

**Linezolid Krka** (linezolid) from the oxazolidinone group is Krka's new antibiotic. It is available in tablets and solution for infusion. We started marketing it in 2016, and in 2017 we entered new markets. We started marketing the solution for infusion in Germany, Slovenia, Ireland and Slovakia, while tablets were launched in Italy, Portugal, and certain other markets.

## Medicines for treating HIV infection

In 2017, Krka launched a medicine for treating HIV infection, and entered a new therapeutic area, which is among top five therapeutic areas in the world in terms of sales. We started marketing **Emtenovo** (emtricitabine/tenofovir disoproxil) as one of the first generic manufacturers in Europe. We launched it in Slovenia, Latvia, Slovakia and Iceland, as the first generic manufacturer, and we were among the first to start marketing it in Germany, France and Poland. In 2017, we were among the leading three generic manufacturers in Germany, while in Slovenia, Latvia and Slovakia we placed first.

## Medicines for treating diseases of the blood and blood-forming organs

**Zyllt\*** (clopidogrel) is the most important medicine in this group. It ranks among ten Krka's leading products in terms of sales. Krka is among the leading generic manufacturers of clopidogrel in Europe. In the markets of Slovenia, Central, Eastern, and South-Eastern Europe, Zyllt is the leading generic clopidogrel. It recorded the highest growth in terms of absolute sales, and further increased our market share. Zyllt\* is the leading generic clopidogrel in many markets. In Hungary and Uzbekistan, it is the market leader, accounting for more than one third of market share. In 2017, we started marketing it in Belgium.

In 2017, we added to our portfolio a new medicine, **Abrea\*** (acetylsalicylic acid), for the prevention of cardiovascular complications. We started marketing it in more than 10 markets: in Germany, Spain, Italy, Poland, and elsewhere.

## Medicines for treating diseases of the urinary tract

Krka's most important medicine in this group is **Vizarsin\*** (sildenafil), used for treating erectile dysfunction. It is available in tablets and orodispersible tablets, which we offer on several markets as the only manufacturer. In 2017, we started marketing tablets in Hungary.

In 2017, Krka's range of medicines for treating erectile dysfunction was supplemented by **Tadilecto\*** (tadalafil). We launched it in Germany, France, Italy, and five other markets. We started marketing it as the first generic manufacturer in Slovenia, and achieved a considerable market share in a short time.

Our portfolio for treating diseases of the urinary tract also includes **Finpros** (finasteride) and **Tanyz/Tanyz ERAS** (tamsulosin). These are used for treating benign prostatic hyperplasia. In 2017, our portfolio was supplemented by a new medicine for this indication. **Dutrys\*** (dutasteride) was launched in 12 markets. We started marketing it in Germany and Slovenia as the first generic manufacturer, and were among the first pharmaceutical companies also in Spain, Belgium, Italy, and Portugal. In 2017, we were the leading generic manufacturer of dutasteride in Germany.

We also market medicines for treating urinary incontinence, including **Asolfena** (solifenacin) and **Dulovesic\*** (duloxetine). We launched Dulovesic\* in 2015, and in 2017 we were among the leading generic manufacturers of duloxetine for this indication in Europe.

## Medicines for treating diseases of the respiratory system

Krka's medicines for treating diseases of the respiratory system are **Monkasta\*** (montelukast), **Dasselta\*** (desloratadine), and **Cezera\*** (levocetirizine). Our products from this group are among the leading generic products in Romania, Slovenia, Croatia, and certain other markets. They sell especially well in Lithuania, where all three Krka medicines place among the leading generic products, and Dasselta\* takes the lead among all competing products. Krka is among the leading generic producers of desloratadine also in Germany and throughout Western Europe.

## Oncology medicines

Krka's most important oncology medicine is **Meaxin\*** (imatinib). It is the leading imatinib in Croatia, Latvia, and Bosnia and Herzegovina, while in Slovenia, it is the leading generic imatinib. It is among the leading medicines also in Poland, Ukraine, and Germany. In 2017, we made it available in Sweden, Portugal, Italy, Austria, and Ukraine.

**Ecansya\*** (capecitabine) is the leading generic capecitabine in Kazakhstan, Lithuania, and Ukraine. It takes the lead among all competing products in Romania, and Bosnia and Herzegovina. **Escepran\*** (exemestane), **Tolnexa** (docetaxel), and **Lortanda** (letrozole) are also leading generics in individual markets. Our range of oncology medicines is supplemented by **Tezalom** (temozolomide).

In 2016, we were the only manufacturer to make **Dexametasone Krka** 20 mg tablets available in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. They may be used in oncology, haematology, and other therapeutic areas. Last year, we started marketing dexamethasone 20 mg, as well as 4 mg and 8 mg tablets, in 13 new, also large markets, including Germany, Spain, Poland, and Romania. In many markets, we are the only manufacturer of dexamethasone in the strengths mentioned above.

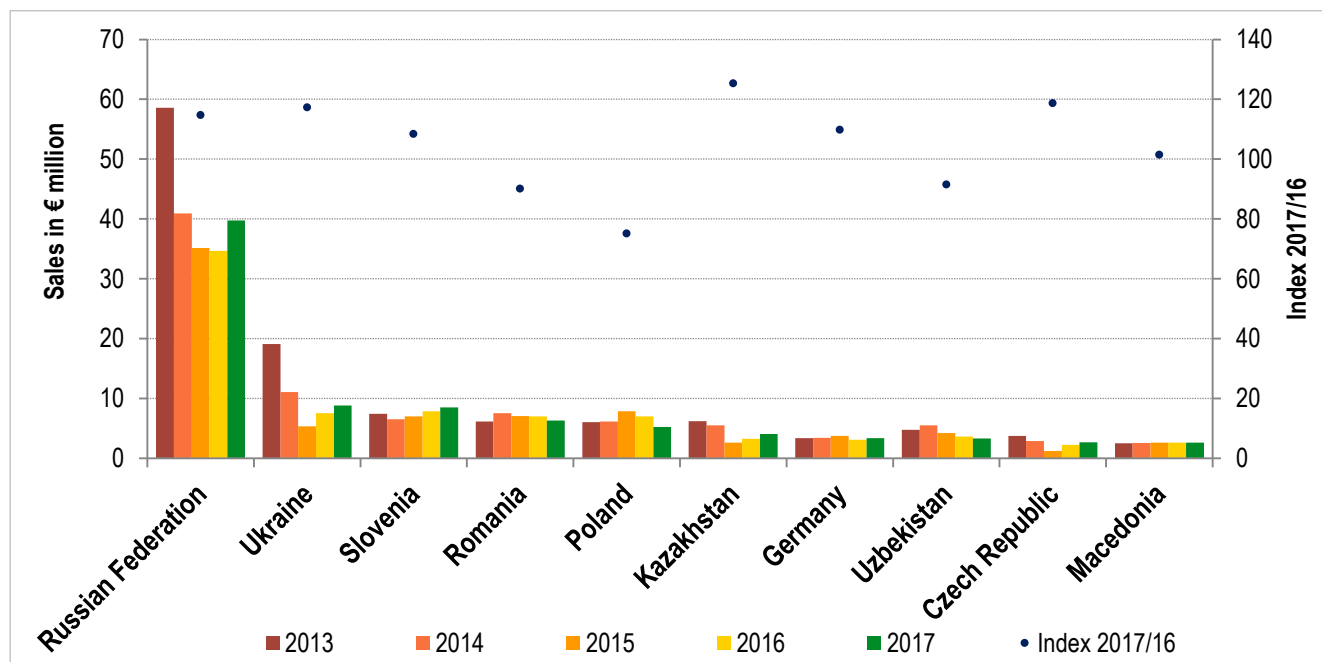
## Non-prescription products

In 2017, the Krka Group's sales of non-prescription pharmaceuticals totalled €119.2 million, a 7% increase compared to the year before. Among the ten largest markets, sales saw the highest growth in relative terms in Kazakhstan, the Czech Republic and Ukraine, and among other markets in Finland, Tajikistan, and in Belarus.

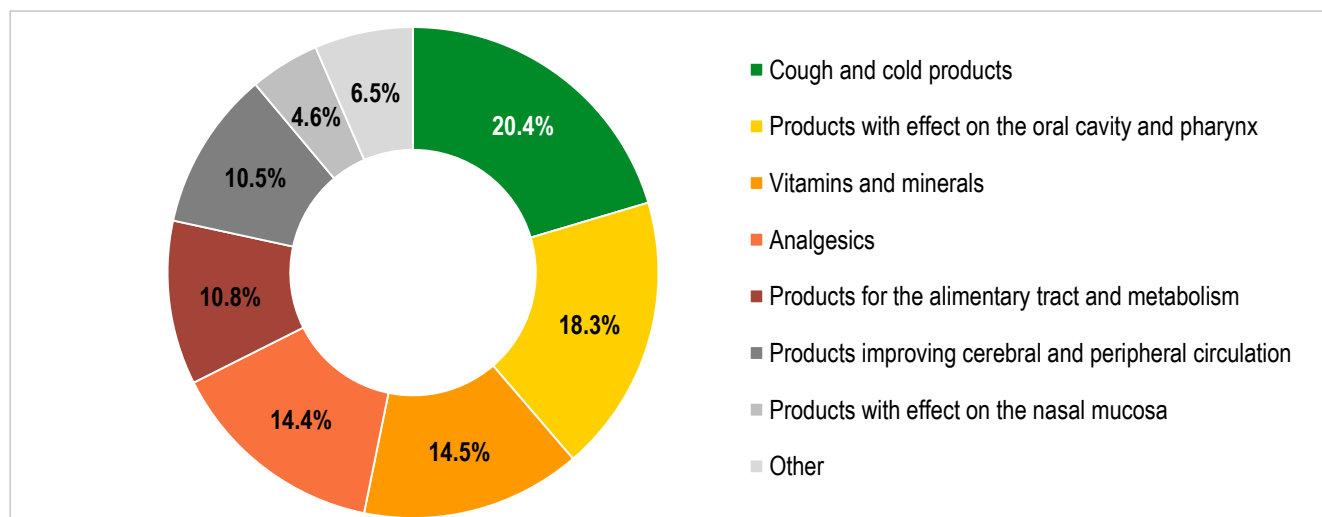
We market non-prescription products through Krka's marketing-and-sales network in most countries of Central, Eastern, and South-Eastern Europe.

Herbion, Septolete, Bilobil, and Nalgesin S\* are our most important non-prescription product brands in terms of sales.

### Sales of non-prescription products in the ten largest markets



### Sales of non-prescription products by therapeutic class in 2017



**Herbion** was the most important of Krka's non-prescription brand last year in terms of sales. 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 2017, we expanded the marketing of Herbion ivy syrup to France and Portugal, and Herbion Iceland moss\* syrup to Armenia. Herbion brand is present already in 33 markets. Herbion syrups are the leading natural syrups in the

Russian Federation, Ukraine, Kazakhstan, and Mongolia, while in Romania they record the highest sales growth among all herbal syrups.

**Septotele**, intended for alleviating sore throat problems, was Krka's second most important brand among non-prescription products in 2017. Our most important product was **Septotele Total\*** (benzydamine chloride/cetylpyridinium chloride), available in lozenges and spray. In 2017, we made the product, both lozenges and spray, available in several new markets: Germany, Ukraine, Kazakhstan, and six other. The Septotele Total\* brand was supplemented by lemon and elder flavoured lozenges, which we launched in Slovenia, Latvia, Slovakia, and Hungary. Septotele Total\* were the top-selling non-prescription product of all products with an effect on the oral cavity and pharynx in Slovenia, Lithuania, Bosnia and Herzegovina, and Estonia. At the Croatian advertising festival, the marketing communication campaign for the product was conferred a bronze Effie award.

**Bilobil** is Krka's third most important non-prescription brand in terms of sales. It contains ginkgo extract, indicated for the improvement of concentration and memory. We have been marketing it for more than 25 years. It appears in 30 markets of Europe and the Middle East. In terms of sales in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, it accounts for almost a 15% market share and is the leader among medicines containing ginkgo. Among products containing ginkgo, it is the leader in Slovenia, Romania, Ukraine, Hungary, and several other markets. In 2017, we started marketing it also in Germany.

**Nalgesin S\*** (naproxen) is our most important non-prescription analgesic, and is available also as a prescription pharmaceutical. Nalgesin S\* remained the leading naproxen in the markets of Slovenia, Central, Eastern, and South-Eastern Europe also in 2017. We recorded the highest sales growth in absolute terms among all competitors and further expanded our market share.

**Pikovit\*** and **Duovit** are our brands of vitamins and minerals. The Duovit brand contains products for adults and are adjusted to the specific needs of the male and female body, while the Pikovit\* brand includes products for children. According to the Health Index report, Pikovit\* is our strongest non-prescription brand of products in the Russian Federation. More than 50% of its inhabitants aged 16+ are familiar with Pikovit\*.

The nasal decongestant **Septanazal** (xylometazoline/dexpanthenol) is also among Krka's leading non-prescription products, and is available as a spray for adults and children. In 2017, we started marketing it in Germany, Mongolia, and Ireland. Septanazal has been placed on 30 markets so far.

Among Krka's new non-prescription products is **Flebaven** (diosmin/hesperidin). It contains 500 mg micronized purified flavonoid fraction. It is used for treating chronic venous insufficiency, and acute haemorrhoidal syndrome. It has recorded strong sales in the Russian Federation, where it was launched in 2016, and we also intend to launch it on new markets.

In 2017, Krka launched its new food supplement, **Magnezij Krka 300** water soluble granules. It contains magnesium citrate and vitamin B<sub>2</sub>. The substances help reduce fatigue and exhaustion, and support normal functioning of the nervous system, while magnesium also enhances muscle function. It contains no preservatives, artificial colouring agents, flavours, and sweeteners. We started marketing it in Slovenia, and in future we will place it on other markets as well.

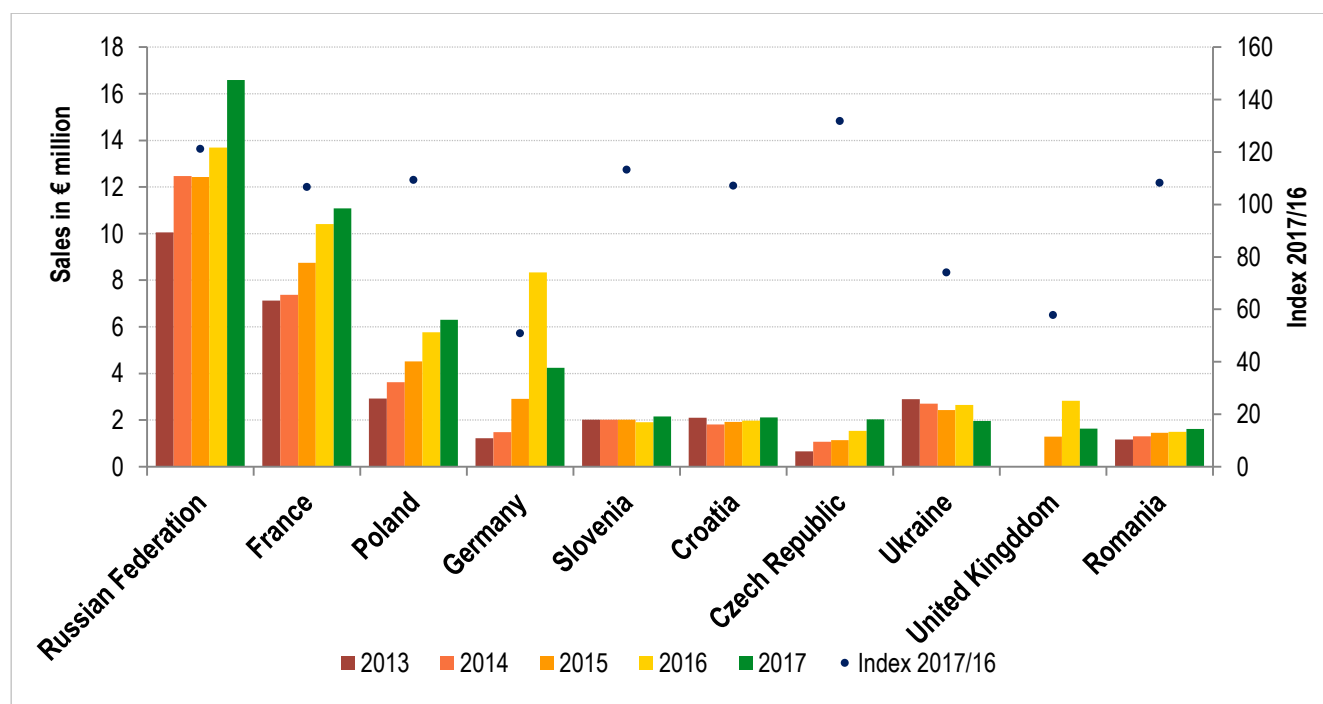
## Animal health products

In 2017, the Krka Group sales of animal health products amounted to €63.2 million, a 1% increase compared to 2016. As far as our ten leading markets are concerned, sales in the Czech Republic, the Russian Federation, and Slovenia increased the most in relative terms. Among other markets, the rise was most notable in Lithuania, Poland, Portugal, and France.

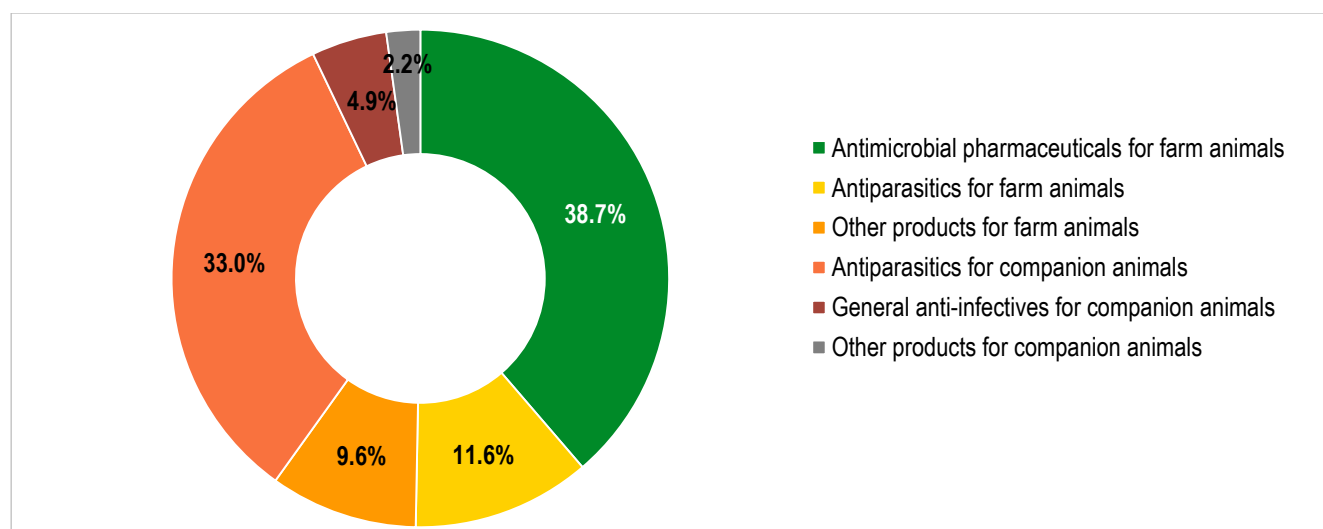
We market our animal health products through Krka's sales-and-marketing network in Slovenia, Eastern, and South-Eastern Europe. We have also expanded it to the Western Europe, and established it in Germany, the United Kingdom, Belgium, Portugal, and the Netherlands. In other Western European and overseas markets, animal health products are sold through our partner companies.

In terms of sales, Milprazon\* (milbemycin oxime/praziquantel) took first place among all Krka animal health products, followed by Floron (florfenicol), Enroxil\* (enrofloxacin), Fypryst\* (fipronil), and Ecocid\* S.

### Sales of animal health products in the ten largest markets



### Sales of animal health products by therapeutic class in 2017





Krka's most important animal health product is **Milprazon\*** (milbemycin oxime/praziquantel). It is indicated for the treatment of internal parasites in dogs and cats. We launched it in 2014, and last year we also started marketing it in Serbia, while in Bulgaria we launched Milprazon\* in pharmaceutical dosage forms for cats. We sell most Milprazon\* in France, Germany, the United Kingdom, and other Western European countries, in Poland, and the Russian Federation.

**Fypyrst\*** (fipronil) for companion animals also belongs among Krka's top five animal health products. It is available as spot-on solution or cutaneous spray. **Fypyrst\* Combo** (fipronil/S-methoprene) complements the range. We also put it on the Romanian market last year. International Cat Care, an institution from the United Kingdom, awarded Krka for its pipette with the 'Easy to Give' award.

**Dehinel Plus\*** (febantel/praziquantel/pyrantel embonate) for companion animals is also among Krka's leading animal health products. It is available in tablets, flavoured tablets **Dehinel Plus\* Flavour**, and tablets for large dogs, **Dehinel Plus\* XL**. In 2017, we supplemented our animal health portfolio with tablets for cats. We launched them in Germany, the Russian Federation, Ireland, Poland, and eight other markets.

In 2017, the portfolio of animal health products for treating companion animals was supplemented by a product from a new indication area. We launched **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone acetate) ear drops for treating bacterial or fungal otitis externa in dogs. We launched it in 20 markets: the United Kingdom, Italy, Portugal, Poland; and as the first generic manufacturer also in Germany, the Russian Federation, Romania, and elsewhere.

**Floron\*** (florfenicol) is our second most important animal health product and the most important product for farm animals. It is available in four pharmaceutical dosage forms: solution for injection, oral solution, oral powder, and premix for medicated feed. In 2017, in Western Europe we also put on the market a powder for individual treatment, in addition to a solution for injection and premix for medicated feed.

Another product used to treat farm animals is the fluoroquinolone **Enroxil\*** (enrofloxacin), which took third place among our animal health products in terms of sales. It is available in several pharmaceutical dosage forms: Enroxil\* solution for injection, **Enroxil\* Max** single-dose solution for injection, and **Enroxil\* Flavour** flavoured tablets for companion animals. **Marfloxin\*** (marbofloxacin) is also a fluoroquinolone antibiotic available in tablets and solution for injection.

Krka's leading animal health products for farm animals include a combined broad-spectrum chemotherapeutic, **Trisulfon** (trimethoprim/sulfamonomethoxine) and the antiparasitics **Flimabend** (flubendazole) and **Toltarox\*** (toltrazuril). In 2017, we launched Toltarox\* oral solution for poultry in the Russian Federation.

Krka's antibiotics for farm animals also include **Amatib** (amoxicillin) and **Doxatib** (doxycycline). The latter was first put on the market in 2016, and was also launched last year in Poland, the United Kingdom, Estonia, and the Benelux countries. The portfolio of Krka animal health products includes **Ecocid\* S**, a disinfectant. It is among the top five Krka animal health products.

## Health resorts and tourist services

Sales revenue generated by health resorts and tourist services amounted to €35.7 million in 2017, 6% higher than the previous year.

The Terme Krka spa resort group recorded 376,110 overnight stays in Šmarješke Toplice, Dolenjske Toplice, Strunjan, Otočec and Novo mesto, a 6% rise compared to 2016. The overnight stays of domestic guests increased by 3% compared to 2016, while overnight stays of foreign guests were up by 13%. The share of guests from key markets (e.g. Russia, Italy, Serbia) and selected markets (e.g. the United Kingdom, the Netherlands, France, Israel) increased among foreign guests whose overnight stays accounted for a third of all overnight stays in Terme Krka hotels.

Talaso Strunjan recorded a very high annual occupancy rate of 82%, more than any other business unit. It was followed by Terme Dolenjske Toplice (a 79% occupancy rate) and Terme Šmarješke Toplice (a 72% occupancy rate). Hoteli Otočec recorded a 48% occupancy rate, which was slightly more than in 2016. The average accommodation occupancy rate of Terme Krka increased from 69% to 72% in 2017 due to effective promotional and sales activities in the domestic and foreign markets.

## Products marketed under different brand names in individual markets

Active ingredient	Brand names
<b>Prescription pharmaceuticals</b>	
acetylsalicylic acid	Abrea, Bartal, ASA Krka, Aspirin Krka
amlodipine	Tenox, Hipres, Amlonor, Alneta
amoxicillin/clavulanic acid	Betaklav, Hiconcil combi
aripiprazole	Aryzalera, Aripipan, Arisppa, Zylaxera
atorvastatin/amlodipine	Atordapin, Atorcombo
bisoprolol	Niperten, Sobycor, Sobyc, Zonsiloc
bisoprolol/amlodipine	Sobycombi, Niperten Combi, Bisodipin
cefuroxime	Furocef, Ricefan, Ceferoxan
celecoxib	Aclexa, Dilaxa
desloratadine	Dasselta, Esradin, Desradin
donepezil	Yasnal, Yasnor
duloxetine	Dulsevia, Duloxalta, Dulovesic, Loxentia
dutasteride	Dutrys, Dutascar, Dortilla
exemestane	Escepran, Etadron
enalapril/hydrochlorothiazide	Enap-H, Enap-HL, Enap-HL 20
enalapril/lercanidipine	Elernap, Elymo
escitalopram	Elicea, Ecytara, Escitalex, Anxila
esomeprazole	Emanera, Emozul, Escadra
etoricoxib	Roticox, Bericox, Etoxib, Etoriax
galantamine	Galsya SR, Galnora
imatinib	Meaxin, Neopax, Meapax, Itivas, Yntam
irbesartan	Ifirmasta, Irabel, Firmasta, Iracor, Irbecor
irbesartan/hydrochlorothiazide	Ifirmacombi, Co-Irabel, Firmasta H, Firmasta HD, Irbecor comp
ivabradine	Bravadin, Bixebra, Brivecor, Ivabalan
candesartan	Karbis, Candecor, Canocord
candesartan/hydrochlorothiazide	Karbicombi, Cancombino, Canocombi
capecitabine	Ecansya, Cansata
clopidogrel	Zyllt, Kardogrel
quetiapine	Kventiax, Quentiax
letrozole	Lortanda, Likarda
levocetirizine	Cezera, Lertazin
levofloxacin	Levalox, Levnibiot, Leviaben, Levaxela
losartan	Lorista, Lavestra
losartan/amlodipine	Tenloris, Alortia, Lortenza, Losamlo
losartan/hydrochlorothiazide	Lorista H, Lavestra H, Lorista HL, Lavestra HL, Lorista HD, Lavestra HD
memantine	Marixino, Memando, Maruxa, Memaxa, Mentixa, Maryzola
metoprolol	Bloxazoc, Metazero
moxifloxacin	Moloxin, Moflaxa, Moxibiot, Moflaxya
montelukast	Monkasta, Monalux
naproxen	Nalgesin, Analgesin, Naldorex
oxycodone/naloxone	Adolax, Oxyndador
olanzapine	Zalasta, Zolrix
pantoprazole	Nolpaza, Appryo
perindopril	Prelessa, Perineva
perindopril/amlodipine	Amlessa, Dalnessa, Tonarssa, Dalneva
perindopril/indapamide	Co-Prelessa, Co-Perineva, Prenewel
perindopril/amlodipine/indapamide	Co-Amlessa, Co-Dalnessa, Co-Dalneva, Amlewell, Dalnecombi, Tonanda
pregabalin	Pragiola, Pregabador, Pregabio
rabeprazole	Gelbra, Zalbex
ramipril	Ampril, Amprilan
ramipril/amlodipine	Rameam, Ramidipin
rasagiline	Ralago, Rasagea, Raglysa
repaglinide	Enyglid, Repodiab
risperidone	Torendo, Rorendo

ropinirole	Rolpryna SR, Ralnea SR
rosuvastatin	Roswera, Roxera, Sorvasta
rosuvastatin/amlodipine	Rosudapin, Rosmela
sildenafil	Vizarsin, Sildegra
tadalafil	Tadilecto, Tadagis
telmisartan	Tolura, Telmista
telmisartan/hydrochlorothiazide	Tolucombi, Telmista H
telmisartan/amlodipine	Teldipin, Telassmo
tramadol/paracetamol	Doreta, Tramabian Doreta SR
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**

cetylpyridinium chloride/benzylamine chloride	Septotele Total, Septabene, Septotele Extra, Septotele Omni, Septotele Ultra, Septotele Duo
ivy extract	Herbion ivy syrup, Herbihelix
Icelandic moss extract	Herbion Iceland moss, Herbisland
ginkgo extract	Bilobil, Gingonin
naproxen	Nalgesin S, Analgesin, Nalgedol, Ilgesin
vitamins for children	Pikovit, Divakid

**Animal health products**

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

## Research and Development

Krka's research and development form part of a vertically integrated business model. The department facilitates the development and maintenance of the competitiveness of Krka's range of products. Vertical integration and the connection of development and production processes are key advantages of Krka's development strategy, which ensures that we will achieve goals and launch added-value products on markets as the first generic manufacturer. Comprehensive monitoring of products throughout their life cycles guarantees uninterrupted supplies of new and competitive medicines to various markets.

Krka closely follows trends and scientific achievements in various therapeutic areas, so we are able to respond quickly to marketing requirements, possibilities, and opportunities. Appropriate patent strategies employed in development approaches for planning products are required for the timely development and launch of modern medicines. The vertically integrated model provides a basis for managing patent, development, legislative, production and marketing requirements. Control over the entire process provides for the development, evaluation, registration and production of incoming materials, Krka's own active ingredients, and finished products. Our own development and efficient integration of development and production phases ensure the timely introduction of high-quality, effective, safe and competitive products to markets.

We manage products in all phases of their life cycle with the development strategy and a project approach. Research and development results and knowledge of legislative requirements ensure the preparation and management of demanding registration documentation, as well as timely obtaining of marketing authorisations for products. Increasingly stricter regulatory requirements demand the introduction of new, additional and improved development methods and studies, which we constantly improve and redesign. We introduce new products and maintain their competitiveness in over 70 markets around the world. Comprehensive monitoring of products at all stages guarantees uninterrupted supplies of new, competitive and high-quality medicines to markets in compliance with regulatory requirements.

We establish connections with other companies and activities when entering into new and technologically demanding areas, for example biosimilar medicines. We have a special group of experts on recombinant technologies and products. They actively follow products and technologies in different development phases at potential partners. We examine prospects for medicines from various therapeutic segments, especially medicines for the treatment of diabetes, and autoimmune diseases, and conduct diligent expert and business reviews.

We relied on our own knowledge and adequate adaptation of development activities, integration of development and manufacturing activities, and knowledge of regulatory and marketing requirements to enter a new strategic market, China. Establishing adequate development and production processes and connections will allow for the comprehensive management of products at all stages of development, production, evaluation, registration and launching in new markets.

## Investments and achievements

Investments in research and development are essential for innovative approaches, introducing new products and maintaining their competitiveness in all markets. Scientific and technological discoveries advance rapidly, and market complexity is increasing. They require constant investments in equipment and knowledge, so that the products may be launched on time and high quality maintained.

Research-and-development processes involve complex preclinical, clinical and bioequivalent studies, as well as analytical research and procedures. In this way, the products are prepared in innovative pharmaceutical forms for new therapeutic areas. We use state-of-the-art equipment in order to implement the most demanding projects in terms of techniques and technology. Investment in the Research and Control Centre (Reazvojno-kontrolni center RKC 4) is currently in progress. It will make available new capacities for developing products. New premises will be equipped with advanced technological equipment that will permit thorough research work in the initial development phases. Additional equipment at the pilot scale will enable better and faster transfer of products to the industrial scale.

The new facility will in particular guarantee our independence, reduce costs of reference material analyses, and provide for analytical support in the research of new products.

The development of new products is based on our own research and development solutions, with which we successfully avoid patent obstacles and develop products in complex pharmaceutical forms that add value for patients, such as

modified-release forms and dispersible tablets. We introduced complex technological procedures for new products containing combinations of active ingredients, dry granulation and compression of bilayer tablets, which enable us to combine several active ingredients in one pharmaceutical form. We have placed many such products on markets as the first generic pharmaceutical company.

We successfully introduced new technologies in the development of new products. We applied our own knowledge and technology of lyophilisation in sterile liquids, and developed a new powder concentrate for solution for infusion. We also developed a new medicine with an osmotic-controlled release system that ensures even and prolonged release of an active ingredient from a pharmaceutical form, allowing for once-daily dosing with fewer adverse events.

In research phases, we examine many new technologies, which will allow us to develop new innovative and competitive products.

We also cooperate with external research-and-development institutions to mutually upgrade and extend our knowledge and development results. The department encourages innovations with advanced research-and-development processes and protects them by filing patent applications.

The achievements of Krka's researchers have also been noticed in the wider community. Last year, we received the highest awards for chemical synthesis of active ingredients and for developing finished dosage forms. We received the highest awards in the country: two awards from the Slovenian Chamber of Commerce and Industry, and six awards from the Chamber of Commerce of Dolenjska and Bela krajina. The Chamber of Commerce of Dolenjska and Bela krajina awarded Krka's researchers for their innovative solutions in developing several products. The most notable were achievements in the synthesis of candesartan and in designing the prolonged-release form of metoprolol. We received a gold award for developing a synthesis of active ingredients. The innovation's title was *Improved manufacturing procedure for candesartan cilexetil*. We received two silver awards for innovations in the synthesis of olmesartan and atorvastatin.

The Slovenian Chamber of Commerce and Industry awarded us a silver award for developing pharmaceutical forms and technologies for finished products. The innovation was *The development of the multi-unit pellet system in metoprolol prolonged-release tablets for the treatment of cardiovascular diseases*. The Chamber of Commerce of Dolenjska and Bela Krajina awarded this innovation with a gold award. In the field of developing pharmaceutical forms of finished products, we received a silver award for innovations in developing pharmaceutical products containing glimepiride and ivabradine.

## Protecting our know-how and industrial property

In 2017, Krka submitted patent applications for four inventions and, based on priority applications from 2016, for three international patent applications.

In 2017, Krka registered 57 trademarks in Slovenia, and submitted 73 international and 32 national trademark applications.

## New products and marketing authorisations of the Krka Group

In 2017, we introduced new products and revised existing ones in research-and-development studies. We obtained marketing authorisations for **23 new products** in 46 pharmaceutical forms and strengths. A total of 555 new marketing authorisations were obtained for 119 products in various markets.

We introduced the following prescription pharmaceuticals:

- medicines containing new active ingredients: **Tadilecto/Tadagis** (tadalafil), **Viavardis/Vardegin** (vardenafil), **Dekenor/Dexfenia** (dexketoprofen), **Glypvilo** (vildagliptin), **Darunavir Krka**;
- medicines containing new combinations of active ingredients and of new therapeutic profiles: **Adolax/Oxynador/Nolxado/Dolnada** (oxycodone/naloxone), **Olmita/Olmira**, and **OlmeAmlo** (olmesartan/amlodipine), **Camlocor/Kandosett/Camdero** (candesartan/amlodipine), **Efavirenz/Emtricitabine/Tenofovir disoproxil Krka**;
- a medicine in a new pharmaceutical form: **Meaxin/Imanivec** (imatinib) dispersible tablets;
- two medicines in new strengths: **Kventiax SR** (quetiapine) 400 mg prolonged-release tablets, **Dulsevia/Duloxalta** (duloxetine) 90 mg gastro-resistant capsules; and

- medicines with new formulations and additional development: **dexamethasone** 0.5 mg tablets, **perindopril/amlodipine**, and **tramadol** solution for injection and capsules.

We introduced the following non-prescription products: **Flebaven/Flebazol/Fladios** (diosmin), **Magnezij Krka 300** (magnesium citrate/vitamin B<sub>2</sub>), and **Septabene** (benzylamine chloride/cetylpyridinium chloride) lozenges with two flavours.

We obtained new marketing authorisations for new animal health products: **Dehinel/Anthelmin** (pyrantel embonate/praziquantel), **Santiola** (clozantel) solution for injection, and **Toltarox** (toltrazuril) oral solution.

## Prescription pharmaceuticals

In 2017, we obtained marketing authorisations for 17 new prescription products in 38 pharmaceutical dosage forms and strengths.

Krka's key therapeutic area of medicines for the treatment of cardiovascular diseases was supplemented with new combinations of amlodipine with olmesartan, candesartan, and perindopril. We obtained marketing authorisations for the combination of olmesartan and amlodipine in film-coated tablets in three strengths. The combination integrates two mechanisms of action to reduce high blood pressure. It contains olmesartan, an angiotensin II receptor antagonist, and amlodipine, a calcium channel blocker. Due to the complementary effect of both active ingredients, the combination reduces the likelihood of certain adverse effects and improves tolerability. Our bioequivalence study demonstrates that the use of the generic medicine **Olmita/Olmira** (olmesartan/amlodipine) is as safe and effective as the reference medicine. We obtained the marketing authorisation for the medicine under the European decentralised procedure. It may be used by patients who cannot adequately control their blood pressure by taking medicines that contain one active ingredient only. A clinical study demonstrated that the fixed-dose combination is also effective as a replacement therapy. We obtained a marketing authorisation for the medicine **OlmeAmlo** (olmesartan/amlodipine) for use by patients who already take amlodipine and olmesartan in separate tablets and in the same doses as contained in the fixed-dose combination. The use of the medicine as a replacement therapy optimises the treatment as patients need to take fewer tablets per day, which improves patient compliance.

We obtained the marketing authorisation under the European decentralised procedure for the fixed-dose combination of **candesartan/amlodipine** in tablets of two strengths. The interaction of two active ingredients with different mechanisms of action is more effective in lowering high blood pressure than the treatment with only one active ingredient, and at the same time it also reduces the risk of adverse effects. The fixed-dose combination is used as a replacement therapy for patients already treated with candesartan and amlodipine in separate tablets and the same doses. The fixed-dose combination of two active ingredients in one tablet improves patient compliance during the treatment, as patients need to take fewer tablets per day.

We also obtained marketing authorisations for the fixed-dose combination of **perindopril/amlodipine** in tablets of four strengths. Perindopril as an ACE inhibitor and amlodipine as a calcium channel blocker are complementary, and the combination is used for the treatment of high blood pressure and/or stable coronary arterial disease. The medicine is one of the basic and most important medicines for treating high blood pressure. In 2017, we obtained a marketing authorisation for Krka's generic variety of the fixed-dose combination, which is an equivalent therapeutic replacement for the originator's.

We obtained marketing authorisations for Krka's medicines for the treatment of erectile dysfunction **Viavardis/Vardegin** (vardenafil) 5 mg, 10 mg, and 20 mg film-coated tablets, and **Tadilecto/Tadagis** (tadalafil) 2.5 mg, 5 mg, 10 mg, and 20 mg film-coated tablets. We obtained marketing authorisations under European decentralised procedures for the two medicines in several European countries. Both active ingredients are selective enzyme phosphodiesterase type 5 inhibitors (PDE-5) that act quickly and prolong an erection. High efficacy is evident already after the first dose and is maintained also after the long-term use. Vardenafil is an effective and safe medicine intended for patients suffering from diabetes, cardiovascular diseases, and after radical prostatectomy. Tadalafil in lower doses is indicated also for the treatment of benign prostatic hyperplasia. Both new medicines are vertically integrated, which means that Krka manages processes for preparation and evaluation of the active ingredient and the finished product. Krka's broad range of medicines for the treatment of erectile dysfunction comprises sildenafil, vardenafil, and tadalafil in different pharmaceutical forms and strengths.



We obtained marketing authorisations under European decentralised procedures for a new medicine **Adolax/Oxynador/Nolxado/Dolnada** (oxycodone/naloxone) prolonged-release tablets in three strengths. It contains the combination of an opioid oxycodone and naloxone that bind to opioid receptors. The medicine relieves moderate to severe pain, when treatment with opioids is required.

We obtained the marketing authorisation under the European decentralised procedure for a new strength of **Dulsevia/Duloxalta** (duloxetine) 90 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. In addition to 30 mg and 60 mg capsules, a new strength is available that allows for the administration of one capsule only in cases when higher doses are required.

We added new medicines to Krka's portfolio of analgesics. We obtained a marketing authorisation for the medicine **Dekenor/Dexfenia** (dexketoprofen) solution for injection. The product belongs to non-steroidal anti-inflammatory medicines that inhibit the cyclooxygenase pathway and reduce the synthesis of prostaglandins. It is used to treat acute moderately severe to severe pain when oral treatment is not appropriate, e.g. postoperative pain, renal colics, and back pain. Dexketoprofen solution for injection may be given intravenously and intramuscularly. In both cases, the analgesic effect occurs quickly. It may be combined with opioid medicines in patients with postoperative pain. This allows for lower opioid doses, which reduces the risk of opioid adverse effects.

We updated two medicines from the group of opioid analgesics, **tramadol** capsules, and solution for injection in two strengths. We obtained marketing authorisations for both under European decentralised procedures. Tramadol is an opioid medicine with an analgesic effect. The medicine is used for the treatment of moderately severe to severe pain. Unlike other opioids, tolerance and physical or psychological dependence do not develop when taking tramadol. Adverse effects are also rare. It is especially suitable for patients for whom non-opioid analgesics are not appropriate. The medicine in capsules is easier to take. It is also available as a solution for injection for intravenous, intramuscular, or subcutaneous administration. The analgesic effect occurs quickly.

We obtained marketing authorisations under the European decentralised procedure for the new pharmaceutical forms of **Meaxin/Imanivec** (imatinib) 100 mg and 400 mg dispersible tablets. It is used for the treatment of chronic myeloid leukemia, acute lymphoblastic leukaemia with the Philadelphia chromosome, myelodysplastic/myeloproliferative diseases, hypereosinophilic syndrome, chronic eosinophilic leukemia, and dermatofibrosarcoma protuberans. Tablets may be dispersed in a small amount of water or apple juice for easier administration. They are suitable for patients who are unable to swallow, suffer from gastrointestinal disorders, in particular children and elderly, and also other patients who prefer liquids.

Two new medicines were added to Krka's new group of medicines for treating patients infected with human immunodeficiency virus (HIV). We received a positive opinion from the European Medicines Agency (EMA) for **Darunavir Krka** film-coated tablets in three strengths and **Efavirenz/Emtricitabine/Tenofovir disoproxil Krka** film-coated tablets. Darunavir in the group of protease inhibitors that form an integral part in combinations of medicines for the treatment of HIV-infected patients. Efavirenz/Emtricitabine/Tenofovir disoproxil Krka film-coated tablets include three antiretroviral agents that inhibit the reverse transcriptase enzyme necessary for viral replication. Efavirenz is a non-nucleoside inhibitor, emtricitabine is a nucleoside inhibitor, and tenofovir a nucleotide reverse transcriptase inhibitor. The combination allows users to take just one tablet a day. This makes administration easier, and improves patient compliance, which is very important in the chronic treatment of diseases, such as HIV infection.

We obtained a marketing authorisation under the European decentralised procedure for **Glypvilo** (vildagliptin) tablets. This is the first selective inhibitor of dipeptidyl peptidase-4 enzyme in Krka's portfolio of medicines for the treatment of diabetes. It may be used for the treatment of diabetes already at the earliest stages of the disease as monotherapy, or in combination with other medicines. The medicine has a very good safety profile, does not cause hypoglycemia, and unlike some older medicines, does not impact the body weight.

We obtained marketing authorisations under the European decentralised procedure for European markets for a new formulation of **dexamethasone** 0.5 mg tablets. Dexamethasone is a corticosteroid with anti-inflammatory, analgesic, and anti-allergic properties with an effect on the immune system. It is used for the symptomatic treatment of rheumatic diseases, systemic connective tissue diseases, allergic disorders, and skin conditions, eye disorders, gastrointestinal

disorders, respiratory diseases, blood disorders, kidneys, some forms of cancer, and rejection reactions to organ transplants.

We obtained the marketing authorisation under the national procedure for a new medicine strength in Hungary, **Kventiax SR** (quetiapine) 400 mg prolonged-release tablets, and supplemented our range of medicines containing quetiapine. This broad-spectrum antipsychotic medicine is used for treating mental illnesses (schizophrenia, bipolar disorder, and major depression). The prolonged-release tablets are now available in five strengths. Taking one tablet a day simplifies the treatment.

We added new medicines to Krka's key group of medicines for treating cardiovascular diseases. We obtained new marketing authorisations in European markets for medicines from this group. We obtained marketing authorisations under the European decentralised procedure for **Teldipin** (telmisartan/amlodipine) 40 mg/5 mg, 40 mg/10 mg, 80 mg/5 mg, and 80 mg/10 mg tablets. We obtained marketing authorisations for the following combinations: **Rameam** (ramipril/amlodipine) hard capsules in four strengths and **Vasitimb** (ezetimibe/simvastatin) tablets in three strengths, and for the single-component medicine **Bixebra** (ivabradine) film-coated tablets in two strengths, and **Bloxazoc** (metoprolol succinate) prolonged-release tablets in four strengths. We expanded our market opportunities for **Olimestra** (olmesartan) film-coated tablets in three strengths, **Ezetimibe Krka** tablets, and the fixed-dose combination **Co-Olimestra** (olmesartan/hydrochlorothiazide) film-coated tablets in four strengths. Additionally, we obtained a marketing authorisation for an antidepressant, **Venlafaxine Krka** prolonged-release capsules in two strengths. We expanded market opportunities for antibiotics, and obtained marketing authorisations under the European decentralised procedure for **Clarithromycin Krka** film-coated tablets in two strengths. We expanded our market opportunities by obtaining marketing authorisations for **Lansoprazole Krka** gastro-resistant capsules in two strengths for treating diseases of the alimentary tract. We obtained the marketing authorisation for **Etoriax** (etoricoxib) film-coated tablets in four strengths from the group of analgesic and anti-inflammatory medicines.

In addition, we obtained a marketing authorisation under the European centralised procedure for a combination for the treatment of HIV infections, **Emtricitabine/Tenofovir disoproxil Krka** 200 mg/245 mg film-coated tablets.

In various Eastern European countries, we obtained new marketing authorisations for fixed-dose combinations for the treatment of cardiovascular diseases: **Telmista H40**, **Telmista H80**, and **Telmista HD80** (telmisartan/hydrochlorothiazide), **Roxera combi** (rosuvastatin/amlodipine), **Lortenza/Tenloris** (losartan/amlodipine), **Valarox** (rosuvastatin/valsartan), **Valodip** (amlodipine/valsartan), **Rameax** (amlodipine/ramipril), **Co-Prenessa** (perindopril/indapamide), **Valsacor H80**, **Valsacor H160**, and **Valsacor HD160** (valsartan/hydrochlorothiazide), and **Niperten Combi** (amlodipine/bisoprolol). We obtained marketing authorisations for single-component medicines **Roxera** (rosuvastatin), **Valsacor** (valsartan), **Irbesartan**, and **Bravadin** (ivabradine).

We expanded market opportunities for medicines for the central nervous system: **Kventiax SR** (quetiapine), **Pregabio** (pregabalin), **Ralago** (rasagiline), **Maruxa** (memantine), **Duloxenta/Dulsevia** (duloxetine), **Zylaxera** (aripiprazole), **Opryme SR** (pramipexole), and **Torendo** (risperidone).

We obtained marketing authorisations in 12 countries under the European decentralised procedure for the new medicine **Flebaven/Flebazol/Fladios** (diosmin) 500 mg film-coated tablets and 1000 mg tablets. Both dosage forms contain micronized diosmin of the pharmacopoeial quality and are intended for the treatment of symptoms of chronic venous insufficiency in adults, which is manifested as heavy legs, leg pain and leg cramps at night, and for the symptomatic treatment of deteriorated hemorrhoid-related problems in adults. We obtained marketing authorisations for both products also in the markets of Eastern and South-Eastern Europe.

We increased the number of marketing authorisations for medicines in the group of anti-infectives: **Moflaxa/Moloxin** (moxifloxacin) tablets and solution for infusion, **Betaklav** (amoxicillin/clavulanic acid) tablets and oral suspension, **Levaxela** (levofloxacin), **Linezolid Krka** (linezolid) film-coated tablets and solution for infusion, **Azibiot** (azithromycin) powder for oral suspension and film-coated tablets; **Furocef** (cefuroxime) film-coated tablets; and the medicine for the treatment of HIV infections **Emtricitabine/Tenofovir disoproxil Krka** (emtricitabine/tenofovir). We obtained new marketing authorisations for an analgesic **Roticox** (etoricoxib); a glucocorticoid **dexamethasone**; and oncology medicines **Lortanda** (letrozole), **Neopax** (imatinib), **Ecansya** (capecitabine), and **Docetaxel Krka**.

In the markets of South-Eastern Europe, we increased the number of marketing authorisations for medicines from key therapeutic groups. We obtained new marketing authorisations for medicines for treating cardiovascular diseases **Co-Amlessa** (perindopril/amlodipine/indapamide) tablets, and **Valsaros** (rosuvastatin/valsartan) film-coated tablets.

We obtained new marketing authorisations for the following medicines for the treatment of the central nervous system: **Kventiax SR** (quetiapine) prolonged-release tablets in four strengths, **Memando** (memantine) film-coated tablets, **Elicea** (escitalopram) film-coated tablets, and **Pragiola** (pregabalin) hard capsules. We obtained the marketing authorisation for **Nolpaza** powder for solution for injection from the group of medicines for the treatment of diseases related to gastric acid secretion. In the markets of South-Eastern Europe, we increased the number of marketing authorisations for medicines from the group of antibiotics. We obtained marketing authorisations for **Moloxin** (moxifloxacin) film-coated tablets, **Levalox** (levofloxacin) film-coated tablets and solution for infusion, **Furocef** (cefuroxime) film-coated tablets, and **Betaklav** film-coated tablets and powder for oral suspension. We additionally obtained the marketing authorisation for the analgesic **Doreta SR** (tramadol/paracetamol) prolonged-release tablets. We expanded our market opportunities for medicines for the treatment of HIV infections and obtained the new marketing authorisation for **Emtricitabine/Tenofovir disoproxil Krka** film-coated tablets. In the markets of South-Eastern Europe, we obtained marketing authorisations for the medicine for the treatment of prostate hyperplasia **Dutrys** (dutasteride) soft capsules, and for lowering high blood sugar levels, **Gliclada SR** (gliclazide) 90 mg prolonged-release tablets.

We obtained marketing authorisations in various countries of overseas markets for several of Krka's key medicines containing atorvastatin, telmisartan, carvedilol, a combination of tramadol and paracetamol, esomeprazole, metoprolol, solifenacin, desloratadine, aripiprazole, ezetimibe, linezolid, gliclazide, memantine, pregabalin, and rabeprazole. We obtained most marketing authorisations for medicines in Lebanon and Hong Kong.

## Non-prescription products

In 2017, the group of non-prescription products was supplemented with three new products in five pharmaceutical forms and strengths: **Magnezij Krka 300** (magnesium citrate/vitamin B<sub>2</sub>) water soluble granules, **Flebaven/Flebazol/Fladios** (diosmin) film-coated tablets and tablets, and **Septolete Total/Septabene with lemon and honey flavour** lozenges and **Septolete Total/Septabene with lemon and elder flavour** lozenges.

**Magnezij Krka 300** water soluble granules are a food supplement containing magnesium citrate in accordance with EFSA recommendations and B<sub>2</sub>. Both ingredients help reduce fatigue and exhaustion, and support normal functioning of the nervous system. Magnesium citrate is also vital for the proper functioning of muscles. The product does not contain preservatives, artificial colouring agents, flavours, or sweeteners.

We expanded our market opportunities by obtaining new marketing authorisations for **Septolete Total/Septabene** (benzylamine hydrochloride/cetylpyridinium chloride) lozenges. The product has anti-inflammatory, analgesic and antiseptic effects, and is used to treat infections and pain in the mouth and throat. We additionally obtained marketing authorisations for the product under the European decentralised procedure in the Czech Republic, Ireland, and Germany, and obtained the status of a non-prescription product.

We obtained marketing authorisations under the European decentralised procedure in 14 European countries and under the national procedure in the Russian Federation for **Septolete Total/Septabene** lozenges with lemon and honey flavour and **Septolete Total/Septabene** lozenges with lemon and elder flavour. We obtained a marketing authorisation in Belarus for **Septanazal** nasal spray for adults and children.

We additionally received a marketing authorisation under the national procedure in Slovenia for **Nalgesin** (naproxen) 220 mg film-coated tablets.

In the markets of Eastern and South-Eastern Europe, we further strengthened the position of our Septolete brand and obtained new marketing authorisations for **Septolete Total/Septabene** lozenges and spray.

We obtained marketing authorisations for **Ulcavis/Ulcamed** (bismuth) 120 mg film-coated tablets in Ukraine, Armenia, Moldova, Uzbekistan and Kazakhstan, and for **Flebaven** (diosmin/flavonoids expressed as hesperidin) 450 mg/50 mg film-coated tablets in Kazakhstan.

We obtained marketing authorisations for our Septolete and Pikovit brand products in overseas markets.

## Animal health products

In 2017, we obtained marketing authorisations for three new products.

We obtained marketing authorisations under decentralised procedures in 24 countries for **Dehinel/Anthelmin** (pyrantel embonate/praziquantel) film-coated tablets. It is a fixed-dose combination of active ingredients for the treatment of mixed gastrointestinal parasite infestations in cats. It completes Krka's range of modern animal health products for the treatment of parasites in companion animals. We obtained marketing authorisations for the medicine also in Ukraine, Moldova, Bosnia and Herzegovina, and Macedonia.

We supplemented our portfolio of medicines for treatment of farm animals with two new medicines. We obtained the marketing authorisation under the European decentralised procedure for **Santiola** (clozantel) solution for injection, which completes our portfolio of products for the treatment of parasitic infestations. It is indicated for the treatment of fasciolosis, gastrointestinal infestations and *Oestridae* spp. in cattle and sheep. We obtained marketing authorisations in Kazakhstan and Azerbaijan for **Toltarox** (toltrazuril) oral solution, which is added to drinking water. It is used to treat *Coccidia* spp. infestations in different types of poultry.

We increased the number of marketing authorisations in the group of medicines for treating farm animals and strengthened the existing brands.

We obtained marketing authorisations under the national procedure in the Russian Federation and Ukraine for **Floron** (florfenicol) oral powder for the treatment of respiratory and intestinal infections in pigs, and in Moldova for **Floron** (florfenicol) injection solution for the treatment of respiratory tract infections in pigs and cattle. We obtained marketing authorisations in Moldova, Ukraine and Kazakhstan for **Doxatib** (doxycycline) powder for use in drinking water that is used as the medicine of choice in the treatment of respiratory tract infections in pigs and chickens. We obtained marketing authorisations in Bosnia and Herzegovina, and Uzbekistan for **Amatib** (amoxicillin) oral powder for the treatment of respiratory and intestinal infections in pigs and poultry. We obtained a marketing authorisation in the Netherlands for **Flimabend** (flubendazole) suspension for use in medicated drinking water for the treatment of intestinal parasites in pigs.

We also expanded market opportunities for companion animal products. We obtained marketing authorisations in six European countries for **Milprazon/Milquantel/Milbactor** (milbemycin oxime/praziquantel) flavoured tablets for dogs and flavoured film-coated tablets for cats. The medicine is intended for the prevention of heartworm infestations, and for the prevention and treatment of gastrointestinal infestations in dogs and cats. We obtained a marketing authorisation for the medicine also in Bosnia and Herzegovina.

We obtained a marketing authorisation in the Russian Federation for a fixed-dose combination, **Dehinel** (pyrantel embonate/praziquantel) film-coated tablets, intended for the prevention and treatment of gastrointestinal infestations in cats. We obtained marketing authorisations in Kazakhstan, Macedonia, Serbia and Ukraine for a fixed-dose combination, **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone acetate) suspension, ear drops for dogs. The medicine is indicated for the treatment of otitis externa of bacterial and fungal origin. We obtained a marketing authorisation in Serbia for a fixed-dose combination, **Ataxxa** (imidacloprid/permethrin) spot-on solution, for the treatment of, and protection against external parasites on the hair and skin of dogs. We obtained marketing authorisations in overseas markets for a fixed-dose combination, **Dehinel Plus Flavour** (praziquantel/pyrantel embonate/febantel) flavoured tablets, intended for the treatment and prevention of gastrointestinal infestations in dogs. We obtained the marketing authorisation in Cyprus for **Enrox** (enrofloxacin) flavoured tablets for the treatment of mixed soft-tissue infections in dogs and cats.

## Health resorts and tourist services

We continue to modernise our services at Terme Krka and also regularly invest in infrastructure. In 2017, we allocated approximately €3 million to the renovation, modernisation, development and extension of our services. In late December 2017, Terme Krka became the owner of a beach restaurant in one of the most beautiful parts of the Slovenian coast. In Terme Dolenjske Toplice, we renovated the health centre, particularly rooms for individual baths (pearl baths, underwater massage, baths adapted for patients with impaired mobility), massage, electrotherapy, therapies with paraffin wraps and parafango, and rooms for individual exercises. We have invested approximately €870 thousand in renovation in order to provide the highest level of health services for guests of the health resort. The tennis hall in Otočec was renovated and changed into a multi-purpose sports hall with new flooring, equipment and lighting. In total, 25 rooms in Hotel Šport in Otočec and 3 apartments in Šmarješke Toplice were completely renovated.

## Production and Supply Chain

The key objective of the production and supply chain 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, improve processes to reduce flow time along the entire supply chain, and integrate supply processes in all Krka Group companies and other contracted production sites.

With the introduction of advanced technological processes into the production of pharmaceutical ingredients (APIs) and finished products, we follow the production requirements for new products and relevant laws. We have been increasing production capacities and improving the cost effectiveness of processes in Slovenia and in Krka's subsidiaries. We control all stages of a product's life cycle, and are therefore able to adapt to increasingly challenging conditions in individual markets more easily and effectively.

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

With continuous process improvements, we have considerably reduced the average time from order to supply to the customer, thus increasing our responsiveness and the flexibility of processes in the supply chain. We will continue to optimise the inventory of raw materials and finished products.

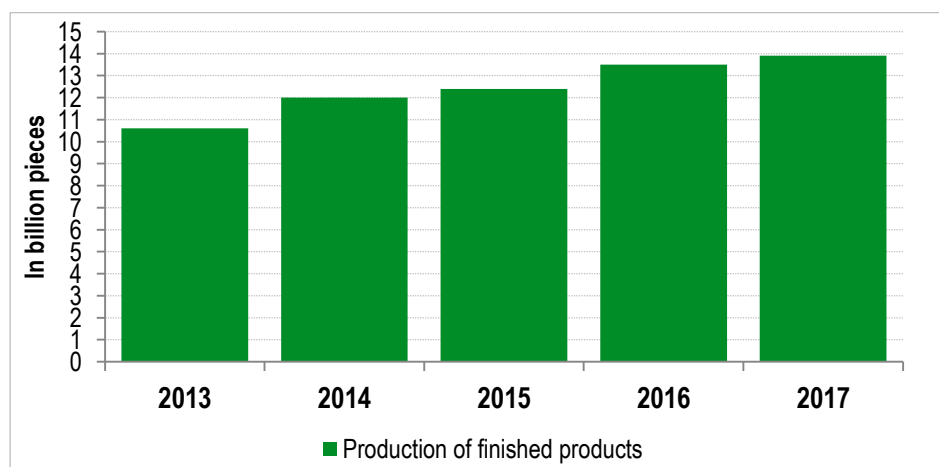
In 2017, based on EU legislation against falsified medicines (Falsified Medicines Directive, FMD), we introduced technical and systemic solutions needed to implement the new directive on ensuring secondary packaging that proves the medicine is in its original packaging, and the introduction of a unique identifier on every final package.

### Production of active pharmaceutical ingredients

A high level of vertical integration in the production process results in high added value. This means that we produce and technologically control a large proportion of active ingredients which we incorporate into finished products at various production sites in Slovenia and abroad. In this way, we reduce dependency on external suppliers in this key segment of the supply chain.

We improve the cost efficiency of the production of key intermediates and raw materials by optimising production processes at all production sites. By transferring new technologies (products), we increased the capacity of Sinteza 1 in Krško, considerably increasing the capacity to produce active ingredients for vertically integrated products. We are continuing the intensive production of active ingredients and intermediates at our own production sites in Novo mesto and Krško. In 2017, we increased production quantities by 9%.

### Production of pharmaceutical products



The key aim of pharmaceutical production is to timely secure a sufficient quantity of quality products to meet market demand, while optimally using the available resources of the controlling company and subsidiaries, and in cooperation with contractors. In 2017, we produced and packaged a record quantity, which is 13.9 billion products. We again produced the



highest monthly and quarterly amounts of products ever. Although our portfolio includes more and more products, we were able to increase the quantity of production units with good planning and effective production.

Modern high-tech solutions are being implemented in pharmaceutical production. We successfully continued to optimise production processes in consideration of increasingly demanding quality standards in pharmaceutical production (including legislation on falsified medicines, original closing of secondary packaging, and introduction of a unique identifier for all final packaging), intensive investments in production equipment, expanding our range of products, and growth in terms of quantity. Increasing batch sizes, transfers of products to new equipment and improving the yield made the greatest contribution. This resulted in improving the cost effectiveness of production processes and better production capacity.

Greater integration between research and development and API and pharmaceutical production yielded good results in 2017, which resulted in the faster and smoother transfer of new products from development to regular production. Strengthened vertical integration facilitated better management of all products in their entire life-cycle.

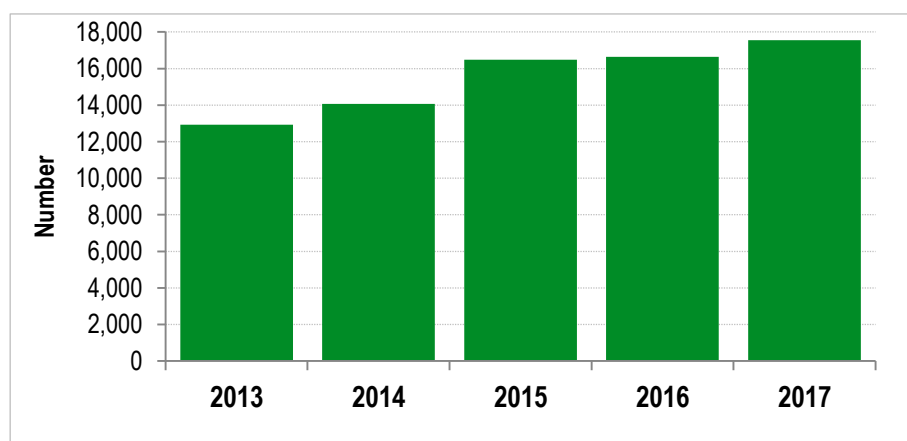
The Notal 2 production plant opened at the end of 2015, and accounts for an important share of production capacities. Production in Notal 2 already accounts for one sixth of all production in the Krka Group due to the installation of additional equipment, the transfer of products to the new location and increasing batch sizes. The installation of equipment in the plant is to continue.

In 2017, we also increased production in the newly-built distribution centre in the Russian Federation, to which we transferred new technologies and products of major importance for the Russian market, thereby further consolidating our position as a local producer. We produce more than one half of products for the Russian market in the plant in the Russian Federation.

In order to respond more quickly to increasingly higher demand for our products in terms of quantity, to achieve greater internationalisation and reduce risks in the production process, we intensified activities related to the transfer of production technology to contractors and expanded the network of contractual producers.

We are continuing to upgrade information technology support for managing, monitoring and controlling processes, the standardisation of production processes, and optimisation of the manufacturing documentation and process control systems. We are also expanding the use of electronic manufacturing documents and increasing process automation.

### The increasing number of finished products that Krka can manufacture



A number of finished products that Krka is capable to manufacture. The higher number means a broader possible range of products.

### Supply process

We make the raw materials for our own products, but we also buy them in the market. In 2017, especially for ecological and financial reasons and reasons related to good manufacturing practice, the number of raw materials manufacturers continued to decrease. Despite the unstable situation in the raw ingredient market, we managed to secure enough raw ingredients for the uninterrupted production of finished products. We also obtained finished products made by contractual partners on time. We increased the transparency of the purchasing process of raw ingredients and packaging, and updated the system of managing purchasing agreements and coordination of specification of raw materials with suppliers.



We continued to economise by considering currency exchange rates. We increased integration and optimised purchasing processes with Krka's subsidiaries. We continued to improve strategies for partner relations with suppliers.

### **Preparing technological documentation**

We regularly improve post-registration procedures for preparing packaging materials and technological documents for production in Slovenia, companies abroad and at contractual manufacturers in order to secure timely realisation and response to sales requirements.

Increasing the number of products and production sites, changing market demands and requirements to have packaging in local languages are reflected in an increasing number of finished products and bulk products.

### **Warehousing and transport**

We improved warehouse capacities by process optimisation, the implementation of new functionalities on computer systems, and optimisation of supplies in cooperation with other organisational units.

With improved vehicle utilisation, and reduced the costs of transport services. In maritime transport, we simplified the customs clearance procedure, which has contributed to improving material flow within the supply chain.

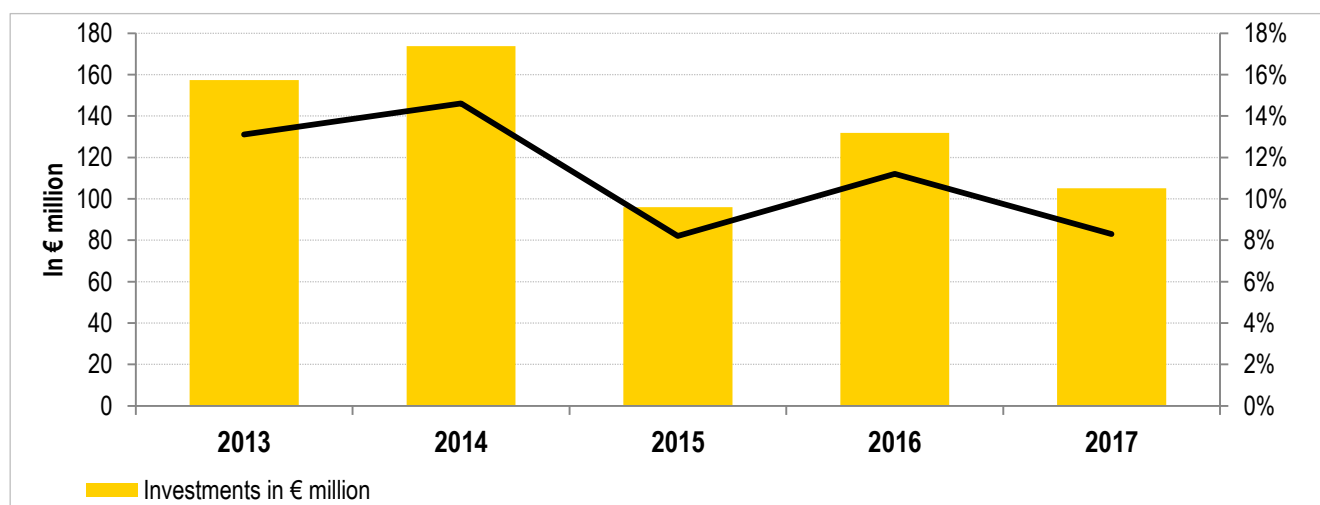
## Investments

In 2017, the Krka Group allocated €105.1 million to investments, €85.3 million to the controlling company, and €19.8 million to subsidiaries. We invested primarily in increasing and updating production, development, and quality assurance. We are also investing in our own production and distribution centres around the world.

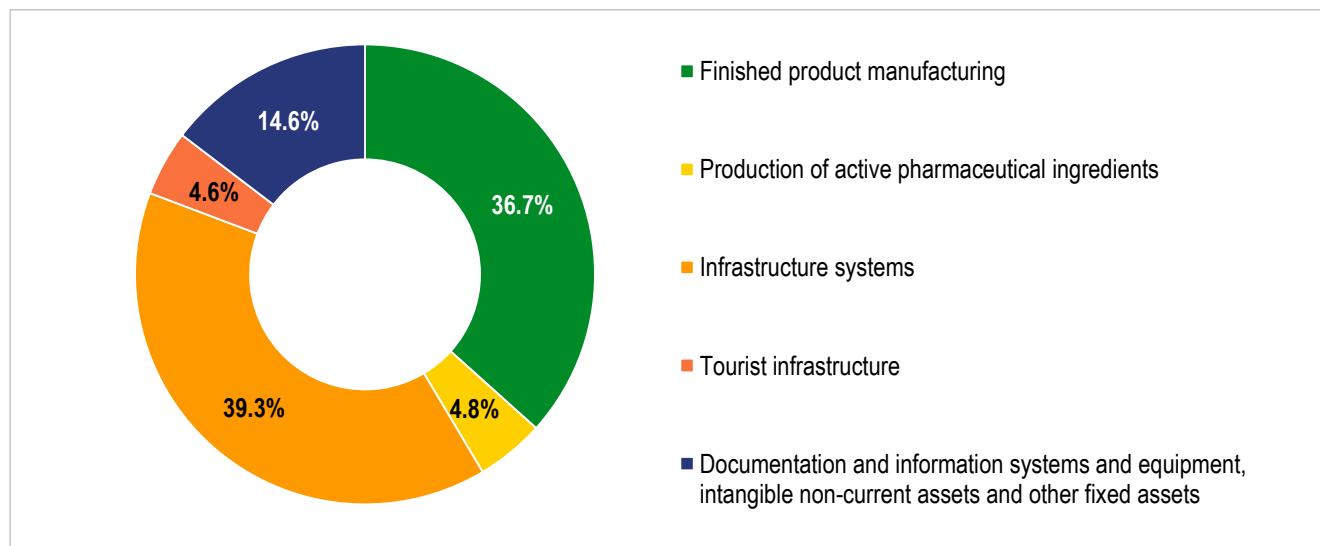
In Slovenia, Croatia, and the Russian Federation, approximately thirty investment projects are in progress which are intended to increase our production capacities by one third in the coming years.

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

### Krka Group investments from 2013 to 2017



### Structure of Krka Group investments in 2017



In 2017, we invested primarily in the production of finished products and increasing and upgrading research and development infrastructure. Infrastructure buildings and systems, including the construction of the Research and Control Centre 4 (Slovene abbreviation: RKC 4), will support business functions of the entire Krka Group. Investments accounted for 8.3% of sales revenues generated in 2017.

### Research and Control Centre 4

Krka's key investment is the product development and quality control facility, the Research and Control Centre 4 (Slovene abbreviation: RKC 4), at the production site in Novo mesto. The building will be located in the immediate vicinity of the other three buildings for product development and control, and will be connected to RKC 2 and RKC 3. The construction of the building and external works are in the final stage.

Preparation works for the €54 million building started at the end of June 2015, and in autumn 2016 the building was completed and glazed. The connection structure between the two buildings, RKC 3 and RKC 4, was also built. In the spring of 2017, we started to install laboratory and other technological equipment. The fitting-out of the offices and laboratory area was finished in the summer 2017 and the facilities were handed over to the users. At the end of August 2017, we obtained an operating permit for the above-ground facilities and the first basement. We have also successfully passed the inspection of the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia.

The fitting-out of the ground floor, intended for development, is in its final stage. We plan the supply and assembly of the pharmaceutical equipment to be finished by the autumn of 2018, and the installation and start-ups by the end of 2018. The move into this part of the building is anticipated in the second quarter of 2018, when the facilities will be finished and most of the technological equipment installed. The facilities for the purposes of Analytics Development in the connection structure between the RKC 3 and RKC 4 will be ready for use by the end of 2018.

### Multipurpose warehouse for finished products, raw and packaging materials

At the same location, we are also building a multipurpose warehouse, which will ensure additional warehousing capacity for incoming materials and finished products. This will increase the speed and flexibility of production, and improve the availability of products and market supply.

The first stage includes the preparation of handling areas and construction of laboratories and samplers, while the construction of a multipurpose warehouse and the connection structure to the Raw Material Warehouse will be completed in the second stage.

The construction of the building, installation of logistic and other equipment, qualification, and equipment and system start-ups will take two years. The investment is estimated at €31.5 million.

### Notol 2

Krka's largest investment to date, Notol 2, is an over €200 million state-of-the-art facility for the production of solid pharmaceuticals dosage forms. The plant was built in 2015. After two years in operation, work has been running smoothly and production increasing. Due to increasing market demand and the manufacture of new products, Krka purchased and installed additional technological equipment worth €23 million in 2017.

### Increasing and upgrading manufacturing capacities

The new investment in Krško provided capacities for technologies that require treatment with hydrogen, and further increased capacities for the independent production of pharmaceutical ingredients. The construction of a €4.5 million hydrogenation plant, Hidrogeniranje 2, started in June 2017. At the beginning of construction, the operations of the existing hydrogenation plant had to be stopped. In autumn 2017, construction and installation were finished, and the plant passed the technical inspection and inspection of the Slovenian Institute of Quality and Metrology (SIQ). By the end of the year, we had also performed system and equipment qualifications and start-ups. Test production started at the beginning of 2018.

We are increasing production capacities for animal health products with biocidal effects in the Bršljin plant in Novo mesto. In April 2017, we obtained a construction permit to extend the building, and by the end of 2017, the building was ready for the installation of the technological equipment. The investment is estimated at €4.6 million. Production on new lines will start at the end of 2018.

Also in progress is an €11 million project to extend our pellet-coating capacity at OTO, the solid dosage forms production plant. It will be completed in 2018.

### Installing equipment at the new plant in the Russian Federation

Krka-Rus 2 plant in Istra in the Russian Federation is among the most important investments in Krka's subsidiaries.

The second stage of equipment installation at the plant has been completed, and cost €22 million. All technological and production equipment is installed and operational. Production capacity has increased to two thirds of the planned final capacity, a total of 2.5 billion tablets and capsules a year. In 2018, we will also build a wastewater treatment plant. The investment is estimated at €2.6 million. Over 60% of products intended for the Russian market are produced by Krka-Rus, giving Krka the status of a domestic producer in the Russian Federation.

### Extending our production programme in Croatia

The refurbishment of the production-and-distribution centre in Jastrebarsko in Croatia has been completed. As a result of this €34 million investment, we have acquired new manufacturing facilities and laboratory capacities for solid dosage forms of oncology medicines. Production was placed in the existing outlines of the building in the area of the distribution centre.

The distribution centre was closed, but we kept the warehouse for own production needs. For the purposes of power supply to manufacturing facilities, we constructed 800 m<sup>2</sup> of additional floorspace next to the machine room. We have obtained an operating permit, good manufacturing practice certificate, and manufacturing authorisation and thus met the conditions for starting the production of oncology medicines to be sold in demanding global markets. At the end of May 2017, we started to transfer technologies and production of the first oncology medicines.

### Farma GRS

The €5.5 million investment in Krka's subsidiary, Farma GRS, has been completed. The Chemical development centre provides additional capacities for research and development, and increased capacities for the small-scale production of pharmaceutical ingredients, which will be in line with good manufacturing practice.

### Terme Krka

Several smaller investments are in progress in all business units of the Terme Krka subsidiary. The heating system was replaced in Strunjan, which will reduce negative environmental impacts and provide lower thermal energy prices in accordance with legislation and the objectives of the Strunjan Nature Reserve. Hotel Laguna is also undergoing renovation, where accommodation capacities will be expanded and a smaller pool built.

In Šmarješke Toplice, a system for regulating discharge of wastewater was set up and energy system renovated. The renovation of facilities in the medical rehabilitation centre in Dolenjske Toplice has been completed, and the hotel rooms in Hotel Šport, Otočec were also renovated. In 2017, Terme Krka's investments totalled €3 million.

### Ningbo Krka Menovo

In China, we established a new company Ningbo Krka Menovo with a local partner. The procedure was completed at the beginning of 2018. The *Memorandum* and the company's *Articles of Association* were signed in November 2017. Initial share capital of €30 million has been allocated to financing development activities, purchasing land, and building production capacities.

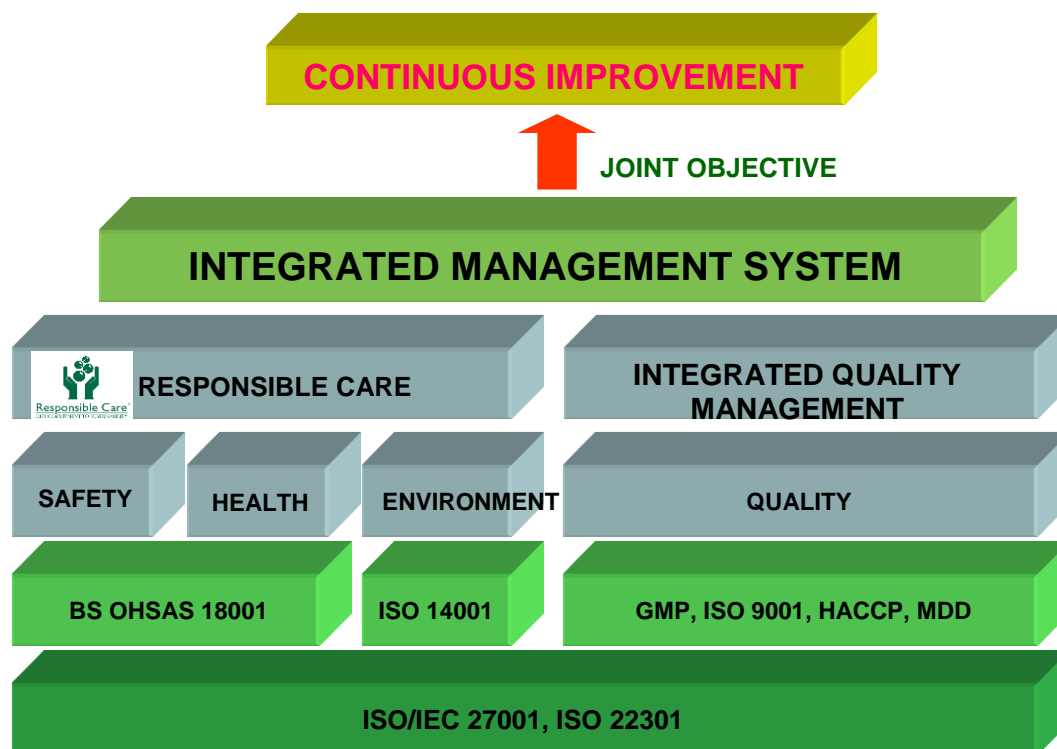
## Integrated Management System and Quality

Krka's basic underlying strategy in terms of quality is to ensure the competitive quality of Krka products and services by continuously improving products, processes and services. We improve the organisation of process management and apply various advanced work systems and control methods to meet the requirements of various clients and demonstrate the on-going suitability of processes for achieving goals. In all processes, therefore, we deal with all quality-related risks and opportunities systematically. Our aim is to achieve sustainable development. Owing to advances in process development, we continuously meet the expectations of our internal and external clients and obtain new opportunities for further improvements.

### Management system and quality

We manage various aspects of our operations in a uniform way with our integrated management system (IMS). The purpose of the IMS is to achieve optimum business targets. The IMS determines our attitude to quality, environment, occupational safety, food safety, medicinal device safety, information security and uninterrupted operations. The IMS is structured according to the requirements of the ISO 9001 standard, the principles of good pharmaceutical practices (GXP), HACCP principles, Council Directive 93/42/EEC (*Medical Devices Directive* (MDD)), and the ISO 14001, BS OHSAS 18001, ISO/IEC 27001 and ISO 22301 standards. In 2017, we continued to upgrade management systems in accordance with legislation and guidelines. The compliance of the established management system was confirmed by renewing the certificates of good pharmaceutical practices. We confirmed the validity of certificates of other management systems (ISO 9001, ISO 14001, ISO 27001, BS OHSAS 18001, MDD, and HACCP).

The performance of our IMS is supported by a centralised document management system, which we regularly upgrade by shortening the time from the production of a document to its enforcement, providing easy access to documents and their security, etc. 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 related to good practices and systematically introduce them into management systems and processes.



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 Krka Group's operations. We systematically and consistently manage

processes, from purchasing, research and development, production, distribution, 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 by our partners.

The IMS is regularly certified by the Slovenian Institute of Quality and Metrology (SIQ) every year. SIQ is also the certified body for establishing the conformity of medicinal devices. It also reviews Krka regularly every year according to the EC certificate of conformity issued for the Septoqua medical device. This was also the case in 2017.

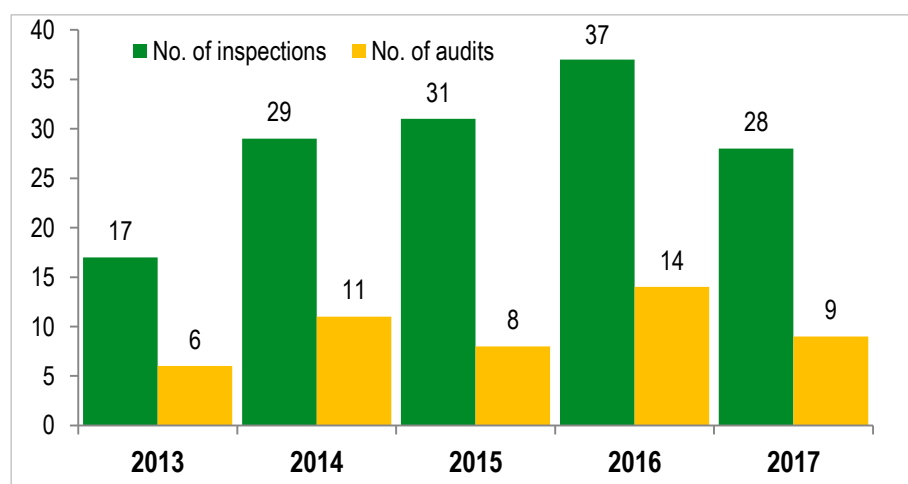
Krka manufactures a variety of medicinal products and is therefore monitored by several Slovenian bodies or institutions. The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) monitors medicinal products and devices made by Krka. The Health Inspectorate of the Republic of Slovenia (ZIRS) monitors self-medication products 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 (UVHVV) inspects feed additives and catering. The Metrology Institute of the Republic of Slovenia conducts supervision of measuring devices used in manufacturing and trade, and prepacked products.

The number of inspections and audits in 2017 was comparable to previous years, except for 2016, which was more intensive due to inspections by Russian regulatory authorities. JAZMP regularly inspects medicinal products and API manufacturing processes, clinical trials, and the implementation of pharmacovigilance. In 2017, it carried out seven inspections and verified new laboratory capacities. Based on regular inspections, Krka renewed GMP certificates confirming that manufacturing of medicines and APIs is carried out in conformity with the GMP principles and guidelines applicable to medicinal products and APIs. We passed the fifth regular inspection of clinical studies at Krka, which confirmed the compliance of processes with the principles of good clinical practice and legislation. We also passed the regular inspection by JAZMP related to good distribution practice (GDP), with which we maintain the authorisation to perform this activity.

The manufacture of medicinal products is also inspected by foreign bodies from non-EU member states, because medicines are marketed in markets outside the European Union. New products were included in some Russian GMP certificates obtained in 2016, and we met conditions for renewing or obtaining marketing authorisations on the Russian market. We planned regular Belarus inspections on the basis of individual applications for obtaining marketing authorisations. In addition to the Slovenian certified body (SIQ), we were audited by the Ukrainian certified body for medical devices. We passed the inspection by Libyan authorities, which will enable us to launch our products on the Libyan market.

We are entered in the register kept by the Administration of the Republic of Slovenia for Food Safety, Veterinary and Plant Protection (UVHVV), and in 2017, we renewed our permit for the wholesale distribution of animal health products.

### Number of inspections and audits at Krka Group





In the Catering Department, UVHVVR conducted one regular inspection of general and special hygiene requirements and the operation of our own HACCP system.

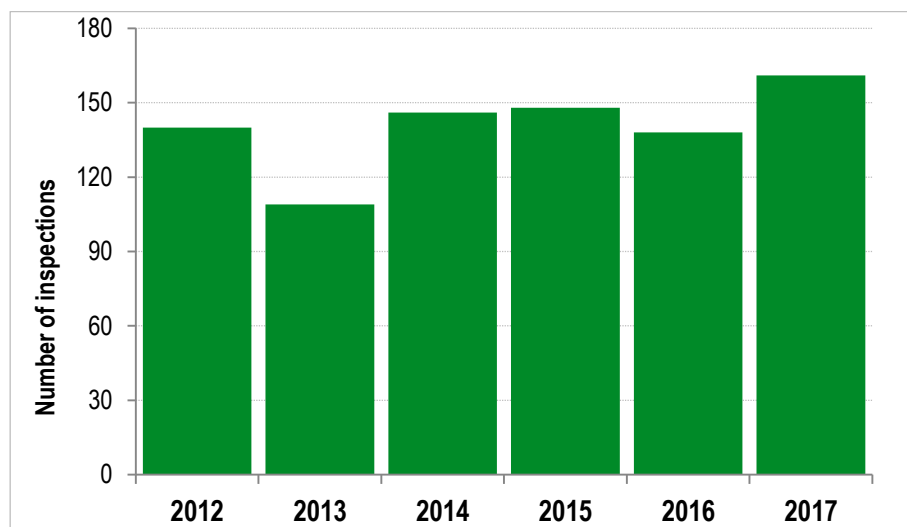
The Health Inspectorate of the Republic of Slovenia (ZIRS) carried out two regular inspections of food supplement production to verify the conformity of manufacturing, labelling and traceability throughout the process with the *Rules on food supplements*, and compliance with the *Slovenian Act Regulating the Sanitary Suitability of Foodstuffs, Products and Materials Coming into Contact with Foodstuffs*. The body confirmed that the system for ensuring the suitability of foodstuffs works well.

The Metrology Institute of the Republic of Slovenia carried out an inspection, and confirmed compliance with the *Metrology Act* and the *Rules on quantities of prepacked products*.

Our partners conduct audits every year in order to review compliance with contractual requirements, GMP, and the suitability of the pharmacovigilance system. In 2017, Krka underwent nine audits and passed all of them. Their findings prove that Krka meets all our partners' requirements.

Auditors from the Krka Group audit the quality management systems of our GXP partners internationally to improve control of the quality of products and processes and enhance the further growth of the company. We focus on legislative requirements related to good manufacturing practice and other requirements of good pharmaceutical 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 manufactured by partners to an acceptable level. The suitable quality and timely delivery of products and raw materials manufactured by partners provides for the optimum planning of production processes.

#### We carry out a number of audits of our suppliers and contract partners



#### Quality assurance processes

Krka has introduced six key processes to implement its policies and attain strategic objectives. These are: company management; pharmaceutical research, development and production; API research, development, production and supply; marketing; sales; and engineering and technical services. Quality assurance processes are integrated into company management processes, and facilitate the implementation of the basic corporate rules on process operations. Our permanent duty is to upgrade quality systems, which improves 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 quality management. They cooperate with experts from various areas, seek opportunities for improvement and introduce new developments into company processes.

We maintain awareness of the importance of quality company processes at a high level. We encourage and solicit new innovative approaches on our corporate web site, and introduce them into work procedures.

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 laws and regulations by introducing new knowledge and tools, an in-depth understanding of processes, and suitable resources.

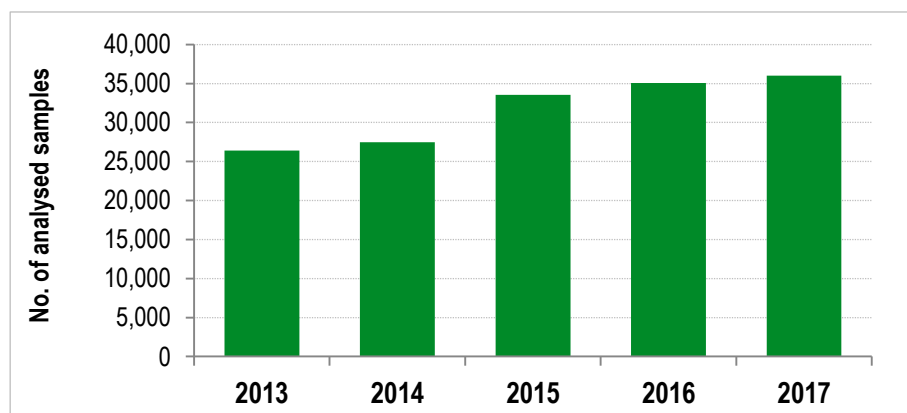
We have established a quality management system for active ingredients, excipients, packaging materials and finished products. It ensures that only incoming materials and finished products of suitable quality conforming to the GMP standards and marketing authorisations are released for the chemical and pharmaceutical production of medicines for human use and animal health products. We have been upgrading the quality system also in Krka's subsidiaries with respect to good manufacturing and good distribution practices. Krka's own technology, research and development are used in manufacturing active ingredients for certain products. They are manufactured by our contract partners and are also included in our quality assurance processes. In 2017, we improved our quality assurance processes for active ingredients, and therefore increased the quality and reliability of supplies. We also improved quality assurance processes for finished products to increase customer satisfaction.

The qualifications and validations of investment and computer projects, production, technological 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 procedures applied in bulk product manufacturing and the packaging of finished products. We apply validation processes to confirm the suitability of conditions during transport. Improved approaches are reflected in the successful implementation of annual plans and objectives. They have also been confirmed by permanent controls performed by internal and external auditors and inspectors.

We devote much attention to data integrity. In this way, we ensure compliance with regulatory requirements concerning data integrity and credibility that may affect the quality of finished products. The principle of data integrity is considered in the earliest stages of developing and introducing information systems. It is ensured through system validations, change control, and by managing potential deviations during process implementation.

We apply laboratory control to examine the quality of products, bulk products and intermediate products, active ingredients, incoming materials, production rooms and equipment, and production processes at all our production sites. We manage potential risks in all areas of our operations. We take all necessary measures to ensure the timely performance of analyses and uninterrupted supplies of products. We have established a system for regularly monitoring the quality of our marketed medicinal products throughout their shelf lives. We follow business objectives and legislative requirements by regularly optimising work processes, increasing laboratory capabilities and increasing the number of employees. We ensure the quality of work by additionally educating employees and raising their awareness. Krka shares knowledge and analytical methods at the level of the Krka Group and with its contract partners to ensure the same quality of work and professional attitude.

### Laboratory quality control



We control production processes, active ingredients, and finished pharmaceutical products. We also 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 GMP guidelines in force in the

European Union. We improved quality assurance of sterile, liquid and semi-solid dosage forms by introducing new organisational measures, which provide for a more effective cooperation with production departments in order to provide quality, safe and effective medicinal products.

We constantly upgrade our documentation and information systems 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 are always available for review during inspections or partner audits.

In view of sales and production requirements, we plan and coordinate activities for the timely release of incoming materials, bulk products and finished products. The number of batches released to the market depends on sales requirements and the performance of production activities. We record batch release times in order to make products available for timely dispatch. Certain actions must be performed throughout manufacturing, quality control and product quality assessment cycles in order to release batches on the market. All manufactured batches are assessed in compliance with the standards of good manufacturing practice and conform to registration documents. The final assessment of an individual pharmaceutical batch is made by qualified persons authorised to release pharmaceutical batches according to the provisions of the Slovenian *Medicinal Products Act* and the applicable EU legislation on medicines. This is followed by issuing certificates and producing batch documents for clients. We regularly update finished product certificates of conformity in accordance with the guidelines on good manufacturing practices that apply in the EU.

We monitor the quality of products on the market throughout their life cycle. We also 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 our clients' satisfaction with Krka products and services. Our quality system addresses our clients' demands and expectations in accordance with the legislative requirements and the guidelines on good manufacturing practice. We continuously monitor indirect indicators to obtain information about customer satisfaction with our products and further improve processes. We provide for customer satisfaction with our products and services through regularly updated quality assurance contracts and product quality reviews. Successful inspections and audits of product manufacturing in compliance with good manufacturing practice and registration documents also reflect partner satisfaction.

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 regarding key processes in Krka that affect the quality, safety and effectiveness of products in order to check the fulfilment of objectives and introduce additional improvements.

Krka places strong emphasis on environmental protection and occupational health and safety (we also consider the requirements of ISO 14001, BS OHSAS 18001, and guidelines for responsible care), and on sincere and fair public relations. We regularly report to the public and inform the public of improvements. 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). To promote quality, a series of professional and motivation articles is published in our internal magazine, *Utrip*, and our weekly bulletin, *Bilten*. In this way, we inform our employees about changes made in the area of quality and the impact of quality work on the Krka Group's results.

Our permanent objective is to improve the flexibility of operations, which includes understanding changes, adaptation to market requirements and needs, coordinated and coherent work of organisational units, and integration and pursuance of 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 2017, the responsible persons from individual business functions of the controlling 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. In 2017, we conducted an additional assessment of risks related to inadequate environmental conditions in archiving rooms that permanently store documents. Krka's internal rules on archiving documentary materials comply with the *Slovenian Protection of Documents and Archives and Archival Institutions Act* (ZVDAGA). The ISMS is regularly reviewed in self-inspections, audits, and external security inspections. In 2017, we performed measures required by the external security inspection in 2016, and drew up requirements for a security inspection to be performed in 2018. All Krka's subsidiaries adopted the guidelines of the controlling Company set out in the *Information Security Policy*.

We consistently implement the personal data protection policy in compliance with EU directives and national laws and regulations of countries where Krka's subsidiaries operate, so that personal data protection is ensured throughout the Krka Group. Krka has concluded contracts on personal data processing with all its subsidiaries. In 2017, we were actively preparing everything necessary to comply with a new EU regulation on data protection that enters into force on 25 May 2018.

Regular and continuous training courses for our employees and raising their awareness are key elements for successful implementation of the ISMS. In 2017, we devoted special attention to raising awareness of all Krka Group employees about phishing attacks.

We maintain high 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 support system availability, Krka's data centre has been doubled. Together with the basic data centre, it ensures a high level of redundancy, meeting the requirements of high availability 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.

System	Annual availability in %				
	2017	2016	2015	2014	2013
Business system	99.9	99.9	99.9	99.8	99.8
Production system	99.9	99.9	99.9	99.7	99.9
Documentation system	99.8	99.8	99.7	99.9	99.8
E-mail	99.9	99.8	99.9	99.8	99.8

## Business continuity management system

In 2015, we updated the business continuity management system (BCMS, SUNP in Slovene) according to ISO 22301:2013 (Business Continuity Management Systems). Important parts of the BCMS are procedures for optimising Krka's resistance to damaging incidents, procedures for actions in the event of incidents, and business continuity plans for managing critical situations. The BCMS is part of Krka's comprehensive risk management. 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. In 2016, we updated business continuity plans with action plans for cases of emergency. In the coming years, we intend to check the feasibility of all actions for ensuring business continuity.

## SUSTAINABLE DEVELOPMENT

### Responsibility to Employees

We realise that employees and their knowledge are the key source of attaining the results of the Krka Group. The company's success depends on employee commitment, good mutual relations, and leadership style which guide our employees towards efficiency, improvement, and development, and is in accordance with Krka's values. We strive to ensure that all our activities reflect responsibility to employees and Krka values. They lead us in setting objectives, achieving results, and cooperating and working with the employees. Together, we create a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible and efficient work. Our employees are known to be loyal, innovative, flexible, diligent, and focused on achieving the company's business objectives and results.

We create a working environment that promotes professional and personal development of employees. We need highly trained staff to be successful in markets, to develop and market new products, and invest in modern production capacities. We believe that an individual's success is based on the desire to achieve excellence and continuous professional development, personal development and the development of interpersonal relations.

Since quality is important for us at every step of the work process, we encourage employees to cooperate with each other, to transfer relevant information and be creative. We create an environment in which the goals and needs of individuals may be linked to company's objectives. This is achieved through demanding and interesting work challenges, ensuring the best possible work conditions, facilitating the development of skills and competencies, and cooperating on career development.

The employees work in a culturally different international environment, where they can 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.

In order to achieve synergy and connect employees from different countries, we organise international conferences related to different areas of our operations: marketing, sales, technology, human resources, and regulatory affairs etc. They are an opportunity for employees of Krka and its subsidiaries and representative offices abroad to exchange experience, analyse current challenges, and discuss common strategies and goals and exchange examples of good practices. This is how we create the company's success and the future.

We appreciate commitment, and respect the work of every employee in order to achieve objectives of the Krka Group. We foster the awareness that every employee helps to create a working environment, an organisational climate, and thus also business results. By regularly measuring the organisational climate, we make sure that employees have the opportunity to express their opinions. Analyses of the findings are a useful for preparing improvements, which contribute to creating an efficient and creative environment. This year, we supplemented measuring the organisational climate with measuring the organisational energy.

The company's competitiveness and performance are also maintained through continuous improvement of internal processes and a quick reaction to market needs. This is becoming increasingly important, given our intense growth and expansion to new markets. The Krka Group is becoming increasingly complex, which is why we pay special attention to our organisational efficiency. A 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 in responding 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.

Equal opportunities for all employees, regardless of their gender, race, religion, nationality or cultural differences, 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 defined in internationally recognised principles and guidelines, including the Universal Declaration of Human Rights. We abide by all legal regulations and standards related to human rights issues in all the countries where we operate. As we are committed to high ethical standards, all employees are educated on the *Krka Code of Ethics*. It requires us to respect ethical and professional standards of work, knowledge and behaviour.

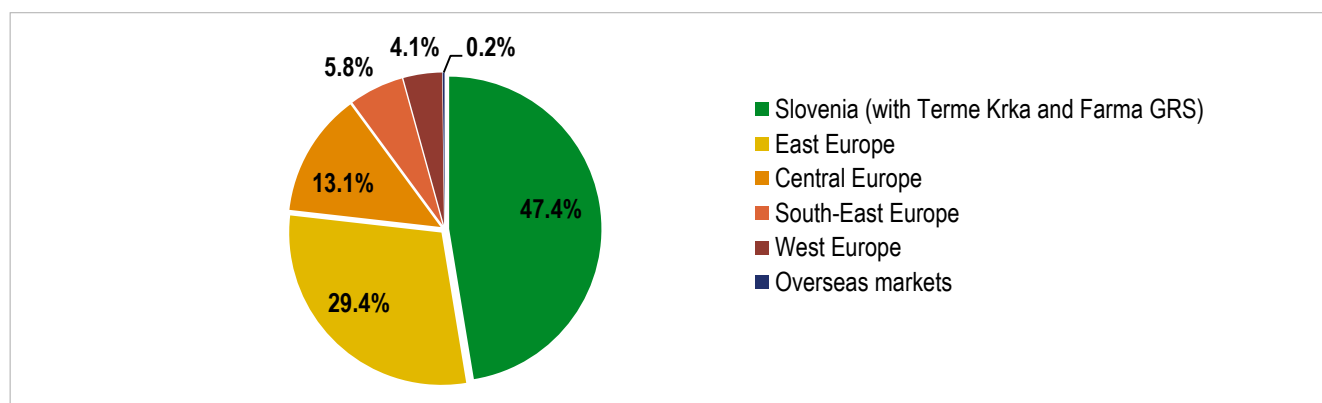
**Key data about employees for 2017**

Number of employees	10,832 of which 47.4% in Slovenia
Average age	39.99 years
Percentage of female employees	63.85%
Percentage of female employees in management positions	45.4%
Percentage of on-going employees	89.1% (women 88.2% and men 90.7%)

**Number of employees on 31 December 2017**

	2017	2016	2015	2014	2013	Index 2017/16
Krka Company in Slovenia	4,514	4,343	4,292	4,256	4,190	104
Krka Company representative offices outside Slovenia	506	546	506	482	438	93
<b>Krka Company</b>	<b>5,020</b>	<b>4,889</b>	<b>4,798</b>	<b>4,738</b>	<b>4,628</b>	<b>103</b>
Subsidiaries outside Slovenia	5,192	5,388	5,151	5,130	4,764	96
Terme Krka Group	584	576	578	585	605	101
Farma GRS*	36	36	37	46	51	100
<b>Krka Group</b>	<b>10,832</b>	<b>10,889</b>	<b>10,564</b>	<b>10,499</b>	<b>10,048</b>	<b>99</b>

\* Including the micro-companies whose founder is Farma GRS.

**Employee structure on 31 December 2017 by region****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 55%, or 6,011 employees. They include 175 employees with a doctoral degree and 364 employees with a master's degree or specialisation.

**Educational structure of Krka Group employees as at 31 December 2017**

	2017	2016	2015	2014	2013
Higher professional education, university degree or higher (Level VII or higher)	69%	70%	68%	67%	65%
Vocational college degree (Level VI)	2%	2%	3%	3%	3%
Secondary school education (Level V)	18%	17%	17%	18%	19%
Other (less than Level V)	11%	11%	12%	12%	13%
<b>Number of employees in the Krka Group</b>	<b>10,832</b>	<b>10,889</b>	<b>10,564</b>	<b>10,499</b>	<b>10,048</b>

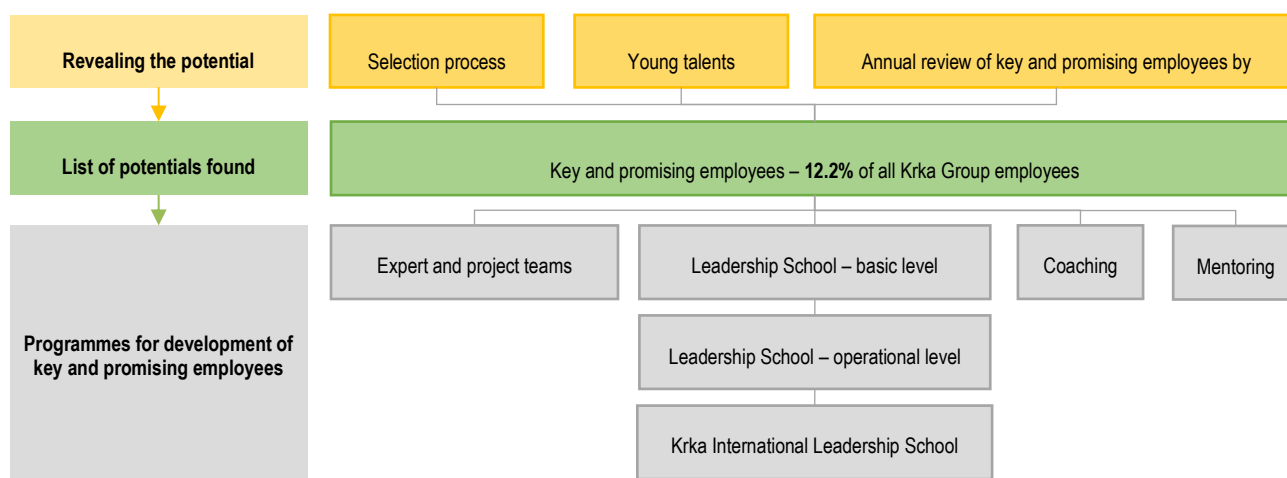


## Employee education and development

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. The development of employees is systematically planned and encourages **professional and personal development**, enabling the acquisition of relevant knowledge and experience in various fields.

An important tool enabling effective leadership, identification of potentials, motivation and the development of employees is the Krka appraisal interview. All employees of the Krka Group are involved in this appraisal system. Managers and employees define objectives, discuss priorities and expectations relating to work and employee development, and then plan the employees' training.

We identify and systematically train **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.



Identifying talents is of essential and takes place early in their careers. When looking for candidates to work in challenging job positions, with internal transfers and promising employees that work less than one year in the company, we carry out an assessment, where they can take part in individual and teamwork tasks. This is how we see employees' motivation, their insight and capacity to cooperate. Based on competence-based systems for various work areas, we determine requirements for knowledge development and upgrading, and the development of employee skills. Competencies are a good basis for recruiting new employees and for designing training and skills development programmes and their evaluation.

Key and promising employees who are identified have several programmes available for their individual development with regard to their needs and the nature of their work.

The need to train key and promising employees and well-trained leaders encouraged us to start our own leadership programme. All three programmes are adapted to different levels of leadership: Krka International Leadership School, the Krka Operational Leadership School and the Krka Basic Level Leadership School. The programmes are complemented by coaching and action learning, thus contributing to the development of leaders.

We also provide an in-house international programme for expert and project teams, intended to train professionals in communication skills, teamwork and project work, learning about and exchanging Krka's good practices, connecting employees from various backgrounds, as well as employee personal development.

Mentorship, which is a goal-oriented and planned process enabling an exchange of experience and development of employees' potential, is implemented with new employees who have just started in their jobs and with employees who take on new and more responsible tasks. A special form of mentorship at international level is used for the systematic development of promising employees. Employees with high potential meet well experienced senior Krka employees, deal with current issues and follow targeted development of their potentials and competences.

We provide our employees with continuous education and training in various specialist fields such as leadership 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 2017, 265 Krka employees were also part-time students, 49 of them involved in postgraduate studies.

We are the only company in the country to offer six programmes of national vocational qualifications related to the pharmaceutical industry. Employees in pharmacies and other pharmaceutical companies are involved in these programmes. In 2017, this training (level IV) was completed by 26 employees. In total, we have awarded 1,404 certificates since 2004 – 1,262 to Krka employees and 42 to employees of other companies and pharmacies.

For the successful training of employees and their managers and successful implementation of the Krka strategy in markets, more than 85 in-house trainers are employed in the marketing and sales network thereby ensuring the transfer of good practices in the market and also internationally. Trainers help employees and managers at regular training sessions and by offering individual support in the field.

Traditional forms of education and training are supplemented with e-learning and e-testing, which have become important training tools, since Krka is a geographically widely dispersed company. 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.

Because we think that care for employees and good relations lead to good results, we paid a lot of attention in 2017 to preparing educational programmes related to people management, resolving conflicts and respectful communication. The basis for good cooperation is self-knowledge, recognising one's strengths and weaknesses, and respecting the differences between people, which was the main message of these training sessions.

#### Key data about employee education for 2017

Average number of training courses per employee	11
Average number of training hours per employee	45
Proportion of revenues allocated for education (in %)	0.6

To recruit young people, we offer scholarships to those students who demonstrate talent and ability during their studies. We systematically work with them to enable them the best possible connection with the company and gain experience. These students get to know Krka and the company's working processes at organised meetings and during their internship, and have the possibility to prove their skills and abilities. We assist students and junior researchers with their theses on various topics. As lecturers at tertiary education institutions, we help design course content for undergraduate and master's study programmes. In 2017, Krka had 58 scholarship students, 10 of whom graduated. We also work with secondary schools and faculties to facilitate compulsory on-the-job training. In 2017, 227 pupils and students acquired work experience at our company.

## Quality of life

We are aware that to achieve good business results it is also important to enable employees and inhabitants in countries where Krka operates a quality and better life. As a socially responsible company, we pursue our mission, **Living a healthy life**, in several areas.

For several decades, we have supported the well-being of our employees and good interpersonal relationships by organising a wide range of cultural and sports events. We participate in areas that contribute to the quality of life beyond the working environment. Our employees have access to a wide range of sports activities at Trim klub Krka. It organises sports activities which are attended by approximately 1,000 employees every week. The Krka Culture and Arts Society contributes to cultural life. It organises gallery exhibitions, a choir, a theatre club, creative workshops and visits to cultural events. We inform our employees about the importance of a healthy diet, and offer good-quality meals at all of the Company's locations.

Charity is also a part of us. The spirit of volunteering among Krka employees is also reflected in the charity event Krka's Week of Charity and Volunteering that is organised every April. Employees may act as blood donors, help residents in

retirement homes across Slovenia, care for animals, collect necessities, or work as volunteers. Krka employees from companies and representative offices abroad also take part. We encourage employees to act as volunteers throughout the year. We hand out volunteer-of-the-year awards.

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, firemen, sportspersons, on environmental cleaning campaign days, and at events celebrating the opening of new facilities, at cultural and other events.

Krka retirees may become members of the Krka Retirees Society, through which they keep in touch with other former Krka employees. New Year's meetings have also long been organised for retired Krka employees.

## Employee remuneration and motivation

We recognise good work and encourage employees to perform well through different performance bonus systems. We wish to encourage a good work ethic and loyalty, and award excellence and loyalty at the same time.

Our best employees receive recognition awards and performance bonuses for successful work. We select and award the best employees and the best managers at the organisational unit level and at the Group level, as well as our best employees in the sales and marketing network and the best employees in regulatory affairs.

Krka has been recognising the efforts of its most loyal employees for decades by conferring long-service awards and special recognition awards at the Krka Awards Day annual event.

## Encouraging inventive work

The inventive work system, which has been in place in Krka since 2003, enables all employees to be included in the continuous improvement system in the quality system, and hence also the integrated management system. We encourage our employees to always search for better solutions in their jobs. Innovations are directed especially at resolving issues related to economy, production, logistics, technology, engineering, administration, the environment, business, information science, quality, and health and safety at work. Useful proposals that are easy to implement, and complex improvements with notable effects, matter. We wish to draw everyone's attention to the fact that every proposal is important and worth considering. For every employee who has made a useful proposal or improvement, the biggest reward is the fact that improvements have been made as a result of their proposals.

We encourage inventive work by conferring awards every quarter, 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 the internal magazine *Utrip*, annual meetings of proposers, and awards and recognitions that the best employees receive for inventive work on Krka Awards Day.

Proposals from the inventive work system have made quite a few savings. This is also the purpose of the corporate campaign under the slogan 'Your effectiveness counts', in which employees are included with their useful suggestions and proposals for improvements.

In 2017, 614 useful suggestions and improvements were made. We awarded 550 suggestions that were put forward by 469 proposers.

## Health and Safety at Work

Krka provides its employees with a healthy and 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 accidents and potential health implications for every work position and technology. In order to ensure continual long-term improvements in the working environment, risks are assessed periodically and actions are taken to reduce them to acceptable levels.

Care for health is the shared responsibility of all employees, their managers, professional services and occupational medicine doctors. 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 for any kind of violence, weekly and preventive medical workouts, sports, cultural and social events, and workshops on the topic of healthy lifestyle and the negative effects of psychoactive substances, healthy meals at our canteens, etc. In 2017, we further upgraded the system for promoting health, and increased employees' awareness of the importance of strengthening health for a high-quality life by encouraging them to contribute with their proposals and suggestions. Employee satisfaction with occupational health and safety has been rated 4.39 on a scale from 1 to 5 (1 is the lowest). We raise awareness about good health and well-being among employees through various health promotion activities. In 2017, we developed a training programme 'Live healthy and exercise' in cooperation with the Development and Education Centre Novo mesto. It was intended for employees older than 45.

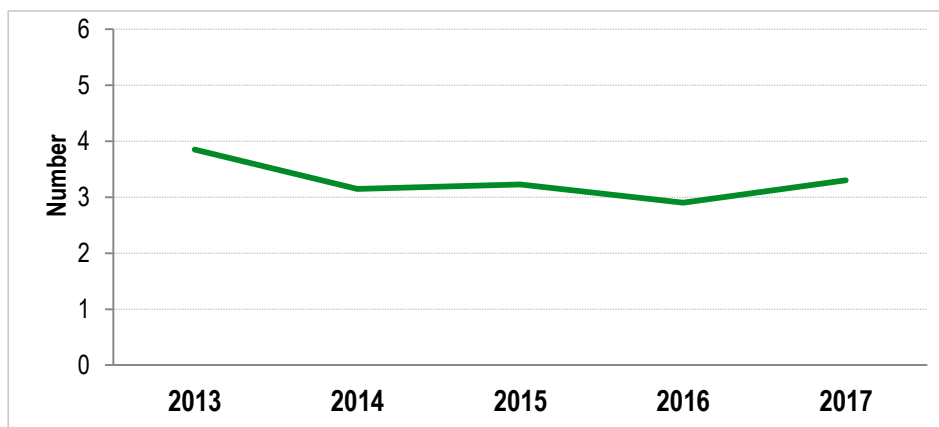
The Interpersonal Relations and Sick Leave project, which has helped reduce sick leave, has been in place for several years. In 2017, 5% of employees were on sick leave and 6.6% were on maternity leave.

The total of 5.5% of employees of Krka who have a registered disability do appropriate work, in accordance with the legislation related to the disabled and their limitations. We apply various preventive measures to reduce the risk of additional health issues and disabilities. Apart from preventive and curative care, we guarantee our employees will continue their work activities in positions that are adjusted to their abilities. Krka also provides appropriate re-qualification programmes for employees who can no longer work in their current 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 work group, and a certified health and safety officer. At the Krka company level, we have a health and safety at work team that prepares key objectives and programmes, submitting them to the Management Board for approval.

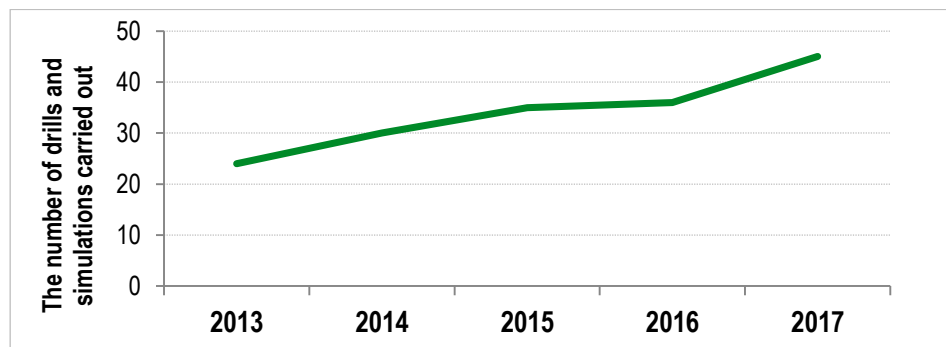
We continually monitor data on workplace accidents. The LTAR (Lost Time Accident Rate) indicator in the graph below indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work. In 2017, the LTAR was 3.30, which is 12% more than in 2016. All injuries were minor. . Seventy per cent of all injured persons were men; no age group stood out.

#### 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 spillage of hazardous chemicals. The Fire Protection Department and the Industrial Fire Brigade are responsible for emergency interventions. In 2017, we conducted 44 emergency drills, six of which were major, to be better prepared for emergency events. In these six drills we worked hand-in-hand with the Novo Mesto Fire and Rescue Service and local fire departments. Realistic emergency scenarios were evaluated, and the co-ordination of internal and external emergency response teams, as well as Krka first aiders were tested.

### The number of drills and simulations carried out to be better prepared for cases of emergency



### Communicating with employees

We promote open, regular, responsible and ethical communication at all levels, between employees and the management as well as between Krka Group employees. This is how we create a productive working environment, develop a sense of belonging, and build a culture of mutual trust and respect, as well as responsible and efficient work.

The **Works Council** is the link between employees and the company management. Its members represent all organisational units in the company. Employees can therefore put their initiatives and questions forward through representatives 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, members of the Management Board and representatives of the Works Council inform employees about the operating results of the past year, plans for the current year, the development strategy, and other news. At these assemblies, employees may ask questions and put forward their proposals.

If employees wish to talk to the **President of the Management Board**, they may do so by e-mail or they can make an appointment to see him personally.

Internal corporate communication takes place at the same time through various internal media and tools in order to inform employees quickly and effectively about events in the company. 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 the company's vision, mission and values, as well as objectives and strategies. News is also published on our intranet website **Krkanet**. We also send out news via the electronic address **Krkaš.si**, **notice boards** and **information screens** at manufacturing sites.

**Internal communication outside Slovenia** is effected in the same way with the same communication tools as in Slovenia, through local editions of *Utrip* (*Puls* in countries outside Slovenia), *Bilten* (*Bulletin*), and emails. They include local news from our markets and important corporate news items and campaigns. Intranet websites (Krkanet) are available to employees in key markets in their local languages. Another Krka newsletter in electronic form is the *M-Bulletin* intended for our marketing and sales staff. We inform all employees outside Slovenia about information related to all Krka Group employees also via emails in the English and/Russian language. Marketing communication professionals handle communications in our key markets. They implement good practices of internal communication in companies and representative offices. In small markets, employees are informed by the directors of companies and representative offices who arrange translations into local languages.

We also inform employees about important company guidelines in **communication campaigns** and at several **internal events**. Since 2013, we have been informing all employees at the Krka Group level with the campaign *Your effectiveness counts* that even a small contribution has a significant impact on achieving company's goals. We encourage employees to economic and responsible handling, and to seek ways that may contribute to increasing quality work, from environmental protection measures to useful suggestions and improvements. The campaign was also transferred to our key markets with certain modifications. . Since 2015, in accordance with Krka's Mobility Plan, we encourage our employees to use alternative and less environmentally harmful ways of getting to work. As part of workplace health promotion programmes, we devoted much time in the past year to raising awareness about prevention and a healthy lifestyle. We organise over 15 various events every year, from the Krka Awards Day, where we award our long-serving employees, best employees and best

managers, to sports days and award ceremonies for proposers of useful suggestions, long-standing blood donors, and others.

We use surveys to measure employee satisfaction with internal communication. The results help us to improve and optimise the use of 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 codes.

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. We strive to make our communication with investors as transparent, prompt and consistent as possible. The information that we communicate 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 valuation for Krka;
- gain easier and cheaper access to financial sources; and
- create a reasonable level of liquidity in Krka shares.

We meet these objectives through:

- meetings with investors at the Krka 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);
- AGMs;
- press conferences about business results; and
- communication with financial media.

Krka's business results are available in Slovenian and English on 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 Finance by phone +386 7 331 75 or e-mail [finance@krka.biz](mailto:finance@krka.biz).

## Responsibility to Customers

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 cooperate with various institutions, health insurance companies and other bodies dealing with medicinal and other Krka products. Our cooperation 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 cooperation 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.

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 cooperate with these institutions on a daily basis. Another relevant aspect of Krka's cooperation with young people is the Krka Prizes and scholarships. Our experts are involved in continuous training and knowledge upgrade by cooperating with the aforementioned 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 industry associations in Slovenia, the European Union and in other markets.

## Responsibility to direct customers

The direct customers for our products are wholesalers, pharmacy chains, hospitals and other pharmaceutical companies. Satisfaction with our sales and post-sales services provides one of the bases for successful and growing business operations; therefore, we put all our efforts into this. This is why we use annual opinion polls to check customer satisfaction with the most important aspects of business operations, which include satisfaction with our products, sales personnel, order processing, complaint procedures and their general level of satisfaction. Special attention is devoted to comments and proposals for improvements.

In 2017, we also used an online opinion poll, which included so far the highest number of customers and to which the response was 83%. Particularly encouraging is the growth in customer satisfaction measured in the majority of markets, including the largest. We recorded a high 92% index of total customer satisfaction.

## Responsibility to indirect customers

One of the biggest and most important customer groups is the indirect customer group or the professional public. It comprises the doctors, veterinarians and pharmacists who prescribe, recommend and dispense Krka's products representing a link with the end customers for whom the products are intended.

We regularly inform our indirect customers about our 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 as the basis for the appropriate and safe use of our products is current.

We also contribute to the professional development of doctors, pharmacists and veterinarians. Every year, we organise and support several professional and educational meetings at which they have the opportunity to upgrade their knowledge, become acquainted with new guidelines, exchange opinions and experience, and make contacts. Meetings take place in various countries where Krka is present. In addition to many local events, we organised several international symposia in 2017, which were held around large international congresses. They were attended by over 600 participants from 22 countries. To accompany international professional events in Slovenia, which were attended by more than 1,000 participants from 15 countries, an additional professional programme was organised.

In communicating with the professional public, we act responsibly and in accordance with the laws and other regulations related to business operations, including product marketing regulations and personal data protection, and we operate according to good business practice, recommendations of the European Medicines Agency and ethical promotion. The advertising of pharmaceutical products is subject to strict regulation and control.

Medical representatives are regularly professionally trained to inform the professional public about latest treatment guidelines and provide accurate and current information about therapeutic groups and 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 learning methods and knowledge testing after training is regularly undertaken. In 2017, we introduced an upgraded tool for e-learning and training in all markets.

We follow modern technological trends, particularly the increased use of digital media such as smart phones and tablets. In 2017, we continued to provide our medical representatives with tablet computers to facilitate the presentation of Krka's products and to plan and record their work, as well as training. More than 95% of medical representatives were using tablet computers for up-to-date and fast communication at the end of the year.

In 2017, we started developing advanced digital content to inform the professional public. Users may watch a realistic view of blood veins in 3-D interactive animation. They can see the effect of high blood pressure and elevated cholesterol on blood veins. The presentation of the production process in Notol 2 is also available in an advanced 3-D video. By preparing various language versions, we continue to increase the accessibility of our web mobile applications for the professional public: *Krkina zdravila* (Krka's Medicines), *KrkaStatinCalc* and *KrkaVetExpert*. Websites are upgraded with educational content, called *With Krka towards Knowledge*.

Feedback and opinions obtained through daily contact and independent market research are important. In the Russian Federation, our largest market, according to an Ipsos Comcon survey, we are the most recognised supplier of medicines among pharmacists and the leader in visiting pharmacies. We are also the leader as regards the evaluation of work of medical representatives and the number of doctor visits from eight specialist areas of medicine. In Poland, our second largest market, according to IQVIA data, we are among the most visible companies. with medical specialists from 21 specialist areas of medicine and also with our key group, general practitioners.

We are one of the few generic pharmaceutical companies whose products have had clinical efficacy demonstrated in several international clinical trials. Nearly 350,000 patients from 27 countries have participated so far in over 130 clinical trials with our medicinal products. A large international interventional clinical trial TreaSuRe was concluded in 2017. In total, 315 patients with low-back pain were treated with a fixed-dose combination of tramadol and paracetamol (Doreta). The absolute and relative intensity of low-back pain measured on the visual analogue scale reduced statistically significantly after four weeks of treatment. A clinical trial was concluded successfully in which we studied the efficacy of pain reduction with Doreta in patients following breast cancer surgery. In terms of non-prescription products, the DOUBLE clinical trial included 73 patients with acute rhinitis. The trial compared the efficacy and safety of Septanazal for adults and xylometazoline without dexpanthenol. We demonstrated the positive effects of dexpanthenol on wound healing and the regeneration of nasal mucosa. In 2017, we obtained several approvals to begin an international interventional clinical trial PRECIOUS. Over 500 patients with moderate to severe arterial hypertension from eight countries will participate in this clinical study. It will study the effect of Amlessa (perindopril and amlodipine) and Co-Amlessa (perindopril, amlodipine and indapamide) on blood pressure and pulse wave velocity.

## Social Corporate Responsibility

Social responsibility is one of Krka's main principles. In accordance with our basic mission, we allocate most of our sponsorships and donations to projects related to projects connected to health and the quality of life.



We allocate the highest percent of our sponsorship and donation resources to sports, culture, health, science, education, and humanitarian activities. We also support those whose efforts help protect the natural environment.



In 2017 the Krka Company allocated 0.28% of its total sales to sponsorships and grants. Again we helped more than 800 institutions, associations and organisations achieve their goals.

Main principles

We support young people's activities and encourage them to develop their talents.

We support non-profit activities on the local and national level, in slovenia and abroad.

Our priority is to support long-term projects

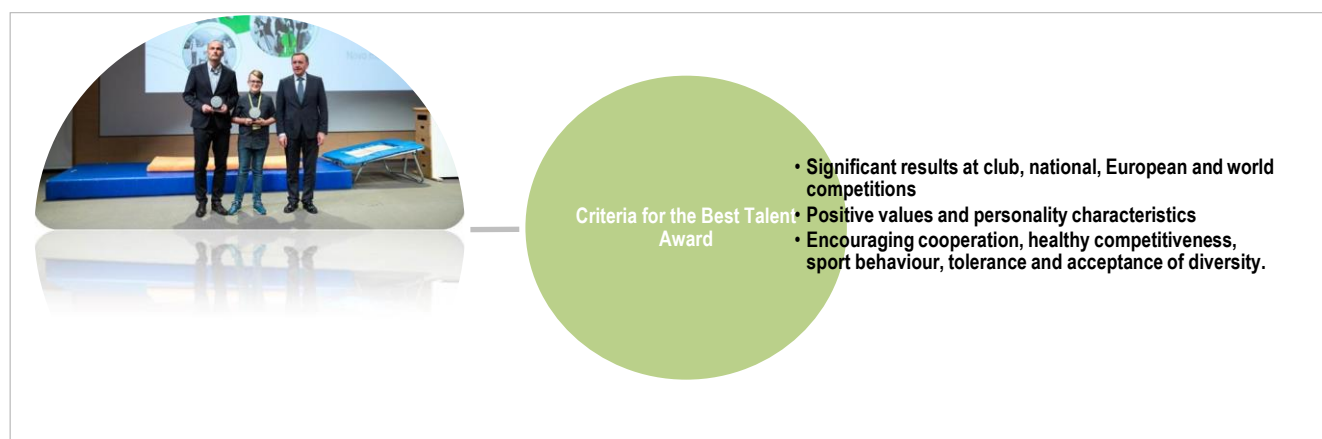
## Caring for a healthy society

We are true to our mission by supporting sports. We encourage the development of many different sports by offering our co-operation and partnership. When caring for a healthy society and a better and brighter tomorrow, it is important to ensure that activities on which a healthy society is based continue into the future. In view of this, it is not a coincidence that we primarily support clubs and institutions that encourage young people to lead a healthy life style, take care of their physical and personal development, build team spirit and friendship, to be persistent and to respect other people and also develop a healthy winning attitude. In this way we foster values such as partnership and trust, creativity and efficiency, each essential to the development of all societies.

We use donations and sponsorship to support the work of several sports clubs and associations in the local area. In 2017 Krka's name was borne by not fewer than 18 sports and cultural clubs and societies, and we also supported the activities of some organisations in our wider local community.

We develop partnerships by sponsoring and donating to numerous sports organisations. At our yearly meetings with clubs and societies, we present the company's communication strategy, operations and plans, and in turn learn about their sport and work achievements and plans, thereupon setting new goals and considering possibilities for further cooperation. Last year the meeting with Krka's sponsorship recipients was held for the eleventh year in a row. The meeting was attended by 143 representatives of clubs and associations, among them were 82 young sportsmen, musicians and others.

At the the meeting, special attention was paid to young talents. Two best talent recognitions were awarded: to a young tennis player from the Krka Otočec Tennis Club for her sport achievements and to one of the youngest members of the Novo mesto Symphony Orchestra for musical achievements.



Krka clubs and societies and organisations achieved good results in the previous season: as many as 3000 young people, younger than 18 years of age were coached and motivated by 247 professional workers. Members of clubs and societies participated 4058 times in state competitions and 440 times in European, international and world competitions, and 145 times for Slovenian national teams. They were awarded numerous trophies and medals. They competed for Krka and Slovenia in 45 countries around the world. Clubs organised and conducted 800 sport and cultural events.

### CRITERIA FOR THE SELECTION OF CLUBS, SOCIETIES, ASSOCIATIONS AND ORGANISATIONS WE SPONSOR

- WORK FOR THE BENEFIT OF YOUNG PEOPLE AND WIDE COMMUNITY
- SUPPORT GOOD QUALITY AMATEUR AND COMPETITIVE ACTIVITIES ON A LARGE SCALE
- ORGANISATION OF SPORT ACTIVITIES AND EDUCATION FOR SOCIETY AND ORGANISATION MEMBERS
- PERFORMANCES AT LOCAL AND OTHER EVENTS
- ORGANISATION OF IMPORTANT PUBLIC EVENTS
- SUPPORT OF PROGRAMMES OF CULTURAL ORGANISATIONS OF NATIONAL IMPORTANCE IN SLOVENIA
- COOPERATION WITH INTERNATIONAL ORGANISATIONS (INTEGRATION OF OUR SPONSORED ORGANISATIONS)

Trim klub Krka, established in 1971, plays a very important role in developing employee sports activities. It strengthens the importance of a healthy life style and emphasises the responsibility we have for our health, both in line with Krka's mission. In 2017, the club was mostly engaged in caring for employees' participation in sports, organisation of competitions and meetings, as well as organising events attended by Krka's sportsmen/women in events outside the company. Last year, more than 2800 Krka employees participated in weekly physical exercise programmes. The increase of visits in recent years can be attributed to better awareness of how important regular physical exercise is for health as well as to the diversity and amount of recreational activities Trim klub Krka offers to employees of all ages. In 2017, Trim klub Krka had 2300 members. Krka's sports team was the winner of the municipal worker sport games for the 33rd year in a row.

In 2017, we continued our social responsibility project *Caring for Your Health – Together We Scale the Heights*, launched in 2009. 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 care for their health by walking, because it is the simplest form of exercise, and helps improve physical and emotional well-being.

More than 11,000 hikers have walked the paths marked with Krka's signposts to date.



Krka Retirees Society has been active since 2000. Our retirees share the care for maintaining health and good quality of life, as well as encouragement of lifelong learning. They organise trips, walks, visits to cultural institutions and lectures, sports meetings, annual meetings of members, social gatherings, creative workshops and courses. Society members can use Krka premises for their events and help is also offered. They also work with Trim klub Krka sports club.

In line with its mission Living a healthy life and the valid legislation, Krka allocates funds to provide healthcare institutions with modern and better equipment, as well as for training healthcare workers. We wish to provide high quality health care to as many people as possible. We are supporters and co-founders of many societies and associations.

## We support cultural creativity

We know that culture is a kind of a special shelter for the human spirit contributing to the greater value of life, and is of great significance for every nation.



That is why we support various cultural genres and activities that make an important contribution to society in a wide environment.

It is our aim to make cultural events as accessible as possible to our employees. **Krka's Culture and Arts Society**, established by Krka in 1971 has again contributed to the promotion of culture and art, and continued developing good relationships. In 2017 it again organised numerous events that upgraded the long tradition of culture events at a local and national level.

Krka's Culture and Arts Society organised the 40th Dolenjska book fair, the fair with the longest book fair tradition in Slovenia. There it contributes to promotion of the reading culture and importance of books and knowledge by organising supporting events and hosting important Slovenian authors as guests.



In 2017, 19 exhibitions of works of Slovenian and foreign artists were held in galleries in Krka's Novo mesto and Ljubljana business premises. The theatre club organised eight gatherings with guests from the world of theatre, music, film and literature, while contributing to employee creativity with various workshops. Mešani pevski zbor Krka (Krka's mixed choir) has performed at over 500 events and continued its performances and concerts in 2017, thus building good connections with the local audience and other performers.

An exhibition of photos entitled *Beauty Is in the Eye of the Beholder* by Krka employees participating in an international photo contest was opened at Krka to mark last year's Culture Day. The landscape motifs captured on camera tell the story of successfully bringing together Krka employees of different nationalities and cultures.

For 11 years in a row, renowned artists from Slovenia and abroad have performed in the traditional Krka Cultural Evening hosted by the Galerija Božidar Jakac gallery in Kostanjevica.

Krka also supports the Glasbena Šola Marjana Kozine music school symphony orchestra, the Dolenjski Muzej museum, Galerija Božidarja Jakca gallery in Kostanjevica, Pihalni Orkester Krka brass band and the Novo Mesto theatre Anton Podbevšek Teater. In 2017 Krka also supported many cultural projects in the local environment and outside the country, among them music and other festivals; book publishing; publication of illustrated children's books and monographs, art exhibitions and colonies, opera performances, touring of cultural clubs abroad, and artistic, theatrical, and literary projects undertaken by primary and secondary schools. For many years we have been supporting the Slovene-Russian Association and the Tone Pavček Foundation continue to cooperate with them.

## Charity work

In 2017 the Krka Group allocated 0.13% of sales for donations or half of the means for sponsorship and donations.

For several years, we have been the biggest donor to the Novo mesto Dragotin Kette Primary School for children with special needs. We also support the operation of some occupational activity centres and retirement homes. In 2017, we also donated to the Red Cross and Karitas. We helped individuals and the disabled when natural disasters struck in Slovenia and abroad. We donated to the Red Cross, the People in Need Fund and several school funds that enable additional activities and help children from socially threatened families.

Since 2005 we have donated 48 automatic external defibrillators – devices that may stop life-threatening arrhythmia during a cardiac arrest – to medical teams in remote out-patient health centres and stations, as well as to various Slovenian organisations where many people gather, such as pharmacies, sports and congress halls. They are also installed in various sites in Krka premises and in Krka hotels. We also supported the acquisition of these devices in 2017.

In 2017 we helped purchasing a defibrillator to 9 institutions.



Collaboration with the Society of Friends of Youth Mojca in Novo mesto contributed to offering presents to more than 5000 children. Three families were given substantial support, as we helped them together with some humanitarian organisations. We also support several non-profit, non-governmental and non-political organisations.

While at Krka we have been encouraging the spirit of volunteering since the beginning, it has become an inseparable part of the organisational culture in the 63 years. Many of us at Krka are active volunteers.

Since 2012 we have held a socially responsible campaign Krka's Week of Charity and Volunteering. In six years, more than 6,000 Krka employees took part in various volunteering actions.



In 2017, Krka's Week of Charity and Volunteering brought together 1,200 Krka employees, 100 of them for the first time. Two hundred and seventy-five employees donated blood. At various Krka locations in Slovenia, our employees collected 3.6 tonnes of clothes, toys, footwear, food, books and other consumables for adults and children. We collected 500 tons of pet food. We socialised with residents of 35 old people's homes and people in care from eight occupational activity centres and schools for special needs children, preparing various workshops and presentations for them. Krka employees from companies and representative offices abroad also participated in the event. Our Week of Charity and Volunteering was rounded off with an open-door day for 2,300 visitors to Krka, the participants of the University of the Third Age, and for Krka's employees and family members.

Individuals contribute to social development by volunteering throughout the year. There are over 1300 blood donors in the company. Several employees are members of various non-profit associations and organisations. Through our Works



Council we can always help people who have suffered from natural disasters, accidents or social misfortunes. Many of our employees have been volunteers for several years on the sponsorship boards of various associations and societies, (Novo mesto Retirement Home, Dragotin Kette primary school in Novo mesto) or they are members of various associations and societies or volunteers in retirement homes, in schools for children with special needs, and in other humanitarian institutions.

In 2017 we presented awards to Krka's best volunteers for the sixth time in a row. We took this opportunity to thank 229 Krka employees who have been donating blood for several years.

## We support new scientific discoveries

We at Krka are well aware that top experts are essential for implementing our business plans. Since 1971, we have been encouraging young people to strive for knowledge and conduct research by means of the Krka Prizes Fund, thus paving the way for new discoveries that contribute to scientific development.

Many of the 2691 Krka Prize winners are renowned experts today – professors at universities, researchers in institutes and industry, and over 300 are Krka employee. The principle of Krka's Prizes still remains the same: to popularise research work among students, pupils and mentors in educational institutions.

In 2017, 5 of Krka's Grand Prizes were presented for research papers, 25 Krka Prizes were awarded to graduate and post-graduate students, while 28 secondary school students received 13 Krka Prizes for team projects.



The major objective of the Krka Prizes Foundation is to encourage young researchers to recognise research challenges and opportunities, which lead them to look for scientific solutions. Krka Prizes are an opportunity for young researchers to be recognised by companies and scientific institutions and to facilitate their development to become excellent future experts who will contribute to social progress with their work in companies or other institutions. Here, their supervisors play a major role as they help young people to critically assess their own and foreign scientific results.

It is of major importance that young people seek practical solutions in their research. These contribute to treating diseases of our time. Therefore, the topics of their theses are in the fields of pharmacy, chemistry, medicine, biochemistry, biotechnology, microbiology, veterinary medicine, and other related sciences.

## Caring for the environment

Our fundamental principle in making business decisions is caring for the quality of life, which means placing the protection of our natural environment at the forefront of our work. We know that our operations affect the social and economic environment, while responsibility to the natural environment has become a part of Krka's everyday business operations on 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 roof and the façade of the new packaging material warehouse to generate green energy. Electric vehicles are an important example of our approach. We follow global trends, which point to the very quick development of electric vehicles, so we built our first charging station at Krka's HQ. It can be used by employees, business partners and Krka's visitors.

Environmental 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!* with which we encourage energy savings, print savings and recycling.

We have become actively involved in the development of sustainable mobility. Last year, we organised the second Krka day without a car.





We added activities for developing sustainable mobility to Krka's Mobility Plan. This encourages the use of alternative and less environmentally harmful ways of commuting. We inform our employees about the issue in articles published in the internal magazine and via the Mobility website on the intranet. In September 2017, we organised a Krka day without a car as part of European Mobility Week. We encouraged our employees to go to work on foot, by bike or public transport.

We supported the project to set up an automated bicycle rental system, called GONM, which promotes cycling in the town of Novo mesto. Our donation was for one bicycle docking station with five bikes and ten spaces. In this way, we helped to realise programmes aimed at sustainability and promoted health.

Members of the Krka Volunteer Industrial Fire Service have been involved in the fire protection of Krka employees and local residents for four decades.

## Responsibility to Our Natural Environment

We all would like to live in a healthy and clean natural environment and it is our shared responsibility to protect the natural heritage for future generations and all living beings. As our operations affect people, the community and the natural environment, we strive to lower effects on the environment to ensure a clean and healthy living environment for employees and the general 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. The environmental certificate ISO 14001, which we obtained in 2001, and the integrated environmental protection permit, oblige us to reduce all of our impacts on the environment. This is why we include environmental care in the earliest developmental activities and projects, as well as in the entire product life cycle.

Our objectives regarding the environment include holistic control of environmental management, sustainable development and constant improvement in all fields of environmental protection. Such an approach fosters a positive and responsible attitude to the environment among all employees. Operational tasks are conducted by Environmental Protection. We monitor sustainable development indicators closely, so that we can obtain a clear picture of our operations with regard to the environment as the basis for recognising environmental standards and setting goals, and one of the important ways to strengthen environmental awareness in all the employees.

Our environmental policy clearly defines our responsibility to the natural environment with which we commit to:

- Include environmental awareness in the earliest stages of development and specific investments.
- Use water, fuels and energy, raw materials, and other resources rationally.
- Reduce or prevent environmental impacts throughout the life-cycle of products by employing the best available technologies and other measures.
- Replace (wherever possible) hazardous substances used in technologies with less hazardous ones.
- Reduce risks of the occurrence of extraordinary events and improve measures taken in any such events.
- Regularly check for environmental impacts.
- Increase employees' environmental awareness through education and training.
- Inform employees and other interested parties about the current situation and achievements related to the environment.
- Comply regularly with legal and other requirements adopted by Krka.
- Raise environmental awareness of contractual partners as much as possible.
- Set environmental goals and programmes systematically to improve the current state of the environment.
- Implement the applicable environmental policy in Krka's subsidiaries abroad.

Compliance with environmental legislation and environmental protection permits is checked by regularly monitoring emissions into air and water, monitoring noise and by waste assessment; we regularly check reservoirs and equipment which contains ozone depleting substances. All deviations from legal threshold values were managed in compliance with internal standards and we took appropriate corrective measures to ensure the compliance of our operations with current legislation. In 2017, non-compliance was not established and no financial or non-financial sanctions were imposed by the Inspectorate of the Republic of Slovenia for the Environment and Spatial Planning, which conducts inspections, nor by any environmental audits conducted by SIQ or contractors. The Inspectorate of the Republic of Slovenia for the Environment and Spatial Planning issued a decision to regulate the neutralisation of wastewaters in the Ljutomer plant. Action was taken within the deadline.

## Environmental milestones in 2017

- Conclusion of a comprehensive energy review project at all Krka sites in Slovenia.
- Replacement of 2% of river water used to supply cooling towers with rain water.
- Total environmental load units (ELU) of wastewaters were reduced by 31%.
- Installation of closed containers dedicated to separated collection of waste medicines in R&D and Production.
- Lowering the quantity of sludge from the treatment plant by 11.5%.
- We installed a new water treatment plant with an advanced oxidation process, which ensures over 99.9 percent disintegration of active ingredients in the plant in Jastrebarsko, Croatia.
- Preparation of project documentation for the wastewater treatment plant in Krka-Rus in the Russian Federation.

## Costs of environmental protection

We allocated €6.6 million to environmental protection in 2017. The indirect costs of environmental protection totalled €4.9 million and include the costs of wastewater discharge and treatment, waste management, waste air treatment, noise reduction, monitoring costs, environmental levies and other indirect costs of environmental protection. Investments in environmental protection total up to €1.7 million. By investing in equipment and technologies, we ensure continuous improvement in all fields of environmental protection.

## Use of natural resources

### Water

Water is a strategically and vitally important natural resource and as such also limited; which we much too often forget. Pollution, lower ground water levels and the changing climate cause shortage of fresh water. As one of the European countries with the richest water resources Slovenia has good-quality drinking water on the whole; however, we should be aware that its water resources are vulnerable because of the karst hinterland and uneven distribution of water supplies. 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 potable and river water

Krka's main sources of energy are:

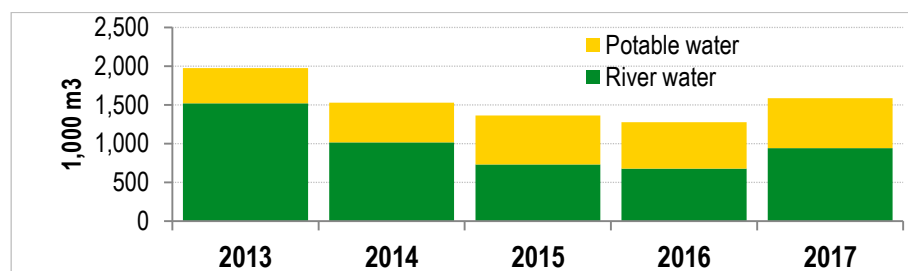
- potable water from municipal utility services,
- river water.

A computer-operated surveillance system is employed to closely monitor the consumption of potable 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 potable water consumption lags behind the growth in production.

Over 80% of the potable water is used in production processes. Potable water is the raw material for preparing 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. We ensure consistent water quality by suitable preventive maintenance and by monitoring the operation of machines. With technological improvements we ensure quality, extend the useful life of the equipment, reduce the use of water and chemicals, and generation of waste. In 2017 the use of drinking water for the preparation of pharmaceutical waters was at a similar level as in 2016.

More than 54% of the river water is used for cooling by various heat exchangers, especially in API production, while the remaining 46% is used in the preparation of technological waters for energy supply and production. In 2017 we increased the use of river water by 39%. The reasons were the above-average high temperatures of river water last summer and the increased use of river water for cooling systems.

### Consumption of potable and river water



Consumption of potable and river water		2017	2016	2015	2014	2013
Total water consumption	m³	1,588,474	1,279,065	1,362,297	1,531,957	1,978,658
Potable water	m³	644,577	600,781	628,770	513,375	455,403
River water	m³	943,897	678,284	733,527	1,018,582	1,523,255

### Energy

Krka's main sources of energy are:

- natural gas
- liquid petrol gas
- electric power
- fuel oil as back-up fuel

Consumption of energy in GJ		2017	2016	2015	2014	2013
Energy (total)		935,484	910,031	889,239	836,284	801,631
Electric power		330,274	313,560	308,585	292,895	309,765
Natural gas		588,121	569,831	559,010	523,837	469,241
Liquid petrol gas		17,029	22,975	20,083	19,395	19,372
Fuel oil (extra light)		60	3,665	1,561	157	3,293

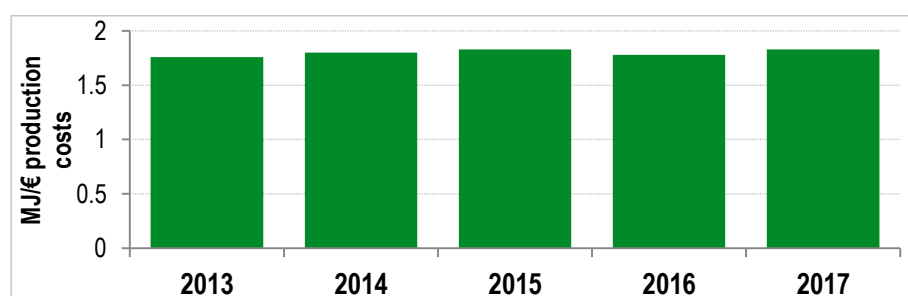
The electric power supply comes from the public utility electricity grid, from Krka's own generators powered by renewable sources such as the solar power station, and from natural gas powered cogeneration of thermal and electric power.

Generated electric power – alternative sources in GJ (total)		2017	2016	2015	2014	2013
Solar power plant		258	238	241	223	243
Cogeneration		45,756	49,617	48,180	48,989	13,238

### Specific use of energy

Specific energy use has been declining as a result of several energy-efficiency measures. Despite the start-up of the new plants, the specific use of energy remained similar to 2016.

### Specific use of energy

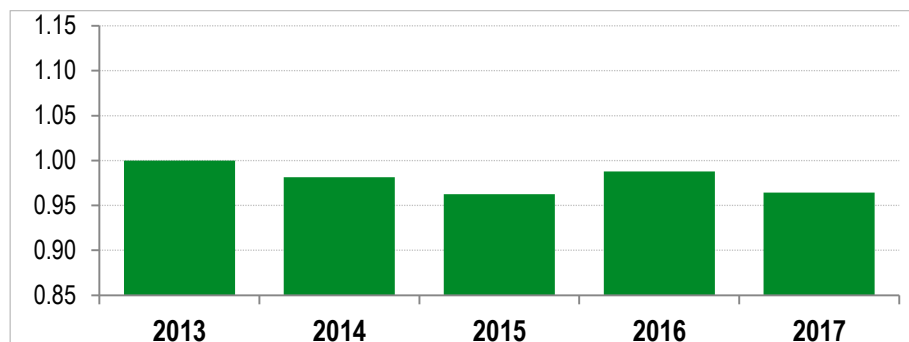


		2017	2016	2015	2014	2013
Specific use of energy	MJ/€	1.83	1.78	1.83	1.80	1.76

## Energy efficiency index

Energy efficiency means that less energy is used for the same service. In the past few years, we have been reducing the specific use of energy and the energy efficiency index. Despite the start up of our new plants, the specific use of energy and energy efficiency index remained similar to the 2016 figures.

## Energy efficiency index



	2017	2016	2015	2014	2013
Energy efficiency index	0.964	0.988	0.963	0.981	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

## Central glycol cooling system -1 °C

Dehumidification technology with glycol refrigeration is used in all new projects in Krka related to the preparation of dry air, enabling the recovery of waste heat from cooling production units. New investments and reconstruction in seven plants that also need glycol cooling energy are planned for the future. In order to avoid building several small glycol cooling energy stations in individual plants, we conducted an internal study which justified the construction of a central glycol cooling system with cooling distribution along the energy bridge and further on to reach end users. In the last year, we finished the construction of a central glycol cooling system. With the central system, we will have saved more than 15% in investments and 22% in regular annual operating and maintenance costs.

## Energy management

The energy supply control information system is the key information tool supporting the energy management system and adding to the computer system for monitoring and control. In 2016 we implemented a major upgrade of the energy information system module of the information system that monitors and controls the power use of over 1500 power streams, utilities supplies and operating hours. Modernisation improves the management of energy supply data, and hence the evaluation of individual energy supply users along with improving recognition of potential sites where saving could be made and evaluating the effectiveness of already implemented measures regarding energy use.

Raising awareness and training of all employees about efficient energy use is regularly carried out in the company and is in accordance with identified needs included in a variety of specialist training. Periodically, employees receive educational tips and awareness-raising articles by way of our internal weekly bulletin. Raising environmental awareness is also included in the induction seminar for new employees.

Regular company energy audits also form part of the energy management system. In the past we conducted thorough audits, specialist audits of individual systems and internal energy audits. A comprehensive energy review project in all Krka sites in Slovenia was started in 2016 and concluded at the end of 2017. We included a competent external service provider and over 30 employees in the project.

We obtained data for analysis from detailed lists of energy and system users, from over 60 additional speciality measurements of energy streams, and from the energy information system and internal calculations.

According to the external service provider, awareness of energy efficiency in the company is very high. Based on comparisons with other companies and numerous awards in the field, we rank among the top companies for energy efficiency in the region. Efficient energy conversion and distribution, the design of our new premises, energy supply and

HVAC systems, regulation solutions, a high level of waste heat recovery and systematic energy management are the aspects of energy efficiency for which we stand out. Periodical energy audits provide a more comprehensive and detailed insight into the company's energy efficiency, and we use it to set strategies for further actions to further reduce energy costs.

## Biodiversity

Biodiversity, the variety of plant and animal life in the world equilibrates the function of all ecosystems and is basic to human life on Earth. It is a natural resource that we should not exploit. Biodiversity includes continental, marine, and other water ecosystems and their ecological complex systems.. This includes diversity within species, between species and a diversity of ecosystems.

Slovenia is an area with above-standard biotic diversity. Slovenia is a habitat for some 26,000 species, including 800 animal and 66 plant endemic species, which is more than 1% of all known living creatures on Earth. Such a high number of species in such a small area places our country among the most naturally diverse areas in Europe, and even in the world.

The area around the Krka River is important, as it is the 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 protection areas in the countries of EU members. In Slovenia, it was established in 2004 and updated in 2013. The basic aim of the network, which includes 37.9% of the territory, is the sustainable conservation of biodiversity. 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, cave salamander, as well as the European otter and beaver, which are often spotted along the entire watercourse.

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. With a positive attitude to the environment we ensure the ecological, biotic and landscape preservation of natural wonders.

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 we do not endanger biodiversity with our emissions.

## Transport

We use all means of transport. Transport is organised through 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.

In 2017, we organised transport for 9485 shipments of finished products, raw materials and packaging materials. Krka's vehicles travelled over 1.8 million km. Last year, we again modernised our car park and provided training for drivers.

In 2017, the competent national bodies for transport control found no violations of the legislation. All of our carriers and other parties involved in transport regularly attend annual training courses. In 2017 we organised safe driving courses for lorry drivers. We pay special attention to ensuring that all our contractual couriers and their drivers are duly informed of the requirements and characteristics of transporting pharmaceutical products.

Krka's vehicle pool comprises 19 vehicles and is regularly modernised. All vehicles ensure appropriate conditions for drivers and meet environmental standards. Our new vehicles are equipped with state-of-the-art accessories (e.g. adaptive cruise control systems, ESP/ESC emergency braking, traction control system), which improve traffic safety. Dispatch processes and transport were updated with new software that enables better planned transport and control of it. We continued the expansion of two-level loading and thus increased the utilisation of the loading area, reducing the number of transports.

## Emissions

### Wastewater

Wastewater treatment has a very important impact on the environment. Wastewater treatment protects surface and ground water from organic and microbiological pollution, and the entry of nitric and phosphorus ingredients, so care for the most effective treatments is one of Krka's priorities regarding environmental protection. By taking several measures and professional work we strive towards the long-term preservation of water quality in all production locations. Wastewater in Ločna is treated at Krka's modern industrial 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 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 2017, we treated 771,569 m<sup>3</sup> of wastewater, or 65,828 m<sup>3</sup> cubic metres more than the year before. We generated 315,987 m<sup>3</sup> of cooling waters that were not polluted and 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 sewerage system and treated by the municipal wastewater treatment plant in Novo mesto. In 2017, we generated a total of 18,447 m<sup>3</sup> of wastewater.

Our plant in Šentjernej generates industrial and municipal wastewater. Effluents are discharged by the public sewerage system and treated by the new municipal waste treatment plant in Šentjernej. In 2017, we generated a total of 15,122 m<sup>3</sup> of wastewater.

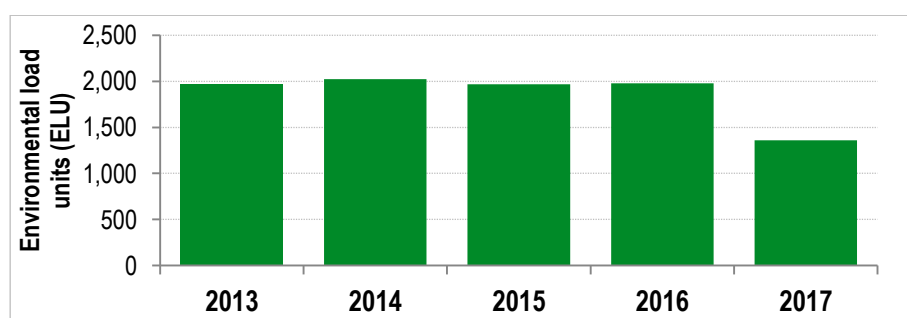
Our plant in Ljutomer generates industrial and municipal wastewater. Effluents are discharged by the public sewerage system and treated by the municipal waste treatment plant in Ljutomer. In 2017, we generated a total of 28,100 m<sup>3</sup> of wastewater. In the plant, we concluded a project to neutralise waste waters, which are discharged by the public sewerage system.

Our plant in Krško generates industrial, municipal and energy supply wastewater. Effluents are discharged by the public sewerage system and treated by the new Vipap municipal waste treatment plant in Krško. In 2017, we generated a total of 34,300 m<sup>3</sup> of wastewater. The construction of an in-house water treatment plant is planned at the site, and we have already prepared the URS and conceptual design.

Due to a lower wastewater load and effective cleaning in treatment plants, we reduced the total environmental load units (ELU) by 31% in comparison to 2016.

To obtain a comprehensive and correct assessment of the impact of wastewaters on the water environment, the well-managed wastewater treatment has been upgraded with risk assessments for each active ingredient, which enable us to reduce emissions into water and reduce potential risks to an acceptable level. The risk assessment for the water environment is part of a broad 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 and toxicological 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

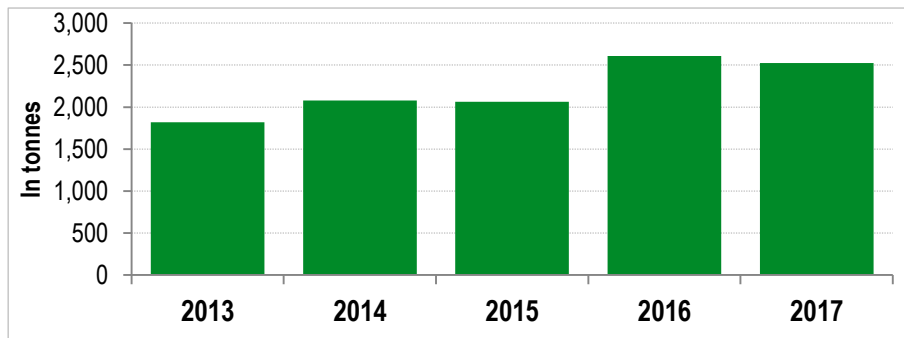
We treat waste responsibly according to legislation and requirements. Waste is an important source of raw materials and energy, so special attention is paid to separating waste at source, i.e. at the point where it is generated. For this purpose, we set up a waste management system that involves advanced equipment for separated collection, pressing and waste transportation. All employees take part in this.

In spite of a large fire at our key contractor for hazardous waste disposal, we ensured the regular disposal of waste and production to the planned extent. This was done in cooperation with the Chamber of Commerce and Industry of Slovenia, the Ministry of Environment and Spatial Planning, the Kemis company, and other business partners.

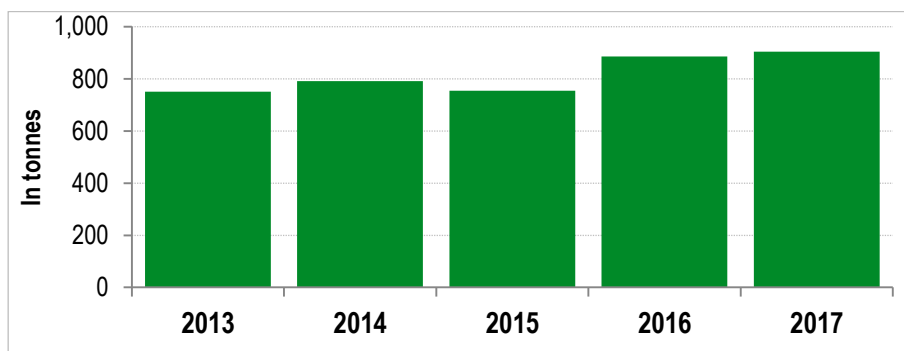
Packaging accounts for the largest part of waste in the market, so we optimise the packaging size of individual products.

We cannot prevent waste being generated, but we can try to continue to improve the ratio of useful separated waste to waste disposed at landfills. This is also the key aim of our waste management. In 2017, only 8% of all waste was disposed of in landfills, and thus our goal was achieved. By implementing the aerobic stabilisation of the sludge system at the treatment plant, the quantity of sludge in 2017 decreased by 11.5%, even though the waste treatment plant had a heavy workload. These results can only be achieved through the responsible work of all employees, so another important part of our activities is providing regular training on waste management.

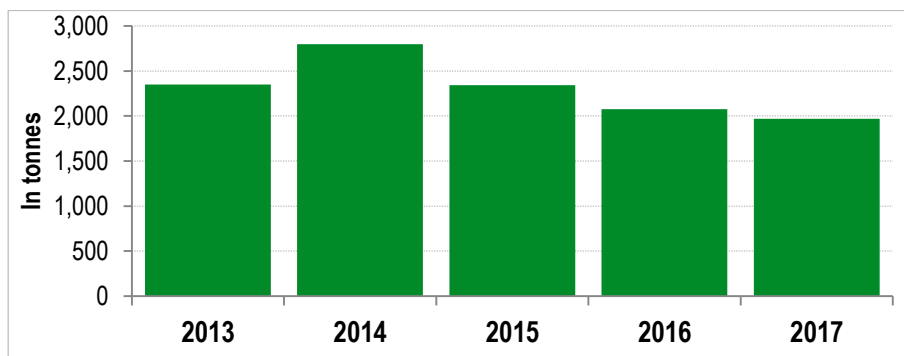
## Recyclable waste



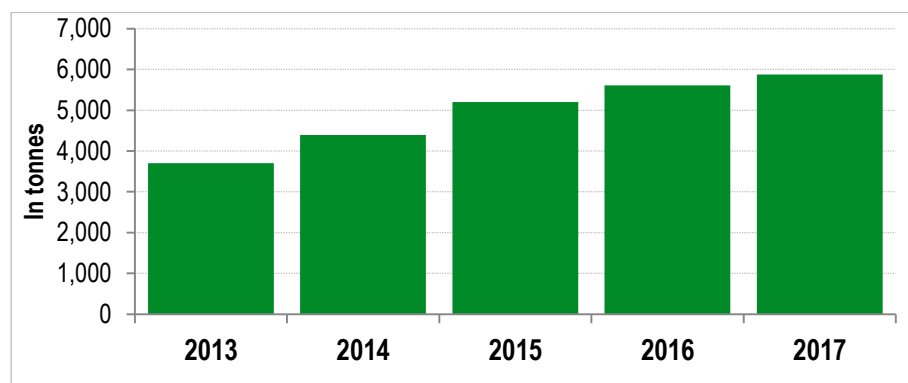
## Waste disposed at landfills



## Waste for biological processing



## Waste for incineration



## Noise

Noise in urban and natural environment may adversely affect health, and have a negative impact on the environment. We have been reducing noise emissions as much as possible by installing equipment with reduced noise emissions, setting up noise barriers, fitting goods vehicles with electrical cooling aggregates, and moving the handling area for cargo vehicles to the central area of the production site. Such actions to prevent excessive noise result in measurements that comply with the legislation.

## Air emissions

Air quality is one of the most important aspects of environmental pollution, with a greater impact on health and the quality of life than other environmental impacts. We reduce air emissions with treatment systems fitted to all outlets that are a potential source of air pollution. Effective de-dusting systems, filters, wet-type filtration systems, condenser columns and thermal oxidisers keep air emissions below the legal threshold values and at the levels made possible by state-of-the-art emission control technology. Devices thermally oxidising waste air ensure high efficiency in eliminating organic materials, and the least possible emissions of these materials into the air. Pollution with PM<sub>10</sub> particles is a big problem in Slovenia. These particles are a health hazard especially because they enter the respiratory system, where they cause many health problems, have a negative effect on the environment and damage materials. Inlet air filtration and absolute filtration are applied to all airborne particle emissions, making sure that all particles, or at least over 99.7% are removed. In this way, air with fewer dust particles than are contained in the surrounding air is released into the environment.

		2017	2016	2015	2014	2013
<b>Air emissions</b>						
Energy related CO <sub>2</sub> – indirect	t CO <sub>2</sub> ek)	33,603	33,227	32,288	30,147	27,367
Energy related CO <sub>2</sub> – direct	t CO <sub>2</sub> ek	43,761	43,115	42,430	40,273	42,593
<b>TOTAL CO<sub>2</sub></b>	<b>t CO<sub>2</sub>ek</b>	<b>77,364</b>	<b>76,342</b>	<b>74,718</b>	<b>70,420</b>	<b>69,960</b>

We generate direct emissions of CO<sub>2</sub> by using fuels and 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. Compared to 2016, indirect and direct emissions of CO<sub>2</sub> have increased slightly due to the new development and control centre and increase in production volume.

## Environmental protection at Krka's subsidiaries outside Slovenia

We follow the high environmental standards set by the EU for its member countries in the global market, so responsibility for the natural environment is to the greatest extent possible included in the activities of subsidiaries and representative offices outside Slovenia. By permanent cooperation, information exchange and investment, we transfer good practices in environmental protection to all subsidiaries, taking into account local legislation. We have set up separate waste collection systems, and waste is handed over only to authorised 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. We installed a new water treatment plant with an advanced oxidation process that ensures over 99.9 per cent disintegration of active ingredients in the plant in Jastrebarsko, Croatia. We prepared project documentation for the in-house wastewater treatment plant in Krka-Rus in the Russian Federation. On sources of dust

particles emissions, highly effective, absolute filtration devices are built in. We transfer good practices in the rational use of energy and water to subsidiaries.

We have included our subsidiary Terme Krka in the energy management system. We began exchanging good practices and had internal training on the efficient use of energy. We also conducted an energy audit of two hotels. With only organisational and smaller investment measures, we reduced the use of energy and energy costs, paying off the investment in less than a year and a half.

In Šmarješke Toplice Spa, we upgraded the wastewater discharge and treatment and in this way significantly improved the quality of treated wastewaters.

### Environmental communication

Environmental values are anchored in Krka's business strategy, making responsible and credible environmental communication our daily routine. Responsible environmental management is included in the induction seminar for newly recruited employees and in the national vocational qualifications programmes. We supplemented Krka's Catalogue of Training Programmes with content related to the environment. In 2017, 244 employees attended 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 on environmental issues, thus reducing the effect 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 Environment and Energy Section of the Dolenjska and Bela Krajina Chamber of Commerce and Industry.

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.

Sustainable improvement of the environment depends on good relationships with representatives of the social environment, especially with the closest neighbours as we affect their living space and the quality of life. We feel greatly responsible to the local community with whom we share the environment. In March 2017 we organised traditional bi-annual meetings for local residents. We presented our activities, performance, and plans related to environmental protection. Such meetings make an ideal opportunity for open dialogue and exchanges of opinions. We consider the information we receive 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 2017

ENVIRONMENTAL DATA		2017	2016	2015	2014	2013
<b>Total water consumption</b>	m <sup>3</sup>	<b>1,588,474</b>	<b>1,279,065</b>	<b>1,362,297</b>	<b>1,429,239</b>	<b>1,978,658</b>
Potable water	m <sup>3</sup>	644,577	600,781	628,770	513,375	455,403
River water	m <sup>3</sup>	943,897	678,284	733,527	1,018,58	1,523,25
<b>Used energy (total)</b>	GJ <sup>1</sup>	<b>935,484</b>	<b>910,031</b>	<b>889,239</b>	<b>836,284</b>	<b>802,293</b>
Electric power	GJ	330,274	313,560	308,585	292,895	310,387
Natural gas	GJ	588,121	569,831	559,010	523,837	469,241
Liquid petrol gas	GJ	17,029	22,975	20,083	19,395	19,372
Fuel oil (extra light)	GJ	60	3,665	1,561	157	3,293
<b>Generated electric power – alternative sources (total)</b>	GJ	<b>46,014</b>	<b>49,855</b>	<b>49,212</b>	<b>48,421</b>	<b>49,212</b>
Solar plant	GJ	258	238	241	223	243
Cogeneration	GJ	45,756	49,617	48,180	48,989	13,238
<b>Energy intensity</b>						
Specific use of energy	MJ/EUR	1.83	1.78	1.83	1.80	1.76
Energy efficiency index <sup>2</sup>		0.964	0.988	0.963	0.981	1.000
<b>Wastewater (total)</b>	m <sup>3</sup>	<b>1,376,674</b>	<b>1,123,735</b>	<b>1,277,941</b>	<b>1,320,902</b>	<b>1,632,795</b>
Cooling water	m <sup>3</sup>	509,091	315,987	458,522	558,862	930,988
Industrial wastewater	m <sup>3</sup>	867,538	807,748	819,422	762,041	701,807
– suspended solids load	t	24.3	25.9	15.8	21.7	20.62
– biochemical oxygen demand	t	5.8	3.7	4.7	5.3	7.0
– chemical oxygen demand	t	43.6	67.4	74.1	80.8	66.7
– nitrogen	t	3.9	4.1	3.7	3.1	3.8
– phosphorus	t	0.6	0.7	0.3	0.3	0.3
Environmental load units (ELU) <sup>3</sup>	EO	1,359	1,977	1,969	2,024	1,967
<b>Waste (total)</b>	t	<b>11,541</b>	<b>11,472</b>	<b>10,640</b>	<b>10,303</b>	<b>8881</b>
Hazardous waste (total)	t	5,879	5,611	5,198	4,394	3,705
– solid waste	t	718	735	704	608	508
– liquid waste	t	5,161	4,876	4,494	3,786	3,197
Non-hazardous waste (subtotal)	t	5,662	5,816	5,442	5,909	5,176
Disposal at landfills (subtotal)	t	905	886	755	792	751
– mixed waste (disposal)	t	905	886	755	792	751
– biomass (disposal)	t	0	0	0	0	0
Mixed waste (energy use)	t	246	228	272	233	244
Biomass (composting)	t	1,971	2,077	2,341	2,797	2,351
Recycling waste (total)	t	2,524	2,610	2,063	2,079	1,819
– paper	t	1,097	1,038	1,018	1,021	953
– plastics	t	392	295	273	301	237
– glass	t	132	118	86	119	104
– metal	t	193	436	159	126	121
– wood	t	710	723	527	512	404
Electric and electronic equipment	t	16	15	11	8	11

		2017	2016	2015	2014	2013
<b>Air emissions</b>						
Energy related CO <sub>2</sub> – indirect	t CO <sub>2</sub> ek <sup>4</sup>	33,603	33,227	32,288	30,147	27,367
Energy related CO <sub>2</sub> – direct	t CO <sub>2</sub> ek	43,761	43,115	42,430	40,273	42,593
Energy related SO <sub>2</sub> – direct	t	1	1	1	1	1
Energy related NO <sub>x</sub>	t	27	28	26	24	23
Ozone-depleting substances and fluorinated greenhouse	t CO <sub>2</sub> ek	2267	2366	1298	1421	903
<b>Compliance</b>						
Extraordinary events		0	0	0	0	0
<b>Environmental protection (total)</b>						
	In €	6,585	6,004	7,010	6,531	5,950
Environmental protection costs	In € thousand	4,882	4,540	4,361	4,154	4,103
Investments in environmental programmes	In € thousand	1,703	1,464	2,649	2,377	1,874
<b>SOCIETY</b>						
<b>Number of employees</b>						
		5,020	4,889	4,798	4,738	4,627
Slovenia		4,514	4,343	4,292	4,256	4,189
Representative offices abroad		506	546	506	482	438
<b>Health and safety</b>						
Sick leave rate	%	6.3	5.8	5.6	5.1	4.8
Number of accidents		27	21	23	22	28
Lost time accident rate (LTAR)		3.3	2.9	3.14	3.23	3.14
Proportion of disabled employees	%	5.5	5.1	5.0	5.1	4.9
<b>Education and training</b>						
Number of education and training hours	hour/employee	42	37	60	42	41
Education and training costs	EUR/employee	862	854	745	741	750

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 the 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 CO<sub>2</sub> 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 Bršljjin Department

**Borut Lekše**

Deputy CEO–Legal Affairs and Head of Legal Affairs

**Boris Dular**

Assistant Chief Executive for Human Resources

**Mojca Vidmar Berus**

Director of Corporate Performance Management

**Marko Lampret**

Technical Director

**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

**Dori Gorenc**

Director of Human Resources

**Miran Kapš**

Director of Information Technology

**Elvira Medved**

Head of Public Relations

**Mihael Florjanič**

Head of Industrial Property

**Andrej Škulj**

Head of Health and Safety at Work

**Boris Fakin**

Head of Public Services

**Mira Rataj Siročić**

Head of Internal Audit



## 2017 FINANCIAL REPORT



Krka, d. d., Novo mesto



*Living a healthy life.*



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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, while the second section comprises the financial statements and related notes of Krka, d. d., Novo mesto (hereinafter also "Krka"). The financial statements have been 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 General Annual 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 2017 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/>).

All section of the financial statements were audited by ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., and two separate reports as individual chapters have been prepared accordingly as individual chapters.

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 the preparation of the annual report of Krka and of 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 operations of Krka and its subsidiaries in 2017.

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 were 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 were 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 the assets of Krka and the Krka Group 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 tax assessment was due, carry out an audit of the company 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, 28 March 2018



## CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP

### Consolidated statement of financial position

In € thousand	Notes	31 Dec 2017	31 Dec 2016
<b>Assets</b>			
Property, plant and equipment	12	864,842	874,100
Intangible assets	13	110,992	113,511
Loans	14	9,543	8,801
Investments	15	8,815	10,138
Deferred tax assets	16	38,475	31,260
Other non-current assets		341	257
<b>Total non-current assets</b>		<b>1,033,008</b>	<b>1,038,067</b>
Assets held for sale		41	467
Inventories	17	310,671	280,653
Trade receivables	18	500,735	510,406
Other receivables	18	27,302	33,777
Loans	14	1,426	9,441
Investments	15	0	77
Cash and cash equivalents	19	45,948	38,630
<b>Total current assets</b>		<b>886,123</b>	<b>873,451</b>
<b>Total assets</b>		<b>1,919,131</b>	<b>1,911,518</b>
<b>Equity</b>			
Share capital	20	54,732	54,732
Treasury shares	20	-40,588	-29,690
Reserves	20	111,477	109,678
Retained earnings	20	1,361,107	1,308,668
<b>Total equity holders of the controlling company</b>		<b>1,486,728</b>	<b>1,443,388</b>
Non-controlling interests within equity	20	971	1,056
<b>Total equity</b>		<b>1,487,699</b>	<b>1,444,444</b>
<b>Liabilities</b>			
Provisions	22	98,075	90,807
Deferred revenue	23	10,953	12,158
Deferred tax liabilities	16	12,154	12,348
<b>Total non-current liabilities</b>		<b>121,182</b>	<b>115,313</b>
Trade payables	24	108,340	128,437
Income tax payable		16,142	1,666
Other current liabilities	25	185,768	221,658
<b>Total current liabilities</b>		<b>310,250</b>	<b>351,761</b>
<b>Total liabilities</b>		<b>431,432</b>	<b>467,074</b>
<b>Total equity and liabilities</b>		<b>1,919,131</b>	<b>1,911,518</b>

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	2017	2016
Revenues	5	1,266,392	1,174,424
Cost of goods sold	7	-538,540	-547,669
<b>Gross profit</b>		<b>727,852</b>	<b>626,755</b>
Other operating revenue	6	10,433	7,863
Selling and distribution expenses	7	-340,455	-317,418
R&D expenses	7	-125,864	-117,994
General and administrative expenses	7	-73,225	-76,771
<b>Operating profit</b>		<b>198,741</b>	<b>122,435</b>
Financial income	10	24,041	65,679
Financial expenses	10	-46,608	-71,816
<b>Net financial result</b>		<b>-22,567</b>	<b>-6,137</b>
<b>Profit before tax</b>		<b>176,174</b>	<b>116,298</b>
Income tax payable	11	-23,598	-7,842
<b>Net profit</b>		<b>152,576</b>	<b>108,456</b>
Attributable to:			
– equity holders of the controlling company		152,600	108,452
– non-controlling interest		-24	4
<b>Basic earnings per share (in EUR)</b>	<b>21</b>	<b>4.74</b>	<b>3.35</b>
<b>Diluted earnings per share (in EUR)</b>	<b>21</b>	<b>4.74</b>	<b>3.35</b>

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	2017	2016
<b>Net profit</b>		<b>152,576</b>	<b>108,456</b>
<b>Other comprehensive income for the year</b>			
<b>Other comprehensive income for the year reclassified to profit or loss at a future date</b>			
Translation reserve	20	-8,378	26,021
Change in fair value of available-for-sale financial assets	20	-1,345	2,558
Deferred tax effect	20	256	-581
<b>Net other comprehensive income for the year reclassified to profit or loss at a future date</b>	<b>20</b>	<b>-9,467</b>	<b>27,998</b>
<b>Other comprehensive income for the year that will not be reclassified to profit or loss at a future date</b>			
Recalculation of post-employment benefits	22	-235	-2,961
Deferred tax effect	22	-6	559
<b>Net other comprehensive income for the year that will not be reclassified to profit or loss at a future date</b>		<b>-241</b>	<b>-2,402</b>
<b>Total other comprehensive income for the year (net of tax)</b>		<b>-9,708</b>	<b>25,596</b>
<b>Total comprehensive income for the year (net of tax)</b>		<b>142,868</b>	<b>134,052</b>
Attributable to:			
– equity holders of the controlling company		142,892	134,048
– non-controlling interest		-24	4

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 controlling company	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 2017	54,732	-29,690	29,690	105,897	14,990	30,000	-11,802	-59,097	1,102,165	107,670	98,833	1,443,388	1,056	1,444,444
Net profit	0	0	0	0	0	0	0	0	0	0	152,600	152,600	-24	152,576
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	-721	-8,378	0	-609	0	-9,708	0	-9,708
Total comprehensive income for the year (net of tax)	0	0	0	0	0	0	-721	-8,378	0	-609	152,600	142,892	-24	142,868
Transactions with owners, recognised in equity														
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	0	27,007	-27,007	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	98,833	-98,833	0	0	0
Purchase of treasury shares	0	-10,898	0	0	0	0	0	0	0	0	0	-10,898	0	-10,898
Formation of reserves for treasury shares	0	0	10,898	0	0	0	0	0	0	0	-10,898	0	0	0
Purchase of a stake in Golf Grad Otočec	0	0	0	0	0	0	0	0	0	-10	0	-10	-61	-71
Dividends paid	0	0	0	0	0	0	0	0	0	-88,644	0	-88,644	0	-88,644
Total transactions with owners, recognised in equity	0	-10,898	10,898	0	0	0	0	0	27,007	-16,828	-109,731	-99,552	-61	-99,613
Balance at 31 Dec 2017	54,732	-40,588	40,588	105,897	14,990	30,000	-12,523	-67,475	1,129,172	90,233	141,702	1,486,728	971	1,487,699

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 controlling company	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 2016	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
Net profit	0	0	0	0	0	0	0	0	0	0	108,452	108,452	4	108,456
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	651	26,021	0	-1,076	0	25,596	0	25,596
Total comprehensive income for the year (net of tax)	0	0	0	0	0	0	651	26,021	0	-1,076	108,452	134,048	4	134,052
<b>Transactions with owners, recognised in equity</b>														
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	0	50,488	-50,488	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	148,851	-148,851	0	0	0
Purchase of treasury shares	0	-9,619	0	0	0	0	0	0	0	0	0	-9,619	0	-9,619
Formation of reserves for treasury shares	0	0	9,619	0	0	0	0	0	0	0	-9,619	0	0	0
Purchase of a stake in Golf Grad Otočec	0	0	0	0	0	0	0	0	0	156	0	156	-196	-40
Dividends paid	0	0	0	0	0	0	0	0	0	-85,933	0	-85,933	0	-85,933
<b>Total transactions with owners, recognised in equity</b>	<b>0</b>	<b>-9,619</b>	<b>9,619</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>50,488</b>	<b>12,586</b>	<b>-158,470</b>	<b>-95,396</b>	<b>-196</b>	<b>-95,592</b>
Balance at 31 Dec 2016	54,732	-29,690	29,690	105,897	14,990	30,000	-11,802	-59,097	1,102,165	107,670	98,833	1,443,388	1,056	1,444,444

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	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net profit</b>		<b>152,576</b>	<b>108,456</b>
<b>Adjustments for:</b>		<b>136,751</b>	<b>166,828</b>
– amortisation/depreciation	12,13	107,897	105,803
– foreign exchange differences		-1,667	4,506
– investment income		-25,276	-23,844
– investment expense		30,328	70,748
– interest expense and other financial expense		1,871	1,756
- financial income		0	17
– income tax	11	23,598	7,842
<b>Operating profit before changes in net operating current assets</b>		<b>289,327</b>	<b>275,284</b>
Change in trade receivables		11,834	-73,529
Change in inventories		-30,018	-7,775
Change in trade payables		-13,222	14,034
Change in provisions		5,605	1,519
Change in deferred revenue		-1,205	-1,223
Change in other current liabilities		-23,399	28,703
Income tax paid		-11,095	-23,521
<b>Net cash from operating activities</b>		<b>227,827</b>	<b>213,492</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		922	919
Proceeds from sale of current investments		2	0
Dividends received		15	835
Proceeds from sale of property, plant and equipment		1,283	1,197
Purchase of intangible assets	13	-5,385	-4,414
Purchase of property, plant and equipment	12	-106,507	-116,996
Acquisition of subsidiaries and a share of minority interests without obtained assets		-70	-40
Non-current loans		-2,386	-2,662
Proceeds from repayment of non-current loans		1,372	1,345
Payments to acquire non-current investments		-152	-82
Proceeds from sale of non-current investments		41	68
Proceeds in connection with current investments and loans		8,353	28,430
Payments in connection with derivative financial instruments		-27,094	-45,041
Proceeds from derivative financial instruments		9,474	21,292
<b>Net cash from investing activities</b>		<b>-120,132</b>	<b>-115,149</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest paid		-444	-296
Dividends and other profit shares paid	20	-88,749	-86,001
Repurchase of treasury shares	20	-10,898	-9,619
<b>Net cash used in financing activities</b>		<b>-100,091</b>	<b>-95,916</b>
<b>Net increase in cash and cash equivalents</b>		<b>7,604</b>	<b>2,427</b>
Cash and cash equivalents at the beginning of the year		38,630	35,826
Effect of exchange rate fluctuations on cash held		-286	377
<b>Net cash and cash equivalents at the end of the year</b>		<b>45,948</b>	<b>38,630</b>

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 office at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The consolidated financial statements for the year ended 31 December 2017 relate to the Krka Group consisting of the controlling company and its subsidiaries in Slovenia and 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 have been 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* (ZGD-1).

The consolidated financial statements were approved by Krka's Management Board on 1 March 2018.

#### Basis of measurement

The consolidated financial statements have been prepared on the 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 consolidated financial statements are presented in euros, which is the functional currency of Krka. All financial information presented in euros 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.

Management estimates include, among other things: 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 and the TAD Pharma trademark. 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 make 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 Pharma trademark as an item of intangible assets with an indefinite useful life, determining its assessed recoverable amount at each reporting date. As of 1 January

2013, the TAD Pharma trademark is recognised as an intangible asset with a finite useful life. Krka annually verifies the need for the impairment of the trademark and goodwill that arose on the takeover of TAD Pharma.

Key estimates and assumptions as at the day of the statement of financial position that are associated with future operations and which could result in 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*

The controlling company checks for each cash generating unit whether there are any indicators of impairment at least once a year. 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 the TAD Pharma trademark and associated goodwill*

The criteria used in goodwill impairment testing are verified at least once a year by the controlling company. Determining the present value of future cash flows requires management to assess estimated future cash flows from each cash-generating unit as well as determining the appropriate discount rate and other significant assumptions, as explained in Note 13. The company found no evidence of goodwill impairment. The carrying amount of goodwill of €42,644 thousand did not change in the 2017 financial year. In addition, the Company carried out TAD Pharma trademark impairment testing. The carrying amount of the trademark at 31 December 2017 was €38,163 thousand (31 December 2016: €39,011 thousand).

- *Note 18 Impairment testing of receivables*

In the financial statement preparation (quarterly and annually), individual companies in the Krka Group recognise allowances (impairment) of those receivables for which it is assumed they will not be settled in full or not at all. Allowances are recognised using a uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by the debtors. The methodology includes quantitative and qualitative criteria, which are grouped into the following four sets: an analysis of the existing business dealings with the customer, an analysis of the customer's financial statements, a qualitative assessment of the customer by the sales staff, and assessment of the customer's country risk. Thus, allowances of receivables due from individual customers are calculated by means of an algorithm that includes all the above criteria.

- *Note 22 Post-employment benefits*

Defined post-employment benefit obligations include the present value of termination benefits on retirement. They are recognised on the basis of an actuarial calculation 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 the determination of the discount rate, assessment of employee turnover, 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 22 Provisions for lawsuits and contingent liabilities*

Several lawsuits and claims have been brought against individual companies in the Krka Group for alleged breaches of intellectual property (patent rights or competition law) and those referring to other

areas. A provision is recognised when a Group 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 entirely within the control of the Group. The Management Board 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.

- *Note 25 Other current liabilities*

The Krka Group accrues contractually agreed discounts in its financial statements when, based on annual sales, individual customers obtain 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 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 to policies applied by the Group.

The accounting policies and calculation methods used are consistent with those applied in the previous year, except for the adoption of the amended standards effective for annual periods beginning on 1 January 2017, which are noted below.

### **Newly adopted standards effective from 1 January 2017**

#### *Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses*

The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealised losses in order to address diversity in practice in the application of *IAS 12 - Income Taxes*. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to a combined versus separate assessment of deferred tax assets for unrealised losses.

These amendments do not have any impact on the consolidated financial statements of the Krka Group.

#### *Amendments to IAS 7 - Disclosure Initiative*

The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

These amendments do not have any impact on the consolidated financial statements of the Krka Group.

### **Annual improvements to standards and interpretations - 2014–2016 Cycle**

The IASB has issued the Annual Improvements to IFRSs 2014–2016 Cycle, which is a collection of amendments to IFRSs. The following annual improvements have not yet been endorsed by the EU.

#### *IFRS 12 - Disclosures of Interests in Other Entities*

The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

These amendments do not have any impact on the consolidated financial statements of the Krka Group.

### **Basis for consolidation**

#### **Subsidiaries**

Subsidiaries are entities controlled by the controlling 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 or exchangeable 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 translated 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 to the functional currency at the prevailing exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to 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 cost in foreign currency are translated to 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 to euro at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to euro 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 on 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 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 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 cost, 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 General Annual 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").

Cost includes expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of making the asset ready for its intended use, and (if applicable) costs of dismantling and removing the items and restoring the site where 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 of 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 profit or loss as an expense when incurred.

## Amortisation and 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 transport: 5 to 15 years.



## **Intangible assets**

### **Goodwill**

The goodwill which arose on 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.

### **Trademark**

Until 31 December 2012, the Krka Group recognised the TAD Pharma trademark as an item of intangible assets with an indefinite useful life, determining its assessed recoverable amount at each reporting date. As of 1 January 2013, the TAD Pharma trademark is recognised as an intangible asset with a finite useful life of 50 years. Krka annually verifies the need for impairment of the trademark and goodwill that arose on the takeover of TAD Pharma.

### **Research and development**

All costs referring to research and development work within the Group are recognised in profit or loss as incurred.

### **Other intangible assets**

Other intangible assets that are acquired by the Group, 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, including expenditure on internally generated goodwill and trademarks, is recognised in profit or loss as incurred.

### **Amortisation and depreciation**

Amortisation is recognised on a straight-line basis over the estimated useful lives of intangible assets (except goodwill) from the date that they are available for use.

The estimated useful lives of software, licences and other rights range from 2 to 10 years, and 50 years for 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 selling expenses and other possible administrative expenses, which are usually connected with the sale.

An inventory unit of raw materials and materials, as well as ancillary 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, also includes 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. A quantity 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 whether there is any objective evidence of impairment. 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 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 upon the asset's disposal.

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 reassessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, 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 loss is 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 greater 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 of the asset. 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 anniversary bonuses and termination benefits to its employees upon retirement. Provisions are set aside for these obligations. The company/Group 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 up to 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 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 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 an anticipated potential amount, if the indemnification claim is not yet 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 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, and also continuing managerial involvement with the goods. Revenues from the sale of goods and services rendered are measured at the selling prices stated in invoices or other documents, reduced by rebates approved when the sale is made, including those granted for early payment.

## Government grants

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 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 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, 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 expense 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, using the effective interest method, except those that are attributable to property, plant and equipment under construction.

## Income tax

Income tax expense comprises current and deferred tax. Income tax expense 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 using the balance sheet liability approach, 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 manner 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

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 is equal to the basic EPS, as all shares of the Krka Group belong to the same class of 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 Eastern 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

The following new and amended standards had not come into effect as of 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. The Krka Group did not apply any amended standards or interpretations prior to their effective date.

### *IFRS 9 Financial Instruments – Classification and Measurement*

The amendment is effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The final version of *IFRS 9 Financial Instruments* reflects all phases of the financial instruments project and replaces 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.

*IFRS 9* introduces a revised model of financial asset impairment, which is based on expected losses rather than on past losses. Given the nature of the Krka Group's financial assets and the impairment method used, management expect that these amendments will have no significant impact on the impairment amount.

The Krka Group will apply the *IFRS 9* standard when it comes into effect (1 January 2018). On transition, Krka will apply a retrospective method without restatement of the comparative period data. Management do not expect any significant cumulative impact due to the adjustment of the initial balance of retained earnings on application of the revised standard.

### *IFRS 15 - Revenue from Contracts with Customers*

*IFRS 15* is effective for annual periods beginning on or after 1 January 2018. *IFRS 15* establishes a five-step model that will apply to *revenue* earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates.

Revenue from the sale of products includes revenue from the sale of prescription pharmaceuticals, medicines without prescription and veterinary products, where fulfilment of the obligation arises upon dispatch or acceptance of goods by the buyer. Based on the analysis carried out, the management estimate that the *IFRS 15* standard will not significantly impact the recognition timing or the amount of revenue recognised under these conditions.

The Krka Group will apply the *IFRS 15* standard when it comes into effect (1 January 2018). On transition, a simplified retrospective method will be applied. Management do not expect any significant cumulative impact due to the adjustment of the initial balance of retained earnings on adoption of the revised standard.

### *IFRS 15 - Revenue from Contracts with Customers (Clarifications)*

The clarifications are effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in *IFRS 15 Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations, amending the wording of the "separately identifiable" principle, of principal versus agent

considerations, including the assessment of whether an entity is a principal or an agent, as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply *IFRS 15* fully retrospectively or that elect to apply the modified retrospective approach.

The management have assessed the impact of the clarifications on the Krka Group and believe the clarifications will have no significant impact on its consolidated financial statements.

#### *IFRS 16 - Leases*

*IFRS 16* is effective for annual periods beginning on or after 1 January 2019. *IFRS 16* sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognise most leases in their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

Due to the changed treatment of leases by lessees, *IFRS 16* will affect Krka's financial statements. Under the amended standard, leases will be recognised in the statement of financial position as a financial liability and an asset which the lessee has the right to use. The Krka Group will apply the *IFRS 16* standard when it comes into effect (1 January 2019). The operating lease liabilities of the Krka Group as at 31 December 2017 are disclosed in Note 26.

Upon the application of *IFRS 16*, a part of the lease costs currently recognised as operating expenses, will in future be recognised as interest expense. Consequently, cash flows from operations will become cash flows from financing. Considering the level of operating lease commitments and assuming there is no change in the interest rate, the management of the Krka Group do not expect any significant impact from the revised standard.

#### *Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture*

The amendments address an acknowledged inconsistency between the requirements in *IFRS 10* and those in *IAS 28* in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (or qualifies as a business). In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of the Krka Group and consider that the amendments will not have any impact on them.

#### *Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions*

The amendments are effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of the Krka Group and consider that the amendments will not have any impact on them.

#### *Amendments to IAS 40 - Transfers of Investment Property*

The amendments are effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The amendments clarify when an entity should transfer property, including property under construction or development into, or out of, investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in



use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of the Krka Group and consider that the amendments will not have any significant impact on them.

*Amendments to IFRS 9 - Prepayment Features with Negative Consideration*

The amendments are effective for annual periods beginning on or after 1 January 2019; early adoption is permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset, there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of the Krka Group and will apply them when they come into force.

*Amendments to IAS 28 – Investments in Associates and Joint Ventures*

The amendments are effective for annual periods beginning on or after 1 January 2019; early adoption is permitted. The Amendments relate to whether the measurement, particularly the impairment requirements, of long-term interests in associates and joint ventures that in substance form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 - Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is *not applied*. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of the Krka Group and will apply them when they come into force.

*IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration*

The interpretations are effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation states that the date of the transaction for the purpose of determining the exchange rate is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. The Interpretation has not been endorsed by the EU.

Management have assessed the impact of the Clarifications on the financial statements of the Krka Group and will apply them when they *come into force*.

*Annual improvements to standards and interpretations - 2014–2016 Cycle*

The IASB has issued the Annual Improvements to IFRSs 2014–2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures.

The improvement to IFRS 1 - First-time Adoption of International Financial Reporting Standards deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities applicable for first-time adopters.

Amendments to IAS 28 - Investments in Associates and Joint Ventures clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis upon initial recognition.

Early application of amendments to *IAS 28 - Long-term Investments in Associates and Joint Ventures* is allowed. The improvements have not been endorsed by the EU.

Management have assessed the impact of the improvements on the financial statements of the Krka Group and consider that the amendments will not have any impact on them.

#### *IFRIC Interpretation 23 - Uncertainty Over Income Tax Treatment*

The interpretations are effective for annual periods beginning on or after 1 January 2019; early adoption is permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of *IAS 12 - Income Taxes*. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Interpretation has not been endorsed by the EU.

Management have assessed the impact of the Interpretations on the financial statements of the Krka Group and believe they will have no significant impact on its consolidated 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 based on 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	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Revenues from external customers</b>	<b>768,804</b>	<b>738,381</b>	<b>62,391</b>	<b>58,262</b>	<b>388,220</b>	<b>332,286</b>	<b>46,977</b>	<b>45,495</b>	<b>0</b>	<b>0</b>	<b>1,266,392</b>	<b>1,174,424</b>
<b>Sales between group companies</b>	<b>229,510</b>	<b>210,500</b>	<b>32,875</b>	<b>29,614</b>	<b>236,191</b>	<b>164,744</b>	<b>0</b>	<b>0</b>	<b>-498,576</b>	<b>-404,858</b>	<b>0</b>	<b>0</b>
Other operating income	6,355	5,114	155	776	3,923	1,973	0	0	0	0	10,433	7,863
Operating expenses	-664,577	-666,180	-46,869	-46,573	-339,053	-318,017	-27,585	-29,082	0	0	-1,078,084	-1,059,852
Operating expenses to Group companies	-378,715	-366,106	-37,612	-32,396	-445,788	-340,858	-7	-8	862,122	739,368	0	0
<b>Operating profit</b>	<b>110,582</b>	<b>77,315</b>	<b>15,677</b>	<b>12,465</b>	<b>53,090</b>	<b>16,242</b>	<b>19,392</b>	<b>16,413</b>	<b>0</b>	<b>0</b>	<b>198,741</b>	<b>122,435</b>
Interest income	200	392	4	210	718	314	0	0	0	0	922	916
Interest income from Group companies	675	929	0	0	3	9	0	0	-678	-938	0	0
Interest expenses	-188	-641	0	0	3	9	0	0	0	0	-185	-632
Interest expenses to Group companies	-275	-282	0	0	-292	-779	0	0	567	1,061	0	0
<b>Net financial result</b>	<b>1,345</b>	<b>-3,241</b>	<b>540</b>	<b>-548</b>	<b>-24,201</b>	<b>-576</b>	<b>-251</b>	<b>-1,772</b>	<b>0</b>	<b>0</b>	<b>-22,567</b>	<b>-6,137</b>
Income tax	-12,926	-5,698	-1,800	-154	-7,243	-1,793	-1,629	-197	0	0	-23,598	-7,842
<b>Net profit</b>	<b>99,001</b>	<b>68,376</b>	<b>14,417</b>	<b>11,763</b>	<b>21,646</b>	<b>13,873</b>	<b>17,512</b>	<b>14,444</b>	<b>0</b>	<b>0</b>	<b>152,576</b>	<b>108,456</b>
Investments	100,782	115,718	327	192	3,979	15,907	0	0	0	0	105,088	131,817
Depreciation	67,477	67,781	1,932	1,943	30,420	28,213	408	367	0	0	100,237	98,304
Amortisation	4,704	4,838	289	322	2,463	2,117	204	222	0	0	7,660	7,499
	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>
<b>Total assets</b>	<b>1,461,851</b>	<b>1,394,236</b>	<b>40,855</b>	<b>40,107</b>	<b>405,694</b>	<b>467,293</b>	<b>10,731</b>	<b>9,882</b>	<b>0</b>	<b>0</b>	<b>1,919,131</b>	<b>1,911,518</b>
Goodwill	42,644	42,644	0	0	0	0	0	0	0	0	42,644	42,644
Trademark	38,163	39,011	0	0	0	0	0	0	0	0	38,163	39,011
<b>Total liabilities</b>	<b>327,324</b>	<b>364,038</b>	<b>9,453</b>	<b>9,251</b>	<b>77,273</b>	<b>67,764</b>	<b>17,382</b>	<b>26,021</b>	<b>0</b>	<b>0</b>	<b>431,432</b>	<b>467,074</b>

## 5. Revenues

In € thousand	2017	2016
Revenues from the sale of products	1,171,430	1,086,198
Revenues from the sale of services	37,520	42,526
Revenues from the sale of material and merchandise	57,442	45,700
<b>Total revenues</b>	<b>1,266,392</b>	<b>1,174,424</b>

## 6. Other operating income

In € thousand	2017	2016
Reversal of non-current provisions	82	384
Deferred revenue reversal	1,481	1,491
Gain on sale of property, plant and equipment and intangible assets	1,235	793
Reversal of receivable impairment	1,845	1,401
Collected written-off receivables	0	358
Other income	5,790	3,436
<b>Total other operating income</b>	<b>10,433</b>	<b>7,863</b>

Detailed information on non-current provisions reversal is included in note 22.

## 7. Costs by nature

In € thousand	2017	2016
Cost of goods and material	344,257	341,908
Costs of services	250,071	237,201
Employee benefit costs	352,064	336,616
Amortisation and depreciation	107,897	105,803
Inventory write-offs and allowances	17,482	14,793
Receivable impairment and write-offs	4,310	750
Formation of provisions for lawsuits	4,345	3
Other operating expenses	37,333	33,220
<b>Total costs</b>	<b>1,117,759</b>	<b>1,070,294</b>
Change in the value of inventories of products and work in progress	-39,675	-10,442
<b>Total</b>	<b>1,078,084</b>	<b>1,059,852</b>

## 8. Employee benefit costs

In € thousand	2017	2016
Gross wages and salaries and continued pay	273,081	260,739
Social security contributions	21,307	21,058
Pension insurance contributions	38,181	35,667
Payroll tax	1,138	1,266
Post-employment benefits and other non-current employee benefits	4,894	5,069
Other employee benefit costs	13,463	12,817
<b>Total employee benefit cost</b>	<b>352,064</b>	<b>336,616</b>

Post-employment benefits and other non-current obligations are explained in detail in Note 22. Other employee benefit costs primarily comprise the vacation bonus and commuting allowances.

## 9. Other operating expenses

In € thousand	2017	2016
Grants and assistance for humanitarian and other purposes	1,605	1,557
Environmental protection expenses	4,039	3,559
Other taxes and levies	24,558	21,837
Loss on sale of property, plant and equipment and intangible assets	2,950	1,298
Other expenses	4,181	4,969
<b>Total other operating expenses</b>	<b>37,333</b>	<b>33,220</b>

Other levies include €20,083 thousand in various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries (2016: €17,544).

## 10. Financial income and expense

In € thousand	2017	2016
Net foreign exchange differences	0	42,628
Interest income	922	916
Change in fair value of investments through profit or loss	0	8
Gains on disposal of securities	2	0
Financial instruments income	22,144	21,292
– realised income	9,474	21,292
– change in fair value	12,670	0
Income from dividends and other shares of the profit	973	835
<b>Total financial income</b>	<b>24,041</b>	<b>65,679</b>
Net foreign exchange differences	-17,263	0
Interest expenses	-185	-632
Change in fair value of investments through profit or loss	0	-10
Financial instruments expenses	-27,378	-69,440
– incurred expenses	-27,094	-45,041
– change in fair value	-284	-24,399
Other financial expenses	-1,782	-1,734
<b>Total financial expenses</b>	<b>-46,608</b>	<b>-71,816</b>
<b>Net financial result</b>	<b>-22,567</b>	<b>-6,137</b>

## 11. Income tax

### Adjustment to effective tax rate

In € thousand	2017	2016
Income tax	30,884	11,167
Deferred tax	-7,286	-3,325
<b>Total income tax</b>	<b>23,598</b>	<b>7,842</b>
<b>Profit before tax</b>	<b>176,174</b>	<b>116,298</b>
Income tax at the rate of 19% (2016: 17%)	33,473	19,771
Increased expenses	-1,324	-859
Tax exempt expenses	-1,132	1,416
Tax incentives	-14,513	-15,410
Revenues decreasing the tax base	-308	211
Revenues increasing the tax base	424	121
Effect of changed tax rate on deferred taxes	0	-1,524
Effect of different tax rates	2	1,291
Other	6,976	2,825
<b>Total income tax payable</b>	<b>23,598</b>	<b>7,842</b>
<b>Effective tax rate</b>	<b>13.4%</b>	<b>6.7%</b>

Income tax for 2017 includes EUR 2,742 thousand of self-payment tax from the self-announcement for 2015.

Investments in R&D and investment relief account for the major share of tax incentives.



## 12. Property, plant and equipment

In € thousand	31 Dec 2017	31 Dec 2016
Land	38,863	36,575
Buildings	409,682	403,257
Equipment	375,115	343,390
Property, plant and equipment being acquired	36,650	84,635
Advances for property, plant and equipment	4,532	6,243
<b>Total property, plant and equipment</b>	<b>864,842</b>	<b>874,100</b>

The largest investment of the controlling company in 2017, in the amount of €26,114 thousand, refers to the construction of the Development and Control Centre 4 (RKC 4); (2016: €11,657 thousand). Investments in the construction of the Notol 2 plant amounted to €22,025 thousand (2016: €25,550); investments in the expansion of hydrogenation capacities in Krško reached €3,298 thousand. The latter is a new project introduced in 2017, and thus no comparable data for 2016 exist. Investments in the construction of a multi-purpose warehouse amounted to €2,210 thousand (2016: €1,273 thousand), while €1,666 thousand were invested in 2017 in the construction of offices in Ljubljana (2016: €180 thousand). A total of €3,246 thousand was spent on various projects in the area of information technology and telecommunications (2016: €3,571 thousand).

The majority of investments in subsidiaries are accounted for by the investment in the subsidiary Terme Krka totalling €4,354 thousand (2016: €1,125 thousand). An additional €3,613 thousand were invested in the subsidiary Farma GRS (no investments were made in Farma GRS in 2016); €2,093 thousand were invested in the subsidiary Krka-Farma Zagreb (2016: €30.077 thousand); and €557 thousand invested in the subsidiary Krka-Rus in the Russian Federation (2016: €13.781 thousand).

**Movement of property, plant and equipment (PPE)**

In € thousand	Land	Buildings	Equipment	PPE being acquired	Advances for PPE	Total
<b>Cost</b>						
<b>Balance at 1 Jan 2016</b>	<b>35,227</b>	<b>753,448</b>	<b>950,543</b>	<b>24,180</b>	<b>6,542</b>	<b>1,769,940</b>
Additions	0	0	0	127,853	-486	127,367
Capitalisation – transfer from PPE under construction	1,184	10,696	57,699	-69,579	0	0
Disposals	-5	-2,209	-18,573	0	-4	-20,791
Translation reserve	169	14,743	10,511	2,394	0	27,817
Transfers, reclassification	0	-370	53	-213	191	-339
<b>Balance at 31 Dec 2016</b>	<b>36,575</b>	<b>776,308</b>	<b>1,000,233</b>	<b>84,635</b>	<b>6,243</b>	<b>1,903,994</b>
<b>Balance at 1 Jan 2017</b>	<b>36,575</b>	<b>776,308</b>	<b>1,000,233</b>	<b>84,635</b>	<b>6,243</b>	<b>1,903,994</b>
Additions	0	0	0	101,385	-1,683	99,702
Capitalisation – transfer from PPE under construction	2,393	39,278	107,630	-149,301	0	0
Disposals	-25	-3,111	-12,457	0	0	-15,593
Translation reserve	-35	-4,813	-3,262	-95	0	-8,205
Transfers, reclassification	-45	774	-150	26	-28	577
<b>Balance at 31 Dec 2017</b>	<b>38,863</b>	<b>808,436</b>	<b>1,091,994</b>	<b>36,650</b>	<b>4,532</b>	<b>1,980,475</b>
<b>Accumulated depreciation</b>						
<b>Balance at 1 Jan 2016</b>	<b>0</b>	<b>-345,210</b>	<b>-598,538</b>	<b>0</b>	<b>0</b>	<b>-943,748</b>
Depreciation	0	-26,479	-71,825	0	0	-98,304
Disposals	0	1,183	18,415	0	0	19,598
Transfers, reclassification	0	185	112	0	0	297
Translation reserve	0	-2,730	-5,007	0	0	-7,737
<b>Balance at 31 Dec 2016</b>	<b>0</b>	<b>-373,051</b>	<b>-656,843</b>	<b>0</b>	<b>0</b>	<b>-1,029,894</b>
<b>Balance at 1 Jan 2017</b>	<b>0</b>	<b>-373,051</b>	<b>-656,843</b>	<b>0</b>	<b>0</b>	<b>-1,029,894</b>
Depreciation	0	-26,535	-73,702	0	0	-100,237
Disposals	0	632	12,055	0	0	12,687
Transfers, reclassification	0	-473	299	0	0	-174
Translation reserve	0	673	1,312	0	0	1,985
<b>Balance at 31 Dec 2017</b>	<b>0</b>	<b>-398,754</b>	<b>-716,879</b>	<b>0</b>	<b>0</b>	<b>-1,115,633</b>
<b>Carrying amount</b>						
<b>Balance at 1 Jan 2016</b>	<b>35,227</b>	<b>408,238</b>	<b>352,005</b>	<b>24,180</b>	<b>6,542</b>	<b>826,192</b>
<b>Balance at 31 Dec 2016</b>	<b>36,575</b>	<b>403,257</b>	<b>343,390</b>	<b>84,635</b>	<b>6,243</b>	<b>874,100</b>
<b>Balance at 1 Jan 2017</b>	<b>36,575</b>	<b>403,257</b>	<b>343,390</b>	<b>84,635</b>	<b>6,243</b>	<b>874,100</b>
<b>Balance at 31 Dec 2017</b>	<b>38,863</b>	<b>409,682</b>	<b>375,115</b>	<b>36,650</b>	<b>4,532</b>	<b>864,842</b>

No borrowing costs refer to items of property, plant and equipment in 2017.

The carrying amount of the items of property, plant and equipment which are temporarily not in use amounted to €835 thousand at 31 December 2017 (2016 year-end: €756 thousand).

Of total property, plant and equipment in use as at 31 December 2017, 27% was fully depreciated (the same as in 2016). 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 2017	31 Dec 2016
Goodwill	42,644	42,644
Trademark	38,163	39,011
Concessions, patents, licences and similar rights	26,644	28,184
Intangible assets being acquired	3,541	3,672
<b>Total intangible assets</b>	<b>110,992</b>	<b>113,511</b>

Goodwill refers to the acquisition of the company TAD Pharma, whereby the trademark refers to the TAD Pharma trademark.

#### Movement of intangible assets (IA)

In € thousand	Goodwill	Trademark	Concessions, patents, licences and similar rights	IA being acquired	Total
<b>Cost</b>					
<b>Balance at 1 Jan 2016</b>	<b>42,644</b>	<b>42,403</b>	<b>111,315</b>	<b>3,931</b>	<b>200,293</b>
Additions	0	0	0	4,450	4,450
Transfer from IA being acquired	0	0	4,712	-4,712	0
Disposals	0	0	-844	0	-844
Transfers, reclassification	0	0	-126	0	-126
Translation reserve	0	0	697	3	700
<b>Balance at 31 Dec 2016</b>	<b>42,644</b>	<b>42,403</b>	<b>115,754</b>	<b>3,672</b>	<b>204,473</b>
<b>Balance at 1 Jan 2017</b>	<b>42,644</b>	<b>42,403</b>	<b>115,754</b>	<b>3,672</b>	<b>204,473</b>
Additions	0	0	0	5,386	5,386
Transfer from IA being acquired	0	0	5,517	-5,517	0
Disposals	0	0	-336	0	-336
Translation reserve	0	0	-145	0	-145
<b>Balance at 31 Dec 2017</b>	<b>42,644</b>	<b>42,403</b>	<b>120,790</b>	<b>3,541</b>	<b>209,378</b>
<b>Accumulated amortisation</b>					
<b>Balance at 1 Jan 2016</b>	<b>0</b>	<b>-2,544</b>	<b>-80,809</b>	<b>0</b>	<b>-83,353</b>
Amortisation	0	-848	-6,651	0	-7,499
Disposals	0	0	125	0	125
Transfers, reclassification	0	0	90	0	90
Translation reserve	0	0	-325	0	-325
<b>Balance at 31 Dec 2016</b>	<b>0</b>	<b>-3,392</b>	<b>-87,570</b>	<b>0</b>	<b>-90,962</b>
<b>Balance at 1 Jan 2017</b>	<b>0</b>	<b>-3,392</b>	<b>-87,570</b>	<b>0</b>	<b>-90,962</b>
Amortisation	0	-848	-6,812	0	-7,660
Disposals	0	0	155	0	155
Translation reserve	0	0	81	0	81
<b>Balance at 31 Dec 2017</b>	<b>0</b>	<b>-4,240</b>	<b>-94,146</b>	<b>0</b>	<b>-98,386</b>
<b>Carrying amount</b>					
<b>Balance at 1 Jan 2016</b>	<b>42,644</b>	<b>39,859</b>	<b>30,506</b>	<b>3,931</b>	<b>116,940</b>
<b>Balance at 31 Dec 2016</b>	<b>42,644</b>	<b>39,011</b>	<b>28,184</b>	<b>3,672</b>	<b>113,511</b>
<b>Balance at 1 Jan 2017</b>	<b>42,644</b>	<b>39,011</b>	<b>28,184</b>	<b>3,672</b>	<b>113,511</b>
<b>Balance at 31 Dec 2017</b>	<b>42,644</b>	<b>38,163</b>	<b>26,644</b>	<b>3,541</b>	<b>110,992</b>

Of total intangible assets in use as at 31 December 2016, 58% was fully amortised (57% as at 31 December 2016). 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 company Krka at the end of 2007. In addition, Krka made an impairment test of its capital investment in the subsidiary TAD Pharma.

The recoverable amount of an asset or of a cash-generating unit is higher of fair value less cost to sell or the value in use. For the purposes of the impairment test of goodwill relating to the acquisition of the stake in TAD Pharma was determined using a value-in-use calculation, i.e. based on the cash flow projection method, based on the five-year financial plans of the two cash-generating units to which goodwill was allocated. A pre-tax discount rate of 8.5% was applied in the projection for both cash-generating units TAD Pharma and Krka. Cash flows over 5 years were extrapolated using an average annual growth of 2.0% for both cash-generating units. Other significant assumptions used, which are set out in the business strategy, include sales growth and profitability rates, as well as the planned launch of new products on the German market.

In the opinion of the management, a reasonable change in the discount rate or growth rate would not result in goodwill impairment.

Considering the above assumptions, the assessed value of Krka and TAD Pharma (taking into account the value of the trademark and goodwill), exceeds the carrying amount, so no goodwill impairment is required.

## 14. Loans

In EUR thousand	31 Dec 2017	31 Dec 2016
<b>Non-current loans</b>	<b>9,543</b>	<b>8,801</b>
– loans to others	9,543	8,801
<b>Current loans</b>	<b>1,426</b>	<b>9,441</b>
– portion of non-current loans maturing next year	1,330	1,201
– loans to others	94	8,240
– current interest receivable	2	0
<b>Total loans</b>	<b>10,969</b>	<b>18,242</b>

Most non-current loans are housing loans extended by the controlling company and some subsidiaries to their employees in accordance with internal acts. The loans of the controlling company bear an annual interest rate that 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 0.592% and 0.726% in 2017 (2016: between 0.701% and 0.868%). The maximum repayment period is 15 years.

## 15. Investments

In € thousand	31 Dec 2017	31 Dec 2016
<b>Non-current investments</b>	<b>8,815</b>	<b>10,138</b>
– available-for-sale financial assets	8,815	10,138
<b>Current investments, including derivative financial instruments</b>	<b>0</b>	<b>77</b>
– shares and interests held for trading	0	77
<b>Total investments</b>	<b>8,815</b>	<b>10,215</b>

Available-for-sale financial assets amounting to €810 thousand are investments in shares and interests of companies in Slovenia (2016 year-end: €761 thousand), and €8,005 thousand of investments in shares of companies located abroad (2016 year-end: €9,377 thousand).

### Movement in available-for-sale financial assets

In € thousand	Available-for-sale financial assets
<b>Balance at 1 Jan 2016</b>	<b>7,580</b>
Adjustment to market value	2,558
<b>Balance at 31 Dec 2016</b>	<b>10,138</b>
<b>Balance at 1 Jan 2017</b>	<b>10,138</b>
Addition	22
Adjustment to market value	-1,345
<b>Balance at 31 Dec 2017</b>	<b>8,815</b>

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 €-1,345 thousand in 2017 (2016: €2,558 thousand). No adjustment was recognised in profit or loss in 2016 or 2017.

## 16. Deferred tax assets and liabilities

In € thousand	Assets		Liabilities	
	2017	2016	2017	2016
Investments, property, plant and equipment and intangible assets	481	316	12,633	13,206
Available-for-sale financial assets	1,727	1,727	1,128	1,384
Inventories	21,446	14,116	151	106
Receivables/liabilities	3,682	5,512	0	296
Dividends	182	0	0	0
Provisions for post-employment benefits and other non-current employee benefits	11,071	10,329	0	0
Transfer of tax loss	1,644	1,904	0	0
<b>Total</b>	<b>40,233</b>	<b>33,904</b>	<b>13,912</b>	<b>14,992</b>
<b>Offsetting</b>	<b>-1,758</b>	<b>-2,644</b>	<b>-1,758</b>	<b>-2,644</b>
<b>Net</b>	<b>38,475</b>	<b>31,260</b>	<b>12,154</b>	<b>12,348</b>

In € thousand	Balance at 1 Jan 2016	Recognised in profit or loss	Translation reserve	Recognised in other comprehensive income	Balance at 31 Dec 2016	Recognised in profit or loss	Translation reserve	Recognised in other comprehensive income	Balance at 31 Dec 2017
Investments, property, plant and equipment and intangible assets	-13,153	283	-20	0	-12,890	738	0	0	-12,152
Available-for-sale financial assets	743	182	-1	-581	343	0	0	256	599
Inventories	11,589	2,406	15	0	14,010	7,283	2	0	21,295
Receivables/liabilities	4,160	631	425	0	5,216	-1,223	-311	0	3,682
Dividends	0	0	0	0	0	182	0	0	182
Provisions for post-employment benefits and other non-current employee benefits	9,651	122	-3	559	10,329	565	183	-6	11,071
Transfer of tax loss	2,223	-299	-20	0	1,904	-259	-1	0	1,644
<b>Total</b>	<b>15,213</b>	<b>3,325</b>	<b>396</b>	<b>-22</b>	<b>18,912</b>	<b>7,286</b>	<b>-127</b>	<b>250</b>	<b>26,321</b>

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to €1,849 thousand at the end of 2017 (€2,240 thousand at the end of 2016).

## 17. Inventories

In € thousand	31 Dec 2017	31 Dec 2016
Material	119,775	122,515
Work in progress	77,743	63,212
Products	102,211	86,369
Merchandise	8,070	7,783
Advances for inventories	2,872	774
<b>Total inventories</b>	<b>310,671</b>	<b>280,653</b>

The write-down and write-off of inventories to net realisable value amounted to €17,482 thousand in 2017 (2016: €14,793 thousand).

## 18. Trade and other receivables

In € thousand	31 Dec 2017	31 Dec 2016
Current trade receivables	500,735	510,406
Other current receivables	27,302	33,777
<b>Total receivables</b>	<b>528,037</b>	<b>544,183</b>

Allowances for, and write-off, of receivables recorded within operating expenses amounted to €4,310 thousand in 2017 (2016: €750 thousand).



## Current trade receivables

In € thousand	Gross value	Receivable allowances	Net value at 31 Dec 2017	Net value at 31 Dec 2016
Current trade receivables due from Slovenian customers	11,232	204	11,028	10,270
Current trade receivables due from foreign customers	515,547	25,840	489,707	500,136
<b>Total current trade receivables</b>	<b>526,779</b>	<b>26,044</b>	<b>500,735</b>	<b>510,406</b>

Of the total amount, 65% of trade receivables was secured with SID - Prva kreditna zavarovalnica, d.d. (2016 year-end: 58%).

## Other current receivables

Other current receivables refer mostly to receivables due from the state on account of corporate income tax in the amount of €1,988 thousand (2016: €8,471 thousand), and other receivables due from the state amounting to €18,115 thousand (2016: €18,954 thousand).

Advances for services reached €4,893 thousand (€5,365 thousand as at 31 December 2016).

## 19. Cash and cash equivalents

In € thousand	31 Dec 2017	31 Dec 2016
Cash in hand	120	78
Bank balances	45,828	38,552
<b>Total cash and cash equivalents</b>	<b>45,948</b>	<b>38,630</b>

The Krka Group concluded contracts with three different banks on the authorised overdraft limit on bank accounts in the total amount of €14,500 thousand (in 2016, contracts worth a total of €1,500 thousand were concluded with two banks). No negative balances were recorded on these bank accounts as at 31 December 2017, so no overdraft facilities were used.

## 20. Equity

### Share capital

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 adopted at the 19th General 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

At the 23<sup>rd</sup> General Annual Meeting, held on 6 July 2017, the shareholders adopted a resolution authorising the Management Board of the controlling company to acquire treasury shares, on the condition that the combined share of all treasury shares acquired and already held did not exceed 10% of the share capital, or 3,279,344 shares.

Based on this authorisation, the company is allowed to acquire treasury shares on the regulated market at respective market prices. The company may acquire treasury shares also 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 times the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

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 its M&A strategy
- to be sold to a strategic partner

The preemptive right of existing shareholders is eliminated in full on the disposal of treasury shares.

### Repurchase of treasury shares in 2017

	Number of shares	Weighted average share price (in EUR)	Value of shares (in € thousand)
<b>Balance at 31 Dec 2016</b>	<b>493,130</b>		<b>29,690</b>
Repurchases in 2017	198,587	54.88	10,898
<b>Balance at 31 Dec 2017</b>	<b>691,717</b>		<b>40,588</b>

The subscription fee is included in the weighted average price of shares.

The repurchases of treasury shares in 2017 refer to repurchases that were recorded in books of accounts in 2017. Due to the delay in postings, the number of shares differs from the actual number of shares repurchased in 2017, which was announced by the company on the Ljubljana Stock Exchange website.

The 2017 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 reserve and translation reserves.

*Reserves for treasury shares* amounted to €40,588 thousand as at the reporting date and increased by €10,898 thousand based on their formation as a result of additional repurchasing of treasury shares.

*The share premium* is to be used according to the terms and purposes defined by the applicable act. The share premium was reported at €105,897 thousand as at 31 December 2017, 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 of €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 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 2017, the value of share premium remained unchanged.

*Legal reserves* may be formed up to 30% of the share capital. They amounted to €14,990 thousand as at 31 December 2017 and remained unchanged compared to 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 can be used for loss coverage, the formation of reserves for treasury shares, for reducing share capital by share withdrawal, and for regulating the 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 €721 thousand, and amounted to €-12,523 thousand as at 31 December 2017. The cumulative change is due to: a €1,345 thousand decrease in the fair value of available-for-sale financial assets; a €256 thousand increase in the impact of deferred taxes in connection with the change in the value of these investments; a €374 thousand increase due to the conversion of post-employment benefits; and a €6 thousand decrease in the impact of deferred taxes due to the restatement of post-employment benefits.

Compared to the previous period, *translation reserves* decreased by €8,378 thousand, and amounted to €-67,475 thousand as at 31 December 2017. The decrease 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 based on the majority shareholder's profit of €152,600 thousand. The decrease, on the other hand, is a result of the allocation of accumulated profit to dividend payments (€88,644 thousand) in accordance with the resolution adopted by the 23rd General Annual Meeting, held on 6 July 2017; of the additional formation of €10,898 thousand of reserves for treasury shares by the controlling company in 2017; and of the acquisition of a stake in Golf Grad Otočec by Terme Krka.

The amount of the dividend payout shown in the statement of cash flows differs from the figure confirmed by the General Annual Meeting and included in the statement of changes in equity by €105 thousand of dividend payout (2016: €68 thousand).

## Dividends per share

In 2017, the declared gross dividend per share was €2.75 (2016: €2.65).

## Non-controlling interests within equity

In € thousand	Non-controlling interest		Equity attributable to the non-controlling interest		Net profit for the year attributable to the non-controlling interest	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Interest held by minority shareholders in Golf Grad Otočec*	28.9%	30.8%	881	979	-37	-12
Interest held by minority shareholders in Farma GRS**	0.3%	0.3%	90	77	13	16
<b>Total</b>			<b>971</b>	<b>1,056</b>	<b>-24</b>	<b>4</b>

\*Terme Krka has a 71.1% holding in Golf Grad Otočec, d. o. o.; the remaining shareholders include IMP PROMONT-ELEKTRO d.o.o. (3.05%), Abanka Vipava d.d. (6.1%), Trimo, d.d. (6.1%), Lesnina inženiring, d.d. (6.1%), Telekom Slovenije, d.d. (4.5%) and IMP PROMONT, d. o. o. (3.05%)

\*\* Krka has 99.7% 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 €4.74 in 2017, an increase of 35% over the previous year, when it stood at €3.35. The calculation of earnings per share took account of the profit for the period attributable to the controlling interests in the amount of €152,600 thousand (2016: €108,452 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 32,215,595 shares for 2017 and 32,408,870 shares for 2016. Treasury shares were eliminated from the calculation.

All shares issued by the controlling company are ordinary shares, so the diluted earnings per share ratio equals the basic earnings per share.

## 22. Provisions

In € thousand	Balance at 31 Dec 2016	Formation	Utilisation	Reversal	Translation reserve	Balance at 31 Dec 2017
Provisions for lawsuits	166	4,345	-6	-10	-12	4,507
Provisions for post-employment benefits and other non-current employee benefits	89,970	6,703	-3,989	-17	43	92,710
Other provisions	671	584	-343	-55	1	858
<b>Total provisions</b>	<b>90,807</b>	<b>11,632</b>	<b>-4,338</b>	<b>-82</b>	<b>56</b>	<b>98,075</b>

The value of provisions for lawsuits referring to intellectual property are defined on the basis of the amount of the legal claim, or on the basis of an anticipated amount, if the amount from the legal claim is not yet known. External advisers for disputes referring to intellectual property are engaged to define the anticipated amounts. Furthermore, management verify the calculated amount of provisions each year for each individual claim that is not yet closed.

In total eight lawsuits referring to intellectual property were filed against Krka and its subsidiaries, totalling €11,310 thousand, as well as 36 lawsuits referring to other areas (labour legislation, civil lawsuits), totalling €1,109 thousand. Based on the content of the disputes and on the legal opinion of external experts, the Management Board of the controlling company assessed that €4,000 thousand of additional provisions should be set aside for intellectual property disputes. In addition, €507 thousand of provisions were recognised for other disputes.

Provisions for post-employment benefits and other non-current employment benefits are based on a calculation performed by a certified actuary, and they were accounted for under the following assumptions:

- The selected discounted interest rate is 1.83% annually, which equals the return on 15-year corporate bonds with a high credit rating in euro area at the end of November 2017 (2016: 1.75%);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal rules;
- staff turnover, depending in particular on the employees' age;
- mortality rates calculated on the basis of the latest mortality tables available;
- increase in salaries by 1.80% (the same as in 2016).

**Provisions for post-employment benefits**

In € thousand	2017	2016
<b>As at 1 Jan</b>	<b>73,521</b>	<b>68,270</b>
Employee benefit costs (CSC)	3,623	3,013
Interest expense (IC)	1,371	1,518
Post-employment benefits paid	-2,442	-2,241
Actuarial surplus/deficit, of that:	235	2,961
- change in financial assumptions	-716	1,893
- experience	951	1,068
<b>As at 31 Dec</b>	<b>76,308</b>	<b>73,521</b>

**Sensitivity analysis**

	Discount rate		Salary increase	
Change in	Percentage point		Percentage point	
Change in	0.5	-0.5	0.5	-0.5
<b>Impact on liabilities in € thousand</b>	<b>-4,467</b>	<b>4,940</b>	<b>4,916</b>	<b>-4,489</b>

**23. Deferred revenue**

In € thousand	Balance at 31 Dec 2016	New deferred revenue received	Deferred revenue reversal	Balance at 31 Dec 2017
Grants received from the European Fund for Regional Development and Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	2,384	0	-267	2,117
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	3,927	0	-142	3,785
Grants from the European Regional Development Fund – development of new technologies (FBD project)	340	0	-98	242
Grants from the European Regional Development Fund for setting up information and technology solutions system GEN-I	14	0	-4	10
Grants from the European Regional Development Fund for Slovene economy development centres	5,419	0	-667	4,752
Subsidy for acquisition of electric drive vehicles	5	2	0	7
Property, plant and equipment received for free	53	9	-31	31
Emission coupons	16	20	-27	9
Other deferred revenue	0	245	-245	0
<b>Total deferred revenue</b>	<b>12,158</b>	<b>276</b>	<b>-1,481</b>	<b>10,953</b>

The production of pharmaceuticals in the new Notol 2 plant 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 revenue are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

## 24. Trade payables

In € thousand	31 Dec 2017	31 Dec 2016
Payables to domestic suppliers	43,256	45,748
Payables to foreign suppliers	61,790	78,696
Payables from advances	3,294	3,993
<b>Total trade payables</b>	<b>108,340</b>	<b>128,437</b>

## 25. Other current liabilities

In € thousand	31 Dec 2017	31 Dec 2016
Accrued contractual discounts on products sold	125,680	150,080
Payables to employees – gross salaries, other receipts and charges	38,551	38,112
Derivative financial instruments	284	12,670
Other	21,253	20,796
<b>Total other current liabilities</b>	<b>185,768</b>	<b>221,658</b>

Accrued contractually agreed discounts on products sold include discounts which customers are entitled to when the relevant terms and conditions are fulfilled; these discounts are not granted to customers in the year of the sale.

The item "Other" also includes current liabilities to the state on account of VAT payable in the amount of €4,911 thousand (2016: €6,894 thousand) and other current liabilities to the state totalling €7,987 thousand (2016: €4,804 thousand).

## 26. Contingent liabilities and commitments

In € thousand	31 Dec 2017	31 Dec 2016
Guarantees issued	18,396	15,846
Other	620	620
<b>Total contingent liabilities</b>	<b>19,016</b>	<b>16,466</b>

The major items of guarantees issued include a contract bond of €6,000 thousand issued for the supply of products by the subsidiary Krka Farmaceutici as the bidder selected in tenders published in Italy and a counter guarantee for the due payment of potential liabilities from customs guarantee of €4,500 thousand issued in Belarus. The item 'Other' includes affected property in Serbia in the amount of €620 thousand.

Based on contracts that were signed in connection with on-going investments, at year-end, commitments for the acquisition of property, plant and equipment amount to €62,643 thousand (2016 year-end: €35,596 thousand).

## Operating lease

In € thousand	31 Dec 2017	31 Dec 2016
Up to 1 year	2,849	2,446
1-5 years	6,103	4,166
More than 5 years	1,320	52
<b>Total lease liabilities</b>	<b>10,272</b>	<b>6,664</b>

Lease contracts with terms in excess of 5 years refer to 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 lease of equipment and cars.

## 27. Financial liabilities

### Movement of financial liabilities

In € thousand	At 31 Dec 2016	Non-cash changes		At 31 Dec 2017
		Cash flows	Addition/disposal	
Dividends	1,470	-88,749	88,645	1,366
Treasury shares	0	-10,898	10,898	0
<b>Total</b>	<b>1,470</b>	<b>-99,647</b>	<b>99,543</b>	<b>1,366</b>

## 28. Financial instruments and financial risks

### Credit risk

The key credit risk of the Krka Group relates to trade receivables; this is the risk that a client might fail to settle liabilities by maturity dates.

The Krka Group introduced a centralised credit control process in 2004. The credit control process involves all clients with whom Krka's annual sales exceeds €100,000. At the end of 2017, trade receivables included in the credit control process accounted for more than 90% of total receivables, and involved more than 400 clients.

The credit control process with these clients involves two steps. The first step involves a credit risk assessment of each client, determining the insurance of payments, and assigning relevant credit limits. Each new client is assessed, and in addition to this, the credit ratings of all clients are reviewed twice every year. Each credit rating includes more than 130 financial and non-financial indicators, which fall into four classes; each has a different weight in the final assessment. Each client is assigned a credit limit according to the credit rating assessment and the expected shipment and payment dynamics.

The second step involves regular dynamic monitoring of a client's payment discipline. The information systems of all Krka Group companies engaged in sales employ controls of available limits and overdue receivables. Control is exercised for each shipment of Krka products to clients. A shipment is blocked if a client is late on payments or if receivables together with the new shipment exceed the approved credit limit. Employees engaged in sales must start a payment collection procedure or arrange insurance for the outstanding settlements.

The process of credit control and authorisations for granting credit limits to clients are determined by company rules. Credit control engages also the system of regular reporting on trade receivables and the clients' payment discipline. The reporting system supports the early detection of clients at increased risk of defaulting on payments, and facilitates effective credit risk management.



Credit control guarantees permanent control of the quality of trade receivable portfolios. The result of credit control is a low share of receivable write-offs and impairments in total Krka Group sales.

The amount of receivable write-offs and impairments is low also because receivables are dispersed across a large number of clients and sales markets, and the majority of outstanding receivables are payable by clients with whom Krka has been doing business for some years.

Since 2009, the Krka Group has secured a part of its trade receivables with a credit insurance company. Trade receivables owned by clients from countries with increased credit risk ratings have been insured. Bank guarantees and letters of credit are used as insurance for payments to a lesser extent.

In 2017, we extended the trade receivables insurance with the existing credit insurance company and additionally included a major Russian client and several smaller clients.

At the end of 2017, 67% of trade receivables were insured at a credit insurance company or with financial instruments.

### Credit risk exposure

The carrying amount of financial assets accounts for the biggest exposure to credit risk as illustrated below.

In € thousand	Notes	31 Dec 2017	31 Dec 2016
Loans	14	10,969	18,242
Investments	15	8,815	10,215
Trade receivables	18	500,735	510,406
Cash and cash equivalents	19	45,948	38,630
<b>Total</b>		<b>566,467</b>	<b>577,493</b>

As for financial assets exposed to credit risk, loans and receivables are presented separately.

### Loans by geographical region

In € thousand	31 Dec 2017	31 Dec 2016
Slovenia	10,417	17,694
South-East Europe	132	151
East Europe	162	115
Central Europe	241	272
West Europe	17	10
Overseas markets	0	0
<b>Total</b>	<b>10,969</b>	<b>18,242</b>

**Trade receivables by geographical region**

In € thousand	31 Dec 2017	31 Dec 2016
Slovenia	11,027	10,273
South-East Europe	87,010	91,356
East Europe	193,483	232,772
Central Europe	70,165	70,174
West Europe	135,935	102,770
Overseas markets	3,115	3,061
<b>Total</b>	<b>500,735</b>	<b>510,406</b>

Of the total amount, 65% of trade receivables was insured with SID - Prva kreditna zavarovalnica, d. d. (2016 year-end: 58%).

**Maturity analysis of loans as at the reporting date**

In € thousand	Gross 2017	Allowance 2017	Gross 2016	Allowance 2016
Not-past due	10,966	0	18,237	0
Past due up to 20 days	0	0	0	0
Past due between 21 and 50 days	1	0	3	0
Past due between 51 and 180 days	1	0	2	0
Past due more than 180 days	12	11	11	11
<b>Total</b>	<b>10,980</b>	<b>11</b>	<b>18,253</b>	<b>11</b>

**Maturity of trade receivables as at the reporting date**

In € thousand	Gross 2017	Allowance 2017	Gross 2016	Allowance 2016
Not-past due	481,735	1,105	482,961	1,943
Past due up to 20 days	14,279	160	17,481	276
Past due between 21 and 50 days	2,466	67	4,683	128
Past due between 51 and 180 days	2,297	214	5,542	320
Past due more than 180 days	26,002	24,498	24,068	21,662
<b>Total</b>	<b>526,779</b>	<b>26,044</b>	<b>534,735</b>	<b>24,329</b>

The Krka Group agrees extended terms with some customers. If the Group did not extend payment terms to some of the customers, the receivable maturity structure would be as follows at the reporting date: not past due, €437,586 thousand (2016: €414,877 thousand); past due up to 20 days, €30,832 thousand (2016: €36,153 thousand); past due between 21 and 50 days, €7,382 thousand (2016: €7,619 thousand); past due between 51 and 180 days, €22,417 thousand (2016: €44,740 thousand); and past due more than 180 days, €1,504 thousand (2016: €7,017 thousand).

**Movement of allowances for loans**

In € thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>11</b>	<b>11</b>
<b>Balance at 31 Dec</b>	<b>11</b>	<b>11</b>

**Movements in receivable impairments less receivables due by the state and advances**

In € thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>24,329</b>	<b>25,098</b>
Formation of allowance	4,273	6,328
Write-off of receivables	-2,346	-2,733
Reversal of impairment	-42	-4,290
Collected written-off receivables	-10	-459
Effect of exchange rate differences	-160	385
<b>Balance at 31 Dec</b>	<b>26,044</b>	<b>24,329</b>

The subsidiary in East Europe reports €18,196 thousand of receivables due and outstanding from its customer. The company recognised allowances equal to 15% of total receivable outstanding or €2,729 thousand, which equals its share in accordance with the receivable insurance contract concluded by the controlling company Krka with SID - Prva kreditna zavarovalnica d.d. also for receivables due to subsidiaries from final customers. The controlling company has already received €15,694 million in compensation, which will be paid to the subsidiary in East Europe on completion of the court/bankruptcy proceedings currently in progress.

**Liquidity risk**

Among its business partners, Krka is known for its financial discipline, low indebtedness, and stable cash flows. In accordance with Krka's reputation, non-current borrowings were used only a few times. An occasional surplus of cash was placed in bank deposit during the year. Krka settled all of its financial liabilities regularly and at maturity. The exposure of the Krka Group to liquidity risk in 2017 was low.

The controlling company manages liquidity risk centrally and at the Group level. Subsidiaries are financed by the controlling company through intra-group loans. Any potential excess cash assets are deposited with the controlling company. In addition, due to growing competitiveness among banking service providers, Krka managed to further reduce transaction and trade finance costs in 2017.

By the end of 2017, we implemented targeted cash pooling at Citibank London for eight of Krka's EU subsidiaries. In this way, we improved cash management, which has already ensured a more transparent overview of liquidity in the Krka Group companies, reduced funding needs and therefore lowered financing costs, as well as decreased costs related to monetary transactions and improved monetary transaction security.

## Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

### Maturity of financial liabilities as at 31 Dec 2017

In € thousand	Carrying amount	Total	Contractual cash flows			
			Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
<b>Non-derivative financial liabilities</b>						
Payables to suppliers (excluding advances)	105,014	105,014	105,014	0	0	0
Other liabilities excluding amounts owed to the state, to employees and advances.	136,862	136,862	136,862	0	0	0
<b>Total non-derivative financial liabilities</b>	<b>241,876</b>	<b>241,876</b>	<b>241,876</b>	<b>0</b>	<b>0</b>	<b>0</b>
Derivative financial instruments	284	284	284	0	0	0
<b>Total derivative financial liabilities</b>	<b>284</b>	<b>284</b>	<b>284</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>242,160</b>	<b>242,160</b>	<b>242,160</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Maturity of financial liabilities as at 31 Dec 2016

In € thousand	Carrying amount	Total	Contractual cash flows			
			Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
<b>Non-derivative financial liabilities</b>						
Payables to suppliers (excluding advances)	124,384	124,384	124,384	0	0	0
Other liabilities excluding amounts owed to the state, to employees and advances.	158,400	158,400	158,400	0	0	0
<b>Total non-derivative financial liabilities</b>	<b>282,784</b>	<b>282,784</b>	<b>282,784</b>	<b>0</b>	<b>0</b>	<b>0</b>
Derivative financial instruments	12,670	12,670	12,670	0	0	0
<b>Total derivative financial liabilities</b>	<b>12,670</b>	<b>12,670</b>	<b>12,670</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>295,454</b>	<b>295,454</b>	<b>295,454</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Currency risk

The Krka Group operates in diverse international markets and is exposed to foreign exchange risks in certain markets.

Currency exposure arises due to a surplus of assets over liabilities in a particular currency in the statement of financial position of the Group, also referred to as the long position. The key accounting categories composing a long position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

The Russian rouble accounts for 55% and the major share of the currency position of the Krka Group. The position in roubles arises from trade receivables in the Russian market, and partly also from subsidiary funding by the controlling company of manufacturing capacities in the Russian Federation. We pay special attention to the risk management of the Russian rouble because of the importance of the Russian sales market, level of currency exposure, and volatility of the Russian rouble.

The exposure to the Romanian leu accounts for 15% of the currency position and arises from trade receivables accrued due to lengthy payment terms in Romania. The exposure to the Croatian kuna and Polish złoty is the

result of trade receivables and manufacturing facilities held by the Group in the two markets. Other currencies, among them the British pound, US dollar, Swedish krona, Hungarian forint, Czech koruna, Ukrainian hryvnia, Serbian dinar, Macedonian denar, and Kazakh tenge, constitute 14% of the currency position of the Krka Group.

Also in 2017, Krka closely monitored highly volatile currencies to which the Krka Group was exposed. The value of the Russian rouble expressed in euros was increasing from the beginning of the year until mid-April. The reason can be found in the stable macroeconomic conditions in the Russian Federation and the euro being under severe pressure of political risk prior to the elections in the Netherlands, France, and Germany. After the French presidential elections, the value of the euro rose, while the value of the rouble expressed in euros dropped to its lowest in 2017, to 71.81 roubles to one euro.

The impact of oil prices declined in 2017 compared to previous years, when it critically affected the value of the rouble. From the beginning until the end of the year, the Brent oil price in dollars increased by 17.7%, while the rouble value in dollars strengthened by only 5.4%. In the second half-year only, the Brent oil price rose by 40% whereas the rouble by only 2.3% in the same period. At the end of the year, the Brent oil price per barrel amounted to \$66.9, which was the highest since May 2015.

In 2017, the value of the rouble was greatly affected by the activities of the Russian central bank, which decreased the key interest rate by 225 basis points due to falling inflation. International investors also exerted considerable influence by exploiting the high level of real interest rates in the Russian Federation in individual periods, thus creating additional demand and supply for the rouble in the currency market. The value of the rouble expressed in euros dropped by 7.3% in 2017, while its average value in euros was 12.5% higher compared to 2016.

The value of the Polish zloty was more stable than in previous years. Stable macroeconomic situation provided little fluctuation of the zloty exchange rate and its value was increasing from the beginning until the end of 2017. Last year, the zloty gained 5.6% against the euro. The Polish central bank did not change its monetary policy, so there were no distinct differences compared to the European Central Bank (ECB) policy to increase the depreciation risk of the Polish currency.

The Romanian leu has fallen by 2.6% against the euro since the beginning of 2017. Tax reductions, a high increase in government spending, growing inflation, and a rising trade deficit were the main reasons for the depreciation of the exchange rate.

The value of the Croatian kuna recorded higher growth compared to previous years due to improved macroeconomic conditions, while the movement in the exchange rate was in line with the expectations and patterns of recent years. Once again, the British pound experienced somewhat higher volatility in 2017 due to the Brexit and internal political processes increasing the risk related to the British currency. The Krka Group has a long position in the Croatian kuna and the British pound among others; however, the volatility of the two exchange rates does not significantly influence the net financial result of the Group.

The value of the US dollar expressed in euros peaked at the beginning of 2017, and the US economy showed encouraging indicators of recovery. At the beginning of the year, markets were optimistic regarding the impact on the US currency of the projected tax and economy reforms of the new American president. Faster tightening of the US monetary policy was also anticipated. The euro was under the pressure of election risks in economically more important members of the European Economic and Monetary Union (EMU), and the economic recovery of the EMU was falling behind the recovery of the USA as well. In the first half of 2017, the ECB's measures supported the weaker value of the euro, whereas the market advantages of the US dollar against the euro gradually declined during the year. The political risk related to the euro reduced in April, the EMU recovery accelerated, and the ECB projected the faster elimination of expansionary monetary measures. However, the optimistic expectations in the USA have been decreasing despite the good macroeconomic indicators.

The dollar value expressed in euros fell by 12.1% from the beginning until the end of 2017. The average dollar value against the euro was 2% lower than in 2016. The Krka Group is exposed to the US dollar primarily in

purchasing; the currency position in dollars is relatively low, so the value of the US dollar does not significantly affect the exchange rate differences of the Krka Group recorded in the net financial result of the Group.

The Krka Group generally mitigates currency risks by natural hedging, primarily by increasing purchases and liabilities in currencies in which sales invoices are issued. When this is not possible, we use derivative financial instruments, or do not provide hedging for the risk. Generally, only forward contracts are used for hedging.

Krka continued with its policy of partial hedging against the Russian rouble-related risk in 2017. It generated a negative financial result from forward contracts. The cost of hedging against the Russian rouble is accrued due to the differences between the interest rates in the rouble and the euro. Partial hedging ensured a more stable net financial result for the Krka Group, while hedging costs were half as much as they would have been if we had used hedging throughout the year.

Due to the fall of the rouble value from the beginning until the end of the year, we generated net foreign exchange losses of €18,036 thousand.

We generated net foreign exchange gains from other currencies in 2017. Exposure to other currencies was not hedged. A multi-year analysis of exchange rate differences and hedging costs for the Romanian leu, Polish złoty, Czech koruna, Hungarian forint, and Croatian kuna has shown that full hedging for these currencies would not be effective in the case of the Krka Group. These currencies are generally subject to less marked fluctuations against the euro.

The currency exposure of the Krka Group includes the Ukrainian hryvnia, Kazakh tenge, Serbian dinar, and some other currencies. The exposure to these is less significant, and no financial instruments to mitigate risk exposure to them are available.

The currency risk management balance totalled €-22,497 thousand in 2017. In 2017, the Krka Group's net financial result amounted to €-22,567 thousand, a deterioration on 2016.

### Currency risk exposure

31 Dec 2017					
In € thousand	EUR*	PLN	HRK	RUB	RON
Loans	10,518	215	0	92	93
Trade receivables	163,311	56,162	18,685	159,205	56,002
Trade payables	-91,619	-1,782	-830	-3,313	-485
<b>Financial position exposure (net)</b>	<b>82,210</b>	<b>54,595</b>	<b>17,855</b>	<b>155,984</b>	<b>55,610</b>

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

31 Dec 2016					
In € thousand	EUR*	PLN	HRK	RUB	RON
Loans	17,830	255	0	29	104
Trade receivables	132,137	52,527	22,021	200,125	57,621
Trade payables	-100,903	-1,541	-1,355	-3,720	-407
<b>Financial position exposure (net)</b>	<b>49,064</b>	<b>51,241</b>	<b>20,666</b>	<b>196,434</b>	<b>57,317</b>

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

**Significant foreign exchange rates**

	Average exchange rate*		Final exchange rate*	
	2017	2016	2017	2016
PLN	4.26	4.36	4.18	4.41
HRK	7.46	7.53	7.44	7.56
RUB	65.94	74.17	69.39	64.30
RON	4.57	4.49	4.66	4.54

\* number of local currency's units for one euro

The above-stated exchange rates were used in the calculation of items in the financial statements as at 31 December and are equal to the reference exchange rates of the ECB effective on 31 December.

**Sensitivity analysis**

A 10% or 1% increase/decrease in the euro exchange rate in respect of currencies stated as at 31 December 2017 or 31 December 2016 would increase or decrease the profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, in particular interest rates, remain unchanged. The calculation of the above-stated exchange rate 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			
	2017		2016	
<b>Currency fluctuation</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
RUB	15.598	-15.598	19.643	-19.643
<b>Currency fluctuation</b>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
PLN	546	-546	512	-512
HRK	179	-179	207	-207
RON	556	-556	573	-573

Any additional 10% change in value of the Russian rouble or any additional 1% change in the Polish zloty, the Croatian kuna or the Romanian leu in respect of the euro value would result in an additional change in profit or loss before tax in the above-stated amounts.

**Interest rate risk**

The interest rate risk is defined as a threat of the Krka Group suffering an increase in financing costs from non-current borrowings or a decrease in income from long-term investments due to the changed reference market interest rates.

The interest rate risk with current borrowings and short-term investments is managed within the liquidity risk.

The Krka Group had no non-current borrowings in 2017. Long-term financial investments are not related to reference market interest rates, which is why the Krka Group was not exposed to the reference interest rate risk.



### Exposure to interest rate risk

In € thousand	2017	2016
<b>Financial instruments at fixed interest rate</b>	<b>10,967</b>	<b>18,242</b>
Financial assets	10,967	18,242
Financial liabilities	0	0
<b>Financial instruments at variable interest rate</b>	<b>0</b>	<b>0</b>
Financial assets	0	0
Financial liabilities	0	0

### Analysis of cash flow sensitivity by applying the variable interest rate

The Group reports no financial assets or financial liabilities at a variable interest rate at 31 December 2017, and thus the increase or decrease in variable interest rates would have no impact on its operating result.

### 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 adopted at the 19th General 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; 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 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 annual basis in line with the strategic policy of dividend increase. The Krka Group has no specific goals regarding the ownership share held by employees or share options plans.

There were no changes in Krka's approach to capital management in 2017 or 2016.

The Krka Group monitors capital by means of a gearing ratio, which is net debt divided by total net debt, plus total equity. Within net debt, Krka includes interest bearing borrowings and trade payables, less cash and cash equivalents.

In € thousand	31 Dec 2017	31 Dec 2016
Trade payables and other current liabilities	294,108	350,095
Cash and cash equivalents	45,948	38,630
<b>Net indebtedness</b>	<b>248,160</b>	<b>311,465</b>
Equity	1,487,699	1,444,444
<b>Equity and net indebtedness</b>	<b>1,735,859</b>	<b>1,755,909</b>
<b>Gearing (debt/equity) ratio</b>	<b>14.3%</b>	<b>17.7%</b>

## Fair value

In € thousand	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	9,543	9,543	8,801	8,801
Available-for-sale financial assets	8,815	8,815	10,138	10,138
Current loans	1,426	1,426	9,441	9,441
Current investments	0	0	77	77
– shares and interests held for trading	0	0	77	77
Trade receivables	500,735	500,735	510,406	510,406
Cash and cash equivalents	45,948	45,948	38,630	38,630
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-241,876	-241,876	-282,784	-282,784
Other current liabilities	-284	-284	-12,670	-12,670
– derivative financial instruments	-284	-284	-12,670	-12,670
<b>Total</b>	<b>324,307</b>	<b>324,307</b>	<b>282,039</b>	<b>282,039</b>

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 using observable market data.

## Assets at fair value

In € thousand	31 Dec 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets at fair value</b>								
Available-for-sale financial assets	7,434	0	1,381	8,815	8,775	0	1,363	10,138
Shares and interests held for trading	0	0	0	0	77	0	0	77
<b>Total assets at fair value</b>	<b>7,434</b>	<b>0</b>	<b>1,381</b>	<b>8,815</b>	<b>8,852</b>	<b>0</b>	<b>1,363</b>	<b>10,215</b>
<b>Assets for which fair value is disclosed</b>								
Non-current loans	0	0	9,543	9,543	0	0	8,801	8,801
Current loans	0	0	1,426	1,426	0	0	9,441	9,441
Trade receivables	0	0	500,735	500,735	0	0	510,406	510,406
Cash and cash equivalents	0	0	45,948	45,948	0	0	38,630	38,630
<b>Total assets for which fair value is disclosed</b>	<b>0</b>	<b>0</b>	<b>557,652</b>	<b>557,652</b>	<b>0</b>	<b>0</b>	<b>567,278</b>	<b>567,278</b>
<b>Total</b>	<b>7,434</b>	<b>0</b>	<b>559,033</b>	<b>566,467</b>	<b>8,852</b>	<b>0</b>	<b>568,641</b>	<b>577,493</b>

**Liabilities at fair value**

In € thousand	31 Dec 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Liabilities at fair value</b>								
Derivative financial instruments	0	0	284	284	0	0	12,670	12,670
<b>Total liabilities at fair value</b>	<b>0</b>	<b>0</b>	<b>284</b>	<b>284</b>	<b>0</b>	<b>0</b>	<b>12,670</b>	<b>12,670</b>
<b>Liabilities for which fair value is disclosed</b>								
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	241,876	241,876	0	0	282,784	282,784
<b>Total liabilities for which fair value is disclosed</b>	<b>0</b>	<b>0</b>	<b>241,876</b>	<b>241,876</b>	<b>0</b>	<b>0</b>	<b>282,784</b>	<b>282,784</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>242,160</b>	<b>242,160</b>	<b>0</b>	<b>0</b>	<b>295,454</b>	<b>295,454</b>

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.

**29. Related party transactions****Data on groups of persons**

By the end of the year, the members of the Management Board of the controlling company held 37,040 Krka shares i.e. 0.1129% of total equity or 0.1154% of voting rights, whereas the members of the Supervisory Board of the controlling company held 2,130 shares i.e. 0.0065% of total equity or 0.0066% of voting rights, and the Managing Directors of subsidiaries held 9,455 shares, i.e. 0.0288% of the total equity or 0.0295% of voting rights.

**Equity stakes held by members of the Management and Supervisory Boards of the company and their shares of voting rights**

	31 Dec 2017			31 Dec 2016		
	Number of shares	Equity share (in %)	Share of voting rights (in %)	Number of shares	Equity share (in %)	Share of voting rights (in %)
<b>Members of the Management Board</b>						
Jože Colarič	22,500	0.0686	0.0701	22,500	0.0686	0.0697
Aleš Rotar	13,915	0.0424	0.0433	13,915	0.0424	0.0431
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
David Bratož	0	0.0000	0.0000	0	0.0000	0.0000
Milena Kastelic	505	0.0015	0.0016	505	0.0015	0.0016
<b>Total members of the Management Board</b>	<b>37,040</b>	<b>0.1129</b>	<b>0.1154</b>	<b>37,040</b>	<b>0.1129</b>	<b>0.1147</b>
<b>Members of the Supervisory Board (owner representatives)</b>						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Hans-Helmut Fabry	0	0.0000	0.0000	0	0.0000	0.0000
Borut Jamnik	0	0.0000	0.0000	0	0.0000	0.0000
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Andrej Slapar	0	0.0000	0.0000	0	0.0000	0.0000
Boris Žnidarič	0	0.0000	0.0000	0	0.0000	0.0000
<b>Members of the Supervisory Board (employee representatives)</b>						
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0015
Franc Šašek	1,400	0.0043	0.0043	1,400	0.0043	0.0043
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
<b>Total members of the Supervisory Board</b>	<b>2,130</b>	<b>0.0065</b>	<b>0.0066</b>	<b>2,130</b>	<b>0.0065</b>	<b>0.0066</b>
<b>Total</b>	<b>39,170</b>	<b>0.1194</b>	<b>0.1220</b>	<b>39,170</b>	<b>0.1194</b>	<b>0.1213</b>

Treasury shares were eliminated from the calculation of voting rights (691,717 treasury shares as at 31 December 2017 and 493,130 as at 31 December 2016).

**Remuneration paid to groups of persons (gross)**

In € thousand	2017	2016
Members of the Management Board in the controlling company	2,920	2,331
Managers of subsidiaries	2,448	2,532
Members of the Supervisory Board in the controlling company	209	206
Members of the Supervisory and Management Boards in subsidiaries	1	2
<b>Total gross remuneration paid to groups of persons</b>	<b>5,578</b>	<b>5,071</b>

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 consists of 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, include also solely earnings for exercising the function within the Supervisory and Management Boards.

Gross earnings paid to persons employed under individual employment contracts in 2017 amounted to €11,101 thousand (2016: €11,679 thousand).

#### Remuneration paid to members of the Management Board in the controlling company in 2017

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	406	163	10	518	203	924	376
Aleš Rotar	312	133	5	354	139	666	277
Vinko Zupančič	266	112	8	295	121	561	241
David Bratož	263	109	11	289	114	552	234
Milena Kastelic	155	74	5	62	25	217	104
<b>Total members of the Management Board</b>	<b>1,402</b>	<b>591</b>	<b>39</b>	<b>1,518</b>	<b>602</b>	<b>2,920</b>	<b>1,232</b>

	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	0.83	2.82	6.15	0.05	0.57	10.42
Aleš Rotar	0.00	2.82	0.72	0.92	0.57	5.03
Vinko Zupančič	2.25	2.82	1.94	0.76	0.58	8.35
David Bratož	0.00	2.82	6.66	0.86	0.58	10.92
Milena Kastelic	0.00	2.82	0.03	1.00	0.64	4.49
<b>Total members of the Management Board</b>	<b>3.08</b>	<b>14.10</b>	<b>15.50</b>	<b>3.59</b>	<b>2.94</b>	<b>39.21</b>

#### Remuneration paid to members of the Management Board in the controlling company in 2016

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	400	156	13	349	136	749	305
Aleš Rotar	310	127	8	223	87	533	222
Vinko Zupančič	261	107	10	185	73	446	190
David Bratož	259	105	12	161	63	420	180
Milena Kastelic	153	71	5	30	12	183	88
<b>Total members of the Management Board</b>	<b>1,383</b>	<b>566</b>	<b>48</b>	<b>948</b>	<b>371</b>	<b>2,331</b>	<b>985</b>

Net fringe benefits and other earnings						
In € thousand	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	4.21	2.82	5.50	0.04	0.55	13.12
Aleš Rotar	3.38	2.82	0.73	0.94	0.55	8.42
Vinko Zupančič	3.38	2.82	2.04	0.75	0.56	9.55
David Bratož	0.00	2.82	7.25	0.88	0.56	11.51
Milena Kastelic	0.00	2.82	0.57	1.03	0.64	5.06
<b>Total members of the Management Board</b>	<b>10.97</b>	<b>14.10</b>	<b>16.09</b>	<b>3.64</b>	<b>2.86</b>	<b>47.66</b>

The item "Other bonuses" includes the use of a company car for private purposes as well as any 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 on the management and supervisory boards of subsidiaries.

#### Remuneration paid to members of the Supervisory Board in the controlling company in 2017

In € thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Members of the Supervisory Board (owner representatives)</b>								
Jože Mermal	23.25	16.91	1.87	1.36	0.00	0.00	25.12	18.27
Hans-Helmut Fabry*	7.04	5.45	0.52	0.40	4.65	3.60	12.21	9.45
Borut Jamnik*	10.00	7.27	0.77	0.56	0.00	0.00	10.77	7.83
Julijana Kristl	19.37	14.09	1.82	1.32	0.43	0.32	21.62	15.73
Andrej Slapar	21.83	15.88	2.24	1.63	0.00	0.00	24.07	17.51
Boris Žnidarič	19.38	14.09	2.75	2.00	0.53	0.38	22.66	16.47
Simona Razvornik Škofič**	10.66	7.75	1.83	1.33	0.27	0.20	12.76	9.28
Anja Strojnik Štampar**	10.80	7.85	1.05	0.76	0.00	0.00	11.85	8.61
<b>Members of the Supervisory Board (employee representatives)</b>								
Franc Šašek	20.92	15.22	2.75	2.00	0.00	0.00	23.67	17.22
Tomaž Sever	19.37	14.09	2.75	2.00	0.54	0.40	22.66	16.49
Mateja Vrečer	19.37	14.09	2.09	1.52	0.00	0.00	21.46	15.61
<b>Total remuneration paid to members of the Supervisory Board</b>	<b>181.99</b>	<b>132.69</b>	<b>20.44</b>	<b>14.88</b>	<b>6.42</b>	<b>4.90</b>	<b>208.85</b>	<b>152.47</b>

\* Member of the Supervisory Board since 6 July 2017

\*\* Member of the Supervisory Board until 6 July 2017

In accordance with a resolution adopted at the 16th General Annual 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 meetings, which for each individual Committee member amounts to 80% of the attendance fee for Supervisory Board meetings. The attendance fee for participating in correspondence meetings 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 meetings of the Supervisory Board or meetings 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 payouts on an annual level.

In addition to attendance fees, members of the company's Supervisory Board receive on an annual basis a basic payment 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 the 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 of the Supervisory Board Committee.

Members of the Company's Supervisory Board and members of the Supervisory Board Committee receive a basic payment and an additional fee for exercising the function, in the 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 entitled in every financial year – regardless of the above-mentioned, or the number of committees of which they are a member or over which they preside – to receive bonuses until the total amount of these bonuses reaches 50% of the basic payment for exercising the function for each Supervisory Board member, taking into account actual payouts on an annual level.

#### Loans to groups of persons

In € thousand	Balance		Repayments	
	31 Dec 2017	31 Dec 2016	2017	2016
Members of the Management Board in the controlling company	1.78	1.78	1.33	2.34
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
<b>Total loans to groups of persons</b>	<b>1.78</b>	<b>1.78</b>	<b>1.33</b>	<b>2.34</b>

Loans granted to staff employed under individual employment contracts were as at 31 December 2017 recorded at €152 thousand (€167 thousand as at 31 December 2016). Repayments of loans by staff employed under individual employment contracts in 2017 reached €16 thousand (2016: €14 thousand).



### 30. Profile of the Group

Transactions between Group companies and groups of persons were implemented on the basis of sale and purchase contracts, whereas intercompany transactions were based on market prices of products and services.

	Share in equity	Share capital value at 31 Dec 2017	Currency	Headcount at 31 Dec 2017	Headcount at 31 Dec 2016
<b>Controlling company</b>					
KRKA, d. d., Novo mesto	100%	54,732,265	EUR	5,020	4,889
<b>Subsidiaries</b>					
TERME KRKA, d. o. o., Novo mesto	100%	14,753,239	EUR	584	576
Farma GRS, d. o. o., Novo mesto	99.70%	1,003,000	EUR	36	36
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	180	180
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	193	208
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	64	55
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,020,600	MKD	38	37
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	19,550	BGN	64	70
KRKA FARMA d. o. o., Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	1
KRKA-RUS LLC, Istra, Russian Federation	100%	3,961,374,765	RUB	417	361
KRKA FARMA LLC, Istra, Russian Federation	100%	753,874,800	RUB	1,930	2,048
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100,000	UAH	346	346
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	13,500	USD	111	115
KRKA - POLSKA Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	769	884
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	206	220
KRKA Magyarország Kft., Budapest, Hungary	100%	44,880,000	HUF	193	189
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	126	121
UAB KRKA Lietuva, Vilnius, Lithuania	100%	9,847	EUR	70	74
SIA KRKA Latvija, Riga, Latvia	100%	9,954	EUR	38	39
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	207	203
Krka Sverige AB, Stockholm, Sweden	100%	150,000	SEK	4	5
KRKA Pharma GmbH, Wien, Vienna, Austria	100%	36,500	EUR	24	28
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	30	29
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10,000	EUR	46	44
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	100%	10,000	EUR	63	58
KRKA France Eurl, Paris, France	100%	10,000	EUR	22	21
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	9	9
KRKA Belgium, SA, Brussels, Belgium	95%	200,000	EUR	21	24
KRKA Finland Oy, Espoo, Finland	100%	2,500	EUR	12	12
KRKA UK LTD, London, United Kingdom	100%	1,000	GBP	8	7
KRKA USA LLC, Wilmington, USA	100%	10,000	USD	0	0
<b>Total</b>				<b>10,832</b>	<b>10,889</b>

The subsidiary Terme Krka held a 71.1% in Golf Grad Otočec, d. o. o. at 31 December 2017; Farma GRS held a 100% 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% interest in the subsidiary KRKA Belgium, SA.

### 31. Educational structure of Krka Group employees

	2017		2016	
	Average headcount	Share (in%)	Average headcount	Share (in%)
PhD	173	1.6	162	1.5
MSc	375	3.5	369	3.4
University education	5,512	50.9	5,494	51.0
Higher professional education	1,463	13.5	1,404	13.0
Vocational college education	265	2.4	270	2.5
Secondary school education	1,879	17.4	1,871	17.4
Skilled workers	889	8.2	912	8.5
Unskilled workers	267	2.5	292	2.7
<b>Total (average for the period)</b>	<b>10,823</b>	<b>100.0</b>	<b>10,774</b>	<b>100.0</b>

### 32. Transactions with audit firms

The annual fee for auditing the Krka Group's financial statements in 2017 amounted to €442 thousand (2016: €459 thousand). In addition, the auditing firms provided various consultation services to the Group in 2017, charging a fee of €23 thousand.

### 33. Subsequent events

Below is a presentation of events that have taken place since the end of 2017 and up to 31 March 2018.

Krka established a joint venture with its Chinese partner Ningbo Menovo Pharmaceutical, in which Krka holds a 60% share and the partner a 40% share. The agreement establishing Ningbo Krka Menovo Pharmaceutical and its articles of association were signed by the partners on 15 November 2017. Immediately after the signing of the agreement, activities were initiated for the joint venture's approval by the Chinese authorities and its registration. The company was registered with the Chinese authorities on 5 December 2017. In January 2018, Ningbo Krka Menovo Pharmaceutical opened its bank account and, a few days later, on 22 January 2018, the partners paid in the first tranche of subscribed capital. The joint venture is headed by a three-member board of directors, in which Krka has two representatives, one being the president. The first meeting of the board took place on 14 March 2018.

Over the period from 1 January 2018 to 31 March 2018, we acquired 67,017 treasury shares. Thus, at the end of March 2018, Krka holds 758,734 treasury shares (2.314% of total shares).

## 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.**

#### **Opinion**

We have audited the consolidated financial statements of Krka Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Krka Group as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group Krka in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



#### Impairment test of TAD Pharma trademark and associated goodwill

TAD Pharma trademark and associated goodwill amount to 81 million EUR as at 31 December 2017 and represent 4,2 % of the total assets. The management prepared the impairment tests based on the value in use calculation. For the purpose of those tests goodwill was allocated to two cash generating units, controlling company Krka and TAD Pharma. Management used assumptions in respect of future market and economic conditions such as sales growth rates, earnings before interest, tax and depreciation (EBITDA) as well as discount rates. Impairment of TAD Pharma trademark and associated goodwill is a key audit matter due its complexity, the required estimates of management and the dependency on future market circumstances.

Our audit procedures included an assessment of the historical accuracy of management's estimates, evaluation and testing the assumptions, methodology, discount rates and data used by the Group. We included in our team a valuation expert to assist us with our assessment of the discount rates and the appropriateness of the model used. We assessed sensitivities on the impairment test of respective cash generating units and whether a reasonably possible change in assumptions such as long term growth rates and discount rates could cause the carrying amount to exceed its recoverable amount. We assessed the adequacy of the disclosures on the impairment of goodwill and trademark included in Note 13 of the consolidated financial statements.

#### Recoverability of receivables

Trade receivable balances are significant to the Group as they represent 26,0% of total consolidated assets as at 31 December 2017. The Group is exposed to credit and performance risk arising from the Group's global marketing operations. The process of collection of trade receivables is a key element of Krka's working capital management, which is managed on an ongoing basis. The Group has set control procedures in place, which among others include the credit rating of customers as well as active monitoring of payments by customers. Assessment of the recoverable amount of trade receivables requires management's judgement and assumptions to estimate allowances for receivables. Given the magnitude of trade receivable balances and the collectability assessment of these receivables, the recoverability of trade receivables was determined as a key audit matter.

We performed audit procedures on the existence of trade receivables, which include but are not limited to control testing on sales transactions and tracing back to shipping documents, and sending trade receivable confirmations to the customers. We assessed the management's estimates and assumptions used to calculate the trade receivables impairment amount, notably through analyses of ageing of receivables and review of disputable trade receivables. We reviewed the extent to which receivables to third parties had been secured through insurance companies and reviewed the process of prolongation of the payment terms after the sales. In addition, we evaluated the adequacy of the Group's disclosures regarding trade receivables and the related risks such as credit risk and the aging of trade receivables in Note 27 of the consolidated financial statements.

#### Revenue recognition - Rebates and discounts

Revenue is measured taking account of discounts, incentives and rebates earned by customers on the Group's sales. Due to the multitude and variety of contractual terms across the Group's markets, the estimation of discounts, incentives and rebates recognised based on sales made during the year is considered to be complex. Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer. We have determined revenue recognition as the key audit

Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies including those relating to discounts and rebates and assessing compliance with the policies in terms of applicable accounting standards. We tested the effectiveness of the Group's controls over calculation of discounts and rebates and correct timing of revenue recognition. We tested a sample of sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the year end date to





matter because revenue is one of the key performance indicators followed by the company which could create an incentive for revenue to be recognised before the risks and rewards have been transferred.

assess whether that revenue was recognised in the correct period and whether accruals for bonuses and discounts as at 31 December 2017 are fully recognized. We also considered the adequacy of the Group's disclosures in Note 5 in respect of revenue and Note 25 in respect to accrued bonuses and discounts.

#### **Other information**

Other information comprises the information included in the Annual Report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

#### **Responsibilities of management, audit committee and the supervisory board for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the 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.

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

The audit committee and the supervisory board are responsible for overseeing the Group's financial reporting process.



#### **Auditor's responsibilities for the audit of the consolidated financial statements**

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



#### Report on other legal and regulatory requirements

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

#### Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Company on 21 August 2017 based on our approval by the General Meeting of Shareholders on 6 July 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 6 years.

#### Consistence with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 21 March 2018.

#### Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the consolidated financial statements, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 28 March 2018

Sanja Košir Nikašinović  
Director  
Ernst & Young d.o.o.  
Dunajska 111, Ljubljana

  
**ERNST & YOUNG**  
Revizija, poslovno  
svetovanje d.o.o., Ljubljana 1

  
Lidija Šinkovec  
Certified auditor



## FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO

### Statement of financial position

In € thousand	Notes	31 Dec 2017	31 Dec 2016
<b>Assets</b>			
Property, plant and equipment	12	611,341	609,543
Intangible assets	13	28,299	29,302
Investments in subsidiaries	14	321,898	321,185
Trade receivables from subsidiaries	15	38,644	23,515
Loans	16	11,187	18,302
Investments	17	8,814	10,136
Deferred tax assets	18	12,342	12,101
Other non-current assets		70	92
<b>Total non-current assets</b>		<b>1,032,595</b>	<b>1,024,176</b>
Assets held for sale		41	41
Inventories	19	264,174	236,214
Trade receivables	20	456,265	479,234
Other receivables	20	15,395	21,408
Loans	16	34,895	52,504
Investments	17	0	77
Cash and cash equivalents	21	34,117	24,049
<b>Total current assets</b>		<b>804,887</b>	<b>813,527</b>
<b>Total assets</b>		<b>1,837,482</b>	<b>1,837,703</b>
<b>Equity</b>			
Share capital	22	54,732	54,732
Treasury shares	22	-40,588	-29,690
Reserves	22	180,779	170,583
Retained earnings	22	1,298,402	1,244,823
<b>Total equity</b>		<b>1,493,325</b>	<b>1,440,448</b>
<b>Liabilities</b>			
Provisions	25	85,503	78,903
Deferred revenue	26	2,408	2,788
<b>Total non-current liabilities</b>		<b>87,911</b>	<b>81,691</b>
Trade payables	27	159,119	148,562
Borrowings	24	27,525	105,269
Income tax payable		15,127	0
Other current liabilities	28	54,475	61,733
<b>Total current liabilities</b>		<b>256,246</b>	<b>315,564</b>
<b>Total liabilities</b>		<b>344,157</b>	<b>397,255</b>
<b>Total equity and liabilities</b>		<b>1,837,482</b>	<b>1,837,703</b>

The accounting policies and notes are an integral part of the financial statements and should be read in conjunction with them.

## Income statement

In € thousand	Notes	2017	2016
Revenues	5	1,197,756	1,071,709
Cost of goods sold	7	-511,870	-510,131
<b>Gross profit</b>		<b>685,886</b>	<b>561,578</b>
Other operating income	6	4,879	3,312
Selling and distribution expenses	7	-304,038	-281,290
R&D expenses	7	-131,201	-122,874
General and administrative expenses	7	-58,573	-61,806
<b>Operating profit</b>		<b>196,953</b>	<b>98,920</b>
Financial income	10	24,908	78,225
Financial expenses	10	-46,599	-72,733
<b>Net financial result</b>		<b>-21,691</b>	<b>5,492</b>
<b>Profit before tax</b>		<b>175,262</b>	<b>104,412</b>
Income tax	11	-21,532	-1,540
<b>Net profit</b>		<b>153,730</b>	<b>102,872</b>
<b>Basic earnings per share (in EUR)</b>	<b>23</b>	<b>4.77</b>	<b>3.17</b>
<b>Diluted earnings per share (in EUR)</b>	<b>23</b>	<b>4.77</b>	<b>3.17</b>

The accounting policies and 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	2017	2016
<b>Net profit</b>		<b>153,730</b>	<b>102,872</b>
<b>Other comprehensive income for the year</b>			
<b>Other comprehensive income for the year reclassified to profit or loss at a future date</b>			
Change in fair value of available-for-sale financial assets	22	-1,345	2,558
Deferred tax effect	22	256	-581
<b>Net other comprehensive income for the year reclassified to profit or loss at a future date</b>		<b>-1,089</b>	<b>1,977</b>
<b>Other comprehensive income for the year that will not be reclassified to profit or loss at a future date</b>			
Recalculation of post-employment benefits	25	-245	-2,619
Deferred tax effect	25	23	559
<b>Net other comprehensive income for the year that will not be reclassified to profit or loss at a future date</b>		<b>-222</b>	<b>-2,060</b>
<b>Total other comprehensive income for the year (net of tax)</b>		<b>-1,311</b>	<b>-83</b>
<b>Total comprehensive income for the year (net of tax)</b>		<b>152,419</b>	<b>102,789</b>

The accounting policies and 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	
<b>Balance at 1 Jan 2017</b>	<b>54,732</b>	<b>-29,690</b>	<b>29,690</b>	<b>105,897</b>	<b>14,990</b>	<b>30,000</b>	<b>-9,994</b>	<b>1,102,165</b>	<b>49,405</b>	<b>93,253</b>	<b>1,440,448</b>
<b>Net profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>153,730</b>	<b>153,730</b>
<b>Total other comprehensive income for the year (net of tax)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-702</b>	<b>0</b>	<b>-609</b>	<b>0</b>	<b>-1,311</b>
<b>Total comprehensive income for the year (net of tax)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-702</b>	<b>0</b>	<b>-609</b>	<b>153,730</b>	<b>152,419</b>
<b>Transactions with owners, recognised in equity</b>											
Formation of other profit reserves under the resolution of the General Annual Meeting	0	0	0	0	0	0	0	27,007	-27,007	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	93,253	-93,253	0
Purchase of treasury shares	0	-10,898	0	0	0	0	0	0	0	0	-10,898
Formation of reserves for treasury shares	0	0	10,898	0	0	0	0	0	0	-10,898	0
Dividends paid	0	0	0	0	0	0	0	0	-88,644	0	-88,644
<b>Total transactions with owners, recognised in equity</b>	<b>0</b>	<b>-10,898</b>	<b>10,898</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27,007</b>	<b>-22,398</b>	<b>-104,151</b>	<b>-99,542</b>
<b>Balance at 31 Dec 2017</b>	<b>54,732</b>	<b>-40,588</b>	<b>40,588</b>	<b>105,897</b>	<b>14,990</b>	<b>30,000</b>	<b>-10,696</b>	<b>1,129,172</b>	<b>26,398</b>	<b>142,832</b>	<b>1,493,325</b>

The accounting policies and 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	
<b>Balance at 1 Jan 2016</b>	<b>54,732</b>	<b>-20,071</b>	<b>20,071</b>	<b>105,897</b>	<b>14,990</b>	<b>30,000</b>	<b>-10,993</b>	<b>1,051,677</b>	<b>50,040</b>	<b>136,868</b>	<b>1,433,211</b>
<b>Net profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>102,872</b>	<b>102,872</b>
<b>Total other comprehensive income for the year (net of tax)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>999</b>	<b>0</b>	<b>-1,082</b>	<b>0</b>	<b>-83</b>
<b>Total comprehensive income for the year (net of tax)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>999</b>	<b>0</b>	<b>-1,082</b>	<b>102,872</b>	<b>102,789</b>
<b>Transactions with owners, recognised in equity</b>											
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	50,488	-50,488	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	136,868	-136,868	0
Purchase of treasury shares	0	-9,619	0	0	0	0	0	0	0	0	-9,619
Formation of reserves for treasury shares	0	0	9,619	0	0	0	0	0	0	-9,619	0
Dividends paid	0	0	0	0	0	0	0	0	-85,933	0	-85,933
<b>Total transactions with owners, recognised in equity</b>	<b>0</b>	<b>-9,619</b>	<b>9,619</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>50,488</b>	<b>447</b>	<b>-146,487</b>	<b>-95,552</b>
<b>Balance at 31 Dec 2016</b>	<b>54,732</b>	<b>-29,690</b>	<b>29,690</b>	<b>105,897</b>	<b>14,990</b>	<b>30,000</b>	<b>-9,994</b>	<b>1,102,165</b>	<b>49,405</b>	<b>93,253</b>	<b>1,440,448</b>

The accounting policies and notes are an integral part of the financial statements and should be read in conjunction with them.

## Statement of cash flows

In € thousand	Notes	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net profit</b>		<b>153,730</b>	<b>102,872</b>
<b>Adjustments for:</b>		<b>110,280</b>	<b>116,846</b>
– amortisation/depreciation	12, 13	81,674	81,765
– foreign exchange differences		148	-4,689
– investment income		-25,326	-34,836
– investment expense		30,074	70,391
– interest expense and other financial expense		2,178	2,675
– income tax	11	21,532	1,540
<b>Operating profit before changes in net operating current assets</b>		<b>264,010</b>	<b>219,718</b>
Change in trade receivables		8,193	-88,001
Change in inventories		-27,960	-5,646
Change in trade payables		18,131	6,218
Change in provisions		4,927	1,238
Change in deferred revenue		-380	-380
Change in other current liabilities		5,234	3,201
Income tax paid		293	-16,266
<b>Net cash from operating activities</b>		<b>272,448</b>	<b>120,082</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		882	1,379
Proceeds from sale of current investments		2	0
Dividends received		15	835
Proportionate profit of subsidiaries		1,027	11,051
Proceeds from sale of property, plant and equipment		581	945
Purchase of intangible assets	13	-4,917	-4,140
Purchase of property, plant and equipment	12	-87,989	-66,201
Acquisition of subsidiaries and a share of minority interest without obtained assets		-951	-19,250
Refund of subsequent payments in subsidiaries		237	79
Non-current loans		-2,169	-2,512
Proceeds from repayment of non-current loans		17,221	5,198
Payments to acquire non-current investments		-45	-71
Proceeds from sale of non-current investments		40	68
Proceeds in connection with current investments and loans		9,597	32,928
Payments in connection with derivative financial instruments		-27,094	-45,041
Proceeds from derivative financial instruments		9,474	21,292
<b>Net cash used in investing activities</b>		<b>-84,089</b>	<b>-63,440</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest paid		-839	-1,355
Repayment of non-current borrowings		0	-500
Acquisition/Repayment of current borrowings		-77,655	39,666
Dividends and other profit shares paid	22	-88,749	-86,001
Purchase of treasury shares	22	-10,898	-9,619
<b>Net cash used in financing activities</b>		<b>-178,141</b>	<b>-57,809</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>10,218</b>	<b>-1,167</b>
Cash and cash equivalents at the beginning of the year		24,049	24,622
Effect of exchange rate fluctuations on cash held		-150	594
<b>Net cash and cash equivalents at the end of the year</b>		<b>34,117</b>	<b>24,049</b>

The accounting policies and 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 office 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-1).

The financial statements were approved by Krka's Management Board 1 March 2018.

#### Basis of measurement

The financial statements have been prepared on the 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 euros, which is Krka's functional currency. All financial information presented in euros has been rounded to the nearest thousand.

#### The use of estimates and judgements

Management estimates include among other things: 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 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 make 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 financial position that are associated with future operations and which could result in 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 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 for the impairment of investments in subsidiaries as at 31 December 2017.

- *Note 20 Impairment testing of receivables*

In the financial statement preparation (quarterly and annually), Krka recognises allowances (impairment) of those receivables which it is assumed will not be settled in full or not at all. Allowances are recognised using a uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by debtors. The methodology includes quantitative and qualitative criteria, which are grouped into the following four sets: an analysis of the existing business dealings with the customer, an analysis of the customer's financial statements, a qualitative assessment of the customer by the sales staff, and an assessment of the customer's country risk. Thus, allowances of receivables due from individual customers are calculated on the basis of an algorithm that includes all the above criteria.

- *Note 25 Post-employment benefits*

Defined post-employment benefit obligations include the present value of termination benefits on retirement. They are recognised on the basis of an actuarial calculation, using assumptions and estimates effective at the time of the calculation, and may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to the determination of the discount rate, assessment of employee turnover, 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 25 Provisions for lawsuits and contingent liabilities*

Several lawsuits and claims have been brought against Krka for alleged breaches of intellectual property (patent rights or competition law) and those referring to other areas. 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.

- *Note 28 Other current liabilities*

Krka accrues contractually agreed discounts in its financial statements when, based on annual sales, individual customers obtain 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 preparation, past experience in trading with individual customers, and other relevant facts.

## 2. Significant accounting policies

Krka 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, as noted below, and which were applied if relevant events occurred in the company in the reporting period.

### **Newly adopted standards effective from 1 January 2017**

#### *Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses*

The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealised losses in order to address diversity in practice in the application of *IAS 12 - Income Taxes*. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to a combined versus separate assessment of deferred tax assets for unrealised losses.

These amendments will not have any impact on Krka's financial statements.

#### *Amendments to IAS 7 - Disclosure Initiative*

The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

These amendments will not have any impact on the company's financial statements.

### **Annual improvements to standards and interpretations – 2014–2016 cycle**

The IASB has issued the Annual Improvements to IFRSs 2014–2016 Cycle, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU.

#### *IFRS 12 - Disclosures of Interests in Other Entities*

The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

These amendments will not have any impact on Krka's financial statements.

## Foreign currencies

### **Foreign currency transactions**

Transactions and balances in foreign currencies are translated to 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 on that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to 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 to euro 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 to the functional currency by applying the exchange rate valid at the date of the 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/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 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 on 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 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 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 adopted. If the investment is

required 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 General Annual 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.

Cost includes expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of making the asset ready for its intended use, and (if applicable) assessed costs of dismantling and removing the items and restoring the site where 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 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 operating income" or "other operating expenses" in profit or loss.

As of 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 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 borrowing costs 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 expense when incurred.

### **Amortisation and 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 transport: 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 and depreciation

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 of 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 selling expenses and other possible administrative expenses which are usually connected with the sale.

An inventory unit of raw materials and materials, as well as ancillary 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, also includes 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. A quantity 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 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 upon the asset's disposal.

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, 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 loss is 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 greater 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.

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, Krka is liable to pay anniversary bonuses and termination benefits to its employees upon retirement. The company/Group 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 up to 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 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 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 an anticipated potential amount if the indemnification claim is not yet disclosed.

## Revenues from sale of goods and services rendered

Revenues from 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 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 selling prices stated in invoices or other documents, reduced by rebates approved when the sale is made, including those granted for early payment.

## Government grants

Deferred revenues referring to government grants are initially recognised when there is reasonable assurance that they will be received and that the company will comply with the conditions associated with the grants. Revenues that compensate 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, 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 expense 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, using the effective interest method, except those that are attributable to property, plant and equipment under construction.

## Income tax

Income tax expense comprises current and deferred tax. Income tax expense 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 using the balance sheet liability approach, 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 manner 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 is equal to the basic EPS, as all shares of the company belong to the same class of ordinary no-par value shares.

## Segment reporting

An operating segment is a distinguishable component of Krka 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 Eastern 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

The following new and amended standards have not come into effect by the financial statements' date and will be applied in future periods. Krka will apply the new and revised standards and interpretations when they are adopted. Krka did not apply any revised standards or interpretations prior to their effective date.

### *IFRS 9 Financial Instruments – Classification and Measurement*

The amendment is effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The final version of *IFRS 9 Financial Instruments* reflects all phases of the financial instruments project and replaces 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.

*IFRS 9* introduces a revised model of financial asset impairment, which is based on expected losses rather than on past losses. Given the nature of the Krka's financial assets and the impairment method used, management expect the above amendment will have no significant impact on the impairment amount.

Krka will apply the *IFRS 9* standard when it comes into effect (1 January 2018). On transition, Krka will apply a retrospective method without restatement of the comparative period data. Management do not expect any significant cumulative impact due to the adjustment of the initial balance of retained earnings on application of the revised standard.

### *IFRS 15 - Revenue from Contracts with Customers*

*IFRS 15* is effective for annual periods beginning on or after 1 January 2018. *IFRS 15* establishes a five-step model that will apply to *revenue* earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates.

Revenue from the sale of products includes revenue from the sale of prescription pharmaceuticals, medicines without prescription and veterinary products, where fulfilment of the obligation arises upon dispatch or acceptance of goods by the buyer. Based on the analysis carried out, the management estimate that the *IFRS 15* standard will not significantly impact the recognition timing or the amount of revenue recognised under these conditions.

Krka will apply the *IFRS 15* standard when it comes into effect (1 January 2018). On transition, a simplified retrospective method will be applied. Management do not expect any significant cumulative impact due to the adjustment of the initial balance of retained earnings on adoption of the revised standard.

### *IFRS 15 - Revenue from Contracts with Customers (Clarifications)*

The clarifications are effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in *IFRS 15 Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations, amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply *IFRS 15* fully retrospectively or that elect to apply the modified retrospective approach.

The management have assessed the impact of the Clarifications on the financial statements of Krka and believes the clarifications will have no significant impact on its financial statements.

#### *IFRS 16 - Leases*

*IFRS 16* is effective for annual periods beginning on or after 1 January 2019. *IFRS 16* sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognise most leases in their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

Due to the changed treatment of leases by lessees, *IFRS 16* will affect Krka's financial statements. Under the amended standard, leases will be recognised in the statement of financial position as a financial liability and an asset which the lessee has the right to use. Krka will apply the *IFRS 16* standard when it comes into effect (1 January 2019). Operating lease liabilities of Krka as at 31 December 2017 are disclosed in Note 26.

Upon the application of *IFRS 16*, a part of the lease costs currently recognised as operating expenses, will in future be recognised as interest expenses. Consequently, cash flows from operations will become cash flows from financing. Considering the level of operating lease commitments and assuming there is no change in the interest rate, the management of Krka do not expect any significant impact from the revised standard.

#### *Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture*

The amendments address an acknowledged inconsistency between the requirements in *IFRS 10* and those in *IAS 28*, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (or qualifies for a business). In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of Krka and consider that they will not have any impact on them.

#### *Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions*

The amendments are effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations, and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of Krka and consider that they will not have any impact on them.

#### *Amendments to IAS 40 - Transfers to Investment Property*

The amendments are effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The amendments clarify when an entity should transfer property, including property under construction or development into, or out of, investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of Krka and consider that they will not have any significant impact on them.

*Amendments to IFRS 9 - Prepayment Features with Negative Consideration*

The amendments are effective for annual periods beginning on or after 1 January 2019; early adoption is permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset, there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of Krka and will apply them when they come into force.

*Amendments to IAS 28 – Investments in Associates and Joint Ventures*

The amendments are effective for annual periods beginning on or after 1 January 2019; early adoption is permitted. The Amendments address the issue of whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' *in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both*. The Amendments clarify that an entity applies IFRS 9 - Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method *is not applied*. In applying *IFRS 9*, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying *IAS 28*. The amendments have not been endorsed by the EU.

Management have assessed the impact of the amendments on the financial statements of Krka and will apply them when they come into force.

*IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration*

The interpretations are effective for annual periods beginning on or after 1 January 2018; early adoption is permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation states that the date of the transaction for the purpose of determining the exchange rate is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. The Interpretation has not been endorsed by the EU.

Management have assessed the impact of the Clarifications on the financial statements of Krka and will apply them when they *come into force*.

*Annual improvements to standards and interpretations - 2014–2016 Cycle*

The IASB has issued the Annual Improvements to IFRSs 2014–2016 Cycle, which is a collection of amendments to IFRSs. The amendments *are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures*.

The improvement to *IFRS 1 - First-time Adoption of International Financial Reporting Standards* deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities applicable for first-time adopters.

Amendments to IAS 28 - Investments in Associates and Joint Ventures clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Early application of amendments to *IAS 28 - Long-term investments in associates and joint ventures* is allowed. The improvements have not been endorsed by the EU.

Management have assessed the impact of the improvements on the financial statements of Krka and believe they will not have any impact on them.

*IFRIC Interpretation 23 - Uncertainty Over Income Tax Treatment*

The interpretations are effective for annual periods beginning on or after 1 January 2019; early adoption is permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of *IAS 12 - Income Taxes*. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty, and accounting for changes in facts and circumstances. The Interpretation has not been endorsed by the EU.

The management have assessed the impact of the Clarifications on the financial statements of Krka and believe they will have no significant impact on them.

### **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 based on 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		Eastern Europe		Other		Total	
In € thousand	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Revenues</b>	<b>716,041</b>	<b>671,327</b>	<b>59,625</b>	<b>57,931</b>	<b>379,600</b>	<b>300,682</b>	<b>42,490</b>	<b>41,769</b>	<b>1,197,756</b>	<b>1,071,709</b>
Other operating income	4,355	3,033	44	25	480	254	0	0	4,879	3,312
Operating expenses	-614,052	-613,975	-45,132	-45,124	-318,913	-287,920	-27,585	-29,082	-1,005,682	-976,101
<b>Operating profit</b>	<b>106,344</b>	<b>60,385</b>	<b>14,537</b>	<b>12,832</b>	<b>61,167</b>	<b>13,016</b>	<b>14,905</b>	<b>12,687</b>	<b>196,953</b>	<b>98,920</b>
Interest income	449	627	0	0	289	770	0	0	738	1,397
Interest expenses	-860	-1,562	0	0	0	0	0	0	-860	-1,562
<b>Net financial result</b>	<b>2,147</b>	<b>8,149</b>	<b>-71</b>	<b>-108</b>	<b>-23,516</b>	<b>-777</b>	<b>-251</b>	<b>-1,772</b>	<b>-21,691</b>	<b>5,492</b>
Income tax	-11,626	-940	-1,589	-200	-6,687	-203	-1,630	-197	-21,532	-1,540
<b>Net profit</b>	<b>96,865</b>	<b>67,594</b>	<b>12,877</b>	<b>12,524</b>	<b>30,964</b>	<b>12,036</b>	<b>13,024</b>	<b>10,718</b>	<b>153,730</b>	<b>102,872</b>
Investments	85,332	80,663	0	0	0	0	0	0	85,332	80,663
Depreciation	53,838	53,922	1,686	1,694	20,003	20,079	408	367	75,935	76,062
Amortisation	3,431	3,573	286	308	1,819	1,600	203	222	5,739	5,703
	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>
<b>Total assets</b>	<b>1,299,639</b>	<b>1,300,003</b>	<b>41,563</b>	<b>41,895</b>	<b>485,553</b>	<b>485,928</b>	<b>10,727</b>	<b>9,877</b>	<b>1,837,482</b>	<b>1,837,703</b>
<b>Total liabilities</b>	<b>227,306</b>	<b>296,209</b>	<b>9,530</b>	<b>9,103</b>	<b>89,939</b>	<b>65,922</b>	<b>17,382</b>	<b>26,021</b>	<b>344,157</b>	<b>397,255</b>

## 5. Revenues

In € thousand	2017	2016
Revenues from the sale of products	1,095,587	975,496
Revenue from the sale of services	3,106	10,242
Revenues from the sale of material and merchandise	99,063	85,971
<b>Total revenues</b>	<b>1,197,756</b>	<b>1,071,709</b>

## 6. Other operating income

In € thousand	2017	2016
Deferred revenue reversal	404	416
Gain on sale of property, plant and equipment and intangible assets	456	253
Reversal of receivable impairment	877	707
Other income	3,142	1,936
<b>Total other operating income</b>	<b>4,879</b>	<b>3,312</b>

## 7. Costs by nature

In € thousand	2017	2016
Cost of goods and material	356,989	337,618
Costs of services	350,013	326,305
Employee benefit costs	211,357	204,915
Amortisation and depreciation	81,674	81,765
Inventory write-off and allowances	8,218	9,312
Receivable impairment and write-off	789	67
Formation of provisions for lawsuits	4,000	0
Other operating expenses	24,454	21,245
<b>Total costs</b>	<b>1,037,494</b>	<b>981,227</b>
Change in the value of inventories of products and work in progress	-31,812	-5,126
<b>Total</b>	<b>1,005,682</b>	<b>976,101</b>

## 8. Employee benefit costs

In € thousand	2017	2016
Gross wages and salaries and continued pay	164,528	159,372
Social security contributions	11,655	11,864
Pension insurance contributions	22,195	20,918
Post-employment benefits and other non-current employee benefits	4,300	4,364
Other employee benefit costs	8,679	8,397
<b>Total employee benefit cost</b>	<b>211,357</b>	<b>204,915</b>

Post-employment benefits and other non-current obligations are explained in detail in Note 25. Other employee benefit costs primarily comprise the vacation bonus and commuting allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2017 amounted to €39,930 thousand (2016: €38,403 thousand). Additional pension insurance contributions amounted to €6,518 thousand (2016: €6,372 thousand).

## 9. Other operating expenses

In € thousand	2017	2016
Grants and assistance for humanitarian and other purposes	1,223	1,198
Environmental protection expenses	2,540	2,068
Other taxes and levies	15,705	13,557
Loss on sale of property, plant and equipment and intangible assets	2,696	940
Other expenses	2,290	3,482
<b>Total other operating expenses</b>	<b>24,454</b>	<b>21,245</b>

Other levies include €14,085 thousand in various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries (2016: €11,915 thousand).

## 10. Financial income and expense

In € thousand	2017	2016
Net foreign exchange differences	0	43,642
Interest income	738	1,397
Gains on disposal of securities	2	0
Financial instruments income	22,144	21,292
– realised income	9,474	21,292
– change in fair value	12,670	0
Income from dividends and other shares of the profit	1,985	11,886
– dividends	973	835
Profits of subsidiaries	1,012	11,051
Other financial income	39	8
<b>Total financial income</b>	<b>24,908</b>	<b>78,225</b>
Net foreign exchange differences	-16,947	0
Interest expenses	-860	-1,562
Change in fair value of investments through profit or loss	0	-10
Financial instruments expenses	-27,378	-69,440
– incurred expenses	-27,094	-45,041
– change in fair value	-284	-24,399
Other financial expenses	-1,414	-1,721
<b>Total financial expenses</b>	<b>-46,599</b>	<b>-72,733</b>
<b>Net financial result</b>	<b>-21,691</b>	<b>5,492</b>

## 11. Income tax

### Adjustment to effective tax rate

In € thousand	2017	2016
Income tax	21,494	2,096
Deferred tax	38	-556
<b>Total income tax</b>	<b>21,532</b>	<b>1,540</b>
<b>Profit before tax</b>	<b>175,262</b>	<b>104,412</b>
Income tax at the rate of 19% (2016: 17%)	33,300	17,750
Tax exempt expenses	2,185	1,984
Increased expenses	-23	-92
Tax incentives	-13,550	-14,951
Revenues decreasing the tax base	-380	-2,006
Effect of changed tax rate on deferred taxes	0	-1,145
<b>Total income tax</b>	<b>21,532</b>	<b>1,540</b>
<b>Effective tax rate</b>	<b>12.3%</b>	<b>1.5%</b>

Income tax for 2017 includes EUR 2,742 thousand of self-payment tax from the tax declaration for 2015.

Investments in R&D and investment relief account for the major share of tax incentives.

## 12. Property, plant and equipment

In € thousand	31 Dec 2017	31 Dec 2016
Land	25,771	24,005
Buildings	265,027	258,880
Equipment	287,290	278,847
Property, plant and equipment being acquired	29,149	42,049
Advances for property, plant and equipment	4,104	5,762
<b>Total property, plant and equipment</b>	<b>611,341</b>	<b>609,543</b>

Krka's largest investment in 2017, in the amount of €26,114 thousand, refers to the construction of the Development and Control Centre 4 (RKC 4) (2016: €11,657 thousand). Investments in the construction of the Notol 2 plant amounted to €22,025 thousand (2016: €25,550); investments in the expansion of hydrogenation capacities in Krško reached €3,298 thousand. The latter is a new project, introduced in 2017, and thus no comparable data for 2016 exist. Investments in the construction of a multi-purpose warehouse amounted to €2,210 thousand (2016: €1,273 thousand), while €1,666 thousand were invested in 2017 in the construction of offices in Ljubljana (2016: €180 thousand).

A total of €3,246 thousand were spent on various projects in the area of information technology and telecommunications (2016: €3,571 thousand).

**Movement of property, plant and equipment (PPE)**

In € thousand	Land	Buildings	Equipment	PPE being acquired	Advances for PPE	Total
<b>Cost</b>						
<b>Balance at 1 Jan 2016</b>	<b>22,826</b>	<b>528,308</b>	<b>804,646</b>	<b>12,822</b>	<b>2,869</b>	<b>1,371,471</b>
Additions	0	0	0	73,596	2,893	76,489
Capitalisation – transfer from PPE under construction	1,184	3,719	39,466	-44,369	0	0
Disposals	-5	-1,184	-12,467	0	0	-13,656
Transfers, reclassification	0	-370	496	0	0	126
<b>Balance at 31 Dec 2016</b>	<b>24,005</b>	<b>530,473</b>	<b>832,141</b>	<b>42,049</b>	<b>5,762</b>	<b>1,434,430</b>
<b>Balance at 1 Jan 2017</b>	<b>24,005</b>	<b>530,473</b>	<b>832,141</b>	<b>42,049</b>	<b>5,762</b>	<b>1,434,430</b>
Additions	0	0	0	82,073	-1,658	80,415
Capitalisation – transfer from PPE under construction	1,836	28,145	64,992	-94,973	0	0
Disposals	-25	-3,054	-6,323	0	0	-9,402
Transfers, reclassification	-45	-171	216	0	0	0
<b>Balance at 31 Dec 2017</b>	<b>25,771</b>	<b>555,393</b>	<b>891,026</b>	<b>29,149</b>	<b>4,104</b>	<b>1,505,443</b>
<b>Accumulated depreciation</b>						
<b>Balance at 1 Jan 2016</b>	<b>0</b>	<b>-252,651</b>	<b>-508,753</b>	<b>0</b>	<b>0</b>	<b>-761,404</b>
Depreciation	0	-19,737	-56,325	0	0	-76,062
Disposals	0	610	12,105	0	0	12,715
Transfers, reclassification	0	185	-321	0	0	-136
<b>Balance at 31 Dec 2016</b>	<b>0</b>	<b>-271,593</b>	<b>-553,294</b>	<b>0</b>	<b>0</b>	<b>-824,887</b>
<b>Balance at 1 Jan 2017</b>	<b>0</b>	<b>-271,593</b>	<b>-553,294</b>	<b>0</b>	<b>0</b>	<b>-824,887</b>
Depreciation	0	-19,447	-56,488	0	0	-75,935
Disposals	0	606	6,114	0	0	6,720
Transfers, reclassification	0	68	-68	0	0	0
<b>Balance at 31 Dec 2017</b>	<b>0</b>	<b>-290,366</b>	<b>-603,736</b>	<b>0</b>	<b>0</b>	<b>-894,102</b>
<b>Carrying amount</b>						
<b>Balance at 1 Jan 2016</b>	<b>22,826</b>	<b>275,657</b>	<b>295,893</b>	<b>12,822</b>	<b>2,869</b>	<b>610,067</b>
<b>Balance at 31 Dec 2016</b>	<b>24,005</b>	<b>258,880</b>	<b>278,847</b>	<b>42,049</b>	<b>5,762</b>	<b>609,543</b>
<b>Balance at 1 Jan 2017</b>	<b>24,005</b>	<b>258,880</b>	<b>278,847</b>	<b>42,049</b>	<b>5,762</b>	<b>609,543</b>
<b>Balance at 31 Dec 2017</b>	<b>25,771</b>	<b>265,027</b>	<b>287,290</b>	<b>29,149</b>	<b>4,104</b>	<b>611,341</b>

No borrowing costs refer to items of property, plant and equipment in 2017.

The carrying amount of the items of property, plant and equipment, which are temporarily not in use amounted to €705 thousand at 31 December 2017 (2016 year-end: €679 thousand).

Of total property, plant and equipment in use as at 31 December 2017, 30% was fully depreciated (2016: 29%). 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 2017	31 Dec 2016
Concessions, patents, licences and similar rights	24,811	25,635
Intangible assets being acquired	3,488	3,667
<b>Total intangible assets</b>	<b>28,299</b>	<b>29,302</b>

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
<b>Cost</b>			
<b>Balance at 1 Jan 2016</b>	<b>89,032</b>	<b>3,915</b>	<b>92,947</b>
Additions	0	4,174	4,174
Transfer from IA being acquired	4,422	-4,422	0
Disposals	-791	0	-791
Transfers, reclassification	-126	0	-126
<b>Balance at 31 Dec 2016</b>	<b>92,537</b>	<b>3,667</b>	<b>96,204</b>
<b>Balance at 1 Jan 2017</b>	<b>92,537</b>	<b>3,667</b>	<b>96,204</b>
Additions	0	4,917	4,917
Transfer from IA being acquired	5,096	-5,096	0
Disposals	-244	0	-244
<b>Balance at 31 Dec 2017</b>	<b>97,389</b>	<b>3,488</b>	<b>100,877</b>
<b>Accumulated amortisation</b>			
<b>Balance at 1 Jan 2016</b>	<b>-61,390</b>	<b>0</b>	<b>-61,390</b>
Amortisation	-5,703	0	-5,703
Disposals	99	0	99
Transfers, reclassification	92	0	92
<b>Balance at 31 Dec 2016</b>	<b>-66,902</b>	<b>0</b>	<b>-66,902</b>
<b>Balance at 1 Jan 2017</b>	<b>-66,902</b>	<b>0</b>	<b>-66,902</b>
Amortisation	-5,739	0	-5,739
Disposals	63	0	63
<b>Balance at 31 Dec 2017</b>	<b>-72,578</b>	<b>0</b>	<b>-72,578</b>
<b>Carrying amount</b>			
<b>Balance at 1 Jan 2016</b>	<b>27,642</b>	<b>3,915</b>	<b>31,557</b>
<b>Balance at 31 Dec 2016</b>	<b>25,635</b>	<b>3,667</b>	<b>29,302</b>
<b>Balance at 1 Jan 2017</b>	<b>25,635</b>	<b>3,667</b>	<b>29,302</b>
<b>Balance at 31 Dec 2017</b>	<b>24,811</b>	<b>3,488</b>	<b>28,299</b>

Of total intangible assets in use as at 31 December 2017, 47% was fully amortised (46% as at 31 December 2016). 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
<b>Cost</b>	
<b>Balance at 1 Jan 2016</b>	<b>311,105</b>
Subsequent payments	1,856
Share capital increase	17,394
Refund of subsequent payments	-179
<b>Balance at 31 Dec 2016</b>	<b>330,176</b>
<b>Balance at 1 Jan 2017</b>	<b>330,176</b>
Share capital increase	950
Refund of subsequent payments	-237
<b>Balance at 31 Dec 2017</b>	<b>330,889</b>
<b>Accumulated impairment</b>	
<b>Balance at 1 Jan 2016</b>	<b>-8,991</b>
<b>Balance at 31 Dec 2016</b>	<b>-8,991</b>
<b>Balance at 1 Jan 2017</b>	<b>-8,991</b>
<b>Balance at 31 Dec 2017</b>	<b>-8,991</b>
<b>Carrying amount</b>	
<b>Balance at 1 Jan 2016</b>	<b>302,114</b>
<b>Balance at 31 Dec 2016</b>	<b>321,185</b>
<b>Balance at 1 Jan 2017</b>	<b>321,185</b>
<b>Balance at 31 Dec 2017</b>	<b>321,898</b>

Krka checks whether there are any indications of impairment of investments in subsidiaries at least once a year. The fair value of investments that may be impaired is determined with the application of methods that are most appropriate in terms of individual investments.

## Investments in subsidiaries

In € thousand	Share in equity 31 Dec 2017	Share capital 31 Dec 2017	Value of share in subsidiaries 31 Dec 2017    31 Dec 2016	
KRKA-RUS LLC, Istra, Russian Federation	100%	57,087	118,916	117,965
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
TERME KRKA, d. o. o., Novo mesto	100%	14,753	36,416	36,416
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	19,224	19,738	19,738
KRKA - POLSKA Sp. z o. o., Warsaw, Poland	100%	4,187	18,697	18,697
KRKA FARMA LLC, Istra, Russian Federation	100%	10,864	15,170	15,170
KRKA France Eurl, Paris, France	100%	10	4,662	4,662
KRKA Pharma GmbH, Wien, Vienna, Austria	100%	37	2,344	2,344
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	100%	10	1,350	1,350
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,042	1,279
KRKA Finland Oy, Espoo, Finland	100%	3	1,003	1,003
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	1,002	1,002
Farma GRS, d. o. o., Novo mesto	99.7%	1,003	1,000	1,000
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	801	802	802
KRKA Belgium, SA, Brussels, Belgium	95%	200	196	196
KRKA Magyarország Kft, Budapest, Hungary	100%	145	184	184
Krka Sverige AB, Stockholm, Sweden	100%	15	16	16
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	11	11	11
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	10	10
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 Latvija, Riga, Latvia	100%	10	10	10
KRKA UKRAINE LLC, Kiev, Ukraine	100%	3	9	9
KRKA USA LLC, Wilmington, USA	100%	8	8	8
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	3	4
KRKA UK LTD, London, United Kingdom	100%	1	2	2
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
<b>Total</b>			<b>321,898</b>	<b>321,185</b>

The subsidiary Terme Krka held a 71.1% in Golf Grad Otočec, d. o. o. at 31 December 2017; Farma GRS held a 100% 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% interest in the subsidiary KRKA Belgium, SA.

## 15. Trade receivables from subsidiaries

Total amount of trade receivables from subsidiaries refers to €38,644 of non-current receivables due from Krka-Rus in the Russian Federation (2016 year-end: €23,515). The receivables are interest-free, and mature within a period of 12 months.

## 16. Loans

In € thousand	31 Dec 2017	31 Dec 2016
<b>Non-current loans</b>	<b>11,187</b>	<b>18,302</b>
– loans to subsidiaries	1,950	9,786
– loans to others	9,237	8,516
<b>Current loans</b>	<b>34,895</b>	<b>52,504</b>
– portion of non-current loans maturing next year	3,765	11,708
– loans to subsidiaries	30,981	32,397
– loans to others	96	8,203
– current interest receivable	53	196
<b>Total loans</b>	<b>46,082</b>	<b>70,806</b>

Non-current loans to other entities comprise non-current loans that are extended by the company to its employees in accordance with internal acts of Krka. These loans are used for the purchase or renovation of housing facilities. Loans bear an annual interest rate that 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 0.592% and 0.726% in 2017 (2016: between 0.701% and 0.868%). The maximum repayment period is 15 years.

### Loans granted to subsidiaries including related current interest receivable

In € thousand	31 Dec 2017	31 Dec 2016
<b>Non-current loans to subsidiaries</b>	<b>4,576</b>	<b>20,606</b>
KRKA UKRAINE LLC, Kiev, Ukraine	1,136	1,136
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	986	986
KRKA Belgium, SA, Brussels, Belgium	950	970
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	702	1,013
KRKA Bulgaria EOOD, Sofia, Bulgaria	502	500
SIA KRKA Latvija, Riga, Latvia	300	300
KRKA-RUS LLC, Istra, Russian Federation	0	15,701
<b>Current loans to subsidiaries</b>	<b>31,020</b>	<b>32,415</b>
TERME KRKA, d. o. o., Novo mesto	30,500	32,333
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	262	0
KRKA Finland Oy, Espoo, Finland	141	0
KRKA UKRAINE LLC, Kiev, Ukraine	81	0
KRKA France Eurl, Paris, France	18	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	12	0
TAD Pharma GmbH, Cuxhaven, Germany	5	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1	0
KRKA UK LTD, London, United Kingdom	0	82
<b>Total loans to subsidiaries</b>	<b>35,596</b>	<b>53,021</b>

The maximum repayment period on non-current loans to subsidiaries is 3 years.

## 17. Investments

In € thousand	31 Dec 2017	31 Dec 2016
<b>Non-current investments</b>	<b>8,814</b>	<b>10,136</b>
– available-for-sale financial assets	8,814	10,136
<b>Current investments including derivative financial instruments</b>	<b>0</b>	<b>77</b>
– shares and interests held for trading	0	77
<b>Total investments</b>	<b>8,814</b>	<b>10,213</b>

Available-for-sale financial assets amounting to €809 thousand are investments in shares and interests in companies in Slovenia (2016 year-end: €760 thousand), and €8,005 thousand of investments in shares of companies located abroad (2016 year-end: €9,376 thousand).

### Movement in available-for-sale financial assets

In € thousand	Available-for-sale financial assets
<b>Balance at 1 Jan 2016</b>	<b>7,578</b>
Adjustment to market value	2,558
<b>Balance at 31 Dec 2016</b>	<b>10,136</b>
<b>Balance at 1 Jan 2017</b>	<b>10,136</b>
Addition	23
Adjustment to market value	-1,345
<b>Balance at 31 Dec 2017</b>	<b>8,814</b>

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 €-1,345 thousand in 2017 (2016: €2,558 thousand). No adjustment was recognised in profit or loss in 2016 or 2017.

## 18. Deferred tax assets and liabilities

	Assets		Liabilities	
In € thousand	2017	2016	2017	2016
Available-for-sale financial assets	1,727	1,727	1,128	1,384
Receivables	1,806	1,929	0	0
Dividends	182	0	0	
Provisions for post-employment benefits and other non-current employee benefits	9,755	9,829	0	0
<b>Total</b>	<b>13,470</b>	<b>13,485</b>	<b>1,128</b>	<b>1,384</b>
<b>Offsetting</b>	<b>-1,128</b>	<b>-1,384</b>	<b>-1,128</b>	<b>-1,384</b>
<b>Net</b>	<b>12,342</b>	<b>12,101</b>	<b>0</b>	<b>0</b>

In € thousand	Balance at 1 Jan 2016	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 Dec 2016	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 Dec 2017
Available-for-sale financial assets	742	182	-581	343	0	256	599
Receivables	2,217	-288	0	1,929	-123	0	1,806
Dividends	0	0	0	0	182	0	182
Provisions for post-employment benefits and other non-current employee benefits	8,608	662	559	9,829	-97	23	9,755
<b>Total</b>	<b>11,567</b>	<b>556</b>	<b>-22</b>	<b>12,101</b>	<b>-38</b>	<b>279</b>	<b>12,342</b>

The relevant amount of deferred tax assets and liabilities was calculated using the 19% income tax rate.

## 19. Inventories

In € thousand	31 Dec 2017	31 Dec 2016
Material	111,925	112,208
Work in progress	76,063	61,978
Products	63,533	52,478
Merchandise	9,811	8,816
Advances for inventories	2,842	734
<b>Total inventories</b>	<b>264,174</b>	<b>236,214</b>

The write-down and write-off of inventories to net realisable value amounted to €8,218 thousand (2016: €9,312 thousand).

## 20. Trade and other receivables

In € thousand	31 Dec 2017	31 Dec 2016
Current trade receivables	456,265	479,234
– current trade receivables due from subsidiaries	265,168	273,876
– current trade receivables due from customers other than subsidiaries	191,097	205,358
Other current receivables	15,395	21,408
<b>Total receivables</b>	<b>471,660</b>	<b>500,642</b>

## Current trade receivables

### Current receivables due from subsidiaries

In € thousand	31 Dec 2017	31 Dec 2016
KRKA-RUS LLC, Istra, Russian Federation	98,147	83,806
KRKA FARMA LLC, Istra, Russian Federation	63,499	78,916
KRKA-FARMA d. o. o., Zagreb, Croatia	20,581	22,706
KRKA FARMACÉUTICA, S.L., Madrid, Spain	13,380	8,477
Krka Sverige AB, Stockholm, Sweden	11,148	10,278
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	8,925	9,113
KRKA - POLSKA Sp. z o. o., Warsaw, Poland	8,695	11,233
KRKA-FARMA DOOEL, Skopje, Macedonia	8,663	7,604
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	8,493	5,383
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	5,227	6,615
KRKA Pharma GmbH, Wien, Vienna, Austria	4,311	2,194
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	4,060	1,799
KRKA France Eurl, Paris, France	3,002	2,524
KRKA Finland Oy, Espoo, Finland	2,688	641
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	2,379	3,154
TAD Pharma GmbH, Cuxhaven, Germany	0	17,464
Receivables due from other Group companies	1,970	1,969
<b>Total current receivables due from subsidiaries</b>	<b>265,168</b>	<b>273,876</b>

### Current trade receivables due from customers other than subsidiaries

In € thousand	Gross value	Receivable allowances	Net value Balance at 31 Dec 2017	Net value Balance at 31 Dec 2016
Current trade receivables due from Slovenian customers other than subsidiaries	9,319	27	9,292	8,491
Current trade receivables due from foreign customers other than subsidiaries	201,390	19,585	181,805	196,867
<b>Total current trade receivables due from customers other than subsidiaries</b>	<b>210,709</b>	<b>19,612</b>	<b>191,097</b>	<b>205,358</b>

The receivable write-off and allowances for receivables that are disclosed among operating expenses amounted to €789 thousand in 2017 (2016: €67 thousand).

Of the total amount of trade receivables, 65% was insured with SID - Prva kreditna zavarovalnica, d.d. (2016 year-end: 61%).

## Other current receivables

The majority of other current receivables of total €15,395 thousand (2016: €21,408 thousand) are receivables due from the state on account of VAT amounting to €9,789 thousand (€10,914 thousand as at 31 December 2016).

The company recorded €707 thousand of advances for services (€287 thousand at 31 December 2016).

## 21. Cash and cash equivalents

In € thousand	31 Dec 2017	31 Dec 2016
Cash in hand	1	2
Bank balances	34,116	24,047
<b>Total cash and cash equivalents</b>	<b>34,117</b>	<b>24,049</b>

Krka concluded contracts with three different banks on the authorised overdraft limit on bank accounts in the total amount of €14,500 thousand (in 2016, contracts worth a total of €1,500 thousand were concluded with two banks). No negative balances were recorded on these bank accounts as at 31 December 2017, thus no overdraft facilities were used.

## 22. Equity

### Share capital

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 adopted at the 19th General 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

At the 23rd General Annual Meeting held on 6 July 2017, the shareholders adopted a resolution authorising the Management Board of the controlling company to acquire treasury shares, on the condition that the combined share of all treasury shares acquired and already held did 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 acquire treasury shares also 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 times the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

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 its M&A strategy
- to be sold to a strategic partner

The preemptive rights of existing shareholders are eliminated in full on the disposal of treasury shares.

### Repurchase of treasury shares in 2017

	Number of shares	Weighted average share price (in EUR)	Value of shares (in € thousand)
<b>Balance at 31 Dec 2016</b>	<b>493,130</b>		<b>29,690</b>
Repurchases in 2017	198,587	54.88	10,898
<b>Balance at 31 Dec 2017</b>	<b>691,717</b>		<b>40,588</b>

The subscription fee is included in the weighted average price of shares.



The repurchases of treasury shares in 2017 refer to repurchases that were recorded in books of accounts in 2017. Due to the delay in postings, the number of shares differs from the actual number of shares repurchased in 2017, which was announced by the company on the Ljubljana Stock Exchange website.

The 2017 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

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 €40,588 thousand as at the reporting date and increased by €10,898 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 purposes as defined by the applicable act. The share premium was reported at €105,897 thousand as at 31 December 2017, 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 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 2017, the value of share premium 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 2017 and remained unchanged compared to 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 Krka up to the amount of €30,000 thousand. Statutory reserves can be used for loss coverage, the formation of reserves for treasury shares, for reducing share capital by share withdrawal, and for regulating the 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 €702 thousand, and amounted to €-10,696 thousand as at 31 December 2017. The cumulative change is due to: a €1,345 thousand decrease in the fair value of available-for-sale financial assets; a €256 thousand increase in the impact of deferred taxes in connection with the change in the value of these investments; a €364 thousand increase due to the restatement of post-employment benefits; and a €23 thousand increase in the impact of deferred taxes due to the restatement of post-employment benefits.

## Retained earnings

Retained earnings grew based on the majority shareholder's profit of €153,730 thousand. The decrease, on the other hand, is a result of the allocation of accumulated profit to dividend payments (€88,644 thousand), in accordance with the resolution adopted by the 23rd General Annual Meeting of Shareholders held on 6 July 2017, and of the additional formation of €10,898 thousand of reserves for treasury shares by the controlling company in 2017.

The amount of the dividend payout, shown in the statement of cash flows differs from the figure confirmed by the General Annual Meeting and included in the statement of changes in equity by dividend payout amounting to €105 thousand (2016: €68 thousand).

## Dividends per share

In 2017, the declared gross dividend per share was €2.75 (2016: €2.65).

## Identification of distributable profit

In € thousand	2017	2016
<b>Compulsory appropriation of profit</b>		
<b>Net profit</b>	<b>153,730</b>	<b>102,872</b>
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for treasury shares	-10,898	-9,619
– allocation to statutory reserves	0	0
<b>Profit after compulsory appropriation</b>	<b>142,832</b>	<b>93,253</b>
- formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0
<b>Surplus of profit</b>	<b>142,832</b>	<b>93,253</b>
<b>Identification of distributable profit</b>		
– surplus of profit	142,832	93,253
– retained earnings	26,398	49,405
<b>Distributable profit</b>	<b>169,230</b>	<b>142,658</b>

## 23. Earnings per share

Basic earnings per share amounted to €4.77 in 2017, an increase of 50% over the previous year, when it amounted to €3.17. The calculation takes into account the net profit of €153,730 thousand (€102,872 thousand in 2016). The weighted average number of shares was accounted for in the calculation for both years, i.e. 32,215,595 shares for 2017 and 32,408,870 shares for 2016. Treasury shares were eliminated from the calculation.

All shares issued by Krka are ordinary shares, so the diluted earnings per share ratio equals the basic earnings per share.

## 24. Borrowings

In € thousand	31 Dec 2017	31 Dec 2016
<b>Current borrowings</b>	<b>27,525</b>	<b>105,269</b>
– borrowings from subsidiaries	27,455	105,110
– current interest payable	70	159
<b>Total borrowings</b>	<b>27,525</b>	<b>105,269</b>

**Borrowings from subsidiaries, including current interest payable**

In € thousand	31 Dec 2017	31 Dec 2016
<b>Current borrowings from subsidiaries</b>	<b>27,525</b>	<b>105,269</b>
Farma GRS, d. o. o., Novo mesto	12,300	8,629
TAD Pharma GmbH, Cuxhaven, Germany	12,190	94,089
KRKA Pharma GmbH, Wien, Vienna, Austria	1,680	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	851	2,436
KRKA FARMACÉUTICA, S.L., Madrid, Spain	380	61
KRKA Belgium, SA, Brussels, Belgium	122	0
KRKA Finland Oy, Espoo, Finland	1	0
KRKA France Eurl, Paris, France	1	0
TERME KRKA, d. o. o., Novo mesto	0	54
<b>Total borrowings from subsidiaries</b>	<b>27,525</b>	<b>105,269</b>

Current borrowings are denominated in euros and were extended for a period of one year. These borrowings are not secured.

**25. Provisions**

In € thousand	Balance at 31 Dec 2016	Formation	Utilisation	Balance at 31 Dec 2017
Provisions for lawsuits	0	4,000	0	4,000
Provisions for post-employment benefits and other non-current employee benefits	78,903	5,973	-3,373	81,503
<b>Total provisions</b>	<b>78,903</b>	<b>9,973</b>	<b>-3,373</b>	<b>85,503</b>

The value of provisions for lawsuits referring to intellectual property are defined on the basis of the amount of the legal claim, or on the basis of an anticipated amount if the amount from the legal claim is not yet known. External advisers for disputes referring to intellectual property are engaged to define the anticipated amounts. Furthermore, management verify the calculated amount of provisions each year for each individual claim that is not yet closed.

In addition to six lawsuits in progress against Krka referring to intellectual property, totalling €8,310 thousand in indemnification claims, another three lawsuits referring to other areas (labour legislation, civil lawsuits), totalling €29 thousand have been filed against the company. Based on the content of the disputes and on the legal opinion of external experts, the management of Krka assessed that €4,000 of additional provisions should be set aside for the aforementioned disputes.

Provisions for post-employment benefits and other non-current employment benefits are based on a calculation performed by a certified actuary, and they were accounted for under the following assumptions:

- The selected discounted interest rate is 1.83% annually, which equals the return on 15-year corporate bonds with a high credit rating in euro area at the end of November 2017 (2016: 1.75%);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal acts;
- staff turnover, depending in particular on the employees' age;
- mortality rates calculated on the basis of the latest mortality tables available;
- increase in salaries by 1.80% (the same as in 2016).

**Provisions for post-employment benefits**

In € thousand	2017	2016
<b>As at 1 Jan</b>	<b>63,563</b>	<b>58,848</b>
Employee benefit costs (CSC)	3,054	2,835
Interest expense (IC)	1,149	1,166
Post-employment benefits paid	-2,027	-1,905
Actuarial surplus/deficit, of that:	245	2,619
- change in financial assumptions	-697	1,410
- experience	942	1,209
<b>At 31 Dec</b>	<b>65,984</b>	<b>63,563</b>

**Sensitivity analysis**

	Discount rate		Salary increase	
	Percentage point		Percentage point	
Change in	0.5	-0.5	0.5	-0.5
Impact on liabilities in € thousand	-4,244	4,695	-4,266	4,673

**26. Deferred revenue**

In € thousand	Balance at 31 Dec 2016	Deferred revenue received	Deferred revenue reversal	Balance at 31 Dec 2017
Grants received from the European Fund for Regional Development and Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	2,384	0	-267	2,117
Grants from the European Regional Development Fund – development of new technologies (FBD project)	340	0	-98	242
Grants from the European Regional Development Fund for setting up information and technology solutions system GEN-I	14	0	-4	10
Subsidy for acquisition of electric vehicles	5	2	0	7
Property, plant and equipment received for free	29	2	-8	23
Emission coupons	16	20	-27	9
<b>Total deferred revenue</b>	<b>2,788</b>	<b>24</b>	<b>-404</b>	<b>2,408</b>

The production of pharmaceuticals in the new Notol 2 plant 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 revenue are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

## 27. Trade payables

In € thousand	31 Dec 2017	31 Dec 2016
Payables to subsidiaries	80,358	56,943
Payables to domestic suppliers	37,900	41,387
Payables to foreign suppliers	37,967	46,799
Payables from advances	2,894	3,433
<b>Total trade payables</b>	<b>159,119</b>	<b>148,562</b>

### Payables to subsidiaries

In € thousand	31 Dec 2017	31 Dec 2016
KRKA FARMA LLC, Istra, Russian Federation	34,872	19,477
KRKA - POLSKA Sp. z o. o., Warsaw, Poland	12,639	6,345
KRKA ROMANIA S.R.L., Bucharest, Romania	5,057	4,163
KRKA-FARMA d. o. o., Zagreb, Croatia	3,984	4,076
KRKA Magyarország Kft., Budapest, Hungary	4,260	3,899
KRKA ČR, s. r. o., Prague, Czech Republic	2,186	3,235
Farma GRS, d. o. o., Novo mesto	2,887	3,186
TAD Pharma GmbH, Cuxhaven, Germany	2,010	2,572
KRKA UKRAINE LLC, Kiev, Ukraine	1,685	2,022
KRKA France Eurl, Paris, France	1,202	1,421
KRKA-RUS LLC, Istra, Russian Federation	1,644	1,258
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,601	964
UAB KRKA Lietuva, Vilnius, Lithuania	868	853
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	495	577
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	854	494
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	986	355
KRKA-FARMA DOOEL, Skopje, Macedonia	514	339
KRKA Belgium, SA, Brussels, Belgium	160	338
KRKA Bulgaria EOOD, Sofia, Bulgaria	440	334
SIA KRKA Latvija, Riga, Latvia	353	271
KRKA Pharma GmbH, Wien, Vienna, Austria	322	219
KRKA FARMACÉUTICA, S.L., Madrid, Spain	333	148
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	327	128
KRKA Finland Oy, Espoo, Finland	304	82
TERME KRKA, d. o. o., Novo mesto	83	70
Krka Sverige AB, Stockholm, Sweden	161	50
KRKA UK LTD, London, United Kingdom	115	40
KRKA FARMA d. o. o., Sarajevo, Bosnia and Herzegovina	13	23
KRKA USA LLC, Wilmington, USA	1	4
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	2	0
<b>Total payables to subsidiaries</b>	<b>80,358</b>	<b>56,943</b>

Trade payables to the subsidiary OOO Krka Farma increased on account of compensation paid to the controlling company Krka from SID – Prva kreditna zavarovalnica d.d. of €15,694 thousand as a settlement of outstanding receivables due to OOO Krka Farma from its customer for the sale of goods.

## 28. Other current liabilities

In € thousand	31 Dec 2017	31 Dec 2016
Accrued contractual discounts on products sold	17,967	14,141
Payables to employees – gross salaries, other receipts and charges	29,605	27,726
Derivative financial instruments	284	12,670
Other	6,619	7,196
<b>Total other current liabilities</b>	<b>54,475</b>	<b>61,733</b>

Accrued contractually agreed discounts on products sold include discounts which the customers are entitled to when the relevant terms and conditions are fulfilled; these discounts are not granted to customers in the year of the sale.

The item "Other" also includes current liabilities to the state on account of VAT payable in the amount of €5,250 thousand (2016: €5,545 thousand).

## 29. Contingent liabilities and commitments

In € thousand	31 Dec 2017	31 Dec 2016
Guarantees issued	15,722	13,598
Other	620	620
<b>Total contingent liabilities</b>	<b>16,342</b>	<b>14,218</b>

The major items of guarantees issued include a contract bond of €6,000 thousand issued for the supply of goods by Krka as the bidder selected in tenders published in Italy; a counter guarantee for the due payment of potential liabilities from customs guarantee of €4,500 thousand issued in Belarus; and a contract bond issued on behalf of the subsidiary TAD Pharma in the amount of €3,000 thousand. The item 'Other' includes affected property in Serbia in the amount of €620 thousand.

Based on contracts that signed in connection with on-going investments, at year-end commitments for the acquisition of property, plant and equipment amount to €44,373 thousand (2016 year-end: €53,484 thousand).

## Operating lease

In € thousand	31 Dec 2017	31 Dec 2016
Up to 1 year	1,091	1,026
1-5 years	1,946	1,213
More than 5 years	759	0
<b>Total lease liabilities</b>	<b>3,796</b>	<b>2,239</b>

Lease contracts with terms in excess of 5 years refer to 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 lease of equipment.

### 30. Financial liabilities

#### Movement of financial liabilities

€ thousand	At 31 Dec 2016	Non-monetary changes		At 31 Dec 2017
		Cash flows	Addition/disposal	
Borrowings	105,110	-77,655	0	27,455
Interest	159	-839	750	70
Dividends	1,470	-88,749	88,645	1,366
Treasury shares	0	-10,898	10,898	0
<b>Total</b>	<b>106,739</b>	<b>-178,141</b>	<b>100,293</b>	<b>28,891</b>

### 31. Financial instruments and financial risks

#### Credit risk

The key credit risk of Krka relates to trade receivables; this is the risk that a client might fail to settle liabilities by maturity dates.

Krka introduced a centralised credit control process in 2004. The credit control process involves all clients with whom Krka's annual sales exceeds €100,000. At the end of 2017, trade receivables included in the credit control process accounted for more than 90% of total receivables, and involved more than 400 clients.

The credit control process with these clients involves two steps. The first step involves a credit risk assessment of each client, determining the insurance of payments, and assigning relevant credit limits. Each new client is assessed, and in addition to this, the credit ratings of all clients are reviewed twice every year. Each credit rating includes more than 130 financial and non-financial indicators, which fall into four classes; each has a different weight in the final assessment. Each client is assigned a credit limit according to the credit rating assessment and the expected shipment and payment dynamics.

The second step involves regular dynamic monitoring of a client's payment discipline. The information systems of all Krka Group companies engaged in sales employ controls of available limits and overdue receivables. Control is exercised for each shipment of Krka products to clients. A shipment is blocked if a client is late on payments or if receivables together with the new shipment exceed the approved credit limit. Employees engaged in sales must start a payment collection procedure or arrange insurance for the outstanding settlements.

The process of credit control and authorisations for granting credit limits to clients are determined by company rules. Credit control engages also the system of regular reporting on trade receivables and the clients' payment discipline. The reporting system supports the early detection of clients at increased risk of defaulting on payments, and facilitates effective credit risk management.

Credit control guarantees permanent control of the quality of trade receivable portfolios. The result of credit control is a low share of receivable write-offs and impairments in total Krka Group sales.

The amount of receivable write-offs and impairments is low also because receivables are dispersed across a large number of clients and sales markets, and the majority of outstanding receivables are payable by clients with whom Krka has been doing business for some years.

Since 2009, Krka a part of trade receivables is secured with a credit insurance company. Trade receivables owned by clients from countries with increased credit risk ratings have been insured. Bank guarantees and letters of credit are used as insurance for payments to a lesser extent.



In 2017, we extended the trade receivables insurance with the existing credit insurance company and additionally included a major Russian client and several smaller clients.

At the end of 2017, 72% of Krka's trade receivables due from customers outside the Krka Group were insured at a credit insurance company or with financial instruments.

### Credit risk exposure

The carrying amount of financial assets accounts for the biggest exposure to credit risk as illustrated below.

In € thousand	Notes	31 Dec 2017	31 Dec 2016
Trade receivables from subsidiaries		38,644	23,515
Loans	16	46,082	70,806
Investments	17	8,814	10,213
Trade receivables	20	456,265	479,234
Cash and cash equivalents	21	34,117	24,049
<b>Total</b>		<b>583,922</b>	<b>607,817</b>

As for financial assets exposed to credit risk, loans, trade receivables and receivables due from subsidiaries are presented separately.

### Loans by geographical region

In € thousand	31 Dec 2017	31 Dec 2016
Slovenia	40,917	50,026
South-East Europe	508	516
East Europe	1,901	17,925
Central Europe	300	300
West Europe	2,456	2,039
Overseas markets	0	0
<b>Total</b>	<b>46,082</b>	<b>70,806</b>

### Trade receivables from subsidiaries by region

In € thousand	31 Dec 2017	31 Dec 2016
Slovenia	9,490	8,672
South-East Europe	91,918	96,857
East Europe	256,947	258,023
Central Europe	78,892	69,580
West Europe	54,547	66,556
Overseas markets	3,115	3,061
<b>Total</b>	<b>494,909</b>	<b>502,749</b>

Of the total amount of trade receivables, 65% was insured with SID - Prva kreditna zavarovalnica, d.d. (2016 year-end: 61%).

**Maturity analysis of loans as at the reporting date**

In € thousand	Gross 2017	Allowance 2017	Gross 2016	Allowance 2016
Not-past due	46,068	0	70,785	0
Past due up to 20 days	7	0	0	0
Past due between 21 and 50 days	2	0	3	0
Past due between 51 and 180 days	3	0	6	0
Past due more than 180 days	13	11	23	11
<b>Total</b>	<b>46,093</b>	<b>11</b>	<b>70,817</b>	<b>11</b>

**Maturity structure of trade receivables including group companies as at the reporting date**

In € thousand	Gross 2017	Allowance 2017	Gross 2016	Allowance 2016
Not-past due	469,411	1,355	477,522	1,808
Past due up to 20 days	4,203	24	10,420	77
Past due between 21 and 50 days	5,522	24	4,691	49
Past due between 51 and 180 days	11,949	28	10,095	77
Past due more than 180 days	24,382	19,127	21,001	18,969
<b>Total</b>	<b>515,467</b>	<b>20,558</b>	<b>523,729</b>	<b>20,980</b>

Krka agrees extended terms with some customers. If Krka did not extend payment terms to some of its customers, the receivable maturity structure would be as follows at the reporting date: not past due, €467,366 thousand (2016: €473,871 thousand); past due up to 20 days, €4,673 thousand (2016: €11,365 thousand); past due between 21 and 50 days, €5,694 thousand (2016: €4,677 thousand); past due between 51 and 180 days, €11,921 thousand (2016: €10,804 thousand); and past due more than 180 days, €5,255 thousand (2016: €2,032 thousand).

**Movement of allowances for loans**

In € thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>11</b>	<b>11</b>
<b>Balance at 31 Dec</b>	<b>11</b>	<b>11</b>

**Movements in trade receivables including those due from subsidiaries**

In € thousand	2017	2016
<b>Balance at 1 Jan</b>	<b>20,980</b>	<b>21,540</b>
Formation of allowance	1,736	6,829
Write-off of receivables	-1,970	-2,503
Reversal of impairment	-178	-4,427
Collected written-off receivables	-10	-459
<b>Balance at 31 Dec</b>	<b>20,558</b>	<b>20,980</b>

**Liquidity risk**

Among its business partners, Krka is known for its financial discipline, low indebtedness, and stable cash flows. In accordance with Krka's reputation, non-current borrowings were used only a few times. An occasional surplus of cash was placed in bank deposit during the year. Krka settled all of its financial liabilities regularly and at maturity. The exposure of Krka to liquidity risk in 2017 was 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 2017

In € thousand	Carrying amount	Total	Contractual cash flows			
			Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Other current borrowings	27,525	27,488	26,099	1,389	0	0
Payables to suppliers (excluding advances)	156,193	156,193	156,193	0	0	0
Other liabilities excluding amounts owed to the state, to employees and advances.	19,427	19,427	19,427	0	0	0
Total non-derivative financial liabilities	203,145	203,108	201,719	1,389	0	0
Derivative financial instruments	284	284	284	0	0	0
Total derivative financial liabilities	284	284	284	0	0	0
Total	203,429	203,392	202,003	1,389	0	0

### Maturity of financial liabilities as at 31 Dec 2016

In € thousand	Carrying amount	Total	Contractual cash flows			
			Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Other current borrowings	105,269	105,113	94,355	10,758	0	0
Payables to suppliers (excluding advances)	145,070	145,070	145,070	0	0	0
Other liabilities excluding amounts owed to the state, to employees and advances.	15,792	15,792	15,792	0	0	0
Total non-derivative financial liabilities	266,131	265,975	255,217	10,758	0	0
Derivative financial instruments	12,670	12,670	12,670	0	0	0
Total derivative financial liabilities	12,670	12,670	12,670	0	0	0
Total	278,801	278,645	267,887	10,758	0	0

## Currency risk

Krka operates in diverse international markets and is exposed to foreign exchange risks in certain markets.

Currency exposure arises due to a surplus of assets over liabilities in a particular currency in the statement of financial position of Krka, also referred to as the long position. The key accounting categories composing a long position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

Also in 2017, Krka closely monitored highly volatile currencies to which Krka was exposed. The value of the Russian rouble expressed in euros was increasing from the beginning of the year until mid-April. The reason can be found in the stable macroeconomic conditions in the Russian Federation and the euro being under severe pressure of political risk prior to the elections in the Netherlands, France, and Germany. After the French presidential elections, the value of the euro rose, while the value of the rouble expressed in euros dropped to its lowest in 2017, to 71.81 roubles to one euro.

The impact of oil prices declined in 2017 compared to previous years, when it critically affected the value of the rouble. From the beginning until the end of the year, the Brent oil price in dollars increased by 17.7%, while the rouble value in dollars strengthened by only 5.4%. In the second half-year only, the Brent oil price rose by 40% whereas the rouble by only 2.3% in the same period. At the end of the year, the Brent oil price per barrel amounted to \$66.9, which was the highest since May 2015.

In 2017, the value of the rouble was greatly affected by the activities of the Russian central bank, which decreased the key interest rate by 225 basis points due to falling inflation. International investors also exerted considerable influence by exploiting the high level of real interest rates in the Russian Federation in individual periods, thus creating additional demand and supply for the rouble in the currency market. The value of the rouble expressed in euros dropped by 7.3% in 2017, while its average value in euros was 12.5% higher compared to 2016.

The value of the Polish zloty was more stable than in previous years. Stable macroeconomic situation provided little fluctuation of the zloty exchange rate and its value was increasing from the beginning until the end of 2017. Last year, the zloty gained 5.6% against the euro. The Polish central bank did not change its monetary policy, so there were no distinct differences compared to the European Central Bank (ECB) policy to increase the depreciation risk of the Polish currency.

The Romanian leu has fallen by 2.6% against the euro since the beginning of 2017. Tax reductions, a high increase in government spending, growing inflation, and a rising trade deficit were the main reasons for the depreciation of the exchange rate.

The value of the Croatian kuna recorded higher growth compared to previous years due to improved macroeconomic conditions, while the movement in the exchange rate was in line with the expectations and patterns of recent years. Once again, the British pound experienced somewhat higher volatility in 2017 due to the Brexit and internal political processes increasing the risk related to the British currency. Krka has a long position in the Croatian kuna and the British pound among others; however, the volatility of the two exchange rates does not significantly influence the net financial result.

The value of the US dollar expressed in euros peaked at the beginning of 2017, and the US economy showed encouraging indicators of recovery. At the beginning of the year, markets were optimistic regarding the impact on the US currency of the projected tax and economy reforms of the new American president. Faster tightening of the US monetary policy was also anticipated. The euro was under the pressure of election risks in economically more important members of the European Economic and Monetary Union (EMU), and the economic recovery of the EMU was falling behind the recovery of the USA as well. In the first half of 2017, the ECB's measures supported the weaker value of the euro, whereas the market advantages of the US dollar against the euro gradually declined during the year. The political risk related to the euro reduced in April, the EMU recovery accelerated, and the ECB projected the faster elimination of expansionary monetary measures. However, the optimistic expectations in the USA have been decreasing despite the good macroeconomic indicators.

The dollar value expressed in euros fell by 12.1% from the beginning until the end of 2017. The average dollar value against the euro was 2% lower than in 2016. Krka is exposed to the US dollar primarily in purchasing; the currency position in dollars is relatively low, so the value of the US dollar does not significantly affect the exchange rate differences recorded in the net financial result.

Krka generally mitigates currency risks by natural hedging, primarily by increasing purchases and liabilities in currencies in which sales invoices are issued. When this is not possible, we use derivative financial instruments, or do not provide hedging for the risk. Generally, only forward contracts are used for hedging.

Krka continued with its policy of partial hedging against the Russian rouble-related risk in 2017. It generated a negative financial result from forward contracts. The cost of hedging against the Russian rouble is accrued due to the differences between the interest rates in the rouble and the euro. Partial hedging ensured a more stable net financial result, while hedging costs were half as much as they would have been if we had used hedging throughout the year.

Exposure to other currencies was not hedged. A multi-year analysis of exchange rate differences and hedging costs for the Romanian leu, Polish złoty, Czech koruna, Hungarian forint, and Croatian kuna has shown that full hedging for these currencies would not be effective in the case of Krka. These currencies are generally subject to less marked fluctuations against the euro.

The currency exposure of Krka includes the Ukrainian hryvnia, Kazakh tenge, Serbian dinar, and some other currencies. The exposure to these is less significant, and no financial instruments to mitigate risk exposure to them are available.

### Currency risk exposure

31 Dec 2017				
In € thousand	EUR*	PLN	RUB	RON
Non-current trade receivables from subsidiaries	0	0	38,644	0
Loans	46,001	0	0	0
Trade receivables	102,137	52,551	219,862	56,002
Borrowings	-27,525	0	0	0
Trade payables	-102,836	-12,933	-20,845	-5,017
<b>Financial position exposure (net)</b>	<b>17,777</b>	<b>39,618</b>	<b>237,660</b>	<b>50,986</b>

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

31 Dec 2016				
In € thousand	EUR*	PLN	RUB	RON
Non-current trade receivables from subsidiaries	0	0	23,515	0
Loans	55,023	0	15,701	0
Trade receivables	143,078	51,770	199,475	57,621
Borrowings	-105,269	0	0	0
Trade payables	-91,591	-6,508	-20,874	-4,163
<b>Financial position exposure (net)</b>	<b>1,240</b>	<b>45,262</b>	<b>217,817</b>	<b>53,458</b>

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

### Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2017	2016	2017	2016
PLN	4.26	4.36	4.18	4.41
RUB	65.94	74.17	69.39	64.30
RON	4.57	4.49	4.66	4.54

\* number of local currency's units for one euro

The above-stated exchange rates were used in the calculation of items in the financial statements as at 31 December and are equal to the reference exchange rate of the ECB effective on 31 December.

### Sensitivity analysis

A 10% or 1% increase/decrease in the euro exchange rate in respect of currencies stated as at 31 December 2017 or 31 December 2016 would increase or decrease the profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, in particular interest rates, remain unchanged. The calculation of the above-stated exchange rate volatility impact considered the balance of receivables, liabilities and borrowings denominated in the local currencies.

In € thousand	Effect on profit or loss before tax			
	2017		2016	
<b>Currency fluctuation</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
RUB	23,766	-23,766	21,782	-21,782
<b>Currency fluctuation</b>	<b>1%</b>	<b>-1%</b>	<b>1%</b>	<b>-1%</b>
PLN	396	-396	453	-453
RON	510	-510	535	-535

Any additional 10% change in value of the Russian rouble or any additional 1% change in the Polish złoty or the Romanian leu in respect of the euro value would result in an additional change in profit or loss before tax in the above-stated amounts.

### Interest rate risk

The interest rate risk is defined as a threat of Krka suffering an increase in financing costs from non-current borrowings or a decrease in income from long-term investments due to the changed reference market interest rates.

The interest rate risk with current borrowings and short-term investments is managed within the liquidity risk.

Krka had no non-current borrowings at the end of 2017. Long-term financial investments are not related to reference market interest rates, which is why Krka was not exposed to the reference interest rate risk.

### Exposure to interest rate risk

In € thousand	2017	2016
<b>Financial instruments at fixed interest rate</b>	<b>525</b>	<b>-61,049</b>
Financial assets	15,127	42,254
Financial liabilities	-14,602	-103,303
<b>Financial instruments at variable interest rate</b>	<b>18,049</b>	<b>30,508</b>
Financial assets	30,902	32,315
Financial liabilities	-12,853	-1,807

### Analysis of cash flow sensitivity by applying the variable interest rate

A decrease/increase of the interest rate by 100 basis points would increase/decrease profit or loss for 2017 by €180 thousand. A decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2016 by €305 thousand. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, in particular the foreign exchange rate, remain unchanged.

A detailed schedule of current borrowings is presented below.

**Current borrowings**

In € thousand	31 Dec 2017	31 Dec 2016
Current borrowings inclusive of current portion of non-current borrowings	27,455	105,110
– other	27,455	105,110
Current borrowings exclusive of current portion of non-current borrowings	27,455	105,110
Average balance of current borrowings	66,283	85,277
Interest paid in the financial year	763	947
Other cost of raising current borrowings	12	12
Average effective cost of current borrowings (financial year)	1.17%	1.12%
Currency structure of current borrowings		
– EUR	100%	100%
Structure of current borrowings in terms of interest rates:		
– 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 adopted at the 19th General 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; 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 business transactions and to generate maximum value for its shareholders.

Krka follows changes in the economic environment by managing and adjusting its equity structure. Dividends are paid out on annual basis in line with the strategic policy adopted. Krka has no specific goals regarding the ownership share held by employees, and no share option plans.

There were no changes in Krka's approach to capital management in 2017 or 2016.

Krka monitors capital by means of a gearing ratio, which is net debt divided by total net debt, plus total equity. Within net debt, Krka includes interest bearing borrowings and trade payables, less cash and cash equivalents.

In € thousand	31 Dec 2017	31 Dec 2016
Borrowings	27,525	105,269
Trade payables and other current liabilities	213,594	210,295
Cash and cash equivalents	34,117	24,049
<b>Net indebtedness</b>	<b>207,002</b>	<b>291,515</b>
Equity	1,493,325	1,440,448
<b>Equity and net indebtedness</b>	<b>1,700,327</b>	<b>1,731,963</b>
<b>Gearing (debt/equity) ratio</b>	<b>12.2%</b>	<b>16.8%</b>



## Fair value

In € thousand	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables from subsidiaries	38,644	38,644	23,515	23,515
Non-current loans	11,187	11,187	18,302	18,302
Available-for-sale financial assets	8,814	8,814	10,136	10,136
Current loans	34,895	34,895	52,504	52,504
Current investments	0	0	77	77
– shares and interests held for trading	0	0	77	77
Trade receivables	456,265	456,265	479,234	479,234
Cash and cash equivalents	34,117	34,117	24,049	24,049
Current borrowings	-27,525	-27,525	-105,269	-105,269
Trade payables and other liabilities excluding amounts owed to the state, to employees and advances	-175,620	-175,620	-160,861	-160,861
Other current liabilities	-284	-284	-12,670	-12,670
– derivative financial instruments	-284	-284	-12,670	-12,670
<b>Total</b>	<b>380,493</b>	<b>380,493</b>	<b>329,017</b>	<b>329,017</b>

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 the value of which cannot be determined using observable market data.

## Assets at fair value

In € thousand	31 Dec 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets at fair value</b>								
Available-for-sale financial assets	7,434	0	1,380	8,814	8,775	0	1,361	10,136
Shares and interests held for trading	0	0	0	0	77	0	0	77
<b>Total assets at fair value</b>	<b>7,434</b>	<b>0</b>	<b>1,380</b>	<b>8,814</b>	<b>8,852</b>	<b>0</b>	<b>1,361</b>	<b>10,213</b>
<b>Assets for which fair value is disclosed</b>								
Trade receivables from subsidiaries	0	0	38,644	38,644	0	0	23,515	23,515
Non-current loans	0	0	11,187	11,187	0	0	18,302	18,302
Current loans	0	0	34,895	34,895	0	0	52,504	52,504
Trade receivables	0	0	456,265	456,265	0	0	479,234	479,234
Cash and cash equivalents	0	0	34,117	34,117	0	0	24,049	24,049
<b>Total assets for which fair value is disclosed</b>	<b>0</b>	<b>0</b>	<b>575,108</b>	<b>575,108</b>	<b>0</b>	<b>0</b>	<b>597,604</b>	<b>597,604</b>
<b>Total</b>	<b>7,434</b>	<b>0</b>	<b>576,488</b>	<b>583,922</b>	<b>8,852</b>	<b>0</b>	<b>598,965</b>	<b>607,817</b>

**Liabilities at fair value**

In € thousand	31 Dec 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Liabilities at fair value</b>								
Derivative financial instruments	0	0	284	284	0	0	12,670	12,670
<b>Total liabilities at fair value</b>	<b>0</b>	<b>0</b>	<b>284</b>	<b>284</b>	<b>0</b>	<b>0</b>	<b>12,670</b>	<b>12,670</b>
<b>Liabilities for which fair value is disclosed</b>								
Current borrowings	0	0	27,525	27,525	0	0	105,269	105,269
Trade payables and other liabilities excluding amounts owed to the state, to employees and advances	0	0	175,620	175,620	0	0	160,861	160,861
<b>Total liabilities for which fair value is disclosed</b>	<b>0</b>	<b>0</b>	<b>203,145</b>	<b>203,145</b>	<b>0</b>	<b>0</b>	<b>266,130</b>	<b>266,130</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>203,429</b>	<b>203,429</b>	<b>0</b>	<b>0</b>	<b>278,800</b>	<b>278,800</b>

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.

## 32. Related party transactions

### Intragroup transactions

Transactions with Group companies in 2017 are presented below.

In € thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto*	222	819	0	12,265
Farma GRS, d. o. o., Novo mesto**	523	11,549	11,598	0
KRKA-FARMA d. o. o., Zagreb, Croatia	35,347	19,466	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	12	23,651	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	15,748	2,980	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	17,123	1,682	0	0
KRKA FARMA d. o. o., Sarajevo, Bosnia and Herzegovina	4	475	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	21	2,418	0	0
KRKA-RUS LLC, Istra, Russian Federation	131,358	6,576	0	0
KRKA FARMA LLC, Istra, Russian Federation	90,886	78,059	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	17	10,445	0	0
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	13,930	3,643	0	0
KRKA - POLSKA Sp. z o. o., Warsaw, Poland	31,551	42,191	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	21	11,197	0	0
KRKA Magyarország Kft., Budapest, Hungary	1	14,528	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	7	7,441	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	0	4,753	0	0
SIA KRKA Latvija, Riga, Latvia	0	3,004	0	0
KRKA Finland Oy, Espoo, Finland	5,370	1,319	0	0
TAD Pharma GmbH, Cuxhaven, Germany	60,765	15,336	53,666	0
Krka Sverige AB, Stockholm, Sweden	21,852	1,313	0	0
KRKA Pharma GmbH, Wien, Vienna, Austria	5,036	1,978	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	11,502	1,376	0	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	32,271	2,081	22,360	0
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	9,952	4,736	0	0
KRKA France Eurl, Paris, France	4,498	5,115	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	7,793	27	0	0
KRKA UK LTD, London, United Kingdom	699	379	0	0
KRKA Belgium, SA, Brussels, Belgium	962	1,346	0	0
KRKA USA LLC, Wilmington, USA	0	7	0	0
<b>Total</b>	<b>497,471</b>	<b>279,890</b>	<b>87,624</b>	<b>12,265</b>

\* 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.

The 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*, which defines the interest rate for related parties. In 2017, the interest rate ranged between 0.869% and 2.558%.

The balance of loans to subsidiaries is presented in Note 16; the balance of borrowings from subsidiaries is presented in Note 24; the balance of receivables due from Group companies is presented in Note 20; and the balance of non-current operating liabilities to subsidiaries is presented in Note 27.

### Data on groups of persons

By the end of the year, members of the Management Board of Krka held 37,040 of Krka shares i.e. 0.1129% of total equity or 0.1154% of voting rights.

By the end of the year, members of the Supervisory Board of Krka held 2,130 of Krka shares i.e. 0.0065% of total equity or 0.0066% of voting rights.

### Equity stakes held by members of the Management and the Supervisory Boards of Krka and their shares of voting rights

	31 Dec 2017			31 Dec 2016		
	Number of shares	Equity share (in %)	Share of voting rights (in %)	Number of shares	Equity share (in %)	Share of voting rights (in %)
<b>Members of the Management Board</b>						
Jože Colarič	22,500	0.0686	0.0701	22,500	0.0686	0.0697
Aleš Rotar	13,915	0.0424	0.0433	13,915	0.0424	0.0431
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
David Bratož	0	0.0000	0.0000	0	0.0000	0.0000
Milena Kastelic	505	0.0015	0.0016	505	0.0015	0.0016
<b>Total members of the Management Board</b>	<b>37,040</b>	<b>0.1129</b>	<b>0.1154</b>	<b>37,040</b>	<b>0.1129</b>	<b>0.1147</b>
<b>Members of the Supervisory Board (owner representatives)</b>						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Hans-Helmut Fabry	0	0.0000	0.0000	0	0.0000	0.0000
Borut Jamnik	0	0.0000	0.0000	0	0.0000	0.0000
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Andrej Slapar	0	0.0000	0.0000	0	0.0000	0.0000
Boris Žnidarič	0	0.0000	0.0000	0	0.0000	0.0000
<b>Members of the Supervisory Board (employee representatives)</b>						
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0015
Franc Šašek	1,400	0.0043	0.0043	1,400	0.0043	0.0043
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
<b>Total members of the Supervisory Board</b>	<b>2,130</b>	<b>0.0065</b>	<b>0.0066</b>	<b>2,130</b>	<b>0.0065</b>	<b>0.0066</b>
<b>Total</b>	<b>39,170</b>	<b>0.1194</b>	<b>0.1220</b>	<b>39,170</b>	<b>0.1194</b>	<b>0.1213</b>

Treasury shares were eliminated from the calculation of voting rights (691,717 treasury shares as at 31 December 2017 and 493,130 as at 31 December 2016).

**Remuneration paid to groups of persons (gross)**

In € thousand	2017	2016
Members of the Management Board	2,920	2,331
Members of the Supervisory Board	209	206
<b>Total gross remuneration paid to groups of persons</b>	<b>3,129</b>	<b>2,537</b>

Gross earnings paid to persons employed under individual employment contracts in 2017 amounted to €9,996 thousand (2016: €10,688 thousand).

**Remuneration paid to members of the Management Board in 2017**

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	406	163	10	518	203	924	376
Aleš Rotar	312	133	5	354	139	666	277
Vinko Zupančič	266	112	8	295	121	561	241
David Bratož	263	109	11	289	114	552	234
Milena Kastelic	155	74	5	62	25	217	104
<b>Total members of the Management Board</b>	<b>1,402</b>	<b>591</b>	<b>39</b>	<b>1,518</b>	<b>602</b>	<b>2,920</b>	<b>1,232</b>

	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	0.83	2.82	6.15	0.05	0.57	10.42
Aleš Rotar	0.00	2.82	0.72	0.92	0.57	5.03
Vinko Zupančič	2.25	2.82	1.94	0.76	0.58	8.35
David Bratož	0.00	2.82	6.66	0.86	0.58	10.92
Milena Kastelic	0.00	2.82	0.03	1.00	0.64	4.49
<b>Total members of the Management Board</b>	<b>3.08</b>	<b>14.10</b>	<b>15.50</b>	<b>3.59</b>	<b>2.94</b>	<b>39.21</b>

**Remuneration paid to members of the Management Board in 2016**

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	400	156	13	349	136	749	305
Aleš Rotar	310	127	8	223	87	533	222
Vinko Zupančič	261	107	10	185	73	446	190
David Bratož	259	105	12	161	63	420	180
Milena Kastelic	153	71	5	30	12	183	88
<b>Total members of the Management Board</b>	<b>1,383</b>	<b>566</b>	<b>48</b>	<b>948</b>	<b>371</b>	<b>2,331</b>	<b>985</b>

In € thousand	Net fringe benefits and other earnings					Total
	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	
Jože Colarič	4.21	2.82	5.50	0.04	0.55	13.12
Aleš Rotar	3.38	2.82	0.73	0.94	0.55	8.42
Vinko Zupančič	3.38	2.82	2.04	0.75	0.56	9.55
David Bratož	0.00	2.82	7.25	0.88	0.56	11.51
Milena Kastelic	0.00	2.82	0.57	1.03	0.64	5.06
<b>Total members of the Management Board</b>	<b>10.97</b>	<b>14.10</b>	<b>16.09</b>	<b>3.64</b>	<b>2.86</b>	<b>47.66</b>

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 on the Management and Supervisory boards of subsidiaries.

#### Remuneration paid to members of the Supervisory Board in 2017

In € thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Members of the Supervisory Board (owner representatives)</b>								
Jože Mermal	23.25	16.91	1.87	1.36	0.00	0.00	25.12	18.27
Hans-Helmut Fabry*	7.04	5.45	0.52	0.40	4.65	3.60	12.21	9.45
Borut Jamnik*	10.00	7.27	0.77	0.56	0.00	0.00	10.77	7.83
Julijana Kristl	19.37	14.09	1.82	1.32	0.43	0.32	21.62	15.73
Andrej Slapar	21.83	15.88	2.24	1.63	0.00	0.00	24.07	17.51
Boris Žnidarič	19.38	14.09	2.75	2.00	0.53	0.38	22.66	16.47
Simona Razvornik Škofič**	10.66	7.75	1.83	1.33	0.27	0.20	12.76	9.28
Anja Stojin Štampar**	10.80	7.85	1.05	0.76	0.00	0.00	11.85	8.61
<b>Members of the Supervisory Board (employee representatives)</b>								
Franc Šašek	20.92	15.22	2.75	2.00	0.00	0.00	23.67	17.22
Tomaž Sever	19.37	14.09	2.75	2.00	0.54	0.40	22.66	16.49
Mateja Vrečer	19.37	14.09	2.09	1.52	0.00	0.00	21.46	15.61
<b>Total remuneration paid to members of the Supervisory Board</b>	<b>181.99</b>	<b>132.69</b>	<b>20.44</b>	<b>14.88</b>	<b>6.42</b>	<b>4.90</b>	<b>208.85</b>	<b>152.47</b>

\* Member of the Supervisory Board since 6 July 2017

\*\* Member of the Supervisory Board until 6 July 2017

In accordance with a resolution adopted at the 16th General Annual 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 meetings, which for each individual Committee member amounts to 80% of the attendance fee for Supervisory Board meetings. The attendance fee for participating in correspondence meetings 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 meetings of the Supervisory Board or meetings 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 payouts on an annual level.

In addition to attendance fees, members of the company's Supervisory Board receive on an annual basis a basic payment 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 the 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 a basic payment 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 entitled in every financial year – regardless of the above-mentioned or the number of committees of which they are a member or over which they preside – to receive bonuses until the total amount of these bonuses reaches 50% of the basic payment for exercising the function for each Supervisory Board member, taking into account actual payouts on an annual level.

#### Loans to groups of persons

In € thousand	Balance		Repayments	
	31 Dec 2017	31 Dec 2016	2017	2016
Members of the Management Board	1.78	1.78	1.33	2.34
Members of the Supervisory Board (employee representatives)	0	0	0	0
<b>Total loans to groups of persons</b>	<b>1.78</b>	<b>1.78</b>	<b>1.33</b>	<b>2.34</b>

Loans granted to staff employed under individual employment contracts stood at €152 thousand at 31 December 2017 (€169 thousand as at 31 December 2016). Repayments of loans by staff employed under individual employment contracts in 2017 reached €16 thousand (2016: €14 thousand). The loans granted to the above-mentioned persons were used for housing purposes.



### 33. Educational structure of employees

	2017		2016	
	Average headcount	Share (in%)	Average headcount	Share (in%)
PhD	135	2.7	130	2.7
MSc	253	5.2	239	4.9
University education	1,580	32.2	1,522	31.4
Higher professional education	619	12.6	587	12.1
Vocational college education	204	4.2	206	4.3
Secondary school education	1,195	24.3	1,190	24.6
Skilled workers	733	14.9	757	15.6
Unskilled workers	192	3.9	214	4.4
<b>Total (average for the period)</b>	<b>4,911</b>	<b>100.0</b>	<b>4,845</b>	<b>100.0</b>

### 34. Transactions with the audit firm

The agreed fee for the audit services performed in 2017 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to €110 thousand (2016: €124 thousand).

### 35. Subsequent events

Below is a presentation of events that have taken place since the end of 2017 and up to 31 March 2018.

Krka established a joint venture with its Chinese partner Ningbo Menovo Pharmaceutical, in which Krka holds a 60% share and the partner a 40% share. The agreement establishing Ningbo Krka Menovo Pharmaceutical and its articles of association were signed by the partners on 15 November 2017. Immediately after the signing of the agreement, activities were initiated for the joint venture's approval by the Chinese authorities and its registration. The company was registered with the Chinese authorities on 5 December 2017. In January 2018, Ningbo Krka Menovo Pharmaceutical opened its bank account and, a few days later, on 22 January 2018, the partners paid in the first tranche of subscribed capital. The joint venture is headed by a three-member board of directors, in which Krka has two representatives, one being the president. The first meeting of the Board took place on 14 March 2018.

Over the period from 1 January 2018 to 31 March 2018, we acquired 67,017 treasury shares. Thus, at the end of March 2018, Krka holds 758,734 treasury shares (2.314% of total shares).

## 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.**

#### **Opinion**

We have audited the separate financial statements of Krka d.d. (the Company), which comprise the separate statement of financial position as at 31 December 2017, the separate income statement, the separate statement of other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Krka d.d. as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report. We are independent of the Company Krka in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.



#### Recoverability of receivables

Trade receivable balances are significant to the Company as they represent 26,9% of total assets as at 31 December 2017. The Company is exposed to credit and performance risk arising from the Company's global marketing operations. The collectability of trade receivables is a key element of Krka's working capital management, which is managed on an ongoing basis. The Company has set control procedures in place, which among others include the credit rating of customers as well as active monitoring of payments by customers. Assessment of the recoverable amount of trade receivables requires management's judgement and assumptions to estimate allowances for receivables. Given the magnitude of trade receivable balances and the collectability assessment of these receivables, the recoverability of trade receivables was determined as a key audit matter.

We performed audit procedures on the existence of trade receivables, which include but are not limited to control testing on sales transactions and tracing back to shipping documents, and sending trade receivable confirmations to the customers. We assessed the management's estimates and assumptions used to calculate the trade receivables impairment amount, notably through analyses of ageing of receivables and review of disputable trade receivables. We reviewed the extent to which receivables to third parties had been secured through insurance companies and the process of prolongation of the payment terms after the sales. In addition, we evaluated the adequacy of the Company's disclosures regarding trade receivables and the related risks such as credit risk and the aging of trade receivables in Note 30 of the separate financial statements.

#### Revenue recognition - Rebates and discounts

Revenue is measured taking account of discounts, incentives and rebates earned by customers on the Company's sales. Due to the multitude and variety of contractual terms across the Company's markets, the estimation of discounts, incentives and rebates recognised based on sales made during the year is considered to be complex. Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer. We have determined revenue recognition as the key audit matter because revenue is one of the key performance indicators followed by the Company which could create an incentive for revenue to be recognised before the risks and rewards have been transferred.

Our audit procedures included considering the appropriateness of the Company's revenue recognition accounting policies including those relating to discounts and rebates and assessing compliance with the policies in terms of applicable accounting standards. We tested the effectiveness of the Company's controls over calculation of discounts and rebates and correct timing of revenue recognition. We tested a sample of sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the year end date to assess whether that revenue was recognised in the correct period and whether accruals for bonuses and discounts as at 31 December 2017 are fully recognized. We also considered the adequacy of the Company's disclosures in Note 5 in respect of revenue and Note 25 in respect to accrued bonuses and discounts.

#### **Other information**

Other information comprises the information included in the Annual Report other than the separate financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.





In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate financial statements is, in all material respects, consistent with the separate financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

#### **Responsibilities of management, audit committee and the supervisory board for the separate financial statements**

Management is responsible for the preparation and fair presentation of the separate 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 the separate financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee and the supervisory board are responsible for overseeing the Company's financial reporting process.

#### **Auditor's responsibilities for the audit of the separate financial statements**

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

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

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;



- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

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

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on other legal and regulatory requirements**

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

#### **Appointment and Approval of Auditor**

We were appointed as the statutory auditor by the statutory body of the Company on 21 August 2017 based on our approval by the General Meeting of Shareholders on 6 July 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 6 years.

#### **Consistence with Additional Report to Audit Committee**

Our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 21 March 2018.



Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the separate financial statements, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 28 March 2018

Sanja Košir Nikašinić  
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 2017 by days

Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in € thousand)
3 Jan 2017	4,851	52.69	256	9 April 2017	654	53.07	35	14 Aug 2017	1,624	54.88	89
4 Jan 2017	2,655	52.73	140	11 May 2017	1,312	53.57	70	16 Aug 2017	1,038	54.74	57
5 Jan 2017	1,145	52.36	60	15 May 2017	1,947	53.84	105	17 Aug 2017	2,049	54.94	113
6 Jan 2017	2,394	52.59	126	16 May 2017	2,723	53.55	146	18 Aug 2017	159	55.33	9
9 Jan 2017	1,168	52.96	62	31 May 2017	635	53.04	34	21 Aug 2017	70	56.11	4
10 Jan 2017	2,299	52.97	122	1 June 2017	2,714	53.53	145	22 Aug 2017	205	56.14	12
11 Jan 2017	591	53.08	31	2 June 2017	2,067	53.74	111	23 Aug 2017	88	56.30	5
12 Jan 2017	2,206	52.93	117	5 June 2017	800	54.07	43	24 Aug 2017	1,724	58.02	100
13 Jan 2017	1,115	52.62	59	6 June 2017	699	53.75	38	25 Aug 2017	1,870	58.19	109
16 Jan 2017	1,857	52.57	98	7 June 2017	1,150	53.88	62	28 Aug 2017	2,850	58.22	166
17 Jan 2017	1,030	52.43	54	12 June 2017	349	53.73	19	29 Aug 2017	1,220	57.75	70
18 Jan 2017	1,468	52.59	77	13 June 2017	1,353	54.09	73	30 Aug 2017	2,665	57.43	153
19 Jan 2017	1,424	52.29	74	14 June 2017	666	54.06	36	31 Aug 2017	6,663	57.19	381
20 Jan 2017	1,308	52.33	68	15 June 2017	1,402	53.86	76	1 Sept 2017	445	57.11	25
23 Jan 2017	650	52.37	34	16 June 2017	1,005	53.69	54	4 Sept 2017	4,771	56.88	271
24 Jan 2017	1,702	52.52	89	19 June 2017	1,044	53.79	56	5 Sept 2017	423	57.22	24
25 Jan 2017	681	52.44	36	20 June 2017	790	54.09	43	6 Sept 2017	2,123	57.12	121
26 Jan 2017	1,390	52.58	73	21 June 2017	1,612	54.77	88	7 Sept 2017	885	56.83	50
27 Jan 2017	1,340	52.52	70	22 June 2017	1,204	54.75	66	8 Sept 2017	1,363	57.29	78
30 Jan 2017	1,341	52.28	70	28 July 2017	2,288	55.36	127	11 Sept 2017	1,616	57.09	92
3 March 2017	1,574	51.99	82	31 July 2017	1,997	55.08	110	12 Sept 2017	5,223	56.74	296
6 March 2017	3,555	53.00	188	2 Aug 2017	2,546	54.93	140	13 Sept. 2017	5,340	56.19	300
6 April 2017	1,424	53.06	76	3 Aug 2017	1,924	54.83	105	14 Sept 2017	5,555	55.78	310
7 April 2017	2,672	53.14	142	11 Aug 2017	877	54.83	48	15 Sept 2017	4,666	55.59	259



Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in € thousand)
18 Sept 2017	3,399	55.44	188	12 Oct 2017	1,825	57.37	105	5 Dec 2017	1,721	54.59	94
19 Sept 2017	1,901	55.34	105	13 Oct 2017	301	57.21	17	6 Dec 2017	402	53.99	22
20 Sept 2017	2,005	55.69	112	16 Oct 2017	1,577	56.93	90	7 Dec 2017	570	53.58	31
21 Sept 2017	1,222	55.69	68	16 Nov 2017	1,000	55.09	55	8 Dec 2017	2,020	54.48	110
22 Sept 2017	541	55.25	30	17 Nov 2017	884	55.00	49	11 Dec 2017	2,038	53.81	110
26 Sept 2017	1,956	55.53	109	20 Nov 2017	1,235	55.57	69	12 Dec 2017	2,036	54.09	110
27 Sept 2017	2,084	55.77	116	21 Nov 2017	1,298	55.57	72	13 Dec 2017	1,767	54.11	96
28 Sept 2017	2,371	56.04	133	22 Nov 2017	1,300	55.32	72	14 Dec 2017	1,841	54.22	100
29 Sept 2017	1,763	56.04	99	23 Nov 2017	1,205	54.21	65	15 Dec 2017	100	54.69	5
3 Oct 2017	2,047	55.92	114	24 Nov 2017	1,318	54.70	72	18 Dec 2017	2,105	54.61	115
4 Oct 2017	775	55.46	43	27 Nov 2017	1,339	54.06	72	19 Dec 2017	1,928	54.93	106
5 Oct 2017	1,847	55.74	103	28 Nov 2017	1,412	53.78	76	20 Dec 2017	2,128	54.79	117
6 Oct 2017	999	55.97	56	29 Nov 2017	1,439	53.57	77	21 Dec 2017	1,155	54.78	63
9 Oct 2017	462	56.21	26	30 Nov 2017	1,409	53.96	76	22 Dec 2017	2,119	54.09	115
10 Oct 2017	868	56.80	49	1 Dec 2017	730	54.19	40	27 Dec 2017	451	56.06	25
11 Oct 2017	2,008	57.12	115	4 Dec 2017	1,453	54.94	80				
								<b>Total purchases in 2017</b>	<b>198,587</b>	<b>54.88</b>	<b>10,898</b>

The broker's fee is included in the weighted average price of shares.

## SIGNING OF THE 2017 ANNUAL REPORT AND ITS CONSTITUENT PARTS

The resident and members of the Krka, d. d., Novo mesto Management Board are aware of the content of the integral parts of the 2017 Annual Report of Krka and the Krka Group, and hence of the full Annual Report of Krka and the Krka Group for the year 2017. We hereby acknowledge the Report with 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' and a horizontal line.

Dr. Vinko Zupančič  
Member of the Management Board

A blue ink signature with a large, stylized 'B' and a horizontal line.

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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