

## Corporate Governance Code Compliance Statement

In 2018, 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 2018 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 2018. However, we have always worked towards realising these recommendations and tried to provide appropriate ways to implement them.

Individual deviations from the *Code* in 2018 are explained below.

In 2018, the Management Board and Supervisory Board of Krka did not adopt a 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 Conduct*, *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 (Section 4 of the *Code*).

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 2018, 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 conducted 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 2018, 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 2018, Krka's 'Corporate Governance Statement' was reviewed by an external auditor as part of the regular audit. An additional external assessment of the statement's adequacy was not performed (Item 5.7 of the *Code*).

The 'Corporate Governance Statement' of the *2018 Annual Report of Krka* does not indicate any association of members of the Management and Supervisory Boards with any governance or supervisory bodies of unrelated companies in the uniform tables (Attachments C1 and C2 to the *Code*). The information is included in members' CVs, which also state their managerial functions and jobs (Items 5.5. and 29.5 of the *Code*). Information in Attachments C3 and C4 to the *Code* on the composition and amount of remuneration are almost entirely disclosed in accordance with recommendations of the *Code* (Items 5.6 and 29.7). Only for the purposes of comparability between the years, the Company discloses them in the same manner as before the *Code* entered into force. They are disclosed in the financial report in the section 'Related Party Transactions'. The Management Board receives the variable part of remuneration twice a year, first after six months and second with the salary payable after the Supervisory Board meeting at which the annual report is approved (Item 21.2).

The Supervisory Board updated the criteria for the variable part of the Management Board remuneration in 2012, 2014, 2016, and 2018, when this was necessary due to additional duties of the Management Board arising either from the business strategy, the change of business environment, or remuneration trends. However, the criteria

were not determined in the same manner every year, as stipulated by Item 12.10 of the *Code*, as the current code is better tailored to the actual needs of the Supervisory Board for monitoring the work of the Management Board.

*Rules of Procedure of the Management Board* stipulate that members of the Management Board may become members of supervisory boards of unrelated companies only after they inform the Supervisory Board of the Company accordingly and obtain the Supervisory Board's consent. This is a partial deviation from Article 19.6 of the *Code*, which covers all, not only unrelated companies and organisations.

Krka publishes contact details for investors and the public on its website, but without the names of individuals (Item 28.2 of the *Code*), as there are several persons responsible for various areas.

The Company also published the *Rules of Procedure of the Supervisory Board* and disclosed the composition, competences, and other aspects with regard to operation of its bodies, and thereby all the essential information on corporate governance, in the 2018 'Corporate Governance Statement'. No other operational documents were published in 2018 (Item 29.9 of the *Code*).

Krka also complied with most 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, 18 April 2019

## 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