

The Supervisory Board of Krka, tovarna zdravil, d.d., Novo mesto at its 27th regular meeting on 20 January 2010 and the Management Board of Krka, tovarna zdravil, d.d., Novo mesto at its 17th regular meeting on 2 December 2009 adopted the following:

CORPORATE GOVERNANCE POLICY OF KRKA, D.D., NOVO MESTO

This document relates to the controlling company Krka, tovarna zdravil, d.d., Novo mesto (*hereinafter: Krka*) and also to the subsidiary companies that constitute the Krka Group together with the controlling company. The document represents a commitment for the future.

1. PRINCIPLE GOVERNANCE POLICIES WITH RESPECT TO KRKA'S OBJECTIVES AND VALUES

Krka's basic aim is to contribute through its business to helping people enjoy healthier and better quality lives. This we achieve through our rich range of products and services – prescription pharmaceuticals, self-medication products, cosmetic and animal health products, and through our health and tourism services, with investment in people and the environment, and through sponsorship and donations.

The long-term objective of Krka's governance is to perform activities to maximise the value of the company and its profits in order to create long-term value for shareholders. This objective is realised while pursuing the principles of sustainable development and operating to the benefit of employees, the broader community and other stakeholders.

The Krka mission: Living a healthy life.

The Krka vision: We are continually consolidating our position as one of the leading generic pharmaceutical companies worldwide.

The Krka values are: speed and flexibility, partnership and trust, creativity and efficiency.

The company's governing bodies are: the general meeting, the supervisory board and the management board.

The Krka governance system operates using a two-tier system: the company is managed by the management board and its operations are supervised by the supervisory board.

2. CORPORATE GOVERNANCE CODE OF REFERENCE

Krka's code of reference is the Corporate Governance Code (hereinafter: the Code), adopted on 8 December 2009 by the Ljubljana Stock Exchange, the Slovenian Association of Supervisory Board Members and the Slovenian Managers' Association.

3. STAKEHOLDERS AND STAKEHOLDER COMMUNICATIONS AND COOPERATION STRATEGY

3.1. Shareholders: Shareholders have a decisive influence over Krka's strategic decisions and operations. Creating shareholder value is therefore the most important governance objective. We communicate regularly with existing and potential shareholders, since we know that we can only strengthen the Krka business story in this way.

Krka uses the following forms of shareholder communications:

- Regular meetings at company headquarters;
- Participation in conferences at home and abroad;
- Regular presentation meetings in financial centres around the world;
- Issuing publications for investors, especially the *Utrip prihodnosti* review;
- Regular general meetings;
- Press conferences alongside publication of business results;
- Communicating with financial media;
- SEOnet information system;
- Krka website.

3.2. Customers: At Krka we are well aware that customers are the key to company performance. If we do not strengthen our sales, then the realisation of all other operating objectives is threatened.

Given the specific features of the industry, we divide customers into the following groups:

- Direct customers, particularly distributors;
- Indirect customers, particularly pharmacies and hospitals;
- End users, particularly patients, and purchasers of self-medication products, cosmetics, and health and tourism services.

We maintain continual personal contact with direct and indirect customers, primarily through our highly trained specialists. We prepare a very broad range of material with information on our products that includes specialist guidelines and new developments in medicine and pharmacy. We help doctors and pharmacists to offer better treatment to their patients, including publications to ensure our medicines are used with greater safety and efficacy.

We only address final consumers directly within the legally permitted framework, which means users of self-medication product, cosmetics, and health and tourism services.

3.3 Regulatory and national authorities: The production of pharmaceutical preparations is one of the most highly regulated industries. The responsible organisational units at Krka ensure consistent compliance with the applicable regulations, best practice recommendations, and decisions of the competent regulators and national authorities in every phase of the business process. Within official advisory mechanisms, Krka assesses its development solutions for individual products and the planned content of marketing authorisation documentation together with the regulatory authorities. Krka cooperates in the preparation of legislative amendments in this field via the working groups of industrial associations.

3.4. Suppliers and creditors: Krka settles its liabilities promptly. Krka takes full responsibility for operating liabilities to its creditors and suppliers, and forms partnership relations with them. In a dynamic purchasing environment this system ensures secure and reliable sourcing, favourable prices for products and services supplied, an influence over supplier quality, improvements in planned supplies and access to suppliers' technology.

3.5. Employees: At Krka we are aware that motivated employees are the key to success in every company. Together we are building a culture of mutual trust, respect, lifelong learning and responsible and effective work.

We communicate with our employees in a number of ways. We want to keep them up-to-date with events on Krka markets and in the pharmaceutical industry, and inform them of business events within the company to support more effective work. This is achieved via the following mechanisms:

- Once a year *employee assemblies* take place, at which the chief executive and members of the management board inform employees of the previous year's operating results, the plan for coming year, the company's development strategy and other news. Employees can ask questions and put forward proposals.
- *Intranet (Krkanet)*, which in addition to current information on events within Krka, provides various tools and applications that support better quality and more effective employee performance.
- *Internal newspapers and electronic notification systems*, via which all employees are notified by email of information relating to their everyday work.

3.6. Analysts: Analysts are a key group among financial professionals. Their work enhances the attraction of Krka shares as an investment opportunity, since analyses make it easier for shareholders to reach a decision on buying or selling shares. The responsible organisational unit regularly communicates with analysts, with the chief executive also participating in major meetings.

3.7. Media: The media represent one of the key interfaces between Krka and the broader public, via which we can present our operations to interested stakeholders. Krka maintains regular contact with business – and other – media, and organises regular press conferences to coincide with the publication of business results.

3.8. Local and wider community: Krka is committed to caring for the quality of life of people in the community in which it operates. We support healthcare and humanitarian projects through sponsorship and grants, and investment in sport, education, science and culture. Krka works hard to develop open communications with the local and wider community, based on dialogue, and sharing ideas and positions. We are well aware that environmental projects and the sustainable improvement of the environment depend above all on high-quality relations with all stakeholders. Every two years we prepare meetings with local residents at which we present our activities, results and plans in relation to environmental protection. We make sure that local residents are aware of the opportunity to engage in ongoing and open communication on environmental matters.

4. POLICY ON RELATIONS BETWEEN KRKA AND ITS SUBSIDIARIES

The operations of Krka's subsidiaries in all areas of business take place in accordance with:

- Local legislation;
- Business cooperation contracts with Krka;
- The Operating Manual for Affiliated Companies Abroad, which was adopted by the Krka management board and is also followed in a slightly different form by subsidiaries in Slovenia;
- Other compulsory internal rules of procedure and instructions adopted by the Krka management board.

The Krka management board acts as the general meeting of the subsidiaries, which improves relations within the group and facilitates supervision over subsidiaries' operations.

Members of the Krka management board are also members of internal supervisory boards, supervisory committees or boards of directors of Krka subsidiaries. They do not receive separate payment for this work.

Krka also manages the companies within the Group at the functional level, particularly in the field of marketing, development, supply chain, financing, accounting and reporting, human resources, IT support and quality control.

5. COMMITMENT TO DETERMINING CONFLICTS OF INTEREST AND THE INDEPENDENCE OF MEMBERS OF THE KRKA SUPERVISORY BOARD AND MANAGEMENT BOARD

Supervisory Board: Members of the supervisory board notify the supervisory board of any conflict of interest that has arisen or could arise in the execution or in relation to the execution of their functions. Each supervisory board member must also notify the supervisory board of any membership in the supervisory board or management bodies of any other company.

Supervisory board members are aware that the existence of a material conflict of interests or the existence of a clear conflict of interests may be **grounds for terminating** the member's term-in-office.

The supervisory board also undertakes to take into account any conflict of interests when **selecting candidates** for supervisory board membership: a candidate for whom conflicts of interest already exist, which are of a kind that could significantly affect the candidate's decision-making and functioning, will not be recommended as a supervisory board member.

Furthermore, in their work individual supervisory board members are not **bound by the opinions or instructions of those who voted them in, proposed or appointed them**, but assume full personal responsibility for performance of their function. All supervisory board members have equal rights and obligations.

Management board: Management board members complete a questionnaire each year on related parties, which the company uses to check the existence of any other business relationships between management board members and third party companies. The findings are made public in the annual report. Management board members must **immediately** disclose the existence of any **conflicts of interest** to the supervisory board and also notify other members of the management board. Members of the Krka management board do not in general hold positions as supervisory board members for companies outside the Krka Group, which further reduces the risk of conflicts of interest.

6. SUPERVISORY BOARD COMMITMENT TO SELF-EVALUATION

Krka's supervisory board will evaluate its own performance and in the annual report state the extent to which the self-evaluation has contributed to changes in the supervisory board's function.

The supervisory board's evaluation includes:

- Evaluating the work of the supervisory board or committee and forming an opinion on any improvements required;
- Assessing whether communication and cooperation between the management and supervisory boards is adequate;

- Assessing the contribution of individual members, their presence at supervisory board meetings, and their participation in discussions and decision-making;
- Verifying the existence of circumstances that could lead to conflicts of interest or the dependence of an individual member;
- Assessing the current composition of the supervisory board in terms of the requirements arising from Krka's objectives.

7. SUPERVISORY BOARD COMMITTEES AND DEFINITION OF THEIR ROLES

In accordance with legislation and best practice, the supervisory board forms committees that deal with specific areas and support the work of the supervisory board. Krka has the following supervisory board committees:

7.1. Audit committee, whose tasks include at least:

- Supervising the operation of the risk management system, internal audit and internal control system;
- Assessing the compilation of the annual report, including producing a draft version for the supervisory board;
- Cooperating in defining major audit areas;
- Deliberating findings and any recommendations arising from financial or tax inspections.

7.2. The human resource committee, whose tasks include at least:

- Preparing proposals for the supervisory board defining selection criteria and candidates for members of the Krka management board;
- Preparing proposals and criteria for evaluation of the management board's performance and remuneration of management board members;
- Defining and monitoring of objectives and criteria for evaluation of the management board members' performance;
- Preparing draft evaluations of the management board's performance;
- Preparing grounds for dismissal of individual management board members, if reasons for dismissal arise;
- Preparing proposals on salary, reimbursement, and other benefits for management board members;
- Preparing proposals on salary, reimbursement, and other benefits for supervisory board members.

7.3. If needed, the supervisory board may create other groups or committees, such as an appointments committee, which is responsible for:

- Preparing proposals for criteria and candidates for membership of the Krka supervisory board;

- Supporting the evaluation of the supervisory board's work in line with the Code;
- Providing support in other areas dealt with directly by the supervisory board, in which conflicts of interest for supervisory board members may occur.

8. SYSTEM FOR SEPARATION OF RESPONSIBILITIES AND AUTHORITIES BETWEEN MEMBERS OF KRKA'S MANAGEMENT AND SUPERVISORY BODIES

The company is managed by the management board, whose work is supervised by the supervisory board. The management and supervisory boards closely cooperate to the benefit of the company. Krka's articles of association, together with the management and supervisory boards' rules of procedure define the separation of responsibilities between the management and supervisory bodies and the method of cooperation between the bodies.

When making **major decisions** that could significantly affect Krka's operating, financial or legal position, the management and supervisory board must attempt to reach consensus.

The president of the management board must be in **regular contact** with the president of the supervisory board and consult him or her on matters of strategy, operations and risk management.

The president of the management board must **notify** the president of the supervisory board of **major events** that are essential to assessing the current situation and circumstances, as well as management of the company. The president of the supervisory board must notify the supervisory board of any major events, and if necessary, convene an extraordinary meeting.

The supervisory board's tasks and powers include at least:

- Supervising the business management of the company;
- Appointing and dismissing the management board;
- Supervising the management board's work;
- Proposing an auditor for appointment by the general meeting;
- Proposing supervisory board members for appointment by the general meeting;
- The right to convene a general meeting;
- Proposing, together with the management board, the use of the accumulated profit to the general meeting;
- Deciding on amendments to the articles of association if authorised to do so by the general meeting, if the amendments only relate to harmonising the text with valid approved decisions;
- Giving its consent to the issue of new shares;
- Giving its consent to the issue of shares for non-cash contributions;
- Adopting or approving the annual report and performing other statutory duties in relation to the annual report;
- Remaining up-to-date with Krka's strategy and annual plans;

- Deciding on all other matters for which it has responsibility according to regulations, unless it is explicitly stated that the general meeting decides on specific matters.

The supervisory board creates an action plan for its work each year, including the frequency and forms of communication with the management board, the supervisory board's role in appraising the risk management system, the procedure for proposing general meeting resolutions, including proposed appointments of supervisory board members, amendments to the Krka articles of association and similar. The meeting schedule of the supervisory board and its committees defines the planned dates and provisional agenda for the meetings, particularly items that are mandatory due to publication requirements for business results and items that are part of established practice.

The supervisory board appoints, and may also dismiss, members of the management board. It endeavours to ensure the continuity of its work through the responsible and timely selection of the president of the management board, and – based on the president's proposal – the remaining board members.

Management board: The management board manages the company independently and members are personally liable for their actions. It must operate in accordance with Krka's objectives to achieve the greatest possible benefit for shareholders, while pursuing the principles of sustainable development and the requirements of other stakeholders. The business management cannot be transferred from the management board to any other body of the company.

The management board's tasks and authorisations include at least:

- Managing and organising business operations;
- Representing Krka to third parties;
- Bearing responsibility for the legality of operations;
- Adopting Krka's development strategy;
- Adopting the annual business plan;
- Monitoring realisation of development plans and adopting measures to achieve those plans;
- Deciding on the establishment, joint establishment and termination of companies and the purchase and sale of ownership interests;
- Adopting Krka's own regulations;
- Adopting a security policy (protecting assets, employees and trade secrets) and the Krka security plan;
- Deciding on all other management matters in accordance with the law, articles of association and other acts, except matters explicitly placed within the competence of the general meeting by the articles of association and supervisory board;
- Reporting to the supervisory board on the operations of Krka and the Krka Group, preparing the draft annual report with business report, and submitting it to the supervisory board together with the auditor's report and proposal for the use of the accumulated profit;

- Notifying the supervisory board of any matters relating to Krka operations and its associated companies;
- Approving the macro level organisation of the company and defining its micro level organisation;
- Convening general meetings;
- Implementing general meeting resolutions.

The management board operates by reaching consensus through discussion, and in general makes unanimous decisions.

The Rules of Procedure of the Management Board regulate in more detail the management board's work and the separation of duties between individual members.

All rules regulating relations between companies in the Krka Group and their management and supervisory bodies are in full compliance with Slovenian legislation and best practice, including provisions on conflicts of interest.

9. DEFINITION OF COMMUNICATIONS STRATEGY

We are aware that good corporate communications help establish and strengthen perceptions of the Krka business story among investors, analysts, partners and other stakeholders. Achieving strategic objectives is quicker and simpler with public support.

Communications objectives: Krka uses its corporate communications – taking into account the multicultural specifics of the various target audiences – to create a positive and readily identifiable public image and to strengthen its reputation. This accelerates sales of products and services on all the markets in which we operate.

Communicating with stakeholders **includes external communications**, i.e. communication with external stakeholders and **internal communications** relating to employees.

9.1. Purpose of external communications:

- Strengthening reputation and increasing sales of products and services;
- Acquiring top quality employees;
- Gaining public approval, leading to realising the company's objectives.

9.2. Purpose of internal communications:

- Informing employees of the company's mission, vision, values and strategy and recognition for the role of the individual within the company;
- Raising employee awareness and knowledge of Krka products and services.

9.3. In accordance with the Code, Krka undertakes to:

- **Use rules of procedure that define protection for trade secrets and inside information for members of the management and supervisory bodies** and other persons with access to inside information during and after their term-in-office. It also arranges the designation and protection of such information and sanctions for any infringements. The management board also adopted the Rules on the Definition and Protection of Trade Secrets and Rules on Trading in the Financial Instruments of the Company to regulate these areas.
- **To have a clearly defined information flow with all access to inside information recorded and supervised** from creation to publication. For this purpose, Krka has adopted the Reporting Rules that, together with the Rules on the Definition and Protection of Trade Secrets and Rules on Trading in the Financial Instruments of the Company, internally regulate inside information handling procedures and duties regarding the publication of the inside information.
- **To have mechanisms in place that prevent information leaks in case of extraordinary events that could lead to other persons having access to inside information.** The measures and procedures to protect trade secrets:
 - Enable ex post detection of when specific confidential data was accessed or processed and by whom;
 - Protect documents, premises, technical equipment and procedures;
 - Ensure safe processing and storage of trade secrets;
 - Ensure safe transfer of trade secrets.

Any person acquiring highly confidential information who is not legally or contractually required to protect the secrecy (e.g. inspectors, auditors), must sign a special document on the protection of trade secrets.

The following areas are deemed as particularly sensitive:

- Specific material for management and supervisory board meetings;
- Financial reports at the company level, if not yet published;
- Strategic development projects;
- Sales and purchasing payment conditions;
- Product costing;
- Documents including personal data.

9.4. Method of response in case of rumours and published articles relating to Krka or its operations:

Krka does not comment on rumours or articles since it ensures that all significant information that could have an impact on business decisions by investors or interest partners is published regularly

and kept up-to-date. By commenting on rumours or articles Krka would indirectly be encouraging this form of communication, which would not contribute to quality communications with the public.

9.5. People responsible for investor communications:

The president of the management board, the director of finance and his or her deputy, and the president of the supervisory board are responsible for communications with investors.

9.6. Publishing business reports and financial statements:

As a company listed on the Ljubljana Stock Exchange's prime market, Krka maintains the highest standards for business report publication as defined in the Market in Financial Instruments Act (ZTFI) and the Guidelines of the Ljubljana Stock Exchange.

Each year a financial calendar is published on the company website giving dates for all significant business publications.

10. PROTECTING EMPLOYEE INTERESTS WITHIN THE COMPANY

At Krka we are aware that we cannot be a successful business without motivated and satisfied staff. We offer our employees jobs in Slovenia and abroad, while offering opportunities for development and promotion in the business and personal spheres.

Employee cooperation in preparation of collective company contract: The collective company agreement at Krka is generally **adopted or** amended via a tripartite coordination system, involving the management board and its specialist services, the unions and the works council. Regardless of which party is the initiator of specific solutions, all parties discuss matters until a consensus is reached. In this way, the company builds equal, partnership-based relations between the management board, trade unions and the works council.

Listening to every employee: We offer our employees the opportunity to express their positions, ideas and opinions. Members can put their ideas forward via the works council, which forms a link between employees and the management board, in terms of transferring information and offering comments and suggestions. The president of the management board, the board member responsible for relations with the works council and trade unions, and the worker director regularly participate in meetings of the works council, while all employees can communicate directly with them via email.

We promote employee education and training: Krka promotes both internal training for its employees, and study at educational and scientific institutions in Slovenia and abroad. The education takes place in various professional fields, particularly in the field of management and personal development, the use of modern information technology, quality and foreign language learning. All

employees have the opportunity to engage in additional education, considering the needs of their position.

Prevention of mobbing: At Krka we want to create a positive work climate among our employees and to ensure their wellbeing. We therefore refuse to tolerate any conduct that could affect the person and dignity of any employee, and take action in the event of such infringements.

Prevention of discrimination: Krka provides its employees with equal opportunities regardless of sex, race, colour, age health condition or disability, religion, political orientation or other belief, trade union membership, national or social origin, family status, wealth, sexual orientation or other personal circumstances.

11. FINAL PROVISIONS

This corporate governance policy shall enter into force on the day it has been adopted by Krka's supervisory board and management board. Following its adoption, the Corporate Governance Policy shall become binding on all companies within the Krka Group. Shareholders and the public shall be notified of the adoption and the content of the policy by means of a public notice on the SEOnet system and a simultaneously published notice on the Krka website.

The Corporate Governance Policy shall be a public document and shall be published on the company website in Slovene and English.

Jože Colarič
President of the Management Board

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President of the Supervisory Board