



Living a healthy life.

2016 ANNUAL REPORT



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Krka, d. d., Novo mesto

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INTRODUCTION

Statement by the President of the Management Board

Dear Shareholders, Business Partners and Employees,

Business environment and business performance

Many events in 2016 were important for Krka and the economy in general. We reacted quickly and efficiently to changes, to growing competitiveness and to different needs in over 70 markets. Despite the unfavourable situation in some markets last year, the Krka Group proved it is resilient and able to develop.

In 2016, sales increased by 1% in terms of value and 11% in terms of quantity compared to 2015. With 13.5 billion tablets, capsules and other pharmaceutical dosage forms, our production in 2016 reached the highest ever monthly, quarterly and annual capacity. Production growth in terms of quantity and especially sales confirm that consumers like Krka's products.

The economic situation was uncertain again last year, as public health care and consumers were economising, and there was fluctuation in some national currencies in Region East Europe. The biggest challenge that pharmaceutical producers currently face is reductions in the prices of our products. Despite the growth in sales value and substantial growth in sales quantity, our net profit in 2016 was €108.5 million, which is 31% less than in 2015. Our response to this has been new products, which we develop, produce and market on our own, with new investments and the further extension of business operations. At the same time, we have been undertaking activities in all areas of business operations to ease the negative consequences of the economic situation: we have been increasing sales growth in terms of quantity, optimising the supply chain and improving the quality of all business processes.

Krka's medicines are among the best-sellers in several markets

Krka's medicines are in demand in several markets. We have been further increasing their market shares. With reference to market share, we are fourth among mostly foreign suppliers of generic medicines in the Russian market and first among foreign suppliers of generic medicines in Ukraine. In Poland, we are fourth among foreign suppliers of generic medicines, while in Hungary and the Czech Republic, we rank third and fourth respectively among mostly foreign suppliers. In Croatia and Romania, we rank second, while in Slovenia we have the biggest market share.

We sold most products and services in Region East Europe, with a value of €332.3 million. In terms of quantity, we sold 12% more than in 2015 in these markets, and 1% more in terms of value. Sales growth expressed in the Russian rouble reached nearly 13%, and 1% expressed in euros in the key market of the Russian Federation. In the second key market, Ukraine, we reached 17% growth expressed in euros. The main contributors to sales in both markets were prescription pharmaceuticals and medicines for the treatment of cardiovascular diseases. Sales generated by Region East Europe accounted for 28.3% of Krka Group's total sales.

Region Central Europe recorded the second highest sales at €286.7 million, or 24.4% of total Krka Group sales. We reached 2% sales growth in terms of value and 6% sales growth in terms of quantity. In Poland, our key and largest market in the region, we sold by 3% more products than in 2015. Sales grew in all regional markets except Lithuania and Hungary. In the Czech Republic, the growth rate was 5%, and in Slovakia 4%. The major contributors were prescription pharmaceuticals. The share of new medicinal products was also important.

The third highest sales were in Region West Europe, with a 24% share, totalling €282.4 million. Sales in terms of quantity were 16% higher than in 2015, while growth in value declined by 8% as a result of a reduction in prices. The biggest decline in sales was in Scandinavia and the United Kingdom, whereas Germany, Spain and France were the most successful markets in terms of sales.

Sales in Region South-East Europe reached €152.4 million, which was 13% of total Krka Group sales. In terms of value, we grew by 9% in these markets. We achieved good results in almost all markets in the region. The fastest growth was in Romania, Krka's third largest market in the region. We also grew successfully in Croatia.

With €35.5 million worth of sales Overseas Markets account for 3% of all sales of the Krka Group. We sold 12% more than in 2015. The biggest contribution came from the individual markets of sales offices in the Middle East and Africa, especially Iran and the Republic of South Africa.

Sales in Slovenia amounted to €85.1 million, which is 7.3% of total Krka Group sales. We were particularly successful at selling products in key therapeutic groups, especially medicines for the treatment of hypertension and hyperlipidemia, for the reduction of gastric acid and for the treatment of pain. Also, sales of health resort and tourist services grew again, with sales of our subsidiary Terme Krka increasing by 9% over 2015.

19 new products in 2016

We know that we must secure long-term growth, which depends especially on continuously increasing our range of products which are based on a vertically integrated business model with which we control the entire development process from raw ingredients to finished products. This is why it is no coincidence that we develop increasingly more products every year based on our own patented development and research solutions – we have more than 170 new products currently in the pipeline. Through innovation, we secure new, modern pharmaceutical dosage forms with which we enter the global generic pharmaceutical market alongside the best in the industry.

In 2016, Krka received marketing authorisations for 19 new products in 41 pharmaceutical dosage forms and strengths. Among prescription pharmaceuticals, we received marketing authorisations for 16 new products – eight were added to the key group of medicines for treating cardiovascular diseases and five to the antibiotics range. In terms of non-prescription pharmaceuticals, we launched a new product for the treatment of chronic venous insufficiency symptoms, lymphoedema, and acute haemorrhoidal syndrome. Two new anti-microbial medicines were added to the range of animal health products.

We consolidated our market presence and obtained marketing authorisations for many products in new markets, new dosage forms and strengths. A total of 546 new marketing authorisations were obtained in various markets in 2016.

In 2016, we connected development and research, as well as production processes in terms of organisation. As a result, we are counting on easier and quicker development of new products and their transfer to production.

20 investment projects in the Krka Group

In 2016, the Krka Group allocated €132 million to investments, €78 million in the controlling company and €54 million in subsidiaries. At the level of the Krka Group, suppliers from Slovenia were involved in more than half of the investment projects, and in more than 70% at the level of the controlling company.

In Slovenia, Croatia, the Russian Federation, and Germany, more than twenty investment projects are in progress that are aimed at increasing our production capacities by more than one third. The annual production volume of tablets and capsules will increase from 13.5 billion tablets and capsules to more than 17 billion within few years.

We remain determined to increase dividends also in 2017

In 2016, we allocated 54% of the consolidated net profit generated in 2015 for the payment of dividends to equity holders. Gross dividend per share increased by 6%. Krka is known for high dividends among generic pharmaceutical suppliers, a reputation we intend to keep.

We are an ambitious and qualified team

At the end of 2016, the Krka Group had 10,889 employees. The share of employees with at least a university education accounted for 57%. Krka is considered a reputable employer by its employees and by candidates for employment, so we have top-quality employees in important positions. We encourage our employees to constantly seek better solutions in their jobs.

Outlook for 2017

In 2017, we plan sales worth €1.220 billion and an increase in profit compared to 2016. We will sharpen the focus on marketing, develop new products, expand and employ. We will allocate €174 million for investments. The total number of employees is planned to exceed 11,400.

Production and sales growth in terms of quantity requires an increase in production capabilities for the synthesis of raw ingredients and production of pharmaceuticals, laboratory capacity for research and development, as well as quality assurance. In 2017, we are planning to open a new, fourth development and control centre worth €54 million. We are planning to open new production capacities in the new Notol 2 plant for the production of solid pharmaceutical dosage forms and the production of oncology medicines in Croatia. Along with the optimisation of purchasing pathways, these steps will also ensure Krka's competitiveness in markets with recorded quick growth in terms of quantity. Simultaneously with increasing production capacities, we also plan future growth as a result of takeovers and long-term business connections which, in addition to new products, will also bring new markets.

Alongside with developing products and technologies in the traditional pharmaceutical field, we also study and work on products in new technological areas, especially similar biological medicines. This is why we have formed a special team of highly trained professionals specialising in recombinant technologies and products that actively engage in selecting products and technologies, and conduct professional detailed audits on more than ten products which are in different development stages with potential partners. In these evaluations, we give priority to various therapeutic areas: diabetes, autoimmune disorders and oncology. With products made with a recombinant technology, we assess the risks related to implementing a new regulation and product entry onto markets. We are aware that only in this way can we ensure smart investments.

We know that only those who are the best and have a clear vision and company development strategy will win the competition that is becoming increasingly fiercer. At Krka, we have long-term aims, and I am convinced that we will be successful in taking our path in the future, thereby justifying your trust.



Jože Colarič
President of the Management Board and CEO

2016 Report of the Supervisory Board

Dear Shareholders and Stakeholders,

The Supervisory Board members met at five regular meetings and discussed 44 items on the agenda. Members of the supervisory board committees held nine meetings, one correspondence session and discussed 43 items on the agenda.

The work of the Supervisory Board

The Krka Company Supervisory Board consists of 9 members. The shareholder representatives are Prof. Dr. Julijana Kristl, the President of the Supervisory Board Jože Mermal, Andrej Slapar, Simona Razvornik Škofič, Deputy President of the Supervisory Board Anja Strojín Štampar MBA and Dr. Boris Žnidarič. The employee representatives are Franc Šašek, Deputy President of the Supervisory Board, Dr. Mateja Vrečer and Tomaž Sever MSc. Matej Pirc was a member of the Supervisory Board until the Annual General Meeting held on 7 July 2016, but announced his resignation at the fourth meeting. The shareholders elected Dr. Boris Žnidarič as his replacement.

Krka's Supervisory Board has four women and five men, whose qualifications, work experience, age and the fields in which they work differ. They are 43 to 68 years old. They are qualified in pharmacy, chemistry, law, economics, social sciences, organisational sciences and management. Throughout their careers they have managed and supervised many companies, organisations and processes.

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

Also, in 2016 we had all the necessary data, reports and information available to us. The Management Board submitted the materials seven working days before the Supervisory Board meeting. Krka's departments helped organise the meetings, promptly implemented improvements and offered organisational support to the Supervisory Board.

Apart from one member who was absent twice, on both occasions on justifiable grounds, and three members who were absent once each, the members regularly attended the meetings. Generally the members of the Supervisory Board, members of the Management Board and the secretary to the Supervisory Board attend the meetings. If necessary, but definitely when adopting the annual report, certified auditors from an external auditing firm attend the meetings.

By discussing the 44 items on its agenda in 2016, the Supervisory Board looked into Krka's past and current operations, financial, regulatory and business risks, business plans for 2017, was promptly informed about human resources, investments, products and implementation of the current strategy, followed expert and analysts' opinions about Krka, compared Krka's operations with those of the competition and kept up to date with new developments in the Company, the pharmaceutical industry and the business environment. Also in 2016, the Board evaluated its own activities and set aims for improvements in the following year. Below, I discuss the above-mentioned areas as the members of the Supervisory Board discussed them in great depth:

The Annual Report Within the statutory time frame, the Supervisory Board thoroughly examined the 2015 report of the Company 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 in all respects give a true and fair view of the financial position of the Krka Company and the Krka Group, their operating profit, cash flow and changes in equity. The Board had no comments about the auditor's work or the report. The Board also compiled and adopted a report on its work in 2015, and together with the Management Board, drew up the Krka Statement of Compliance with the Corporate Governance Code and the Code of Best Practice for Warsaw Stock Exchange Listed Companies.

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

Supervising the operations of subsidiaries in the Krka Group Every year, the Supervisory Board discusses the operations of Krka's subsidiaries, whose operations and number of employees constitute a significant part of the Krka Group. At the end of 2016, Krka had 28 subsidiaries abroad. The Management Board reported to the Supervisory Board about the business model, work and performance of these companies, any challenges encountered in the business operations and similar. The members were informed about 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/loss and net operating results.

Long- and short-term operating plans of the Krka Group The Supervisory Board consults with the Management Board on the operating plan for the following year and is informed about it in great detail. Since 2016, the Supervisory Board has had an additional role in adopting this plan. On 7 July 2016, the AGM concluded that the plan must be approved by the Supervisory Board. This is why at the meeting in November 2016 the members of the Supervisory Board and the members of the Management Board discussed the operating plan of the Krka Company and the Krka Group for 2017. They discussed sales according to 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. They agreed with the proposal made by the Management Board and approved the plan for 2017. It has been recommended to the Management Board to increase efforts in the field of new products and strive for cost optimisation, as well as to readily report to the Supervisory Board on the implementation of actions and strategic goals of the company.

At the same meeting, the Management Board provided the Supervisory Board with explanations that profits in 2016 would decrease by about one third compared to the year before, which is the result of considerable price reductions in most markets and the devaluation of currencies that are important for Krka. In 2017, Krka will increase the focus on marketing, cost management and achieving the highest returns possible. The Management Board plans sales to reach €1.220 billion and profit to be slightly higher than in 2016. The Management Board has emphasised the importance of following the strategic guideline of increasing the dividend in 2017.

Convening and holding the Annual General Meeting In 2016, the Management and Supervisory Boards spent quite a lot of time preparing the materials for the AGM and organising it.

They prepared a proposal to amend the *Articles of Association*, which had to be harmonised with amendments to the laws and the present situation. A change in content was added: the Supervisory Board will henceforth give prior approval to the annual and financial plan of the Company and Company strategy.

The Supervisory Board prepared a proposal for a new member of the Supervisory Board, a shareholder representative, to replace Matej Pirc, who had resigned earlier. The Supervisory Board did not appoint a nomination committee for this purpose, but rather the Human Resource Committee assumed its role in accordance with the *Rules of Procedure of the Supervisory Board*. The Supervisory Board proposed Dr. Boris Žnidarič as the new member, whom the AGM approved.

Together with the Management Board, the Supervisory Board drafted the agenda and materials for the AGM, and prepared a proposal for the distribution of accumulated profit. The Supervisory Board proposed that the AGM discharge the Management and Supervisory Boards of liability for 2015.

The Board proposed to the AGM that Ernst & Young d.o.o., Ljubljana be appointed auditors for 2016.

Investments The Management Board regularly reports to the Supervisory Board on all of the Group's major investments from the first-quarter, half-year, nine-month and annual operating reports. In addition, once per year the Management Board prepares a detailed overview of all big investments. In 2016, the members discussed the Noto 2 plant, Krka's major investment in the production of solid pharmaceutical dosage forms, where test production started in February 2015. The Company is gradually adding equipment to the new plant. The gradual instalment of equipment follows market needs and the desired growth of production. One of the main investments already underway and about which the members were informed is the new RKC 4 research and development centre. The centre will ensure Krka additional development and control capacities for new products and quality control. Works began in July 2015, and by the end of 2016 the building was prepared to have the equipment built in and qualified. The new capacities will be ready for use in the second half of 2017. The members also discussed the construction of new development and production capacities for solid dosage forms of oncology medical products at the Krka plant in Jastrebarsko in Croatia, which will be completed in mid-2017. They also

promptly discussed smaller investments. The Management Board reported on the course of works and meeting of deadlines, as well as predicted costs. It also presented building plans and photographs of construction sites.

Risks Also in 2016, the Management Board regularly reported to the Supervisory Board about various risks, and in great detail about the currency risk, credit risk and business and legal risks. Krka's Internal Audit reported to the Audit Committee, which reported to the Supervisory Board on risks established in internal audits.

The Russian rouble accounts for the majority of Krka's currency exposure. Due to the increased fluctuation of the rouble exchange rate in 2016, the Management Board provided hedging with forward contracts. In the second half of the year, the exchange rate value fluctuated less than in the first half of the year, while it even increased in the last quarter due to a rise in oil prices. The Management Board informed the Supervisory Board and the Audit Committee of the currency risks at all the meetings. In all cases, it presented the current information on currencies, defined Krka's exposure, explained the results of hedging and presented the expectations regarding future macroeconomic indicators which determine the value of the currencies most important for Krka.

The Management Board reported to the Audit Committee, which in turn reported to the Supervisory Board on trade receivables management in the Krka Group. Krka estimates the credit risk for all customers whose sales exceed €100,000 a year. There are 400 of these, accounting for 95% of sales. Krka uses its own methods with over 130 parameters based on good practices around the world. High-risk receivables are hedged with credit insurance coverage. The result of systematic receivables management is a small share of past due receivables also in 2016, when they amounted to only a few percent of total receivables, and the low value of impairment and write-offs of receivables.

When considering interim reports, the Management Board reported to the Supervisory Board about any increased business risks or risks in various countries, such as measures taken by current governments or regulatory bodies in individual countries and the special characteristics of individual markets, such as changing methods for determining the prices of medicines.

The Management Board described the procedures, scheduled deadlines and risks of patent- and related disputes to which Krka is a party with respect to individual products and markets.

Based on the information in the reports by the Supervisory Board, Audit Committee and Internal Audit, the Supervisory Board monitored internal controls, internal audit activities, the compliance of business operations and risk management, and established their suitability.

Business trends in the pharmaceutical industry and analytical reports on Krka In 2016, Krka's operations were monitored by 9 financial analysts from banks or financial companies, of whom seven were foreign, as well as analysts of large owners. The Supervisory Board was informed of the findings of external analysts, assessments of the fair value of Krka shares and costs and benefits with respect to Krka's operations as described by analysts. The Board also discussed the current information from the pharmaceutical industry.

Benchmarking Krka's performance with comparable companies The Supervisory Board regularly compares Krka's performance with its competitors. It was informed about the operational results of the Krka Group in comparison to other generic pharmaceutical companies. It especially compared sales, their structure by region and groups of products, gross profit, operating profit (EBIT), operating profit increased by depreciation (EBITDA), profit before tax and profit over the period, margins, ROE and ROA indicators, a presentation of cost structure, income statement, and share price indicators.

The Works Council report on worker participation in management Krka is regarded as a good employer by many employees, as the company is successful in its business operations, the working conditions are good, employees are productive and relations between the management and employees are good. In 2016, the President of the Works Council reported to the Supervisory Board on worker participation related to the conditions for the operation of the Works Council, fulfilment of employer's participation duties, the success of cooperation of workers' representatives in the Company's bodies and assessment of employees' salaries and employee satisfaction. The representative of the Works Council emphasised that employees are satisfied, that they trust the Management Board and have good work ethics. The Works Council also cooperated well with the company management.

Cooperating with the Internal Audit The amendments to the *Companies Act* (ZGD-1) from 2015 increased the responsibility of the Supervisory Board in internal audits conducted in companies. The Supervisory Board gives its approval to the appointment, acquittal and remuneration of the head of Internal Audit, acts which regulate the purpose, meaning and tasks of internal audits and the annual and multi-year plan for internal auditing. It is also informed through the annual report on the work of internal audit.

In 2016, the Supervisory Board reviewed and approved the contract of employment and the annex to the contract of employment for the head of Internal Audit, determined the performance bonus for the head of the department for the first half of 2016, discussed and approved the mid-term plan of Internal Audit for 2017–2020 and the work plan for 2017. It was also informed about the company's annual report. 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 particularly closely twice a year, when setting the variable amount of members' salaries pursuant to the *Rules*. The variable amount is calculated according to the model that considers quantitative and qualitative indicators and which the Supervisory Board prepared based on good practice. In 2016, it updated the methods by adding the sales quantity growth criterion to the existing performance criteria, and included in the updated development strategy of the Krka Group.

The variable amount of the Management Board's salaries is paid in two parts – the first part at the end of the second quarter according to the interim performance results, and the second part at the end of the year depending on annual performance. The Management Board worked well according to all indicators. The amount of the performance bonus is based primarily on sales value growth, and since 2016 also on growth in sales volume, increases in cash flows from operations, as well as operating profit and return on equity in comparison with the competition. Qualitative indicators 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 corporate responsibility such as volunteering, humanitarian work, sponsorship, Krka's reputation, as well as investor relations and public relations.

Shares and shareholding structure Krka's shares are listed on the Ljubljana and Warsaw Stock Exchanges, so the Company acknowledges the rules of both organisations. Every quarter, the Supervisory Board obtained current information about the shares and reviewed the report on the acquisition of treasury shares, the current shareholding structure and the Company's share price. The Board was also informed about the calendar of closed trading windows, when persons with access to insider information are not allowed to trade in Krka's shares. Due to strict legislation regulating internal information, the Supervisory Board together with the Management Board adopted updated relevant internal regulations.

Strengthening the good practice of Supervisory Board operations In 2016, the Supervisory Board performed a periodic self-assessment according to the methods of the Slovenian Directors' Association. The members submitted the completed questionnaires to the business secretary, based on which the secretary and the President of the Supervisory Board prepared the report. The average grade was 3.7 out of 4. The grades showed that the work of the Supervisory Board is of the highest standards. The members also proposed some improvements for their work. They wanted to see the key business processes first hand, if possible. In 2016, the Management Board organised a tour of the processes in development and research facilities, with additional tours taking place in 2017.

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

Krka's events In addition to the Annual General Meeting and the ceremony for the traditional annual Krka Prizes awarded for the best undergraduate and postgraduate research work, the members attended business and social events organised by Krka.

The work of Supervisory Board committees

The Supervisory Board appointed the Audit Committee and the Human Resources Committee, which deal in detail with accounting, auditing, finance and human resource issues. The committees report to and advise the Supervisory Board, while decision-making remains under the authority of the Supervisory Board.

Audit Committee

In 2016, the Audit Committee met six times. The Committee discussed 31 items on the agenda. The Committee is presided over by Simona Razvornik Škofič. The 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 committee 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 the meetings at his own discretion. The Secretary of the Supervisory Board attends all the meetings. In 2016, four meetings were also attended by representatives of the auditing company Ernst & Young d.o.o., Ljubljana.

The areas most discussed by the Audit Committee in 2016 are described below:

Annual Report The Committee considered the Annual Report of the Krka Company and the Krka Group for 2015, the auditor's report and the Supervisory Board report for 2015, and proposed that the Supervisory Board approve them. The auditing partner and coordinator of the external auditor Ernst & Young d.o.o., Ljubljana reported on the 2015 audit procedures to the members of the committee three times.

Interim results Whenever 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 2016, 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.

An important new development about which the Audit Committee was informed is updated legislation which determines the structure of the audit report. Accordingly, the external auditor will have to expand their report, which is part of the annual report. In the report the external auditor will have to cover so-called key auditing issues and add new findings. This change will contribute to the quality of information for investors and make the work of auditors more transparent.

The Committee also discussed the new provisions of regulation 537/2014 regarding non-auditing services performed by the company auditor. The effective date for Krka was 1 January 2017. In accordance with these provisions, the auditing company conducting the company audit or whichever member of the network that the auditor belongs to must not indirectly or directly perform any so-called prohibited or non-auditing services for the company, its controlling company or subsidiaries in the European Union. Other services which are not prohibited may be performed only if the Audit Committee approves them. The Committee was also informed that the Krka Group has an established system of reporting on non-auditing services ordered by their subsidiaries abroad. The controlling company previously approves contracts for non-auditing services. In 2016, there were two such cases. While the Company did not plan any for 2017, it would obtain approval for them after 1 January 2017.

In 2016, the Audit Committee dealt with other current issues in external auditing.

It prepared a proposal for selection of the auditing company to audit the business results for 2016. The proposal was discussed by the Supervisory Board, and the auditor was appointed by the AGM. The Audit Committee reviewed the proposal for the contract with the auditor and advised the Supervisory Board that the president of the Supervisory Board should sign it. Consistent with good practice, the President and member of the Committee met with the auditing company and together with the auditors proposed areas of business which needed to be closely examined in the regular performance audit for 2016. The Committee was informed about the composition of the auditing team and their planned activities and schedule before the audit.

Internal audit The Audit Committee regularly cooperates with Krka's Internal Audit. This cooperation is welcome, due to new legal requirements, especially the amendments to ZGD-1I and the desire for closer cooperation.

In accordance with good practice, international standards of professional conduct in internal auditing and ZGD-11, the Auditing Committee may give guidelines for their work to Internal Audit. Therefore, the Audit Committee discussed this subject for the first time in 2016. It did not change the established method of work, as it decided that it was good and transparent. With guidelines, it additionally consolidated the plan of work.

In 2016, the Committee discussed several other topics. It reviewed the report on the work of Internal Audit for 2015 and the self-evaluation report of the Internal Audit for 2015. It also discussed the report on the work of Internal Audit for the period January–June 2016, the mid-term work plan for the period 2017–2020 and the plan of work for 2017. It reviewed the contract of employment and the annex to the contract of employment for the head of Internal Audit and the proposal for the performance bonus of the head of the company for the first half of 2016. It reported on all matters to the Supervisory Board and always assessed the work of Internal Audit as positive.

Risk management The Audit Committee regularly discussed financial risks and reported about them to the Supervisory Board. It focused especially on the risks related to the currency exchange rate fluctuation of the Russian rouble, which accounts for the majority of Krka's currency exposure for Krka, and credit risk. The above issues are presented in the chapter on the operations of the Supervisory Board in greater detail.

Annual General Meeting The Audit Committee discussed the appointment of the auditor for the 2016 financial year and suggested at the AGM that the Supervisory Board propose the audit company Ernst & Young 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.

Human Resource Committee

In 2016, the Human Resource Committee met three times and held one correspondence meeting. The Committee discussed 12 items on the agenda. It is presided over by Andrej Slapar. The members are Julijana Kristl, Anja Strojnik Štampar and Mateja Vrečer. The Committee invited the President of the Management Board and the member of the Management Board in charge of accounting, finance and controlling, and the secretary of the Supervisory Board. The President of the Supervisory Board may attend the meetings at his own discretion.

Management Board's remuneration The Committee evaluated the work of the Management Board in terms of 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 2015 and the first half of 2016.

It proposed that the Supervisory Board update measures of performance of the Management Board by adding the sales quantity growth criterion. It is included in the updated development strategy of the Krka Group.

Drawing the proposal for the election of a Supervisory Board member, a shareholder representative Due to the resignation of the member of the Supervisory Board, Matej Pirc, the committee conducted a nomination procedure and sought a new member, a shareholder representative. It proposed Boris Žnidarič. The Supervisory Board unanimously approved the proposal and submitted it to the AGM, which appointed Mr Žnidarič on 7 July 2016.

Evaluation of the work of the Management and Supervisory Boards

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

The Management Board regularly attended all the meetings of the Supervisory Board in 2016, at which the President of the Management Board reported and answered questions in the name of the Company. Other members of the Management Board contributed detailed information regarding their professional areas.

The President of the Supervisory Board and the President of the Management Board remained in contact between the meetings in 2016, consulted each other and communicated on various topics.

In 2016, the Management Board timely prepared all the information, reports and information that were necessary so that the Supervisory Board could do its work properly. It responded quickly and effectively to the decisions of the Supervisory Board.

In accordance with its 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 and Supervisory Boards cooperated professionally and productively. The Management Board was fully committed to the Krka Group achieving the best results possible under difficult market conditions.

All members of the Supervisory Board remained independent in our work in 2016. In accordance with the *Corporate Governance Code*, members completed statements on independence, which Krka published to show that all Members of the Board are independent. Should a conflict of interest occur, the *Rules of Procedure of the Supervisory Board* stipulate that in such cases a member must refrain from voting.

According to the budget, €251,700 was allocated for the work of the Supervisory Board and its committees, whereas €234,787 was spent. In 2016, Krka paid a €7,000 membership fee for the Slovenian Directors' Association. There were no other expenses, such as for contractors.

Approval of the Annual Report and proposal for the allocation of the 2016 accumulated profit

The Supervisory Board discussed the 2016 Annual Report at **two** Supervisory Board meetings and **two** Audit Committee meetings.

At the meeting of 1 March 2017, the certified auditor Ernst & Young d.o.o., Ljubljana reported to the Audit Committee on **pre-audit results and 2016 audit procedures**.

The Draft Annual Report of Krka and the Krka Group for 2016 were considered by the Supervisory Board and the Audit Committee at their meetings of 1 March 2017.

The members of the Supervisory Board and the Audit Committee received the **proposed clean copy of the 2016 Annual Report** on 21 March 2017 and reviewed it at their meetings of 29 March 2017. The representatives of the certified auditor reported to the Committee and the Supervisory Board.

Based on the proposed copy of the annual report, the auditor's report and the Audit Committee review, the Supervisory Board found that the Management Board's annual report is a true and fair account of events, and presents a comprehensive view of the performance of the Krka Company and the Krka Group in 2016, and provides extended information that was otherwise sent to the Board throughout the financial year. As the Supervisory Board had no comments or reservations in that regard, it unanimously approved the 2016 annual report at a meeting on 29 March 2017. **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 2016 the Krka Company achieved a net profit of €102,871,840.51, of which €9,618,913.02 was appropriated to reserves for treasury shares, and €0.00 to other revenue reserves. The remaining net profit of €93,252,927.49 and the

retained net profit of €49,405,571.99 comprise the accumulated profit, which on 31 December 2016 stood at €142,658,499.48.


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

- dividends €88,722,078.50, or €2.75 gross per share;
- other revenue reserves €26,968,210.49 and
- retained earnings €26,968,210.49.

The proposal was drawn up by considering the number of treasury shares on 29 March 2017, when the Supervisory Board confirmed the *2016 Annual Report* and together with the Management Board prepared a proposal for the allocation of accumulated profit. As the number of treasury shares changes, the number of shares entitled to dividends is revealed on the day of the AGM, and the total amount to be allocated to dividends, other revenue reserves and retained earnings are to be altered accordingly.

Conclusion

In 2016, the members of the Supervisory Board diligently and responsibly monitored the operations of the Krka Company and the Krka Group. We evaluated the work of the Management Board, monitored how Krka is perceived by the professional public, compared its business operations with the competition, discussed the future plans of the Management Board, studied risks and took part in preparations for the AGM. The year 2016 was challenging for generic companies, but Krka's foundations are solid. Krka regularly pays out dividends, is financially strong, is continuously expanding and continues to employ. Krka continues to place importance on new products.



Jože Mermal
President of the Supervisory Board

Financial Highlights of the Krka Group

In € thousand	2016	2015	2014	2013	2012
Revenues	1,174,424	1,164,607	1,191,614	1,200,827	1,143,301
Operating profit (EBIT) ¹	122,435	199,434	276,953	227,588	192,308
EBITDA ²	228,238	306,742	374,535	321,732	282,276
Net profit	108,456	158,185	166,161	172,766	159,839
Non-current assets (year-end)	1,038,067	986,598	1,008,830	973,954	926,000
Current assets (year-end)	873,451	822,606	786,915	785,930	700,748
Equity (year-end)	1,444,444	1,405,984	1,351,899	1,332,611	1,240,521
Non-current liabilities (year-end)	115,313	110,982	125,421	128,833	145,362
Current liabilities (year-end)	351,761	292,238	318,425	298,440	240,865
R&D expenses	117,994	115,393	108,370	97,235	101,102
Investments	131,817	95,889	173,721	157,268	153,288
RATIOS	2016	2015	2014	2013	2012
EBIT margin	10.4%	17.1%	23.2%	19.0%	16.8%
EBITDA margin	19.4%	26.3%	31.4%	26.8%	24.7%
Net profit margin	9.2%	13.6%	13.9%	14.4%	14.0%
Return on equity ROE ³	7.6%	11.5%	12.4%	13.4%	13.4%
Return on assets ROA ⁴	5.8%	8.8%	9.3%	10.2%	10.1%
Liabilities/Equity	0.323	0.287	0.328	0.321	0.311
R&D expenses/Revenues	10.0%	9.9%	9.1%	8.1%	8.8%
NUMBER OF EMPLOYEES	2016	2015	2014	2013	2012
Year-end	10,889	10,564	10,499	10,048	9,461
Average	10,774	10,532	10,284	9,783	9,197
SHARE INFORMATION	2016	2015	2014	2013	2012
Total number of shares issued	32,793,448	32,793,448	32,793,448	35,426,120	35,426,120
Earnings per share (EPS) in € ⁵	3.35	4.86	5.07	5.24	4.80
Dividend per share in €	2.65	2.50	2.10	1.61	1.50
Closing price on LJSE at the end of the period in €	52.90	65.20	59.60	60.00	50.00
Price/Earnings ratio (P/E)	15.81	13.41	11.75	11.46	10.41
Book value in € ⁶	44.05	42.87	41.22	37.62	35.02
Price/Book value (P/B)	1.20	1.52	1.45	1.60	1.43
Market capitalisation in € thousand (31 Dec)	1,734,773	2,138,133	1,954,490	2,125,567	1,771,306

¹ The difference between operating income and expenses

² The difference between operating income and expense plus accumulated depreciation

³ Net profit/Average shareholders' equity in the year

⁴ Net profit/Average total asset balance over one year

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

⁶ 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 28 subsidiaries outside Slovenia.

The Group is engaged in the development, production, marketing and sales 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 Germany, Poland, Croatia and the Russian Federation. In addition to production, these subsidiaries, apart from Krka-Rus in the Russian Federation, deal with marketing and sales. Other subsidiaries outside Slovenia deal with the marketing and/or sales of Krka products and do not have production capacities.

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

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, d. o. o. 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%.

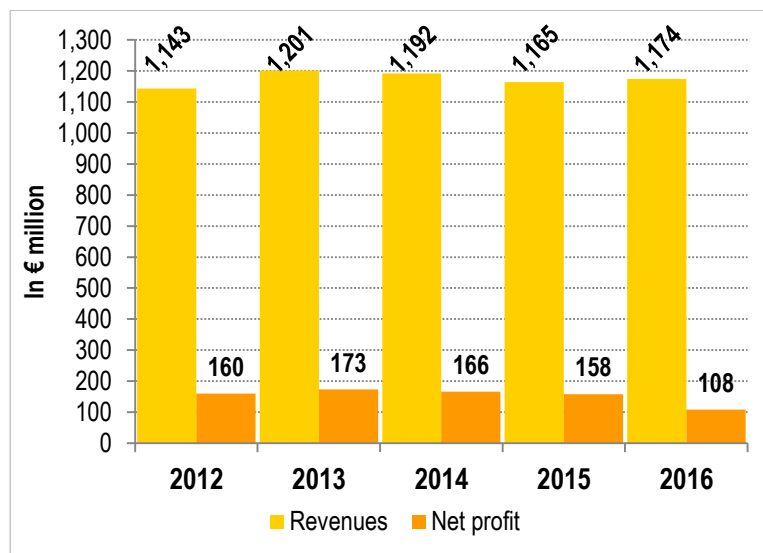
Data on the controlling company

Krka, d. d., Novo mesto	
Registered office	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
Telephone	++386 7 331 21 11
Fax	++386 7 332 15 37
E-mail	info@krka.biz
Website	www.krka.si
Core business	production of pharmaceutical preparations
Business clarification code	21,200
Year established	1954
Registration entry	1/00097/00, District Court of Novo mesto
Tax number	82646716
VAT number	SI82646716
Company ID number	5043611000
Share capital	€54,732,264.71
Total number of shares issued	32,793,448 ordinary registered no-par value shares

The Krka Group business model

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

Revenues and profit in the last 5 years



Krka is the leader in the Slovenian market and strongly present in the generic pharmaceutical markets of eastern, central and south-eastern Europe. For many years it has also been present in the markets of western Europe. We have been strengthening our presence in overseas markets, as we wish to expand our sales in the markets of the Middle East, Far East, Africa and the Americas. Please see 'Marketing and Sales' for further information about Krka's markets.

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

Business orientation

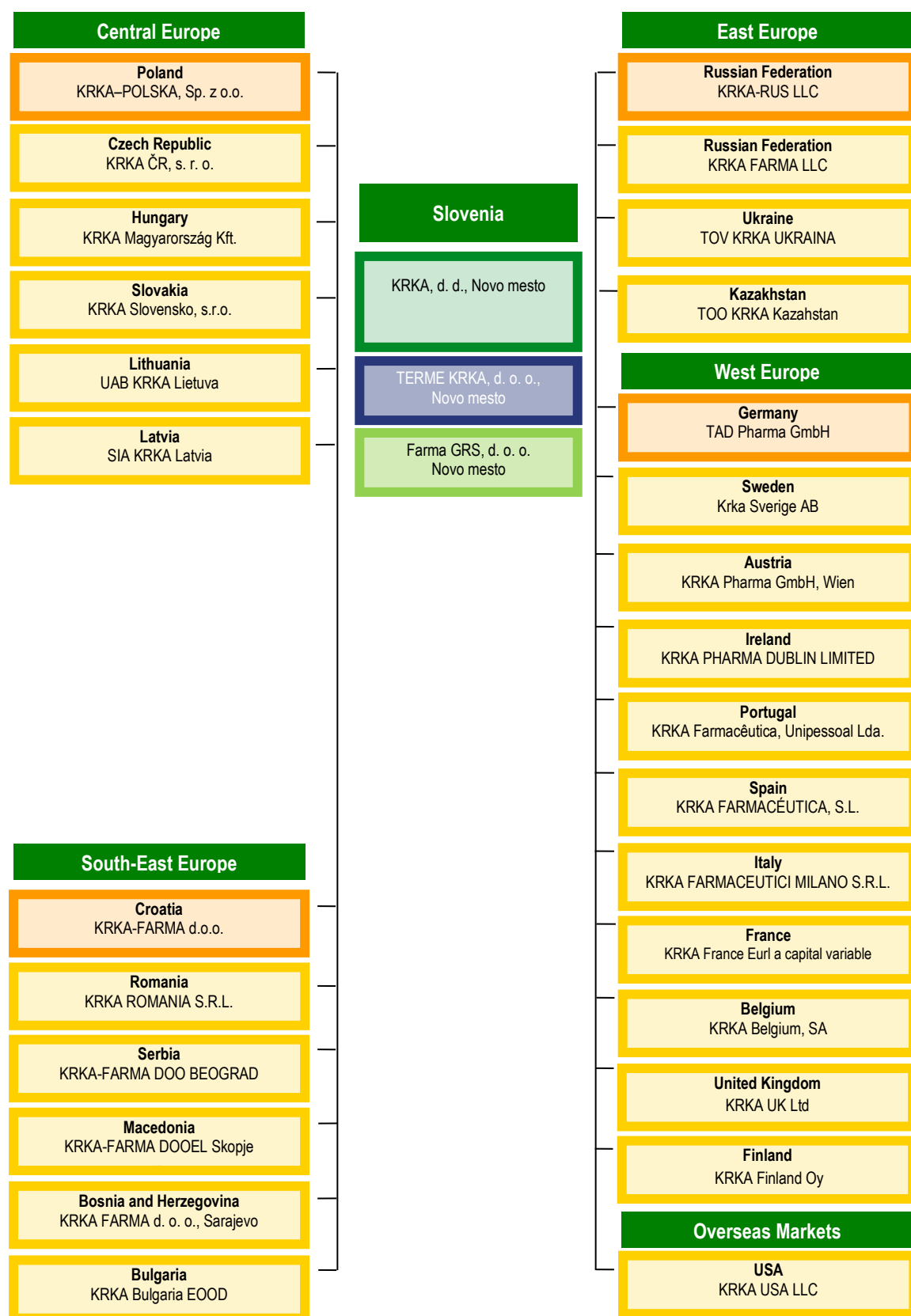
Our advanced pharmaceutical production and the vertically integrated business model allow us to provide customers in more than 70 countries with a wide range of safe, high-quality and effective prescription pharmaceuticals, non-prescription products and animal health products. Krka's portfolio primarily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

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

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

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

Krka Group Organisation Chart



The chart includes companies in operation on 31 December 2016.

Production and distribution companies
Health resort and tourist services company

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

Below, short names of companies are used.

Krka's presence in global markets



Overview of significant events and awards in 2016

Events and awards are stated in chronological order.

Events

- As of 1 January, the new Management Board began its term of office. David Bratož, and Milena Kastelic, who was appointed as worker director by the Works Council, joined other members of the Management Board: Jože Colarič, Aleš Rotar and Vinko Zupančič.
- Krka Group's Development Strategy for 2016–2020 entered into force in January setting solid foundations for the future progress of the Krka Group. The strategy focuses on the established therapeutic areas and entering new ones, and at the same time connecting key business functions in a way that will make our vertical integration business model perform even better.
- The beginning of 2016 was marked by company reorganisation in order to provide more new products and optimise product supply to markets, as well as improve the key processes in the company.
- We conducted a survey on internal communication, which revealed that employee satisfaction with communication had increased in comparison to 2012.
- Fifteen worker assemblies were organised 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 as other current information. In this way, we enable direct communication of the employees with the management and thereby strengthen trust.
- In February, a former president of the Management Board and CEO of many years, Miloš Kovačič, passed away. In his memory, a commemoration service was held. We remembered Mr Kovačič's achievements, which made Krka a renowned generic pharmaceutical company.
- *The Book of Poems* was added to Krka's book collection, in which poems sent to an international competition, which was held in all the companies and representative offices abroad, were collected. The aim of the competition was to encourage, discover and develop the poetic talent of our employees. The collected poems were published in three languages.
- The final analysis of the results of the organisational climate and employee satisfaction survey conducted at the end of 2015 yielded good results in Slovenia, and companies and representative offices abroad. The analysis showed opportunities for change in some areas, so we prepared an action plan for improvements in the spring.
- In March, we organised the tenth consecutive meeting with local sponsored parties whose main sponsor is Krka. At the meeting, we awarded recognitions for the best sponsored-party presentation, for work with young people, and for sports achievements.
- In April, we organised a socially responsible campaign, Krka's Week of Humanity and Volunteering, for the fifth consecutive time. The charity event under the slogan 'Charity Is Also Part of Us' brought together almost 1,400 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. After two years, we again conferred the Boris Andrijanič Award for remarkable achievements. This most important Krka award was given to Zvezdana Bajc, Deputy CEO – Corporate Performance and former long-term member of the Management Board, for her exceptional and outstanding contribution to Krka's business performance and growth.

- Marketing Awards were conferred on the best Krka Group Marketing employees for the 18th consecutive year. The most successful employees in regulatory affairs and public resources were also awarded.
- At the end of July, we registered Krka's new representative office in Montenegro.
- At the 22nd Annual General Meeting of the Company, the proposed dividend per share of €2.65 gross, which is 6% more than the year before, was approved. A new member of the Supervisory Board, Dr. Boris Žnidarič, a shareholders' representative, was elected.
- As part of the 46th Krka Prizes, we awarded the best secondary school research projects and the best undergraduate and postgraduate research projects.
- In October, we successfully passed the 21st audit of our integrated management system. The auditors, who inspected five management systems adapted to the requirements of various standards (ISO 9001, ISO 14001, HACCP, BS OHSAS 18001 in ISO/IEC 27001), pointed out 15 achievements of our operations.
- Krka is the only company in Slovenia that examines and certifies the skills required to acquire national vocational qualification (NVQ) certificates for the pharmaceutical industry. Last year, we awarded certificates to 99 Krka employees who successfully completed programmes in the pharmaceutical industry.
- At the competition for best annual report of 2015 organised by the *Finance*, the Slovenian business daily, Krka received an award for best annual report on business analysis and plans. The *Annual Report* was ranked second in the category of big companies.

Awards

- As part of the research conducted by the Slovenian employment portal MojeDelo.com about the reputation of Slovenian employers, Krka received an award for the most reputable employer of 2015 in March 2016. This was the fourth award of this kind.
- One of the leading companies in the pharmaceutical industry in the Russian Federation and a local distributor of medicines in the Russian Federation, Katren, awarded Krka-Rus the Golden Pallet award for being the best supplier in the country.
- The Chamber of Commerce of Dolenjska and Bela krajina awarded Krka, d. d., Novo mesto and Farma GRS, d. o. o., Novo mesto five gold and two silver awards for best innovations.
- To mark the occasion of the Innovation Day, the Slovenian Chamber of Commerce awarded Krka, d. d., Novo mesto and Farma GRS, d. o. o., Novo mesto a gold and silver awards for innovations for the development of an active pharmaceutical ingredient and its use in prolonged-release formulations for treating schizophrenia and bipolar disorder, and the development of a new synthesis route and crystalline forms of a macrolide antibiotic.
- At the 2016 Management Education and Training conference, organised for the 16th time, Krka received the TOP 10 award for the twelfth time in a row, and was therefore once again among the ten Slovenian companies that make great investments in employees' knowledge, education and training.
- In November, Krka-Rus in the Russian Federation received the order of Venerable Sergius of Radonezh, which is awarded for contributions to the social and economic development of the Moscow Region, state and municipal administration, social activities and charity, and for outstanding achievements in sports.
- In November, Krka in Moscow received the Product of the Year Award for high-quality animal health products.

BUSINESS REPORT

Corporate Governance Statement

Krka's corporate governance principles are based on a two-tier system in which the Management Board manages the company and is controlled by the Supervisory Board. The corporate governance is based on the laws of the Republic of Slovenia, Slovenian and international good practices, 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 the 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 the Annual General Meeting once a year, at least one month before the due date. The complete materials for each AGM may be accessed at the company's registered office from the day of the call.

All shareholders entered in the shareholder register on the recorded date published in the notice have the right to attend the AGM and to 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 22nd AGM of 7 July 2016, the shareholders:

- received information about the annual report from the Management Board, 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 2015 Annual Report;
- adopted the resolution on the appropriation of accumulated profit for 2015;
- discharged the Management and Supervisory Boards from liability in 2015;
- were informed that Matej Pirc's term of office expires on 7 July 2016 due to his resignation from the post as a Supervisory Board member and President of the Supervisory Board of Krka, d. d. Novo mesto;
- appointed Dr. Boris Žnidarič to the Supervisory Board, shareholder representative, for a term of office from the day of appointment to 19 August 2020;
- made changes to the *Articles of Association* of the Company;
- appointed the auditor for 2016.

According to the financial calendar for 2017, this year's AGM will take place on 6 July. The call for the AGM and the proposed resolutions, the place of the meeting and eligibility conditions will be published in the Ljubljana Stock Exchange's SEOnet system, the Warsaw Stock Exchange ESPI system, the *Delo* newspaper, and on the Krka website.

Supervisory Board

The Supervisory Board supervises the company's operations and business management, and selects and appoints members of the Management Board. In accordance with the stipulations of the *Articles of Association* the Supervisory Board approves the annual and financial plan and the strategy of the Company. The body meets at least four times a year.

Its **composition** is stipulated by the company's *Articles of Association*. It is composed of nine members: six are elected by the Annual General Meeting, and three employee representatives are elected by the Krka Works Council. The President of the Supervisory Board is always elected from among board members appointed by the AGM. Supervisory Board 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 accordance with the *Corporate Governance Code*, a Nomination Committee was formed to advise on the selection of Supervisory Board members. Matej Pirc's term of office expired on 7 July 2016 due to his resignation from the Supervisory Board and as President of the Supervisory Board of Krka, d. d., Novo mesto. On the same day, the AGM appointed Dr. Boris Žnidarič as a new member. His term of office lasts until the end of term of office of the other Supervisory Board members. At its meeting on 27 July 2016, the members of the Supervisory Board elected Jože Mermal as President and Ana Strojín Štampar, a shareholder representative, as Deputy President of the Supervisory Board.

The Supervisory Board's performance complies with laws, 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 of the Supervisory Board receive fixed amounts for exercising their functions according to the resolutions of the 16th AGM.

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

The operations of the Supervisory Board and its committees in 2016 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. He 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 a cutting-edge company such as BTC, he has been supporting investments in development which would take the company to a long-term goal, which is 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 from 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 in the BTC company earned him the Vision Manager Award, which is conferred by public relations experts from south-eastern Europe. In 2014, the Slovenian Chamber of Commerce and Industry awarded him for exceptional business and entrepreneurial achievements in the category of large companies for the year 2013. Under Mermal's management, the BTC company has become the first and 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 Southeast and Central Europe 2016 award, which is bestowed by the Independent Agency for the Selection and Promotion of Managers. The BTC company itself has received several important awards for various projects in its wider environment under Mermal' management.

Jože Mermal is a member of the presidency of Zveza ekonomistov Slovenije (Slovenian Association of Economists), a member of the Executive Board of the Managers' Association of Slovenia, and a member of the Council of the Faculty of Economics, University of Ljubljana. He also holds key management positions in many sports organisations. Under his management, the ABC Accelerator was established in 2015, whose 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 been extending beyond the borders of Slovenia; in 2016 to Germany (München) and America (San Jose, Silicon Valley).

Andrej Slapar

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 President of the Management Board of Zavarovalnica Triglav where he began his career as a lawyer in the department of international damages. He has been employed at Pozavarovalnica Triglav RE for ten years, in the last few years as a member of the Management Board. He joined the Management Board of the leading Slovenian insurance company in November 2009.

He manages and directs the work of the Management Board of Zavarovalnica Triglav, the Triglav Group's controlling company and the leading insurance and financial services provider in Slovenia and the Adriatic Region; he manages the work of the Management Board and the company offices (Management Board Office, Legal Office, Internal Audit Department, Corporate Communication Department, and Compliance Office), the Life Insurance Development and Actuarial Department, and the Non-Life Insurance Development and Actuarial Department. He is in charge of the Life Insurance Division, the Corporate Accounts Division, senior management staffing, Arbitration and the Supplemental Health Insurance Division.

He represents Zavarovalnica Triglav on the Council of the Slovenian Insurance Association as the Chairman; he is the Chairman of the Supervisory Board of Pozavarovalnica Triglav Re, d.d., President of the Supervisory Board of the Nuclear Pool GIZ, member of the Supervisory Board of Krka and a member of the Management Board of the Slovenian Directors' Association.

Simona Razvornik Škofič

President of the Auditing Committee

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

Anja Strojín Štampar MSc, MBA

Deputy President of the Supervisory Board

Anja Strojín Štampar MSc, MBA, born in 1973, is from Ljubljana. After graduating from the University in Ljubljana, Faculty of Law, she was employed by the High Court in Ljubljana. In 1999, she passed the state examination in law and was employed as an expert assistant in the department of commercial law at the District Court in Ljubljana. In 2001, she completed her post-graduate studies and was employed by Kapitalska družba, where she first acted as an independent legal advisor, and then managed its legal department between 2002 and 2007. Since then, she has continued her career as

an attorney at law. From November 2007 until March 2009, she was the head of the commercial and international law department for attorneys at law Miro Senica in odvetniki. In July 2009, she was appointed to the management board of Kapitalska družba. In May 2014, the supervisory board of Kapitalska družba appointed her to the management board for another term in office. Since 1 December 2015, she has been employed at Slovenski državni holding.

She completed her post-graduate studies in international business law (LL.M.) at McGill University in Montreal, Canada, and gained her MSc title in 2002. In 2004, she graduated from the University of Ljubljana, Faculty of Arts, in French and general linguistics. In 2014, she completed the international MBA programme, management and organisation, at the University of Ljubljana, Faculty of Economics. She has acquired experience in corporate management, setting up and developing work processes, and project management by holding senior corporate positions for more than 10 years. She participated in the foundation of Zaprti vzajemni pokojninski sklad za javne uslužbence (ZVPSJU, Closed Mutual Pension Fund for Civil Servants) and Kritni sklad Sklada obveznega dodatnega pokojninskega zavarovanja (KS SODPZ, Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund), from which Kapitalska družba has been paying for occupational pensions since 2013. She has been an active member of supervisory boards in various Slovenian private and public companies, and among others between 2009 and 2013 chaired the supervisory board of Aerodrom Ljubljana, d.d. She has been a member of various work teams of the Slovenian Directors' Association and participated in drafting recommendations on corporate governance good practice.

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

Prof. Dr. Julijana Kristl

Prof. Dr. Julijana Kristl, born in 1953, is from Ljubljana. She holds a PhD in pharmaceutical sciences. In 1977, she was employed by the Faculty of Pharmacy at the University of Ljubljana. She upgraded her knowledge in the pharmaceutical industry at the University of Geneva and elsewhere. She has successfully carried out numerous scientific, teaching and managerial tasks. Her research work focuses on modern active ingredient delivery systems, nanotechnology and biomaterials. She has had research articles published in international scientific and professional journals. She is also the owner of 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 held a range of functions. She has served as Vice-Dean, Head of the Chair of Pharmaceutical Technology, Dean of the Faculty of Pharmacy for two terms; Vice-Rector at the University of Ljubljana in charge of education, enrolment and quality. Since 2014, she has been the president of the management of the Faculty of Pharmacy and, for the second term, a member of Krka's Supervisory Board holding a certificate of the Slovenian Directors' Association.

Julijana Kristl is known in international pharmaceutical circles as a member of several important associations and journal editorial boards, such as *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 journals and a mentor to student authors of doctoral theses and research projects at foreign universities and agencies. She has expert knowledge on planning, and the development and evaluation of medicines, as well as on trends in these areas.

Dr. Boris Žnidarič

Boris Žnidarič holds a doctorate in social sciences and a master's degree in law, and was a member of the management board of Kapitalska družba, d. d., Ljubljana. Before that, he was successful in several fields in the Triglav Group. He has held positions of the assistant president to the Zavarovalnica Triglav management board, where, in addition to managing directors of organisational units, he was also in charge of strategic human resource management in subsidiaries. He has been a member of the management board of Triglav Osiguranje in Zagreb, Croatia. He has managed the Celje regional organisational unit of Zavarovalnica Triglav and was director of the fraud, prevention, detection and investigation department. Before taking up that position, he was an advisor to the member of the management board for strategic human resource management in the Triglav Group and an assistant to the director for legal, human resource and general affairs at the Ljubljana unit. He is a certified member of supervisory boards. In addition to working in the insurance industry, he also holds a certification which permits him to lecture at tertiary institutions.

Employee representatives

Franc Šašek

Deputy President of the Supervisory Board

Born in 1967, Franc Šašek is a graduate in organisational science. He came to Krka in 1984. Before 2000, he worked as a technologist, and was head of the Technical and Technological Preparations Department, and Head of Section. Since 2001 he has served as a senior specialist in Engineering and Technical Services in the area of maintenance and project management. In 2004, when he held the position of project group leader for maintenance, he participated in the implementation of the business process management system (SAP) and was later appointed process owner for maintenance at Krka. Since 1999, he has also worked on 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 Works Council for the 2009 to 2013 term and again for the 2014 to 2018 term and assumed the position of a supervisory board member for his second term on 21 June 2014.

Dr. Mateja Vrečer

Mateja Vrečer was born in 1966. She has worked at Krka since 1990. She started as a pharmaceutical engineering graduate. She passed the certification examination in pharmaceutical engineering, obtained a master's degree, and a doctorate in pharmaceutical science. She first worked in research and development, where she prepared technical documentation for proposed new products. After their approval, she managed processes leading to marketing authorisations and product launches in Slovenia. Since 1997, she has been engaged in quality management, and was appointed Deputy Director of Quality Management. Since March 2007, she has also served as the Head of International Quality Assurance. In September 2011, she was appointed Director of Quality Management.

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

Tomaž Sever, MSc

Tomaž Sever was born in 1967. After graduating as a mechanical engineer, he acquired a master's degree in management and organisational science. 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 coming to Krka, he worked for IBM Slovenia from 1992 to 1995, where he was initially a sales representative for information systems, and later led information system installation projects.

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

Independent expert, member of the Auditing Committee

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

Borut Šterbenc

Independent expert on accounting and auditing, member of the Auditing Committee

Certified auditor, Borut Šterbenc, born in 1978 in Ljubljana, is an economist. He graduated from the Faculty of Economics, University of Ljubljana. He is the financial director and deputy director of the Kolpa company. Until 2011, he was managing highly challenging audits at the KPMG company: in 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;
- 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 has five members:

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

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

The Management Board's operational functions and assignment of duties are defined by the *Rules of Procedure of the Management Board*. The body's operating approach is to coordinate opinions and make decisions by consensus. In accordance 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:

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

The committees bring together experts from individual sectors of Krka. They prepare business policies and strategies for 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 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. According to the *Corporate Governance Code*, the Supervisory Board adopted a *Management Board Remuneration Policy* in 2010. The Supervisory Board amends or updates both documents in the light of business circumstances.

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

Members of the Management Board and persons related to them report to Krka and competent institutions about any acquisition or disposal of the company's or subsidiaries' 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.

Below are the CVs of the members of the management board presided over by Jože Colarič. 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 on 12 July 2004, the Supervisory Board appointed him President of the Management Board and CEO. His five-year term of office began on 1 January 2005. The Supervisory Board appointed him president of the Management Board at their meeting on 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 Colarič President of the Management Board for another six-year term of office, commencing on 1 January 2016. At their meeting on 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 Research and Development

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

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

He was appointed to the Management Board in 2001. He began his second term on 31 July 2002, and was reappointed for the period from 31 July 2007 to 31 December 2009. He has been Director of Research and Development since 2002. At its meeting on 29 July 2009, the Supervisory Board re-appointed him to the Management Board for a further six-year term of office, starting on 1 January 2010. Aleš Rotar has contributed significantly to 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, the Supervisory Board unanimously appointed Aleš Rotar member of 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

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

He joined Krka in 1997 as an intern in Warehousing and Transport of Product Supply. In 1998, he became a warehouse technologist and then a senior warehouse technologist. In 2000, he assumed the job of assistant to the head of Warehousing 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 to the position of Head of 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 made a key contribution to the success of this strategy. Following a proposal made by 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 the 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 received several awards during his management.

David Bratož is familiar with all the business functions of a big company. Following a proposal made by Jože Colarič, the Supervisory Board at its meeting of 18 November 2015 unanimously appointed David Bratož to the Management Board for a new 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 university degree in food technology. After completing secondary school in Novo Mesto in 1986, she enrolled at the Biotechnical Faculty at the University of Ljubljana. For her undergraduate diploma thesis titled 'Evaluation of glucoamylase activity in yeast *Saccharomyces diastaticus*' she won the student Prešeren Award in 1991. 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 been focused on herbs, herbal medicines and non-prescription products. She completed her traineeship in the Auxiliary Medicinal Products and Herbs Programme with an assignment on the technology of drying plant-based raw materials. She worked as a production technologist for five

years and in 1996 she became the Head of the Plant for the Production of Herbal Medicines, today's Bršljin Department, which she still manages today. Milena Kastelic is also Head of Semi-Solid, Liquid and Other Products.

As Krka's internal auditor, she has contributed to improving business processes in the company for 15 years. This function gave her the opportunity to become familiar with other organisational units, the importance of close connections between them, and the results of 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 the term of office from 2016 to 2021.

Management and Supervisory Board Diversity Policy

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

Governance of the Krka Group

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

Uniform rules on governance, organisation and operation are applied to all companies in the Krka Group, unless required otherwise by local legislation. The controlling company defines the strategies and operational objectives of all individual companies in the Krka Group and monitors the implementation of plans. To ensure cohesive management and supervision across the Group, the Management Board of the controlling company also acts as the annual general meeting of all subsidiaries. Individual Management Board members are also members of the supervisory boards or boards of directors of 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.

Internal audit

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

In compliance with the 2016 annual plan, fifteen regular internal audits were carried out by using COSO (The Committee of Sponsoring Organisations of the Treadway Commission) methods.

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

Internal audits were carried out in compliance with the said methods in the fields of sales, production technology preparation, occupational safety, information technology, and certain other supporting processes. Regular internal audits were also conducted in several subsidiaries and representative offices in Slovenia and abroad. Internal auditors provided consultations in accordance with the aforesaid standards.

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

The internal auditors also work with external auditors, certified information system auditors (CISA), the Supervisory Board's Audit Committee and the Supervisory Board. In 2016, following the Auditing Committee's motion, the Supervisory Board approved the updated mid-term Internal Audit work plan for the next period.

Internal controls and risk management relating to financial reporting

The Krka Group has established internal controls, i.e. guidelines and procedures that it implements at every level of operation to manage risk related to financial reporting. The purpose of internal controls is to ensure the reliability of financial reporting, and compliance with the applicable laws 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 auditing

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

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

Members of the Supervisory Board

Name and surname	Jože Mermal	Anja Strojini Štampar	Andrej Slapar	Julijana Kristl	Boris Žnidarič	Simona Razvornik Škofič	Franc Šašek	Mateja Vrečer	Tomaž Sever
Position	President	Deputy President	Member	Member	Member	Member	Deputy President	Member	Member
First appointment	2015	2015	2015	2010	2016	2015	2009	2005	2005
Duration of current term of office	2020	2020	2020	2020	2020	2020	2019	2019	2019
Representative of shareholders/employees	shareholders	shareholders	shareholders	shareholders	shareholders	shareholders	employees	employees	employees
Attendance at meetings	4/5	3/5	4/5	5/5	2/2, since a member	4/5	5/5	5/5	5/5
Gender	male	female	male	female	male	female	male	female	male
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1954	1973	1972	1953	1948	1971	1967	1966	1967
Education and qualifications	University graduate in economics	Master of legal science, mba University graduate in french language and literature and general linguistics	University graduate in law	Doctor of pharmaceutical sciences	Doctor of social sciences and master of legal science	University graduate in economics	University graduate in organisational sciences	Doctor of pharmaceutical sciences	Master of management and organisational sciences, university graduate in mechanical engineering
Independent according to <i>Corporate Governance Code</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Conflicts of interest in the business year	There were no relevant conflicts of interest for any member in 2016. There have been individual cases of appointments to functions and recourse to liability insurance for management employees when a decision of the Supervisory Board related to a member or a company of which they are a legal representative. In these cases, in accordance with the <i>Rules of Procedure of the Supervisory Board</i> , the member was excluded from voting.								
Membership of committees	-	Member of Human Resource Committee	President of Human Resource Committee	Member of Human Resource Committee	Member of Auditing Committee	President of Auditing Committee	Member of Auditing Committee	Member of Human Resource Committee	Member of Auditing Committee
Attendance at regular committee meetings	4/5, until a member	3/3	2/3	3/3	1/1, since a member	5/6	6/6	3/3	6/6
Membership in control bodies in other companies	Members of the Supervisory Board, especially representatives of equity, take on responsibilities also in supervision and management bodies, but not to an extent that would influence their work in the Supervisory Board of the company.								

Composition of the Management Board

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, some 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 and telecommunications, relations with trade unions and works council, some administrative services	acts as a workers' representative and represents their interests in human resource and social issues.
First appointment to 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	Graduate in economics	Doctor of pharmaceutical sciences	Doctor of pharmaceutical sciences	Graduate in economics	Graduate in food technology
Membership of control and supervisory bodies of unaffiliated companies	no	no	no	no	no

Corporate Governance Code compliance statement

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declare that in 2016 individual members of the Management and Supervisory Boards, and the Management and Supervisory Boards as bodies of a listed company acted in compliance with the principles of governance for listed companies and worked to ensure their implementation within the Company.

In 2016, Krka complied with all provisions of the *Corporate Governance Code*, which was in force from 8 December 2009 to 31 December 2016 and which were drawn up and adopted unanimously by Ljubljana Stock Exchange, the Slovenian Directors' Association, and the Managers' Association of Slovenia. They are published on the website of Ljubljana Stock Exchange.

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

Novo mesto, 29 March 2017



Jože Colarič
President of the Management Board



Jože Mermal
President of the Supervisory Board

Krka Group development strategy

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 Krka Group's development strategy is drawn up for a five-year period. Due to adapting to ever-changing business circumstances, it is updated every two years. The 2016–2020 strategy was discussed and approved by Krka's Management Board. It was then presented to Krka's Supervisory Board at a meeting in November 2015. The strategy lays down the guidelines and objectives for the entire Krka Group, including all organisational units in Slovenia, and representative offices and subsidiaries abroad.

Krka's development strategy includes three sets of objectives: objectives at the level of the Krka Group; objectives at the level of product and service groups (prescription pharmaceuticals, non-prescription products, animal health products, and tourist and health-resort services) and objectives at the level of business functions or organisational units. We specified a series of strategic measurements for each group of objectives to monitor their implementation. Strategic measurements are discussed by the Company's Management Board or company committees (sales, development, etc.). The guiding principle in managing the criteria is to increase the competitiveness of the Group as a whole and also of individual companies within the Group.

The achievement of strategic objectives is measured at three levels: the Group, each product group, and business function. The Group's performance criteria are monitored by the Management Board, while criteria at the level of product and service groups and business functions are monitored by the relevant committees.

Key strategic objectives until 2020.

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

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

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

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

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

To strengthen the competitive advantage of our product portfolio.

To maintain the largest possible share of vertically integrated products.

To improve the cost-effective use of all assets.

To increase product cost effectiveness.

To improve all business functions in innovative ways.

To maintain independence.

Key strategies until 2020

To focus primarily on European and Central Asian markets.

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

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

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

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

To enter the area of products containing complex ingredients, including similar biological medicines, intensive evaluation of the possibility of partnership connections and individual projects in accordance with market potential.

To enhance vertical integration from development through to product manufacture.

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

To expand production and development outside Krka.

To develop generic medicines and prepare market authorisation documentation before the expiry of the patent for the original medicine.

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

To increase investments in production and research-and-development capacities and infrastructure.

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

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

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

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

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

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

Enterprise- and goal-orientated mobilisation of internal human resource potential.

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

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

Fulfilment of objectives in 2016

Last year, sales of products and services reached €1.174 billion, which was less than the initially planned €1.210 billion. In terms of volume, sales increased by more than 11%. Lower sales revenue was the result of considerable price reductions in most markets and the devaluation of some eastern European currencies, especially the Russian rouble and, consequently, a decline in sales value expressed in euros.

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

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

Prescription pharmaceuticals were the most important product group, accounting for 82% of total sales (we planned over 83%).

The number of employees in the Krka Group increased by 3% (we planned 4%).

We spent €132 million on investments intended especially for increasing and adjusting production and research-and-development capacities and infrastructure, which was less than the projected €162 million, because some investments (mainly supply of equipment) were transferred to 2017.

Krka Group business objectives for 2017

Sales of products and services are estimated at €1,220 million.

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

Prescription pharmaceuticals remain the most important product group, comprising 82% of total sales.

The planned net profit is higher than the one generated in 2016.

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

According to the plan, €174 million will be allocated to investments, primarily to expand and modernise production, research-and-development capacities and infrastructure.

The business plan for 2017 originates from the Krka Group development strategy 2016–2020 and was prepared in October 2016. It is based on expectations, assessments, projections and other available data that the Management Board had on disposal at the time. The Management Board believes that the projections are appropriate. If business conditions in 2017 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 measures, the health policies of certain countries, implementation of various forms of marketing and sales duties, originator's activities reflected in adjusting pricing policy to the availability of generic pharmaceuticals and entry to markets with generic parallels, increasing price erosion and standardisation of generic product prices, the increasing presence of low-cost competitors, tightening of the regulatory environment caused by changing and increasing regulatory demands in markets, which will affect the preservation of the existing product range and the potential for the development of new products and, consequently, development costs. Conditions and therefore also results may be better than expected, which depends especially on rising values of local currencies.

2017 Macroeconomic Forecast

We expect the macroeconomic situation in Krka's key markets to remain challenging in 2017. However, dispersed international operations and the vertically integrated business model will also support Krka's stable performance in the future.

2017 macroeconomic forecast in figures

Country	Pharmaceutical market growth (%)	Projected value of pharmaceutical market in € million at wholesale prices	FX rate (currency/€)
Slovenia	5	600	euro zone
Croatia	4	860	7.6
Romania	5	3,020	4.5
Russian Federation	6	13,200	65
Ukraine	4	1,870	29
Poland	3	5,500	4.3
Hungary	1.5	2,158	310
Czech Republic	2	1,881	27
Western Europe	-0.5	184,000	mostly euro zone

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

The macroeconomic projections below were summarised primarily according to the forecasts of external analysts and independent institutions that regularly monitor the macroeconomic situation in those markets.

Slovenia

In 2016, GDP saw a 2.7% increase, while the growth is expected to reach up to 2.5% in 2017. Economic growth in Slovenia is projected at approximately 2.5% in the medium term, or more than the forecast euro zone average, and will remain stable. The main driver of growth has been final domestic demand enhanced by a favourable labour market situation. Investments declined in 2016, but will pick up again in 2017, also because the government will start disbursing more from EU structural funds. Foreign demand is expected to grow, causing a rise in exports. Growing domestic demand will accelerate increasing imports. This will lead to a gradual downturn in the foreign trade contribution to GDP growth. Unemployment will decrease further also in 2017 due to economic growth, although not as quickly as last year. The key risks for the Slovenian economy will be related to the international economic environment, especially the risk of slowing economic growth in Slovenia's key trading partners and the risk of the potential erosion of international financial markets.

In 2017, we estimate the sales value of pharmaceuticals at approximately €600 million, or 5% more than the year before.

Croatia

In 2016, Croatia recorded a 2.7% annual increase in economic growth. Growth is projected to remain at the same level in 2017, primarily due to private consumption and government and private investments. Lowering the corporate income tax and personal income tax wedge will augment consumption. The primary risk to continued economic growth is a slowdown in growth in the European Union. High unemployment has remained a problem for the Croatian economy. Despite the fact that unemployment has been on a gradual downward trend, it is expected to remain above 12% in 2017. No major changes are expected in monetary policy. If the situation abroad remains stable, the exchange rate of the Croatian kuna will also remain stable. In 2016, Croatia recorded negative inflation of approximately -1.2% for the third consecutive time. It is expected to change to positive in 2017.

Despite economic growth in 2016 and continued growth in 2017, Croatian GDP is projected to remain below the record value reached before the onset of the economic crisis in 2008.

We expect the value of the Croatian pharmaceutical market to grow slightly in 2017 and reach approximately €860 million.

Romania

Last year, strengthening private consumption was the primary driver of high economic growth in Romania, which is expected to be less pronounced in 2017. Fiscal measures that resulted in accelerated GDP growth were mainly implemented in the first part of 2016. The implementation of additional fiscal measures to support GDP growth is also expected to slow down in the future. In 2017, inflation is expected to reach 1.2%. This will additionally hinder private consumption, which saw a significant rise, especially in the first half of 2016. Economic growth was high last year, and reached 4.7%. It is expected to be somewhere around 3% in 2017. The reduction in the relatively high unemployment rate will slow down in 2017 due to lower economic growth. By 2023, Romania will continue to be included in the funding programme by the International Monetary Fund and the European Commission.

We expect the value of the Romanian pharmaceutical market to grow by 5% compared to 2016 and to exceed €3 billion.

Russian Federation

After two years of negative growth, the Russian economy will pick up in 2017, ending the recession. Economic growth will remain below 1%, a slight rise compared to growth rates before 2015. The Russian economy will remain tightly dependent on oil prices in the future. Oil prices rose in the last quarter of 2016, substantially improving the economic outlook. The risk related to the stability of oil prices will remain vital for the Russian economy in the future, in particular in the second half of 2017, when the agreement of the oil producing countries to stop production expires. The countries that did not participate in the agreement on reduced oil production pose a high risk to stability of oil prices. The Russian Federation intends to implement measures over the next three years to balance inflows and outflows in order to reduce the budgetary deficit by 1% of GDP per year. The government austerity measures and restrictive monetary policy adopted by the central bank to enhance trust in the monetary and foreign currency markets will slow down recovery in 2017.

The economic sanctions introduced by certain countries that are additionally holding back the Russian macroeconomic environment from improvement will remain in force. According to analysts, the Russian central bank will start reducing interest rates only in the second half of 2017 if inflation falls as expected. The foreign exchange rate is expected to become more balanced. The stability of oil prices and relations with the European Union and the US will present key risks.

We expect the value of the Russian pharmaceutical market to grow by 6% at most and to reach €13.2 billion.

Ukraine

Ukrainian GDP had been falling sharply for two years before recording a 1% rise in 2016. Growth rates are expected to remain low in 2017 and the coming years. This means that for several years GDP will not reach the level before the onset of tensions between Ukraine and the Russian Federation. The banking sector has deteriorated, the redirection of the economy towards the west has been slow, and the conflict in the East has been causing turmoil in the entire country. These three factors hinder faster recovery above all. Also, in the years to come, Ukraine will strongly depend on external financing, primarily by the International Monetary Fund. At the end of last year, inflation reached 13% and will drop to approximately 10% in 2017. The Ukrainian central bank will further reduce the interest rate, but the reduction will lag behind the falling inflation, because the risk of further currency depreciation will remain high due to the situation in the country. The Ukrainian macroeconomic environment will remain complex in 2017.

We expect the value of the Ukrainian pharmaceutical market to increase by 4% in 2017 to approximately €1.87 billion.

Poland

The Polish economy grew by 2.8% last year, the lowest growth in the past three years and less than initially projected. Economic growth is anticipated to strengthen to 2.9% in 2017. It is expected to be enhanced by fiscal measures undertaken by the government and the beginning of a new investment cycle. Last year, a 9% unemployment rate was recorded and is expected to drop to 8.2% in 2017. A more significant decline in unemployment is expected only in 2018 and 2019. Last year, the currency's exchange rate became slightly more volatile and is expected to remain so in the years to come, because government measures might affect the trust of international credit rating agencies in the stability of fiscal projections. In 2017, inflation will be on an upward trend in Poland again, but according to expectations, the Polish central bank will not change its monetary policy yet, at least in the first half of 2017.

Given the expected 3% growth, the value of the Polish pharmaceutical market will reach approximately €5.5 billion.

Hungary

In 2016, Hungary recorded lower growth than in the year before. In 2017, however, GDP growth is projected to pick up and exceed 3%. In 2016, Hungary improved its investment grade with all international credit rating agencies. In 2017, the government intends to reduce certain taxes and social security contributions, and at the same time increase certain categories of expenditure, for example public wages. This will cause a rise in the budgetary deficit, but this is expected to remain within acceptable limits. For the next few years, the government forecasts further reductions in public debt. The Hungarian banking sector has been burdened with a high percentage of bad loans. A slight improvement has been recorded in household borrowings, but at the same time, bad loans have also been hindering corporate borrowings. According to projections, the current 0.3% inflation rate will exceed 2% in 2017, and in line with it, the monetary policy of Hungarian central bank will become more restrictive. Unemployment dropped to 5.2% at the end of last year, and its downward trend is anticipated to continue in the next few years. Unemployment rate is expected to drop to 4.5% in 2017.

We expect the Hungarian pharmaceutical market to grow by 1.5% in 2016, and its value to reach €2.16 billion.

Czech Republic

The GDP of the Czech Republic increased by 2.5% last year, well below the 2015 increase of 4.2%. Economic growth is expected to retain its last year's level in 2017. Lower growth resulted from a decline in investments funded by EU funding programmes. Domestic demand, especially private consumption, will be the driver of GDP growth in the years to come. In the Czech Republic, domestic demand accounts for three quarters of economic growth, and international operations for one only. Unemployment was around 5.6%, among the lowest in the region, and is forecast to further decrease in 2017. The central bank's goal is 2% inflation, and inflation will remain lower than in 2017. The inflation rate was low because of low oil prices and the negative inflation rate in the euro zone, while inflation stemming from the domestic demand has been positive and will rise in the future as well. According to 2017 projections, the Czech central bank's monetary policy will be expansionary, applying a zero interest rate most of the year. The policy of maintaining the exchange rate at more than 27 Czech koruna to one euro is expected to loosen in the second half of the year if the inflation rises according to the 2017 forecasts.

The Czech pharmaceutical market is expected to grow by 2% and its value to reach approximately €1.88 billion.

West Europe

The macroeconomic projections of the European Commission for 2017 deteriorated at the end of 2016. Growth is expected at 1.5% in the euro zone and at 1.6% in the entire European Union. In 2018, growth is expected to reach 1.7% in the euro zone and 1.8% in the entire European Union. Growth in the most important EU member, Germany, is estimated at a mere 1.5%, in France at 2.9%, and in Italy below 1%. In the euro area, unemployment has been declining and will have reached 9.7% by the end of 2017, and 8.5% in the entire European Union. No major changes are expected in the monetary policy of the European Central Bank in 2017. Interest rates will not be increased, and also the quantitative easing policies adopted by the Bank will remain in force. The extended period of low interest rates poses significant systemic risks to the financial system of the euro area and the entire European Union. Because of Brexit and the uncertainty it causes, the United Kingdom will record lower economic growth in the years to come. According to projections by the Bank of England, the domestic economy will record a 1.4% rise in 2017, and 1.5% increase in 2018. Analysts forecast that interest rates might remain unchanged even in 2017. The lower value of the British pound and more competitive economy might not mitigate the negative effects caused by a higher budgetary deficit and probable new obstacles in material and service flows between the UK and the European Union.

We expect the value of the Western European generic market to reach €38 billion in 2017, which is a 3% increase compared to last year. The total value of the Western European pharmaceutical market is projected to decline by 0.5% to €184 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 takes measures to manage those risks.

Risk management requires various approaches according 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 refer to their work, so they are familiar with them and employ suitably qualified personnel.

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

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

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

OPERATIONAL RISKS AND BUSINESS CONTINUITY			
Risk area	Description of risk	Risk management method	Exposure
Availability of critical resources for production and sales of key products	Unplanned stoppages and unavailability of key resources for production and sales of finished products (employees, buildings and equipment, materials, media supply, information)	Business continuity management system, business impact analysis, requirement for the availability of critical resources and services, risk analysis for each area; measures to reduce consequences and improving process resilience against disturbance	Moderate
Product supply	Untimely supplies of finished products and ineffective utilisation of production capacities	Supply chain planning and providing adequate production capacities	Moderate
Quality assurance	Loss of a pharmaceutical manufacturing licence	Compliance with regulatory demands and implementation of all GMP measures in the Company's critical processes	Moderate
Technical services	Inadequate supplies of production media supply to processes and unsuitability of technical maintenance, and risks related to environment protection	Redundant power supply resources, robust demand planning for media supply, redundant capacities, and planned maintenance processes, the best available techniques for reducing impacts on the environment	Moderate
Information technology	Business process disruption due to a disruption in information resources	Independent security checks and preventive measures to rectify disruption; threat assessment and security plan	Moderate
Employees	Accidents or injuries in the workplace resulting in an unplanned increase in absences	Measures based on workplace risk assessments, employee interchangeability	Moderate
Protection of property	Alienation and destruction of property	Threat assessments and security plan	Moderate

FINANCIAL RISKS			
Risk area	Description of risk	Risk management method	Exposure
Foreign exchange risk	Potential financial losses due to unfavourable changes in exchange rates	Financial market tracking; cooperating with leading global financial institutions; following the latest practices in hedging against foreign exchange risks; occasional use of financial instruments; natural hedging	High
Interest rate risk	Unfavourable interest rate changes	Monitoring interest rate changes, negotiating with credit institutions; hedging with appropriate financial instruments	Low
Credit risk	Customers defaulting on payment resulting in receivable write-off accrual	Calculating credit ratings; limiting maximum exposure to individual customers; active management of receivables; utilising payment insurance instruments and hedging for receivables with a credit insurance company	Moderate
Liquidity risk	Inadequate liquid assets for settling financial and operating liabilities	Credit lines agreed in advance and planned liquidity requirements; cash pooling	Moderate
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 policies	Moderate
Claims for damages and civil actions	Damage claims by third parties due to damaging events caused accidentally by the company's operations, ownership of property, or placing products on the market	Insurance policies covering civil, employer and ecological liability; product liability insurance; clinical trials liability	Moderate
Financial losses due to business interruption	Financial damage related to the interruption of production due to damage to property	Insurance of labour costs, amortisation and depreciation, other business costs and operating profit, and technical and organisational measures to reduce the impact of business interruption	Moderate

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.

We reduce these risks in the early stages of development by process updates, the introduction of modern technologies and adjustments to regulatory demands. The vertically integrated model of development and production 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 we 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 tablets taken daily.
- 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 laws and their interpretation begins 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, security, 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 claw-back requirement) with our 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, particularly 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 recognised as major risks. We continuously monitor market conditions, analyse them, and adjust payment terms if necessary, and in critical cases also arrange hedging against default on payments. We systematically monitor the satisfaction level of direct and indirect customers. We monitor sales at the primary level (sales to direct customers, primarily

wholesalers) and at the secondary level (wholesalers' sales to final customers, mainly pharmacies), and at the tertiary level (sales in pharmacies to final consumers) 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 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 in new fixed-dose combinations of existing active ingredients and in new therapeutic areas, and are striving to make our products containing existing active ingredients better established on 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 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 laws 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 a basic principle of the Krka Group operations. We therefore start the development of a new product by analysing the scope of property rights related to the new product, and determine which solutions are protected. We define and direct our development work on the basis of these findings, and assess whether the solutions produced by our own development infringe on the rights of third parties. The current situation and any potential changes in the patent protection are monitored throughout a product's development up to its launch.

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

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

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

Quality Insurance Risk

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

Product quality is defined during the development stage of a product and specified in the marketing authorisation documents. We follow standard procedures and requirements throughout the production process, from the purchase of incoming materials to product manufacture and final quality control, and ensure that the pharmaceutical product manufacturing complies with relevant quality standards and the product's marketing authorisation 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.

Finished product quality assurance is a primary activity that involves various elements. We focus on the suitable quality of incoming materials (i.e. active ingredients, excipients, and packaging materials) and perform risk analyses to classify material- and supplier-related risks. Based on this, we design plans and requirements for supplier and contractor approval.

We ensure the compliance of our production and control equipment and production rooms by qualification and validation procedures of equipment, production rooms, production environment, processes, computer systems, data integrity, cleaning and calibration of instruments, as well as maintenance procedures in order to prevent undesirable effects on the production process and product quality. 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, so that compliance with standard production and pharmaceutical control procedures is ensured. 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.

We prevent future non-compliance in the event of non-compliant products (deviations, complaints) by applying control mechanisms, tests and investigations of the causes, as well as by taking preventive and corrective measures.

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

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

Investment project risk

Investment project risks primarily include risks related to planning investments and their value, the purchase of equipment, execution of works, schedules and changes to the original plan. We reduce these risks by document planning and production, and implementing the established system for selecting contractors and for 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 in their work, encourage them to take on new duties and delegate them to new job positions. We offer them a range of other incentives to foster their loyalty to the 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 approach provides us with the potential new employees we require to meet our strategic, development and sales plans. Due to the lack of suitably qualified workers in the labour market, we systematically educate and train our employees to acquire national vocational qualification certificates.

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 technologies in manufacturing, warehousing, wastewater treatment, waste air treatment, waste management, preventive examinations and the maintenance of equipment, employee training, and by employing our own fire brigade, which is qualified to intervene in emergencies, and emergency event drills. In 2016, we recorded no extraordinary events with a negative impact on the environment.

Operational risks and business continuity

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

Major emergencies and disasters that would stop the production and sales of products for a longer 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 and disasters. We have designed action plans and disaster relief measures for emergencies, as well as measures to reduce direct damage and operations in extraordinary circumstances until normal operations can be restored.

Product supply risk

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

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

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

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

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

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

Technical service risk

Technical service risks include risks related to utility 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 an individual breakdown does not have a major impact on production capacities. Critical equipment is duplicated. All air-conditioning and power supply systems of systemic information technology premises are duplicated, have security systems in place, and are regularly tested for any potential failures.

We mitigate risks related to 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 promptly and effectively, we have our own qualified maintenance teams and an inventory of spare parts, which is regularly checked and replenished. The employees who monitor and maintain technical systems undergo regular training. Their qualifications and skills are regularly tested.

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

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

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 the 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 action 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 disasters, we introduced duplicated computer capacities in back-up system rooms (i.e. the Disaster Recovery Centre) for all critical information resources, and the daily storage of data back-up copies of all critical data at an appropriately distant location.

We also mitigate risks with 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.

Employee risk

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

Identifying key employees and their potential in all work processes enables us to ensure the replacement of employees in key positions. The training and recruitment methods applied in all organisational units enable a rapid exchange of employees posted to similar positions if a shortage of employees occurs 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.

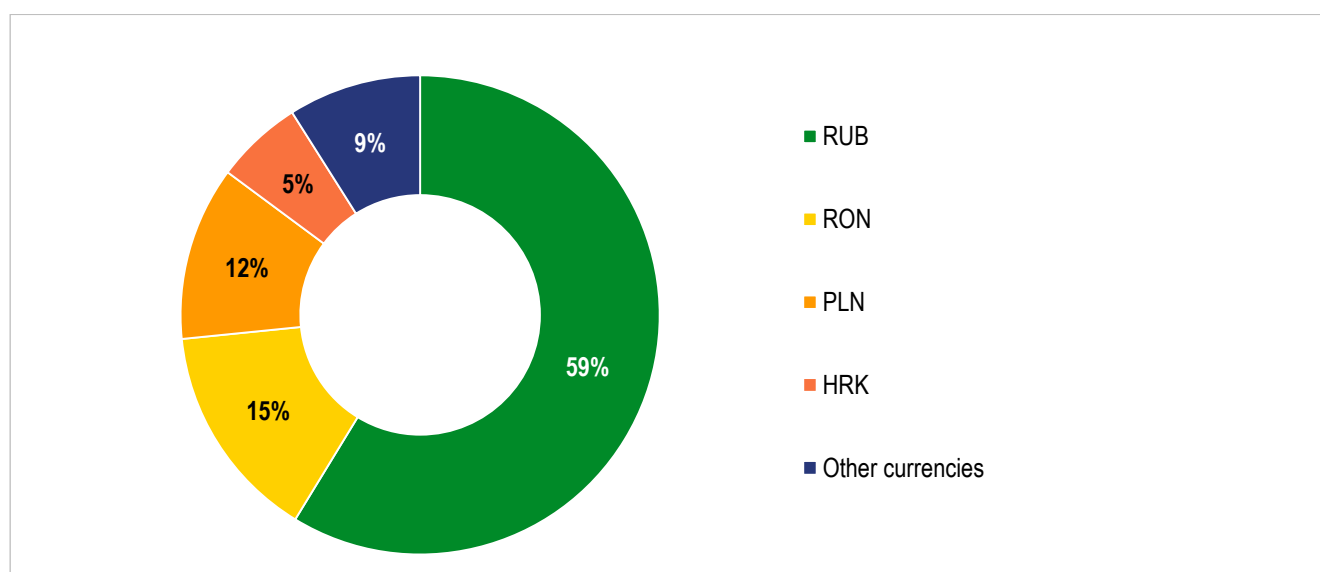
Financial risks

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 financial position statement of the Group, also referred to as the long position. The key accounting categories comprising 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 59% and the major share of the currency position of the Krka Group. The position in the roubles arises from trade receivables in Krka's largest sales market, and partly also from subsidiary funding by the controlling company of the manufacturing capacities in the Russian Federation.

The exposure to the Romanian leu represents 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. Other currencies, among them the British pound, US dollar, Swedish krona, Hungarian forint, Czech koruna, Ukrainian hryvnia, Serbian dinar, Macedonian denar and Kazakh tenge all together constitute 9% of the currency position of the Krka Group.

2016 currency markets

Also in 2016, Krka closely monitored volatile currencies to which the Krka Group was exposed. At the beginning of the year, the value of the Russian rouble was on a downward trend due to the deteriorating global capital markets and slumping oil prices, and reached its lowest at 91.8 roubles to one euro. After the oil price decline in January and February, a gradual, yet unstable recovery followed, accompanied by a rise in value of the rouble. The increased value of the rouble was accompanied by unfavourable macroeconomic data published during the year, geopolitical risks, economic sanctions and challenging relationships with the European Union and the US, posing a risk of another depreciation of the rouble in mid-2016. An increase in oil prices and, therefore, improved macroeconomic expectations for the upcoming periods provided the grounds for strengthening the rouble also in the second half of the year. From the beginning to the end of 2016, the value of the rouble expressed in euros gradually rose by 25%.

At the beginning of the year, the value of the Polish zloty went down, because credit rating agencies downgraded Poland's credit rating. Later in the year, the zloty gained against the euro, but still remained unstable. The value of the zloty was affected by the distrust of credit rating agencies and institutional investors in the measures adopted by the Polish government, and ranged between 4.25 and 4.50 to one euro.

In 2016, the value of one Romanian leu ranged between 4.45 and 4.55 to one euro. Throughout the year, the Croatian kuna generally retained its value, but as usual saw a slight increase during the tourist season and an equal drop in the off season.

The US dollar significantly strengthened due to the expected increases in interest rates at the end of 2015 and at the beginning of 2016. After the US Federal Reserve adopted less aggressive rhetoric about increasing interest rates, the dollar gradually started losing value against the euro. Later on in the year, its value started rising again due to good macroeconomic indicators and the economic outlook. Especially after the US presidential elections in November, the dollar strengthened significantly as a result of the expected government stimulus to increase US economic activity and less restrictive US monetary policy. The Krka Group is exposed to the US dollar primarily in purchasing, but the currency position in the US dollar is relatively low.

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.

In 2016, we occasionally used forward contracts to provide hedging for the Russian rouble. The rouble strengthened, so we generated net foreign exchange gains and also accrued net costs related to occasional hedging by forward contracts. Considering foreign exchange gains and forward contract related net costs, the Krka Group saw a positive financial result of €0.8 million from the exposure to the Russian rouble.

We used forward contracts to hedge against the rouble-related risk in the periods of increased volatility of the currency. This was in the first half of the year, when oil prices fluctuated widely, and in the last year-quarter, when global currency markets underwent increased instability due to the uncertain outcome of the US presidential elections and the negotiations of oil-producing countries on limiting production.

Also in 2016, the policy of partial hedging against exposure to the rouble proved better than hedging throughout the year. Had we used hedging throughout the year, the net financial result from exposure to the rouble would have been approximately €-20 million instead of the current €+0.8 million. The hedging cost accrued due to the differences between interest rates in the rouble and the euro would have accounted for the major part of the negative balance.

The 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. These currencies are generally subject to less marked fluctuations against the euro.

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

The currency risk management balance amounted to €-5.5 million in 2016. In 2016, the Krka Group's net financial result amounted to €-6.1, an improvement on 2015.

2017 objectives

We do not intend to change the policy of foreign currency exposure management or the required activities in 2017. We aim to mitigate foreign currency risk exposure primarily by natural hedging, while derivative financial instruments will be used as an exception.

	31 Dec 2015	31 Dec 2016	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation*
RUB	80.67	64.30	62.99	91.77	74.14	5.78	7.8%
HRK	7.64	7.56	7.47	7.67	7.53	0.06	0.7%
RON	4.52	4.54	4.45	4.54	4.49	0.03	0.6%
PLN	4.26	4.41	4.23	4.50	4.36	0.06	1.4%
CZK	27.02	27.02	27.01	27.15	27.03	0.02	0.1%
HUF	315.98	309.83	303.86	318.35	311.44	2.93	0.9%
UAH	26.18	28.50	25.26	30.07	28.28	0.98	3.4 %
RSD	121.67	123.26	121.67	124.55	123.07	0.42	0.3%

* Standard deviation to mean value ratio

Interest rate risk

In 2016, the Krka Group was not exposed to changes in reference interest rates, because the group had no non-current loans.

2017 objectives

If any non-current loans exposing us to the interest rate fluctuations are to be obtained, we will always consider all options to mitigate any such risk.

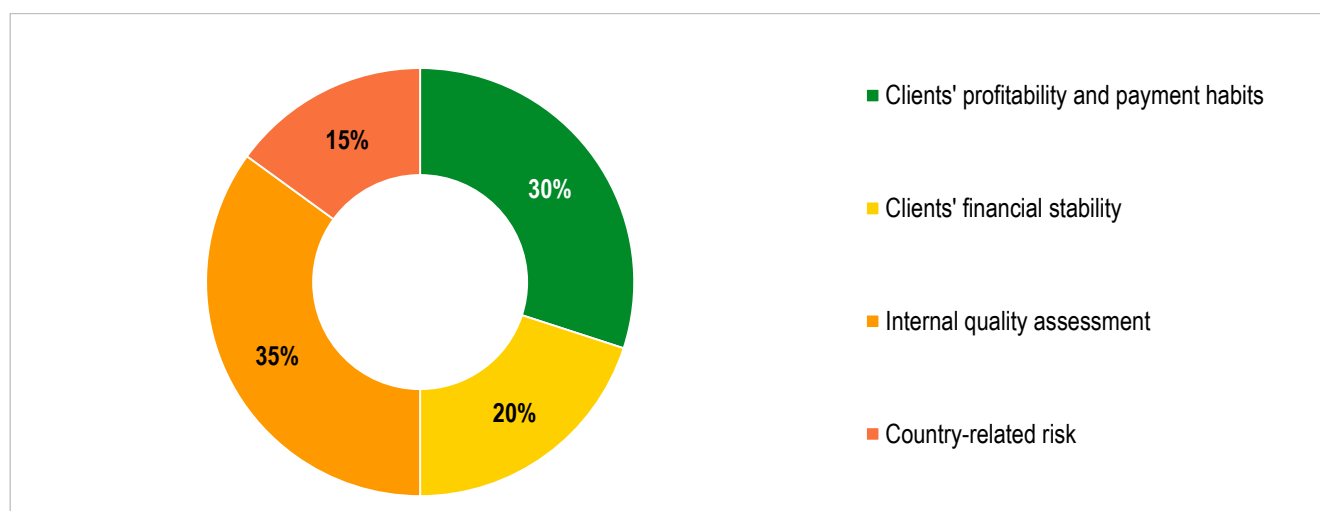
Credit risk

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 exceeding annual sales of €100,000. At the end of 2016, trade receivables included in the credit control process accounted for more than 95% of total trade receivables, and involved more than 400 clients.

The credit control process 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 each 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 employ controls of available limits and overdue receivables. A control is exerted 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 before a new shipment is released.

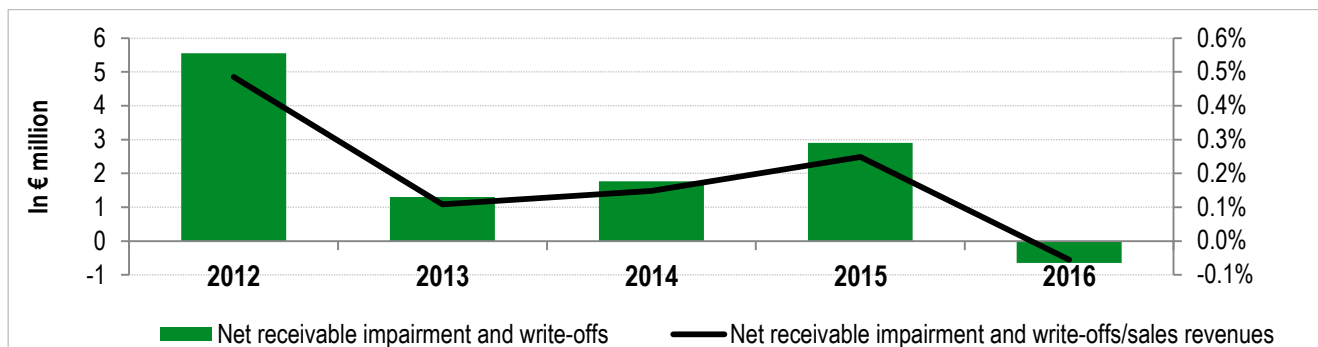
The process of credit control and authorisations for granting credit limits to clients are determined by company rules. A credit control also involves the system of regular reporting on trade receivables and the clients' payment discipline. The reporting system supports the early detection of clients 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 receivable portfolios. The result of credit control is a low share of receivable write-offs and impairments in total group sales.

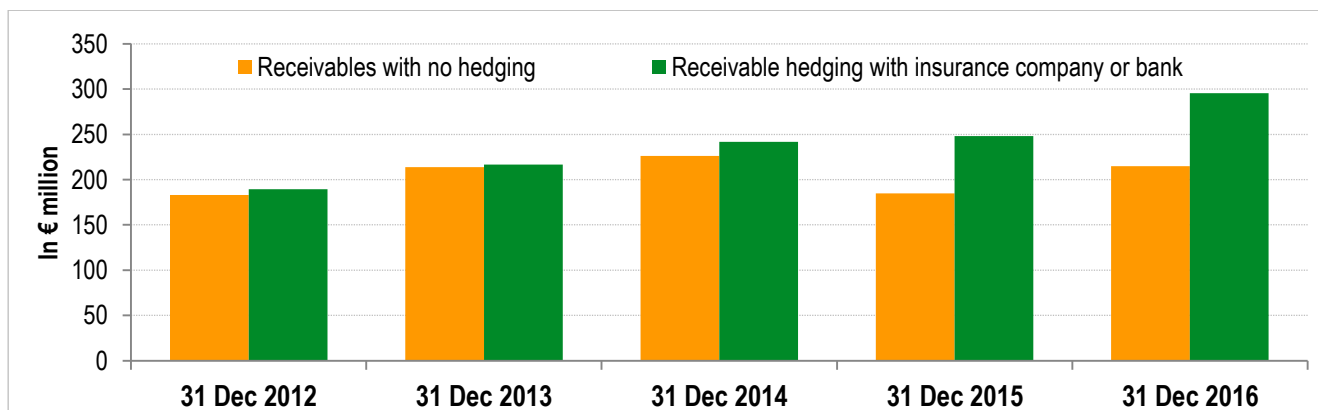
The amount of receivable write-offs and impairments is low also because receivables are dispersed across a large number of clients and sales markets, and the majority of outstanding receivables are payable by clients with whom Krka has been doing business for some years.

In 2016, the reversal of allowances for bad receivable exceeded the newly accrued impairments of receivables and receivable write-offs, so overall credit risk management added to the positive results of the Krka Group.



Hedging for trade receivables

Since 2009, the Krka Group has secured a part of its trade receivables with a credit insurance company. Trade receivables owed 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. At the end of 2016, 60% of trade receivables were insured at a credit insurance company or with financial instruments.



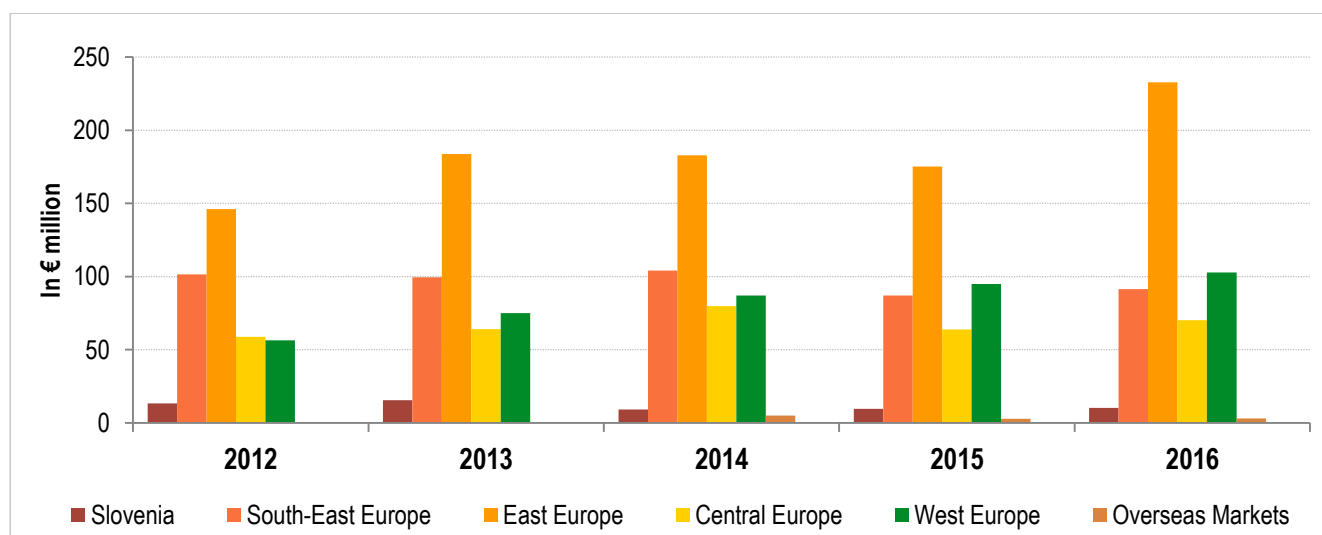
Trade receivables by region

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 increased by 18% at the end of 2016 compared to the beginning of the year. The increase was more pronounced in the last quarter of the year, when sales peak due to their seasonal character. Another important factor in the receivables increase is that receivables were revalued due to the strengthening of particular currencies in which the Krka Group recorded them.

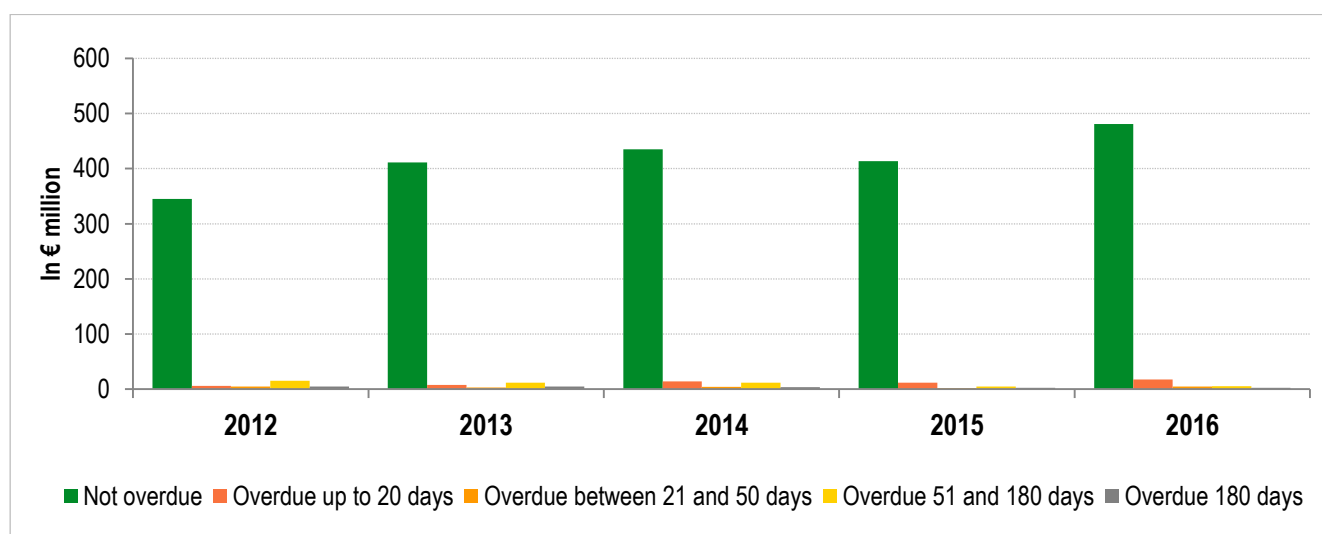
At the end of 2016, the increase in receivables was recorded in Region East Europe, primarily in the Russian Federation. In the Russian Federation, the rise in trade receivables in the euro was primarily due to strengthening of the Russian rouble, which rose by 25% against the euro from the beginning of the year. Receivables in national currency increased by the same percentage as sales in the Russian rouble, so the quality and maturity of trade receivables in the Russian Federation did not change.

In 2016, other regions presented no major changes in the value of trade receivables.



Maturity structure of trade receivables

The maturity structure of receivables remained stable. The percentage of past due receivables compared to total trade receivables also remained low at the end of 2016.



2017 objectives

No changes in credit risk management have been planned for 2017. We intend to keep the payment insurance policy unchanged. We plan to monitor even more closely clients in markets with a less favourable macroeconomic environment and markets where we have detected increased risks in the wholesale distribution of medicines. We aim to further optimise the credit control process and receivable hedging costs, which are permanent tasks.

Our goals are a low write-off total and low receivable impairment total at the Group level.

Liquidity risk

Amongst 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 occasionally last year. Krka settled all of its financial liabilities regularly and at maturity. The exposure of the Krka Group to liquidity risk in 2016 was low.

Krka d. d., the controlling company, manages liquidity risk centrally and on a 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 2016.

In order to further improve cash management on a Group level, Krka opened an account at Citibank London in 2016 to implement cash pooling in its EU subsidiaries. For the aforementioned subsidiaries to be included in the cash pooling scheme, the subsidiaries were required to open their own bank accounts with Citibank, which most of them have already done. Uniform cash management will ensure more transparent liquidity management on a Group level, reduce the costs of financing, and improve transaction security.

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

Liquidity ratios of the Krka Group

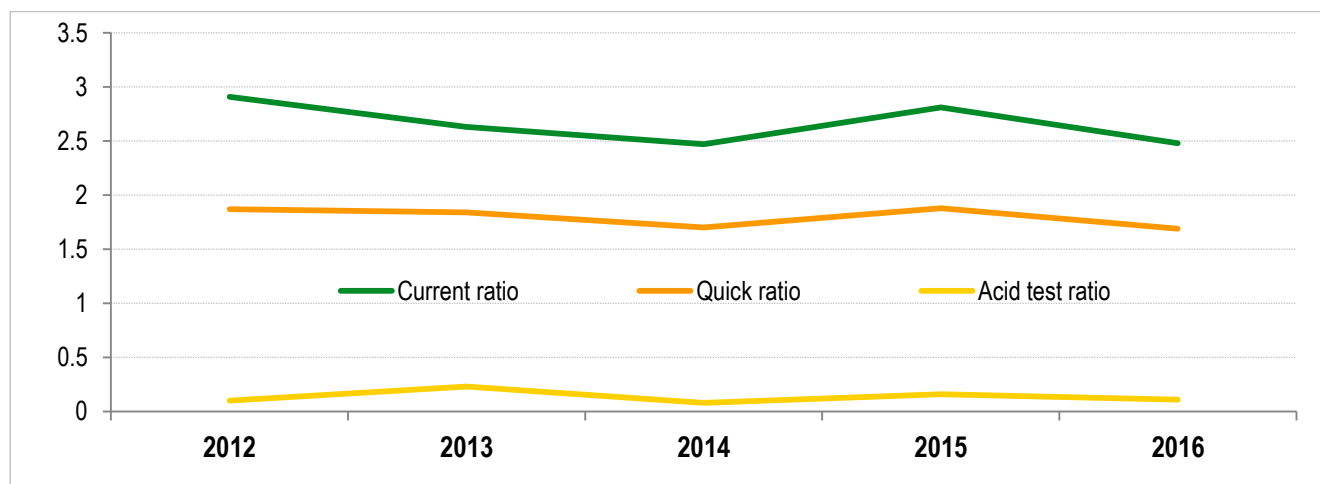
Liquidity ratios	2016	2015	2014	2013	2012	5-year average
Current ratio	2.48	2.81	2.47	2.63	2.91	2.66
Quick ratio	1.69	1.88	1.70	1.84	1.87	1.80
Acid test ratio	0.11	0.16	0.08	0.23	0.10	0.14
Receivables turnover ratio	2.33	2.38	2.31	2.74	2.83	2.54

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.

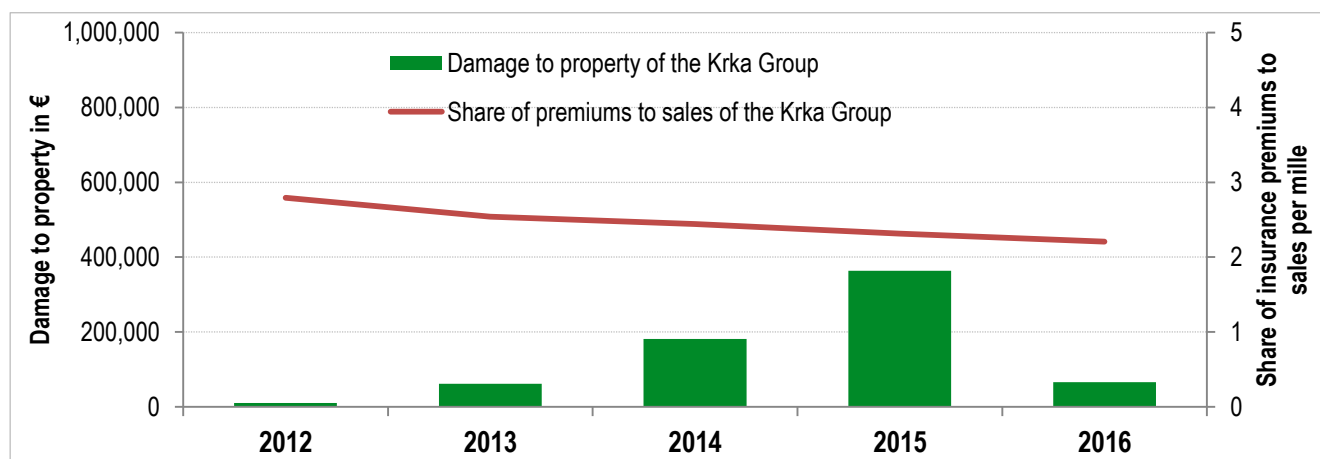
The controlling company manages the insurance policies of all Krka Group companies, except car insurance policies that are arranged locally. All group entities are insured in compliance with uniform principles that did not change in 2016. When selecting insurance companies, we consider the quality of coverage, premium rates, references, and national legal requirements.

Krka has been introducing gradual improvements. We review the competitiveness of insurance companies every year. Also in 2016, 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 2016 the volume of damage to property – car damage excluded – amounted to less than 0.1‰ of the Group's total property value, and all insurance claims were resolved promptly.

Insurance premiums have been reduced because of low property damage claims



Note: This chart does not include car and personal insurances

Investor and Share Information

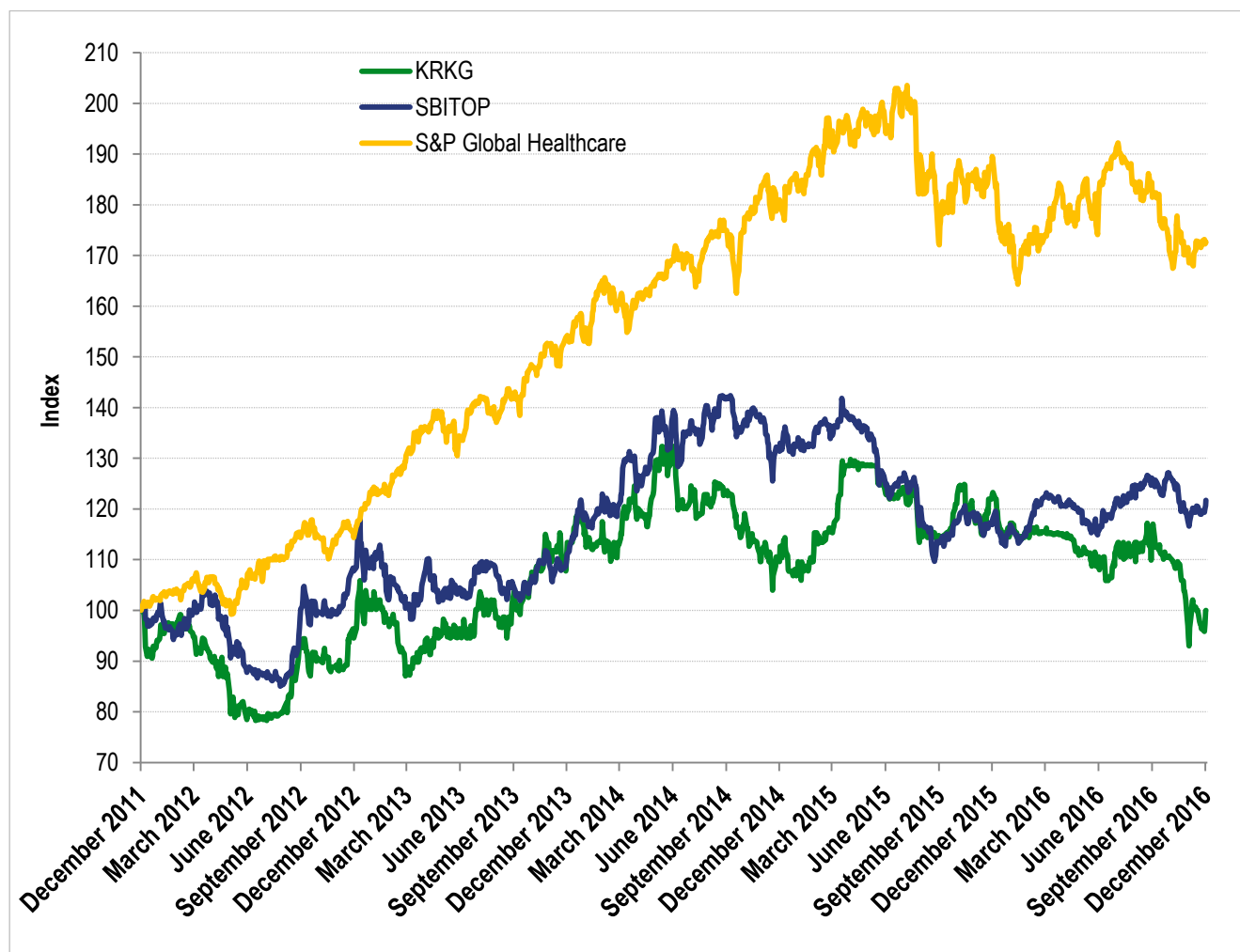
Shareholder return

Krka share price

In €	2016	2015	2014	2013	2012
Year high	64.50	68.65	70.00	61.00	52.70
Year low	49.21	56.03	55.00	46.05	41.40
31 December	52.90	65.20	59.60	60.00	50.00
Annual price deviation (in %)	-19	9	-1	20	-5

In 2016, the Krka share price decreased by 19%. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) rose by 3%.

Krka share price performance in comparison with selected share indices (beginning of 2012 = 100)



The growth in the Krka share price over the past five years has failed to follow the growth of the SBITOP index and the global index for the sector, S&P Global Healthcare.

Dividend policy

The Annual General Meeting decides on the proposed dividend amount. In 2016, we allocated 54% of the consolidated profit attributable to equity holders generated in 2015 for dividends. Gross dividend per share increased by 6%.

	2016	2015	2014	2013	2012
Earnings per share ¹ (in €)	3.35	4.86	5.07	5.24	4.80
Gross dividend per share ² (in €)	2.65	2.50	2.10	1.61	1.50
Dividend pay-out ratio ³ (%)	54.5	49.3	40.1	33.5	31
Dividend yield ⁴ (%)	5.0	3.8	3.5	2.7	3.0

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

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

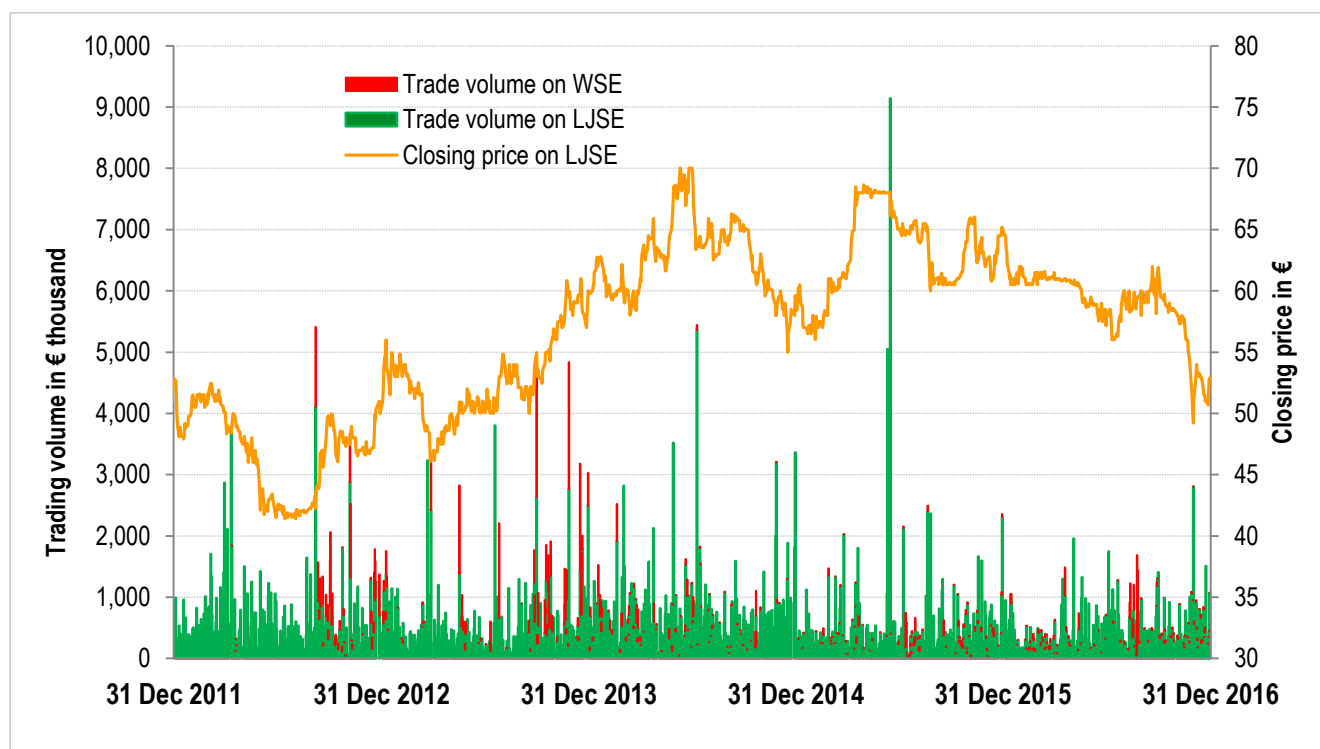
³ Gross dividend per share/Earnings per share from the previous period

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

Share trading and shareholding

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

Trading in Krka shares in the period from 2012 to 2016



Source: The Ljubljana and Warsaw Stock Exchanges

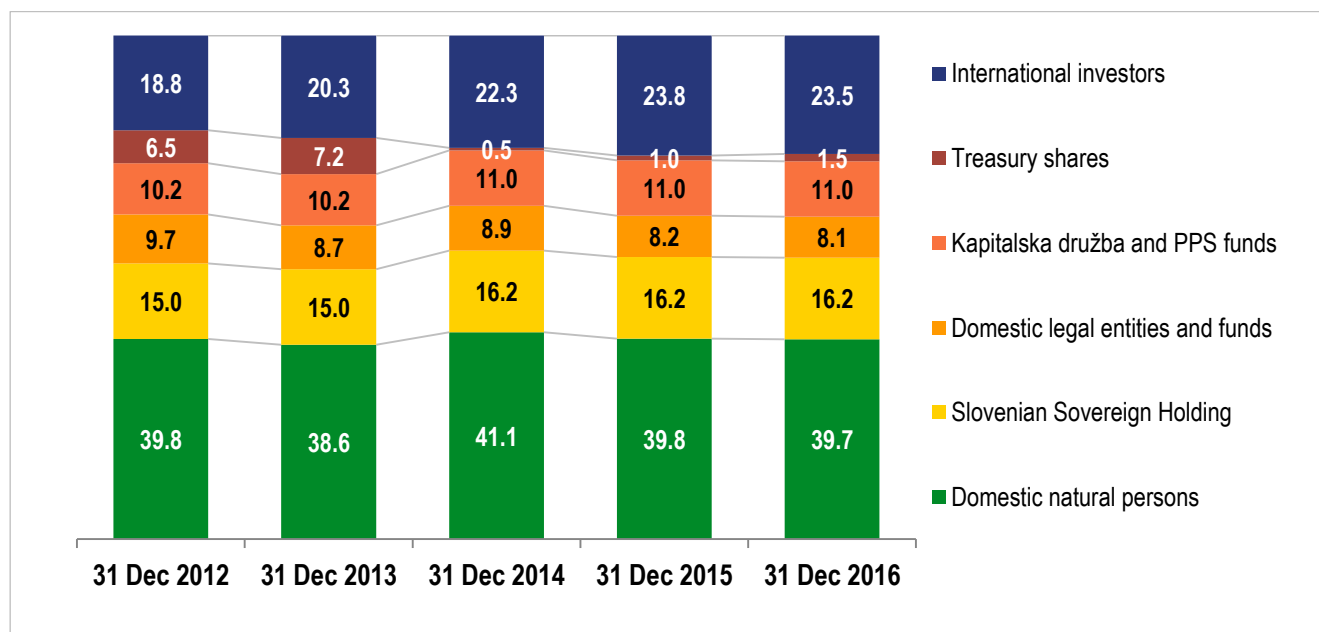
Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2016, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.4 million.

The ten largest shareholders on 31 December 2016

	Shareholder	Number of shares	Proportion of the number of total issued shares (%)
1	SDH, D. D.	5,312,070	16.20
2	KAPITALSKA DRUŽBA, D. D.	3,493,030	10.65
3	SOCIETE GENERALE-SPLITSKA BANKA D. D.	2,247,811	6.85
4	ADDIKO BANK D. D.	1,206,038	3.68
5	KDPW	470,810	1.44
6	LUKA KOPER, D. D.	433,970	1.32
7	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.18
8	NEW WORLD FUND INC.	348,906	1.06
9	CLEARSTREAM BANKING SA	319,141	0.97
10	THE BANK OF NEW YORK MELLON	237,563	0.72
		14,457,639	44.09

Krka had 54,237 shareholders at the end of 2016, or 8% less than at the end of 2015.

Shareholder structure (%)



Due to the cancellation of treasury shares in 2014, the ownership structure and ownership stakes at the end of 2015 and 2016 cannot be directly compared to previous periods.

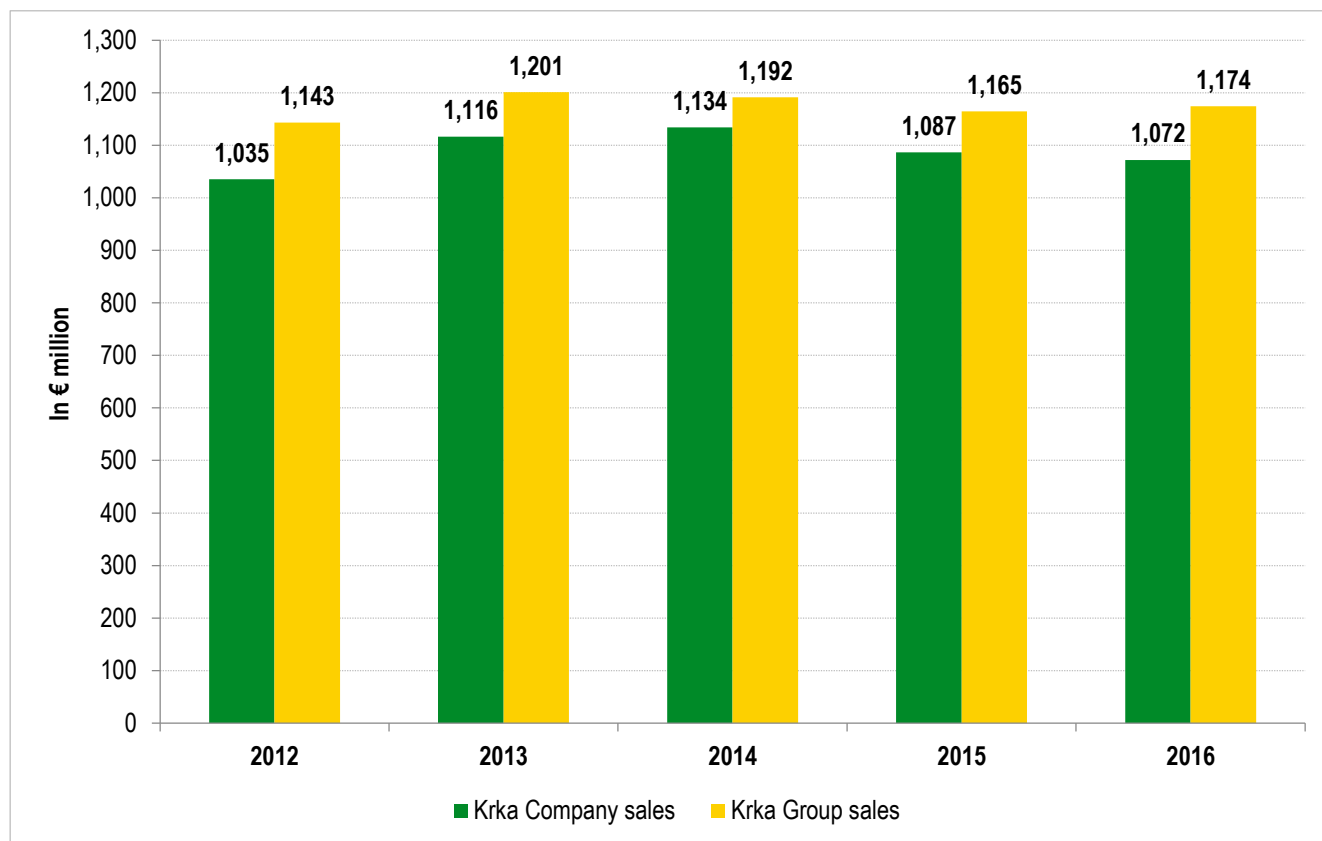
The shareholdings of Slovenian state financial companies, i.e. Slovenski državni holding (SDH, Slovenian Sovereign Holding) and Kapitalska družba with its funds, remained unchanged. In 2016, other groups of Slovenian shareholders slightly reduced their shareholdings.

In 2016, the company acquired 170,330 treasury shares on the regulated market, valued at €9,786,954 and held 493,130 treasury shares on 31 December 2016.

Business operations analysis

Operating income

Sales of the Krka Group and the Krka Company



The Krka Group's revenues from sales of products and services amounted to €1,174.4 million, which is €9.8 million or 1% more than in 2015, while the Krka Company sold products worth €1,071.7 million. In terms of volume, Krka Group sales increased by 11%. Over the past five years, average sales growth reached 1.8% in terms of value, and 6.8% in terms of volume.

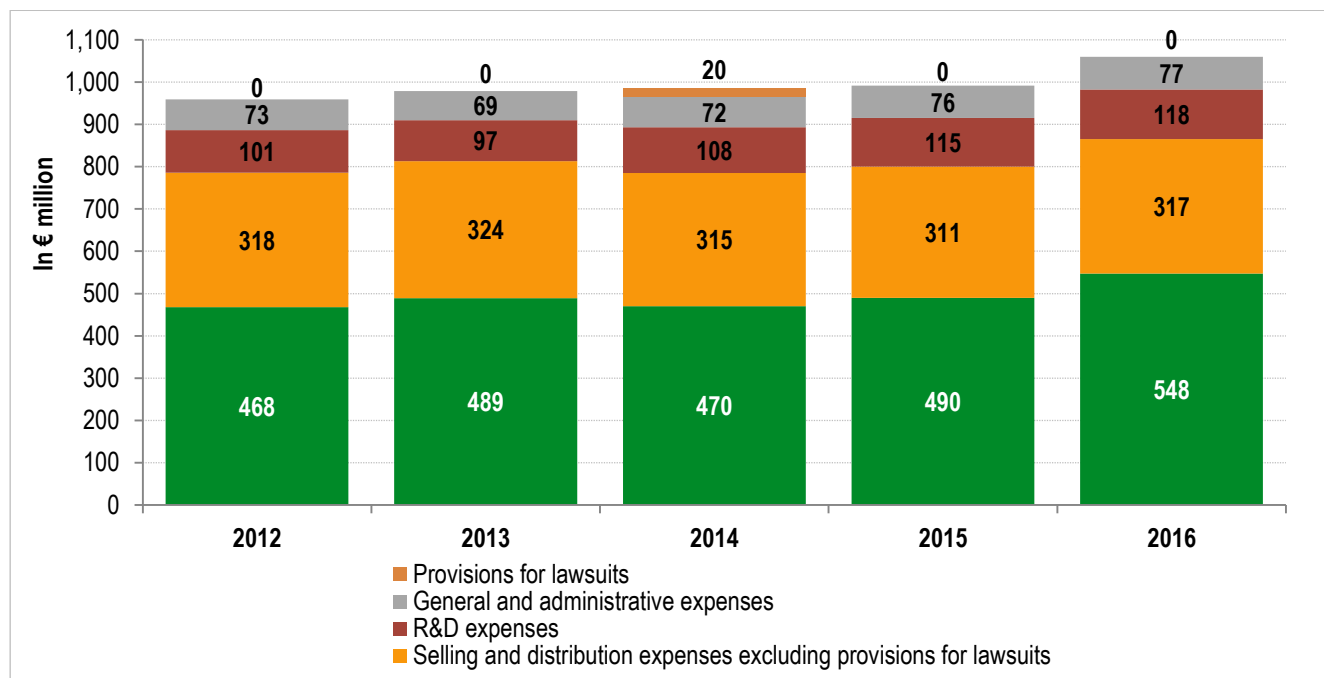
A detailed analysis of sales by individual markets and product groups is in the chapter 'Marketing and Sales'.

Other operating income of the Krka Group amounted to €7.9 million, a decrease of €18.7 million or 70% compared to 2015. The decrease was caused by the reversal of provisions for lawsuits, which was included in other operating income in 2015, in the amount of €20.0 million. Other operating income of the Krka Company totalled €3.3 million.

Operating expenses

The Krka Group incurred operating expenses totalling €1,059.9 million, up €68.1 million, or 7% compared to 2015. Other operating expenses of the Krka Company totalled €976.1 million.

Structure of the Krka Group's operating expenses by function



The Krka Group's operating expenses included: a total of €547.7 for costs of goods sold; selling and distribution expenses of €317.4 million; R&D expenses in the amount of €118.0 million; and general and administrative expenses of €76.8 million. The operating expenses to sales ratio in the past five years ranged between 82% in 2013 and 90% in 2016.

The costs of goods sold, which rose by 12% compared to 2015, represented the biggest item in the Krka Group's operating expense structure. It accounted for 47% of total sales. Significantly greater output and changes in the inventories of work in progress and finished products also influenced the total costs of goods sold. In comparison to the year before, selling and distribution expenses increased by 2%, accounting for 27% of total sales. R&D expenses amounted to 10% of total sales, an increase of 2% compared to 2015. General and administrative expenses amounted to 7% of total sales, an increase of 1% compared to 2015.

The Krka Company's operating expenses included: a total of €510.1 million for costs of goods sold; selling and distribution expenses of €281.3 million; R&D expenses in the amount of €122.9 million; and general and administrative expenses of €761.8 million.

Financial income and expenses

In € thousand	Krka Group					Krka Company				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Financial income	65,679	25,561	1,486	2,114	5,418	78,225	36,735	9,178	5,316	22,431
Financial expenses	-71,816	-44,283	-103,126	-28,361	-7,227	-72,733	-43,524	-112,313	-28,967	-7,690
Net financial result	-6,137	-18,722	-101,640	-26,247	-1,809	5,492	-6,789	-103,135	-23,651	14,741

In 2016, the Krka Group's net financial result amounted to €-6.1 million, an improvement compared to 2015. In 2016, the net financial result of the Krka Company totalled €5.5 million, also an improvement on 2015.

The Krka Group is exposed to currency fluctuations, and therefore generates net foreign exchange gains or losses arising from a surplus of assets over liabilities in a particular currency. The key accounting categories composing a long position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

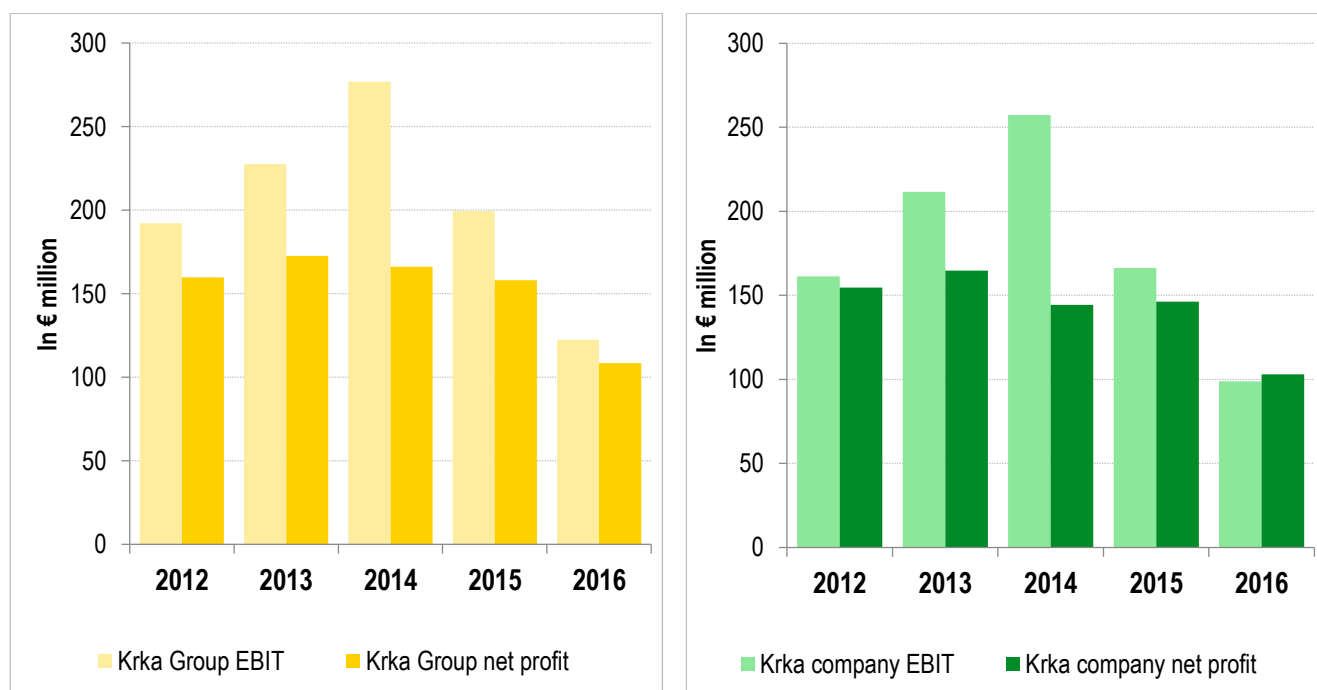
The Krka Group generally mitigates currency risks by natural hedging, primarily by increasing acquisitions and liabilities in currencies in which sales invoices are issued. When this is not possible, we use derivative financial instruments, or do not provide hedging for the risk. We generally use forward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

The Russian rouble accounts for 59% and the major share of the currency position of the Krka Group. The position in the rouble arises from trade receivables in Krka's largest market, and partly also from funding by the controlling company of the subsidiary's manufacturing capacities in the Russian Federation. 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. 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. Other currencies, among them the British pound, US dollar, Swedish krona, Hungarian forint, Czech koruna, Ukrainian hryvnia, Serbian dinar, Macedonian denar, and Kazakh tenge, all together constitute less than 10% of the currency position of the Krka Group.

We used future contracts to hedge against the rouble-related risk when the volatility of the currency increased. This happened in the first half of the year, when oil prices fluctuated widely, and in the last quarter, when global currency markets became more unstable due to the uncertain outcome of the US presidential elections and the negotiations of oil producing countries on limiting production. The rouble strengthened, so we generated net foreign exchange gains and also accrued costs related to occasional hedging with forward contracts.

Operating results

Operating profit and net profit for the year



Operating profit (EBIT) of the Krka Group totalled €122.4 million, down €77.0 million or 39% compared to 2015. The Krka Group generated operating profit increased by amortisation and depreciation (EBITDA) in the amount of €228.2 million, down by €78.5 million or 26%.

Operating profit (EBIT) of the Krka company amounted to €98.9 million, while operating profit increased by amortisation and depreciation (EBITDA) of the Krka Company was €180.7 million.

Profit before tax of the Krka Group declined by €64.4 million, or 36%, and totalled €116.3 million in 2016. The Krka Group's effective tax rate was 6.7%. Profit before tax of the Krka Company amounted to €104.4 million.

The Krka Group generated net profit of €108.5 million, a decrease of €49.7 million or 31% compared to 2015. Net profit of the Krka Company was €102.9 million.

Assets

In € thousand	Krka Group					Krka Company				
	2016	Share (in %)	2015	Share (in %)	Index 2016/15	2016	Share (in %)	2015	Share (in %)	Index 2016/15
Non-current assets	1,038,067	54.3	986,598	54.5	105	1,024,176	55.7	999,975	56.8	102
Property, plant and equipment	874,100	45.7	826,192	45.7	106	609,543	33.2	610,067	34.6	100
Intangible assets	113,511	5.9	116,940	6.5	97	29,302	1.6	31,557	1.8	93
Investments and loans	18,939	1.0	15,276	0.8	124	349,623	19.0	335,992	19.1	104
Other	31,517	1.7	28,190	1.5	112	35,708	1.9	22,359	1.3	160
Current assets	873,451	45.7	822,606	45.5	106	813,527	44.3	761,737	43.2	107
Inventories	280,653	14.7	272,878	15.1	103	236,214	12.9	230,568	13.1	102
Trade receivables	510,406	26.7	433,133	23.9	118	479,234	26.1	402,189	22.8	119
Other	82,392	4.3	116,595	6.5	71	98,079	5.3	128,980	7.3	76
Total assets	1,911,518	100.0	1,809,204	100.0	106	1,837,703	100.0	1,761,712	100.0	104

At the end of 2016, the Krka Group's assets amounted to €1,911.5 million, an increase of €102.3 million, or 6% compared to the end of 2015. The proportion between non-current and current assets in the total asset structure was negligibly different compared to the end of 2015: non-current assets decreased by 0.2 of a percentage point, accounting for 54.3%.

At the end of 2016, the Krka Company's assets totalled €1,837.7 million, €76.0 million or 4% more than at the end of 2015.

Non-current assets of the Krka Group amounted to €1,038.1 million, up €51.5 million or 5% compared to the end of 2015. The biggest item in the Krka Group's asset structure was property, plant and equipment (PP&E) in total of €874.1 million or 46% (of which, the Krka Company's PP&E accounted for €609.5 million or 70% of the Krka Group's PP&E). Intangible assets worth €113.5 million accounted for 6% of total assets (of which, the Krka Company's intangible assets accounted for €29.3 million or 26% of the Krka Group's intangible assets).

The current assets of the Krka Group totalled €873.5 million, up €50.8 million or 6% compared to the end of 2015. Trade receivables to buyers outside the Krka Group totalled €510.4 million (of which Krka Company accounted for €205.4 million or 40% of trade receivables to buyers outside the Krka Group), and inventories €280.7 million (of which Krka Company accounted for €236.2 million or 84% of the Krka Group's inventories). The current loans of the Krka Group totalled €9.4 million, of which bank deposits over 90 days equalled €8.0 million.

Equity and liabilities

In € thousand	Krka Group					Krka Company				
	2016	Share (in %)	2015	Share (in %)	Index 2016/15	2016	Share (in %)	2015	Share (in %)	Index 2016/15
Equity	1,444,444	75.6	1,405,984	77.7	103	1,440,448	78.4	1,433,211	81.3	101
Non-current liabilities	115,313	6.0	110,982	6.1	104	81,691	4.4	76,753	4.4	106
Current liabilities	351,761	18.4	292,238	16.2	120	315,564	17.2	251,748	14.3	125
Total equity and liabilities	1,911,518	100.0	1,809,204	100.0	106	1,837,703	100.0	1,761,712	100.0	104

As at 31 December 2016, the Krka Group's equity saw a €38.5 million or 3% increase compared to the end of 2015. The increase was attributable to the Krka Group's net profit of €108.5 and other comprehensive income after tax in the amount of €25.6 million. Translation reserves of €26.0 million accounted for the largest item of that amount. Equity was reduced by the dividend pay-out in total of €85.9 million, and the repurchase of treasury shares in the amount of €9.6 million.

The provisions of the Krka Group totalled €90.8 million, or 7% more than at the end of 2015, in particular due to the actuarial increase of provisions for post-employment and other non-current employee benefits in the amount of €5.8 million.

Of the Krka Group's current liability items, trade payables rose by €24.6 million, while other current liabilities saw an increase of €41.3 million.

The Krka Group recorded no current or non-current borrowing at the end of 2016.

As at 31 December 2016, the Krka Company's equity saw a €7.2 million or 1% increase compared to the end of 2015. The increase was attributable to the Krka Company's net profit in total of €102.9 million, while the reduction was attributable to other comprehensive income after tax of €0.1 million, dividend pay-outs in the amount of €85.9 million, and repurchase of treasury shares in total of €9.6 million.

The provisions of the Krka company totalled €78.9 million, or 7% more than at the end of 2015, in particular due to the actuarial increase in provisions for post-employment and other non-current employee benefits.

Of the Krka Company's current liability items, trade payables rose by €16.5 million, while other current liabilities saw an increase of €15.8 million. At the end of 2016, the Company's borrowings from subsidiaries totalled €105.1 million.

Cash flow statement

In € thousand	Krka Group		Krka Company	
	2016	2015	2016	2015
Net cash from operating activities	213,492	277,941	120,082	239,936
Net cash used in investing activities	-115,149	-135,403	-63,440	-92,677
Net cash used in financing activities	-95,916	-129,274	-57,809	-129,924
Net change in cash and cash equivalents	2,427	13,264	-1,167	17,335

The Krka Group increased its cash and cash equivalents by €2.4 million in 2016, because positive cash flow from operating activities exceeded the negative cash flows from investment and financing activities.

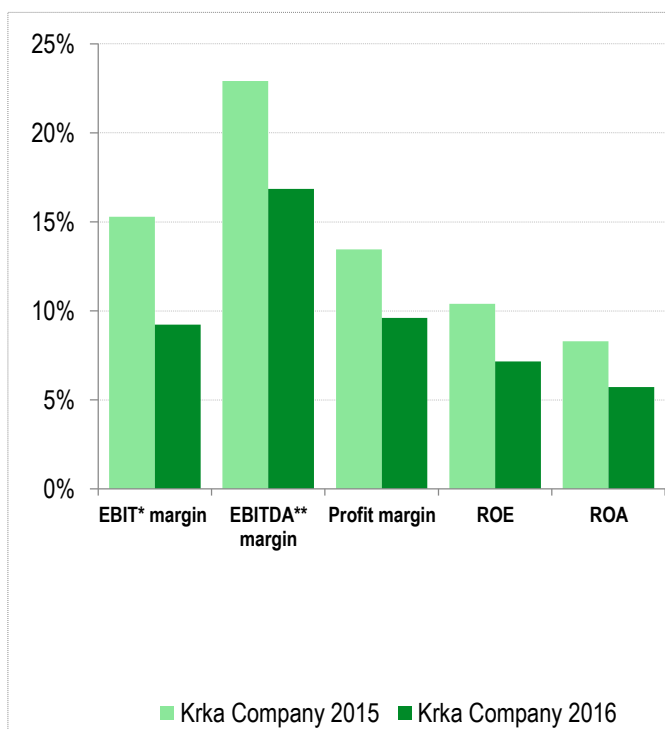
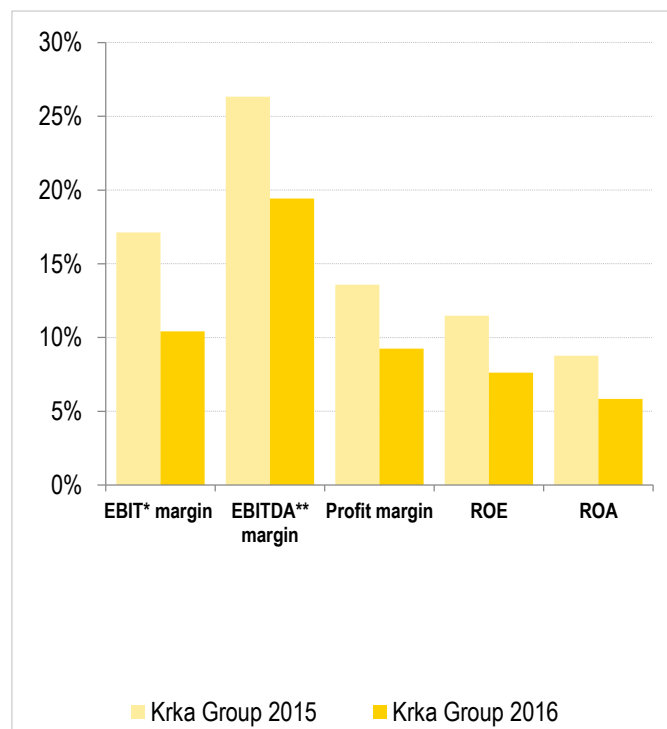
The Krka Group generated profit from operations before changes in net current assets totalling €275.3 million. The changes in current assets that increased profit included changes in trade payables, provisions and other current liabilities and paid income tax, while changes in trade receivables, inventories, and deferred revenues had a negative effect on profit.

Negative cash flows from investing activities totalling €115.1 million were accrued due to the acquisition of property, plant and equipment, 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 €95.9 million primarily resulted from pay-outs of dividends and other profit shares totalling €86.0 million, and repurchased treasury shares in the amount of €9.6 million.

In 2016, the Krka Company reduced cash and cash equivalents by €1.2 million.

Performance ratios

Profitability ratios



* Operating profit

** Operating profit increased by amortisation and depreciation

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

In € thousand	Krka Group					Krka Company				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Revenues	1,174,424	1,164,607	1,191,614	1,200,827	1,143,301	1,071,709	1,086,526	1,134,169	1,116,339	1,035,280
EBIT *	122,435	199,434	276,953	227,588	192,308	98,920	166,162	257,167	211,527	161,382
– Profit margin	10.4%	17.1%	23.2%	19.0%	16.8%	9.2%	15.3%	22.7%	18.9%	15.6%
EBITDA**	228,238	306,742	374,535	321,732	282,276	180,685	248,998	329,217	282,993	230,994
– Profit margin	19.4%	26.3%	31.4%	26.8%	24.7%	16.9%	22.9%	29.0%	25.4%	22.3%
Net profit	108,456	158,185	166,161	172,766	159,839	102,872	146,262	144,385	164,673	154,615
– Profit margin	9.2%	13.6%	13.9%	14.4%	14.0%	9.6%	13.5%	12.7%	14.8%	14.9%
Assets	1,911,518	1,809,204	1,795,745	1,759,884	1,626,748	1,837,703	1,761,712	1,768,487	1,701,235	1,565,918
ROA	5.8%	8.8%	9.3%	10.2%	10.1%	5.7%	8.3%	8.3%	10.1%	10.2%
Equity	1,444,444	1,405,984	1,351,899	1,332,611	1,240,521	1,440,448	1,433,211	1,381,313	1,332,246	1,232,215
ROE	7.6%	11.5%	12.4%	13.4%	13.4%	7.2%	10.4%	10.6%	12.8%	13.0%

* Operating profit

** Operating profit increased by amortisation and depreciation

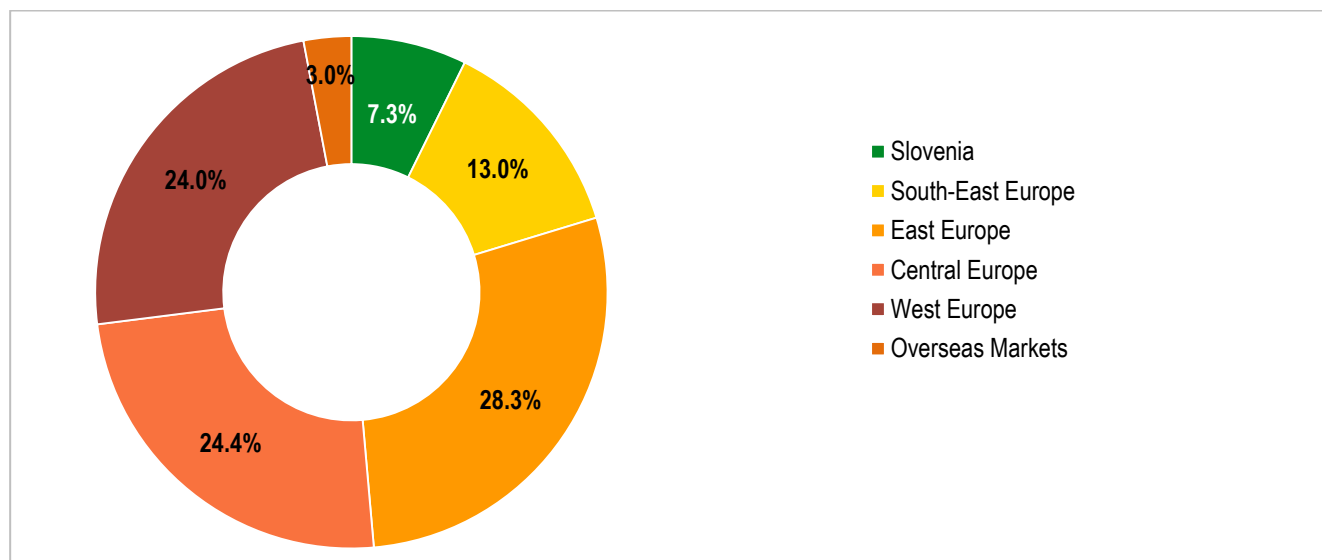
Marketing and Sales

In 2016, the Krka Group generated sales worth €1,174.4 million, which is up 1% from 2015, while total sales of the Krka Company reached €1,071.7 million, a 1% decrease compared to 2015. In terms of volume, sales of the Krka Group increased by 11% in 2016.

Sales by Region

Krka's sales were highest in Region East Europe, where they totalled €332.3 million or 28.3% of total Krka Group sales. Region Central Europe recorded the second highest sales at €286.7 million or 24.4% of total Krka Group sales. The third highest sales were recorded by Region West Europe, with a 24% share, totalling €282.4 million. Sales in Region South-East Europe totalled €152.4 million (13.0%) and in Region Overseas Markets €35.5 million (3%), respectively. Sales in Slovenia amounted to €85.1 million, which is 7.3% of the total Krka Group sales.

Group Sales by Region in 2016



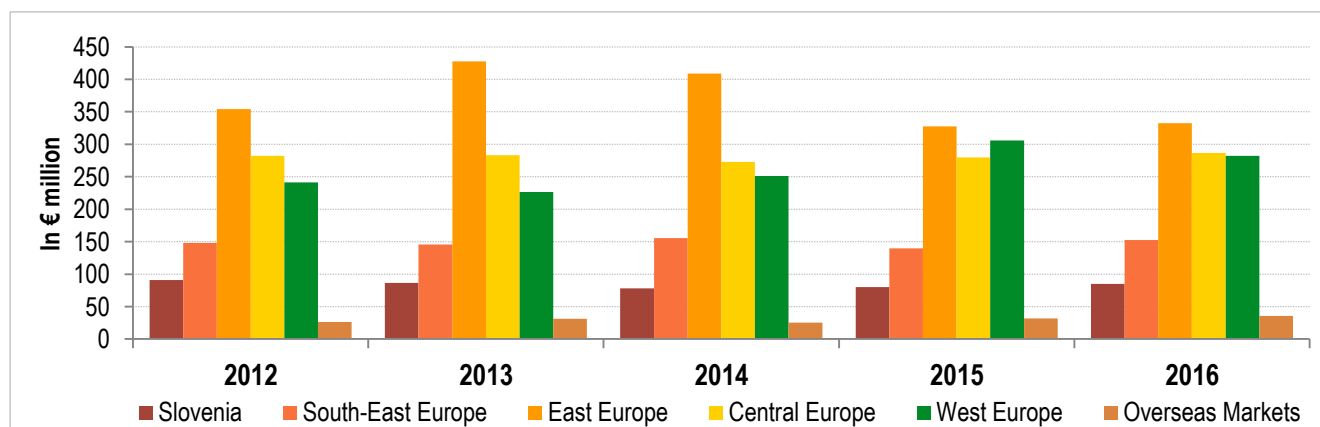
Krka Group and Krka Company sales by Region

in € thousand	Krka Group			Krka Company		
	2016	2015	Index 2016/15	2016	2015	Index 2016/15
Slovenia	85,143	79,885	107	52,897	50,661	104
South-East Europe	152,374	139,620	109	159,181	143,536	111
East Europe	332,286	327,466	101	300,682	318,742	94
Central Europe	286,693	279,867	102	293,454	282,278	104
West Europe	282,412	306,064	92	232,818	263,169	89
Overseas Markets	35,516	31,705	112	32,677	28,140	116
Total	1,174,424	1,164,607	101	1,071,709	1,086,526	99

Krka Group quarterly sales by Region

In € thousand	2016				2015			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Slovenia	20,151	21,010	22,734	21,248	19,204	19,530	20,230	20,921
South-East Europe	37,744	39,055	34,671	40,904	30,610	29,903	34,899	44,208
East Europe	80,117	95,425	54,454	102,290	81,484	104,458	56,337	85,187
Central Europe	72,984	68,444	67,646	77,619	68,421	68,805	69,772	72,869
West Europe	80,002	70,410	60,624	71,376	82,134	80,556	74,580	68,794
Overseas Markets	9,894	8,567	8,453	8,602	7,451	7,294	7,634	9,326
Total	300,892	302,911	248,582	322,039	289,304	310,546	263,452	301,305

Krka Group sales by Region in the past ten years



Slovenia

Sales of products and services in Slovenia, which is one of Krka's key markets, amounted to €85.1 million in 2016. Sales of products reached €48.5 million, which accounts for the 4% growth in terms of value compared to 2015. Sales growth in terms of quantity was 6%. We maintained the position of the leading supplier of medicines in Slovenia, with a market share of 9.2%. With 80%, prescription products represented the largest share in total sales. Non-prescription products contributed 16% to total sales, while animal-health products contributed 4%. Health resort and tourist services yielded €33.7 million.

We recorded particularly strong sales of certain therapeutic groups; we strengthened the leading position among manufacturers of medicines for the treatment of hypertension, hyperlipidemia, medicines for the reduction of gastric acid, and medicines for the treatment of pain. We also increased our market share in medicines for treating the central nervous system. The most important contributors to total sales were medicines for the treatment of cardiovascular diseases, medicines for the treatment of the central nervous system, and medicines for the treatment of diseases of the alimentary tract and metabolism.

Most attention was paid to marketing medicines for the treatment of cardiovascular diseases. We earned further recognition in the antihypertensives market with the following brands: Prenessa (perindopril), Renewel (perindopril/indapamide), Amlessa (perindopril/amlodipine) and Amlewel (perindopril/amlodipine/indapamide). We consolidated the position of Sorvasta (rosuvastatin) among statins and launched Rosmela (rosuvastatin/amlodipine), which controls blood pressure and cholesterol. We added a new pharmaceutical dosage form with prolonged release, Doreta SR, to analgesic Doreta (paracetamol/tramadol). In the antimicrobial group of medicines, Moxolin (moxifloxacin) in tablet and parenteral dosage forms, and Linezolid Krka (linezolid) tablets were launched successfully.

Among non-prescription products we particularly strengthened the market brand Septabene (benzylamine/cetylpyridinium). Ataxxa (permethrin/imidacloprid), used in the prevention of external parasite infestation, was added to the animal health portfolio.

Krka Group market position in Slovenia

We hold a 9.2% market share, retaining the leading position among pharmaceutical companies. Almost every fourth prescribed pharmaceutical sold is a Krka product.

Our products are market leaders in:

- the group of non-steroidal anti-inflammatory and antirheumatic products, with a market share of more than 65%;
- the group of agents acting on the renin-angiotensin system, with a market share of more than 50%;
- in the proton pump inhibitor group, with a market share of over 50%;
- the statin group, with a market share of 50%;
- in 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, doxazosin, enalapril, 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 with the active ingredients gliclazide, imatinib, indapamide, olanzapine and sildenafil.

Among non-prescription products, we are the leading supplier of non-steroidal anti-rheumatics and B-group vitamin products.

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

South-East Europe

Sales in the markets of South-East Europe in 2016 amounted to €152.4 million worth of products, a 9% increase over 2015. Sales growth of products in terms of quantity in this region increased by more than 5%. Sales growth was recorded in most markets of this region, while sales in terms of value were the highest in Romania, where we sold products worth €8 million more than in the previous year. In Serbia and in Croatia we sold €2 million worth of products more than in 2015. Sales decreased only in Bosnia and Herzegovina and Montenegro.

In **Romania**, the largest market in the region and a key market, we sold products worth €54.4 million, 17% more than the year before. As a result of this sales growth, we now have a 2.5% market share and are second among mainly foreign providers of generic medicines in the Romanian market.

Krka Group market position in Romania

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

Our products are among market leaders in:

- the SNRI antidepressant group, with a market share of more than 30%;
- in the fluoroquinolone antimicrobial group, with a market share of more than 25%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 25%;
- the statin group, with a market share of approximately 25%;
- 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%;
- in 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 the following active ingredients: ciprofloxacin, enalapril, ginkgo biloba, carvedilol, lansoprazole, losartan, naproxen, norfloxacin, pramipexole, ropinirole, telmisartan and tramadol, including the combination with paracetamol.

We are the leading producer of medicines with amlodipine, aripiprazole, atorvastatin, duloxetine, esomeprazole, candesartan, pantoprazole and perindopril including combinations with amlodipine and indapamide.

The main contribution to sales came from prescription pharmaceuticals, which amounted to a 7.6 per cent quantity share. The most important products in terms of sales were Atoris (atorvastatin), Karbis (candesartan), Opryme (pramipexole), Prenessa (perindopril) including the combination with a diuretic, and Roswera (rosuvastatin). Among non-prescription pharmaceuticals, we increased the sales of Nalgesin/Naldorex (naproxen) and Septolete. Among animal health products, special attention was paid to products for the treatment of companion animals, and a new brand, Ataxxa (permethrin/imidacloprid), was launched.

In **Croatia**, which is also a key market, we sold €27.9 million worth of products. With nearly 8% sales growth in terms of value, we exceeded the dynamics of the pharmaceutical market and ranked fourth among all manufacturers of generic

medicines and second among manufacturers of medicines for veterinary use. Sales growth was recorded in all three groups of products.

The largest contribution to overall sales came from prescription pharmaceuticals, particularly Atoris (atorvastatin), Co-Perineva (perindopril/indapamide), Dalneva (perindopril/amlodipine), Doreta (paracetamol/tramadol), Emanera (esomeprazole). The leading non-prescription products were Nalgesin (naproxen) and Septotele. We expanded the range by adding a new dosage form of the oral antiseptic Septotele Duo, which in 2016 ranked first in terms of sales in Croatia from this therapeutic group. Among animal health products, the most successful product in terms of sales was Fypryst (fipronil). Sales growth has also been achieved with a recent product used in the treatment of companion animals, Ataxxa (permethrin/imidacloprid).

Krka Group market position in Croatia

With a 4.3% market share, we rank second among foreign suppliers of generic medicines.

Krka out-performed the entire market with respect to sales growth in 2016.

Our products are market leaders in:

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

Our products are among market leaders in:

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

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

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

The decrease in sales since 2015 in **Bosnia and Herzegovina** is the result of restricting foreign producers on various prescription pharmaceuticals reimbursement lists and price reductions in the market. Sales value reached slightly over €17 million. Holding a 7.4% market share, Krka ranked second among all suppliers of generic pharmaceuticals. In terms of sales, our most important prescription pharmaceuticals included Enap (enalapril), including the combination with a diuretic, Roswera (rosuvastatin), Lexaurin (bromazepam), Naklofen (diclofenac) and Lorista (losartan), including the combination with a diuretic. Sales of non-prescription pharmaceuticals in terms of value remained the same as last year for the key products Nalgesin (naproxen), Septotele and B-complex. Sales growth of animal health products in terms of value was 5%.

Sales in **Serbia** reached €13.7 million, and increased by 19% over 2015. Krka's market share thus reached 2.6%. The majority of products sold were prescription pharmaceuticals, reaching 26% growth in value. The leading prescription pharmaceuticals in terms of sales were Roxera (rosuvastatin), Nolpaza (pantoprazole), Valsacor (valsartan), including the combination with a diuretic; and Atoris (atorvastatin). Nolpaza's sales in terms of volume reached over 2 million packages, thus ranking among the best-selling medicines in Serbia. Among non-prescription pharmaceuticals, Bilobil (gingko biloba) kept the leading position, followed by Septotele and Nalgesin (naproxen). Among animal health products, the most successful were Fypryst (fipronil), Floron (florfenicol) and Enroxil (enrofloxacin).

In **Macedonia**, where we remain the leading foreign generic manufacturer of pharmaceuticals, we have recorded sales growth for twelfth years in a row. Sales totalled €16.4 million, up 6% from 2015. The most important products in terms of sales value were prescription pharmaceuticals, especially Enap (enalapril), including the combination with a diuretic; Roswera (rosuvastatin), Tanyz (tamsulosin), Lorista (losartan), including the combination with a diuretic, and Atoris (atorvastatin). In terms of sales, our most important non-prescription products were Bilobil (gingko biloba), Daleron (paracetamol), Herbion and Septanazal (xylometazoline/dexpanthenol). Among prescription pharmaceuticals in Macedonia we launched Dulsevia (duloxetine), Furocef (cefuroxime), Lisinopril (lisinopril), additional strengths of Valsacombi (valsartan/hydrochlorothiazide) as well as an animal health product, Ataxxa (permethrin/imidacloprid).

In **Bulgaria**, Krka sold €11.9 million worth of products, an increase of 3% compared to 2015. The following prescription pharmaceuticals are among those which remained the most important in terms of sales: Valsacor (valsartan), including the combination with a diuretic; Lorista (losartan), including the combination with a diuretic, Roswera (rosuvastatin) and Prenessa (perindopril), including the combination with a diuretic. The highest sales value among prescription pharmaceuticals was generated by Emanera (esomeprazole). Sales of animal health products grew by 70% and reached €0.9 million. The leading animal health products were Floron (florfenicol) and Fyprist (fipronil).

In **Kosovo**, where Krka remains one of the leading suppliers of medicines, sales reached €6 million, which is an increase of 10% compared to 2015. In **Albania**, we recorded 7% sales growth compared to 2015, increasing sales by €4 million. The share of newly launched products is important. In **Montenegro**, sales were primarily generated through public tenders. In terms of quantity, we sold 31% more products, while in terms of value we sold slightly less than in 2015.

East Europe

Region East Europe recorded 12% growth in terms of quantity. In this region, Krka sold products worth €332.3 million, a 1% increase compared to 2015. The sales value expressed in euros reached 1% growth in the key market of the Russian Federation, while in the other key market of the region, Ukraine, 17% growth was recorded. In Uzbekistan, Kazakhstan, Belarus and Tajikistan sales were lower than in 2015, especially as a consequence of reduced purchasing power and the related contraction of pharmaceutical markets in terms of value.

The Russian Federation remains Krka's key and largest individual market, where we sold €225.9 million worth of products. Sales in 2016 were strongly affected by the low currency exchange rate of the Russian rouble, which increased in the last quarter. Sales value expressed in the Russian rouble increased by slightly less than 13%, while sales volume rose by 11%. We strengthened the market share by means of sales growth dynamics that surpassed average growth in the entire Russian pharmaceutical market. Prescription pharmaceuticals were the main contributor, especially medicines for the treatment of cardiovascular diseases, among which Lorista (losartan), including the combination with a diuretic, is Krka's best-selling and fastest growing product in terms of absolute sales. It is followed by Atoris (atorvastatin), Enap (enalapril), including the combination with a diuretic, Perineva (perindopril), including the combination with a diuretic, and a medicine for the treatment of the alimentary tract and metabolism, Nolpaza (pantoprazole). We were especially successful with the prescription pharmaceuticals that we launched in the last two years, especially Dilaxa (celecoxib), Bravadin (ivabradine), Vamloset (valsartan/amlodipine), Lortenza (losartan/amlodipine) and Vizarsin (sildenafil).

Market position of the Krka Group in the Russian Federation

We rank fourth among mostly foreign generic pharmaceutical companies, with a 1.77% market share.

Krka out-performed the entire market with respect to sales growth in 2016.

Our products are among market leaders in:

- the group of other non-mineral multivitamins, with a market share of more than 35%;
- the group of angiotensin II receptor antagonists and their combinations, with a market share of approximately 30%;
- the statin group, with a market share of more than 20%;
- the ACE inhibitors and their combinations with diuretics, with a market share of approximately 20%;
- the platelet aggregation inhibitor group (ADP receptor antagonists), with a market share of more than 15%;
- in the proton pump inhibitor group, with a market share of more than 15%;
- in the appetite suppressants group without dieting products, with a market share of approximately 15%;
- the atypical antipsychotic group, with a market share of more than 10%.

We are the leading supplier of medicines with the following active ingredients: atorvastatin, dexamethasone, enalapril, including combinations with hydrochlorothiazide; naproxen, norfloxacin, olanzapine, pantoprazole, ramipril and simvastatin.

We are the leading supplier of generic medicines with the active ingredients esomeprazole, clarithromycin, clopidogrel, quetiapine, orlistat, perindopril, including the combinations with indapamide, rabeprazole, rosuvastatin and risperidone.

In terms of sales of non-prescription pharmaceuticals Herbion and Septolete Total (benzylamine/cetylpyridinium) ranked first. Septolete Total achieved the highest growth in value in this product group. Among products launched in the last two years in addition to Septolete Total (benzylamine/cetylpyridinium) also Ulcavis (bismuth), Septanazal (xylometazoline/dexpanthenol) recorded strong sales. Sales of animal health products increased by 10% compared to 2015. Floron (florfenicol) remains the most important product.

The share of products manufactured in Krka-Rus 2 and sold in the Russian Federation in 2016 increased to 56%, which has further strengthened Krka's status as a local producer.

The contraction of the pharmaceutical market value in **Ukraine** came to halt and its value reached that of 2015. We have maintained the leading position as a foreign supplier of generic medicines in this market. Prescription pharmaceuticals, which saw an increase of 12% over 2015 in terms of sales, were the greatest contributor to the overall 17% growth and sales worth €39.5 million. Sales growth in terms of value in the group of non-prescription medicines was 41%, while in the group of animal health products it was 9%. The best-selling products in the group of prescription pharmaceuticals were Enap (enalapril), including the combination with a diuretic, Atoris (atorvastatin), Prenessa (perindopril), including the combination with a diuretic, and Nolpaza (pantoprazole). The best-selling products in the non-prescription group were Herbion, Bilobil (gingko biloba), Panzynorm and Duovit.

Krka Group market position in Ukraine

We rank first among foreign generic pharmaceutical companies, with a 2% market share.

Our products are market leaders in:

- the group of parenteral corticosteroids, with a market share of approximately 40%;
- in the statin group, with over 35% market share;
- the ACE inhibitors and their combinations with diuretics, with a market share of approximately 20%.

Our products are among market leaders in:

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

We are the leading supplier of medicines with the following active ingredients: atorvastatin, dexamethasone, enalapril with the combination of hydrochlorothiazide, ginkgo biloba, carvedilol, clarithromycin, naproxen, pantoprazole and simvastatin.

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

Despite 6% growth in volume, we recorded a decrease of 16% in value compared to 2015 in **Uzbekistan**, selling €13.5 million worth of products. The main contributors to the decrease in the entire market of medicines were the devaluation of the national currency and consequently reduced purchasing power of the population, as well as state support for the sales of medicines manufactured by local producers. Prescription products account for the largest share in sales, including Lorista (losartan), including the combination with a diuretic, Enap (enalapril), including the combination with a diuretic, and Amlessa (perindopril/amlodipine), including the combination with a diuretic. The leading non-prescription products were Pikovit and Septolete. We successfully launched Lortenza (losartan/amlodipine), Prenessa (perindopril) and Septolete Total (benzylamine/cetylpyridinium).

In **Kazakhstan**, we sold €12.8 million worth of products, a decrease of 3% compared to 2015, reaching almost 23% growth in terms of volume, and more than 50% growth in the national currency. The medicine market was marked by the reduced purchasing power of the population, a consequence of the fall in the value of the national currency in 2015. Despite unfavourable circumstances, we increased our market share. In terms of sales, our most important prescription pharmaceuticals included Enap (enalapril), Prenessa (perindopril), including the combination with a diuretic, and Nolpaza (pantoprazole); among non-prescription products were Herbion and Duovit. Septolete Total (benzylamine/cetylpyridinium) and Pikovit Unique have had successful initial sales.

In **Belarus**, the contraction of the pharmaceutical market continued in terms of volume and value, which especially affected foreign suppliers of medicines. Sales reached €9.1 million, 15% less than in 2015, but we still ranked third among foreign providers of generic medicines. Prescription products account for the largest share in sales, including Lorista (losartan), including the combination with a diuretic, Nolpaza (pantoprazole) and Amlessa (perindopril/amlodipine), including the combination with a diuretic. The leading non-prescription products were Septolete and Pikovit.

In **Moldova**, Krka sold €7 million worth of products, an increase of 4% compared to 2015 despite pressure to reduce prices. With an almost 5% market share in terms of value, we remain third among all manufacturers of medicines in the market. In terms of sales, the most important prescription pharmaceuticals were Ampril (ramipril) and Rawel (indapamide), and Septolete and Septanazal (xylometazoline/dexpanthenol) among non-prescription pharmaceuticals.

In **Mongolia**, we remain the leading foreign generic supplier of pharmaceuticals. Sales amounted to €6.1 million, a 15% increase over 2015. Reimbursed medicines contributed most to the 20% growth in the leading group of prescription

pharmaceuticals: Lorista (losartan), including the combination with a diuretic and Fromilid (clarithromycin). In **Turkmenistan**, sales increased by 12%, totalling €5.2 million. The largest share, 60%, was contributed by prescription pharmaceuticals, especially Nolpaza (pantoprazole), Efloran (metronidazole) and Lorista (losartan), including the combination with a diuretic. The market in **Azerbaijan** contracted significantly due to price adjustments made in accordance with the 2016 act on price regulation; however, with 5% sales growth and sales in the value of €3.7 million, Krka maintained the leading position among the first ten European manufacturers of medicinal products in terms of growth. We increased Krka's market share in terms of value to 2.6% and rank fourth among all producers. In **Georgia**, sales worth €3.4 million increased by 14% compared to 2015. The main contributors were prescription pharmaceuticals Enap (enalapril) and Lorista (losartan), including the combination with a diuretic, and the non-prescription product Herbion. We successfully launched Septolete Total (benzylamine/cetylpyridinium). In **Kyrgyzstan**, we reached 28% growth and sales worth €2.9 million, increased market share to 3.2% and ranked fifth among producers of medicines. In **Armenia**, sales amounted to €2.1 million, an increase of 13% over 2015. Sales in **Tajikistan** decreased to €0.9 million compared to 2015. The reason for this was the reduced purchasing power of the local population, lower sales prices of medicines and imports of medicines from the nearby countries.

Central Europe

Region Central Europe recorded 6% growth in terms of quantity. In this region, Krka sold products worth €286.7 million, a 2% increase compared to 2015. The highest share is represented by prescription pharmaceuticals, at 90%, followed by non-prescription products and animal health products. Sales growth was recorded in all regional markets except Lithuania and Hungary.

In **Poland**, the key and largest market in the region, we sold €140.6 million worth of products, which is an increase of 3% over 2015. Among our products, prescription pharmaceuticals that are on the reimbursement list contributed most to sales. New pharmaceuticals introduced over the past few years made a significant contribution to overall sales growth. The most important prescription pharmaceuticals in terms of sales were medicines for lowering cholesterol, including Atoris (atorvastatin) and Roswera (rosuvastatin). Sales growth in this group was 10%. We increased the market share to 28%. In the group of medicines for lowering blood pressure, the best-selling products were Valsacor (valsartan), including the combination with a diuretic, Tolura (telmisartan), including the combination with a diuretic; and Karbis (candesartan), including the combination with a diuretic. In this group, we reached 10% growth and increased the market share to 30%. In the group of analgesics, we reached a 40% growth with Doreta (tramadol/paracetamol) and Aclixa (celecoxib). Among the newly launched prescription pharmaceuticals are Dulsevia (duloxetine) and Bixebra (ivabradine), which we put on the market as the first generic.

At the end of the year, we were successful in being put on the new reimbursement list of free prescription pharmaceuticals for patients older than 75 years, as we have more products on this list than any other producer.

Krka Group market position in Poland

We are the fourth-ranked foreign generic pharmaceutical company, with a 2.5% market share.

Krka outperformed the entire market with respect to sales growth in 2016.

Our products are market leaders in:

- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of more than 30%;
- the statin group, with a market share of approximately 30%, and
- the SSRI and SNRI antidepressant group, with a market share of more than 10%.

Our products are among market leaders in:

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

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

We are the leading supplier of generic medicines containing the following active ingredients: aripiprazole, gliclazide, imatinib and perindopril, including the combinations with indapamide and amlodipine.

In the group of non-prescription products, sales were slightly lower than in 2015 due to a bad season. The best-seller, Bilobil (gingko biloba), was followed by Septolete. We launched Septolete Ultra (benzylamine/cetylpyridinium).

Sales reached €5.8 million and a 28% growth rate. The leading products were Floron (florfenicol) and Entemulin (tiamulin).

Hungary as the key market in terms of sales, ranks second in the region. Sales in the amount of €44 million were slightly lower than in 2015, but we managed to keep our market share and consolidated our second position among mainly foreign producers of generic medicines. The majority of sales is represented by prescription pharmaceuticals, especially Prenessa (perindopril), including the combination with a diuretic, Atoris (atorvastatin), Roxera (rosuvastatin), Dalnessa (perindopril/amlodipine), including the combination with a diuretic, Zyllt (clopidogrel), Nolpaza (pantoprazole), Lavestra (losartan), including the combination with a diuretic, Valsacor (valsartan), including the combination with a diuretic, Emozul (esomeprazole) and Fromilid (clarithromycin).

Krka Group market position in Hungary

With a 2% market share, we rank second among mainly foreign providers of generic medicines.

Our products are market leaders in:

- the platelet aggregation inhibitor group, with an approximately 35% market share;
- In the group of monocomponent thiazide diuretics, with a market share of over 25%;
- in the oral fluoroquinolone antimicrobial group, with a market share of over 25%.

Our products are among market leaders in:

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

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

We are the leading generic supplier of medicines with the active ingredients aripiprazole, duloxetine and gliclazide.

Sales of non-prescription products were worth €2 million, which is considerably higher than in 2015. Our best-selling product in 2015 was again Bilobil (gingko biloba), followed by products launched in the same year: Septolete, Septanazol (xylometazoline/dexpanthenol), Analgesin (naproxen) and Herbion. Sales of animal health products increased by 9% compared to 2015. The main contributors were again Fypryst (fipronil) and Enroxil (enrofloxacin).

In the **Czech Republic**, which is also one of Krka's major markets, we recorded 5% sales growth, in the amount of €37.8 million. We thereby consolidated our position as the third amongst foreign producers of generic medicines, and reached a 2.5% market share.

The majority of sales were generated by prescription pharmaceuticals, especially Tonarssa (perindopril/amlodipine), including the combination with a diuretic, Atoris (atorvastatin), Lexaurin (bromazepam), Tanyzom (tamsulosin), Prenessa (perindopril), including the combination with a diuretic, Pragiola (pregabalin) and Tolura (telmisartan), including the combination with a diuretic. We remain the leading producer of medicines with sertraline, esomeprazole and finasteride.

Krka Group market position in the Czech Republic

Holding a market share of 2.5%, Krka is the third-ranked foreign generic pharmaceutical company.

Our products are market leaders in:

- the group of mono-component products used in the treatment of benign hypertrophy of the prostate, with around a 30% market share;
- the group of sulphonamide antidiabetics, with a market share of approximately 25%.

Our products are among market leaders in:

- the anxiolytic group, with a market share of approximately 35%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 30%;
- in the proton inhibitor group, with around a 25% market share;
- the SSRI antidepressant group with a market share of more than 15%;
- the statin group, with a market share of approximately 15%;

- in the group of ACE inhibitors and their combinations, with a market share of around 15%;
- the atypical antipsychotic group, with a market share of more than 10%:

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

We are the leading supplier of medicines with the active ingredients aripiprazole, atorvastatin, escitalopram, olanzapine, pantoprazole, perindopril including the combinations with amlodipine and indapamide, and with pregabalin, tamsulosin and telmisartan in the combination with hydrochlorothiazide.

Sales of non-prescription medicines were considerably higher than in 2015, with Nalgesin S (naproxen) and Septolete remaining best-sellers. This growth was mainly the result of launching a new product, Septabene (benzylamine/cetylpyridinium) and better cooperation with more pharmacy chains. Sales of animal health products increased by 35%. The leading products were Fypryst (fipronil) and Dehinel (febantel).

In **Slovakia**, sales product value compared to 2015 increased by slightly more than 4% and reached €31.6 million. Prescription pharmaceuticals were the largest contributor, especially Prenessa (perindopril), including the combination with a diuretic, and Valsacor (valsartan), including the combination with a diuretic, Atoris (atorvastatin), Nolpaza (pantoprazole), Amlessa (perindopril/amlodipine), including the combination with a diuretic, Lexaurin (bromazepam) and Doreta (tramadol/paracetamol). Sales of non-prescription products increased by 6% compared to 2015. In terms of sales, the leading product was Nalgesin S (naproxen), followed by Septolete. We increased animal health sales by 14%.

In **Lithuania**, we sold €16.1 million worth of products, a little less than in 2015, but we ranked second among generic producers of medicines. The most important prescription pharmaceuticals in terms of sales were Valsacor (valsartan), including the combination with a diuretic, Prenessa (perindopril), including the combination with a diuretic, and Amlessa (perindopril/amlodipine), including the combination with a diuretic, Atoris (atorvastatin) and Nolpaza (pantoprazole). Sales of non-prescription products remained at the 2015 level, while the leading products in terms of sales were Septolete and Daleron COLD3 (paracetamol/pseudoephedrine/dextromethorphan).

In **Latvia**, sales in the amount of €10.4 million increased by 7% compared to 2015, which is a little less than market growth, which grew particularly owing to additionally reimbursed originator medicines. Krka is the first generic producer of medicines in Latvia. Our value market share is 3.4%, while volume market share is 5.6%. The main contributors to sales were prescription pharmaceuticals, especially Prenessa (perindopril), including the combination with a diuretic, Atoris (atorvastatin), Amlessa (perindopril/amlodipine), including the combination with a diuretic, Nolpaza (pantoprazole), Sorvasta (rosuvastatin) and Tolura (telmisartan), including the combination with hydrochlorothiazide. The main contributor to the 3% sales growth in non-prescription products was Septanazal (xylometazoline/dexpanthenol) and Daleron COLD3 (paracetamol/pseudoephedrine/dextromethorphan).

At 10%, in **Estonia**, the smallest market in region Central Europe, we achieved the highest sales growth in the region for the third consecutive time. The main contributors to total sales worth €6.2 million were prescription pharmaceuticals, particularly Prenessa (perindopril), including the combination with a diuretic, Roswera (rosuvastatin) and Valsacor (valsartan), including the combination with a diuretic. Non-prescription products, with the leading product Septolete, which became the second best-selling product in the Krka portfolio in Estonia, exceeded sales by 60% in 2015.

West Europe

Product sales in Region West Europe reached €282.4 million. Sales in terms of volume were by 16% higher over 2015, but in terms of value, were 8% lower, the result of falling prices. The biggest drop in sales was recorded in Scandinavia and the United Kingdom with products containing aripiprazole and duloxetine. The most successful markets in terms of sales were Germany, Spain and France.

In 2016, we achieved sales value from 2015 through associated companies. Sales of pharmaceuticals through third partners decreased in value by 17% in comparison to 2015. The share of sales through third partners represented only one third of the entire sales region.

With an 11% decrease in sales value compared to the previous year, prescription pharmaceuticals contributed 89% to sales. With a 9% share, they are followed by animal health products, an increase of 32% compared to the previous year. The sales value of non-prescription products decreased by 5% and represented 2% of sales in the region. The most

important products in terms of sales were products, with esomeprazole, pantoprazole, pregabalin, duloxetine, candesartan, including the combination with a diuretic and clopidogrel. We sold €9.5 million worth of animal health products. In comparison to 2015, we doubled the sales of milbemycin in combination with praziquantel.

In **Germany**, our most important western European market, we sold €92.6 million worth of products, an 8% increase compared to 2015. We generated over 90% of sales in the German market through our subsidiary TAD Pharma. We recorded an increase in sales primarily owing to strong sales of several products for the treatment of cardiovascular diseases, medicines for the treatment of diseases of the alimentary tract and metabolism, and medicines for the treatment of the central nervous system. We remain the leading manufacturer of sartans in terms of quantity in the German market. We maintained the leading position in the generic market also with duloxetine, which is marketed under the name Duloxalta in Germany. With the products Pantoprazol TAD (pantoprazole) and Esomeprazol TAD (esomeprazole) we are the leading generic producer of medicines for the treatment of reflux disease and ulcers. In the second half of the year, we launched innovative combinations of losartan and bisoprolol with amlodipine as the only producer in the market. At the end of 2016, after the product patent expired, we launched imatinib and made an intensive entry in the market of oncology medicines.

Spain was ranked second among regional markets, with sales of €38.9 million. The 11% decrease in sales was the consequence of the course of certain public tenders in Andalusia. Sales of medicines with donepezil, bisoprolol, duloxetine and candesartan, including the combination with diuretic recorded strongest sales. The share in the sales of our own brands reached 87%.

Sales in **France** totalled €33.1 million, up 1% from 2015. A considerable decrease in sales through third partners was replaced with sales of our own brands through the subsidiary Krka France, which achieved 2.4 times higher sales in 2016 compared to 2015 and already represents almost one third of total sales in the market.

Sales in **Scandinavian countries** reached €26.4 million, one third less than in 2015. This fall in sales was the result of a considerable decrease in the prices of products containing aripiprazole and duloxetine for the treatment of the central nervous system. Our sales were most substantial in **Sweden**, followed by **Norway** and **Denmark**. The biggest growth was achieved in **Finland**, where we sold one quarter of products more.

Italy, with sales of €20.3 million followed. Sales under our own brands increased by 39%, and already represent more than half of Krka's sales in this market. The most successful products in terms of sales of Krka's subsidiary Farmaceutici Milano were medicines with pantoprazole, gliclazide, clopidogrel and lansoprazole. In the **United Kingdom**, we sold €19.3 million worth of products, which is a good €10 million less than in 2015. This decrease in sales was the result of a considerable fall in the prices of medicines with aripiprazole and duloxetine. In terms of sales, we were most successful with products with pregabalin, esomeprazole and pramipexole in prolonged-release form. Product sales in **Portugal** amounted to €17.7 million, a decrease of 14% compared to 2015. Despite considerable pressure on prices and consequently lower sales value, we have been increasing sales in terms of quantity and market shares and have remained the fastest growing medicine producer in Portugal. In **Benelux**, sales decreased by €3.9 million due to lower sales through third partners. Total sales amounted to €9.3 million. We increased sales threefold through the affiliated company Krka Belgium and contributed one sixth to overall sales. In **Ireland**, we increased the sales achieved in 2015 through the subsidiary Krka Pharma Dublin by one quarter and sold products worth a total of €8.1 million. In **Austria**, sales stood at €6.8 million, or 14% more than in 2015. In **other European countries** sales through third partners amounted to €10 million, which is an increase of 2 million over 2015.

Overseas Markets

In Region Overseas Markets, Krka sold €35.5 million worth of products, 12% more than in 2015. The biggest contribution was made by individual markets of sales offices in the Middle East, the Far East and Africa, especially Iran and the Republic of South Africa. The highest growth in sales in terms of value were achieved in Iran, Vietnam and Lebanon. The unstable conditions in the Middle East, especially in Yemen, Iraq and Syria, present a special challenge.

In the **Middle East**, Krka sold €19.1 million worth of products, which is a 22% increase compared to 2015. **Iran** remains the largest individual market, with 36% sales growth among middle-eastern markets. Our most important products in the Iranian market are Asentra (sertraline), Nolpaza (pantoprazole), Letizen (cetirizine) and Zyllt (clopidogrel). Sales in **Iraq** were particularly focused on the northern part of the country, but decreased by over one half compared to 2015 due to issues in the rest of the country. In **Lebanon**, we launched a few new products and sold €1.1 million worth of products, which is three times more than in 2015.

In the markets of the **Far East** and **Africa**, we recorded overall sales of €15.5 million and achieved modest growth. In the **Republic of South Africa**, sales decreased by 9% as a result of lengthy procedures for obtaining marketing authorisations and a postponed launch. In **Vietnam**, we continued to extend sales of our product range and achieved 57% sales growth in terms of value. Overall sales also increased in **Ghana**, **China** and **Singapore**. The best-selling products in the sales office were: Lanzul (lansoprazole), Enap (enalapril), including the combination with a diuretic, and Tenox (amlodipine).

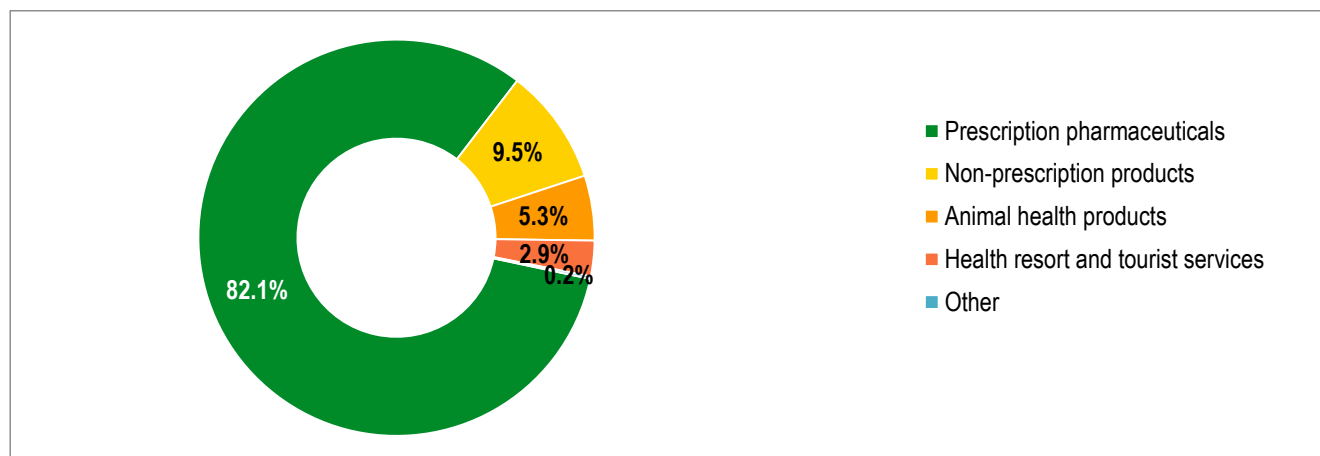
Sales in the sales office of the **Americas** were mostly contributed by **Central American** markets. Sales totalled €0.9 million, up 30% from 2015. The leading products in terms of sales were Valsacor (valsartan), including the combination with a diuretic; Tolura (telmisartan), including the combination with a diuretic, and Yasnal (donepezil).

Product* and service groups

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

In 2016, sales of prescription pharmaceuticals accounted for 82.1% of total sales, followed by non-prescription products with 9.5%, animal health products with 5.3%, and health resort and tourist services with 2.9%. The sales revenues of the Krka Group increased by 1% in 2016. Sales of prescription pharmaceuticals decreased by 1% in terms of value, but sales of non-prescription products rose by 3%. The increase was most notable in animal health products, reaching 20%, while health resort and tourist service sales rose by 9%. In terms of sales volume, sales of prescription pharmaceuticals rose by 11%, non-prescription products by 3%, and animal health products by 24%.

Krka Group sales by product group in 2016



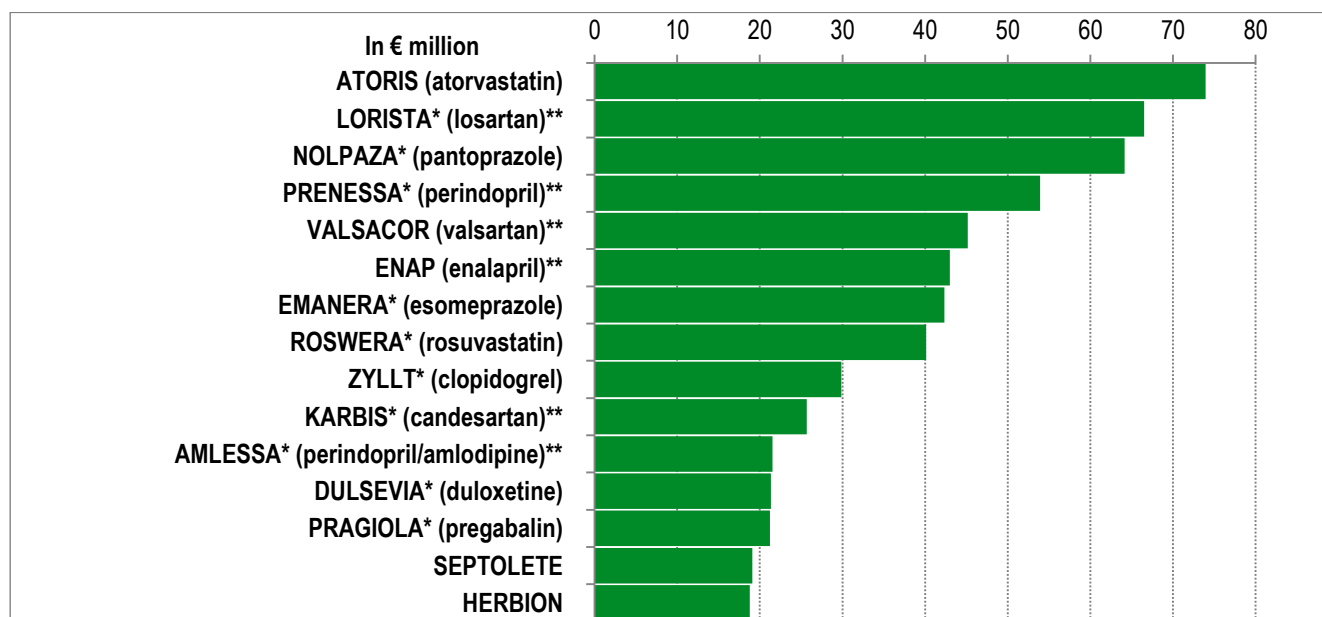
Krka Group and Krka Company sales by product and service group

In € thousand	Krka Group			Krka Company		
	2016	2015	Index 2016/15	2016	2015	Index 2016/15
Human health products	1,074,954	1,079,365	100	1,005,442	1,030,779	98
– Prescription pharmaceuticals	963,727	971,549	99	908,406	934,874	97
– Non-prescription products	111,227	107,816	103	97,036	95,905	101
Animal health products	62,793	52,129	120	61,861	51,860	119
Health resorts and tourist services	33,708	31,046	109			
Other	2,969	2,067	144	4,406	3,887	113
Total	1,174,424	1,164,607	101	1,071,709	1,086,526	99

Krka Group quarterly sales by product and service group

In € thousand	2016				2015			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Human health products	271,204	278,504	224,899	300,347	270,391	288,389	240,937	279,648
– Prescription pharmaceuticals	243,853	255,547	199,693	264,634	243,217	264,707	217,337	246,288
– Non-prescription products	27,351	22,957	25,206	35,713	27,174	23,682	23,600	33,360
Animal health products	21,765	15,570	13,069	12,389	11,743	14,269	13,131	12,986
Health resorts and tourist services	7,154	8,271	9,752	8,531	6,456	7,550	9,077	7,963
Other	769	566	862	772	714	338	307	708
Total	300,892	302,911	248,582	321,980	289,304	310,546	263,452	301,305

Sales of leading products in 2016



** Including the combination with a diuretic

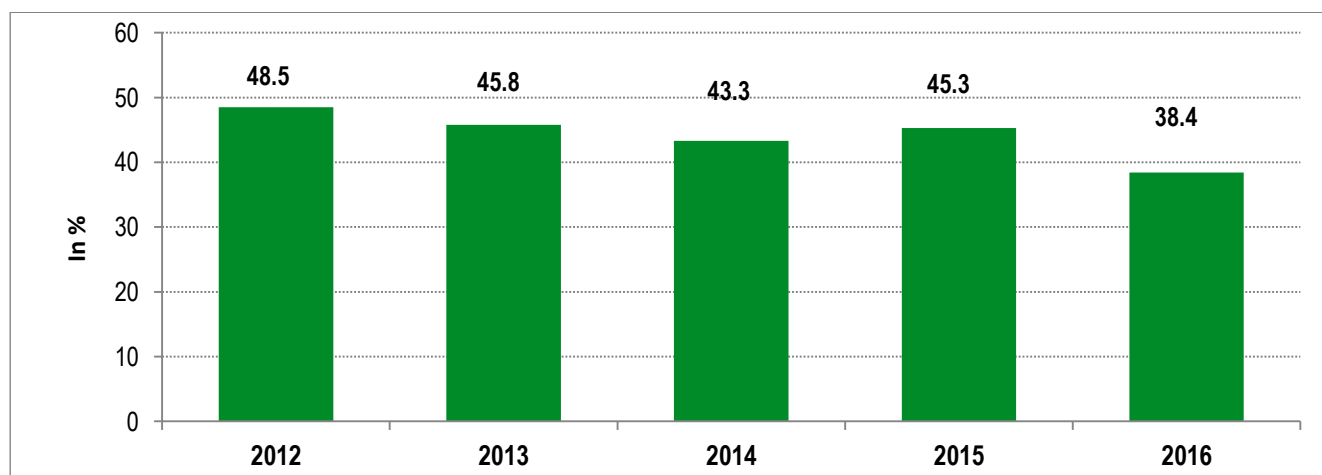
New products

In 2016, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 38.2% of the Krka Group total sales. Their market share decreased slightly compared to the past years. In large markets, Valsacor (valsartan), a combination of valsartan and a diuretic, and Roswera* (rosuvastatin) are not included in the new product group any more. These products rank among the ten Krka's leading products in terms of sales. They nevertheless retained their places among the five leading products in terms of absolute sales growth in 2016.

The most important new products are Pragiola* (pregabalin) launched at the end of 2014, and Dulsevia* (duloxetine) launched in 2015. They are among the 15 leading products in terms of 2016 sales. The leading products in terms of absolute sales growth were Amlessa* (perindopril/amlodipine), also the perindopril/amlodipine combination with a diuretic, Bravadin* (ivabradine), Rasagea* (rasagiline), Septolete Total* (benzylamine hydrochloride/cetylpyridinium chloride), which is a non-prescription product, and an animal health product, Milprazon* (milbemycin oxime/praziquantel).

In 2016, 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 on new markets.

Share of new products** in Krka Group sales



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

Important new products in 2016

Prescription pharmaceuticals	
Medicines for the treatment of cardiovascular diseases	Rosudapin/Rosmela (rosuvastatin/amlodipine) Tenlisa (lisinopril/amlodipine) Bloxazoc/Metazero (metoprolol) prolonged-release tablets
Analgesics	Doreta SR (tramadol/paracetamol) prolonged-release tablets
Medicines for the treatment of infections	Linezolid Krka
Other	Dexamethasone Krka tablets of high-dose strengths
Non-prescription products	
Products for the alimentary tract and metabolism	Ulcavis (bismuth subcitrate)
Other	Flebaven (diosmin/hesperidin)
Animal health products	
Antiparasitic products for companion animals	Ataxxa (permethrin/imidacloprid)

Prescription pharmaceuticals

The Krka Group sales of prescription pharmaceuticals amounted to €963.7 million in 2016, a 1% decrease compared to the year before. Total sales balance was affected by a sharp price drop in several markets and lower growth in terms of value due to the unfavourable exchange rates of certain eastern European currencies. The sales volume of prescription pharmaceuticals rose by 11%.

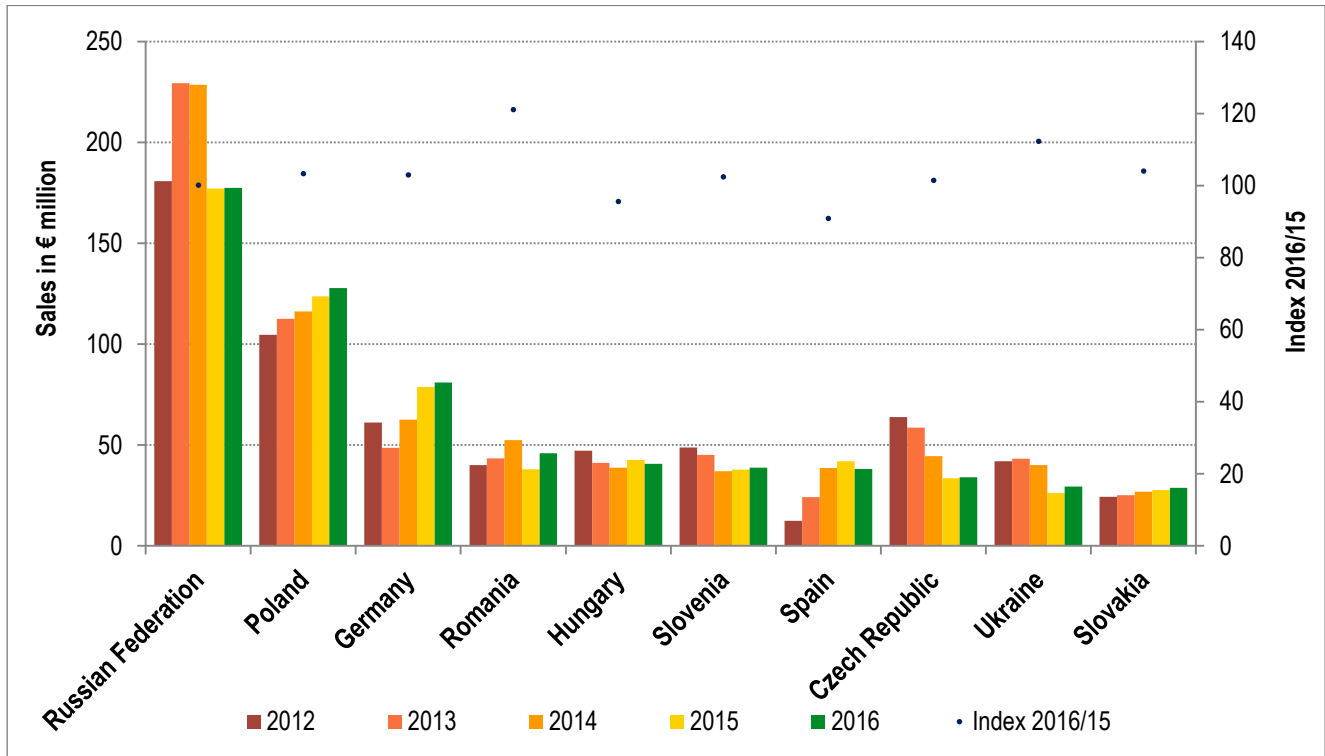
Among the ten largest individual markets, sales of prescription pharmaceuticals saw the highest growth in Romania, Ukraine and Slovakia (all three of our top-ten markets), and among other markets in Kyrgyzstan, Serbia, and Ireland. Krka's biggest market is the Russian Federation. Krka increased sales volume and sales in national currency, but nevertheless total sales there remained the same as last year.

With respect to sales of prescription pharmaceuticals, medicines for the treatment of cardiovascular diseases remained the key therapeutic group in 2016, followed by pharmaceuticals for diseases of the central nervous system, and for alimentary and metabolic diseases.

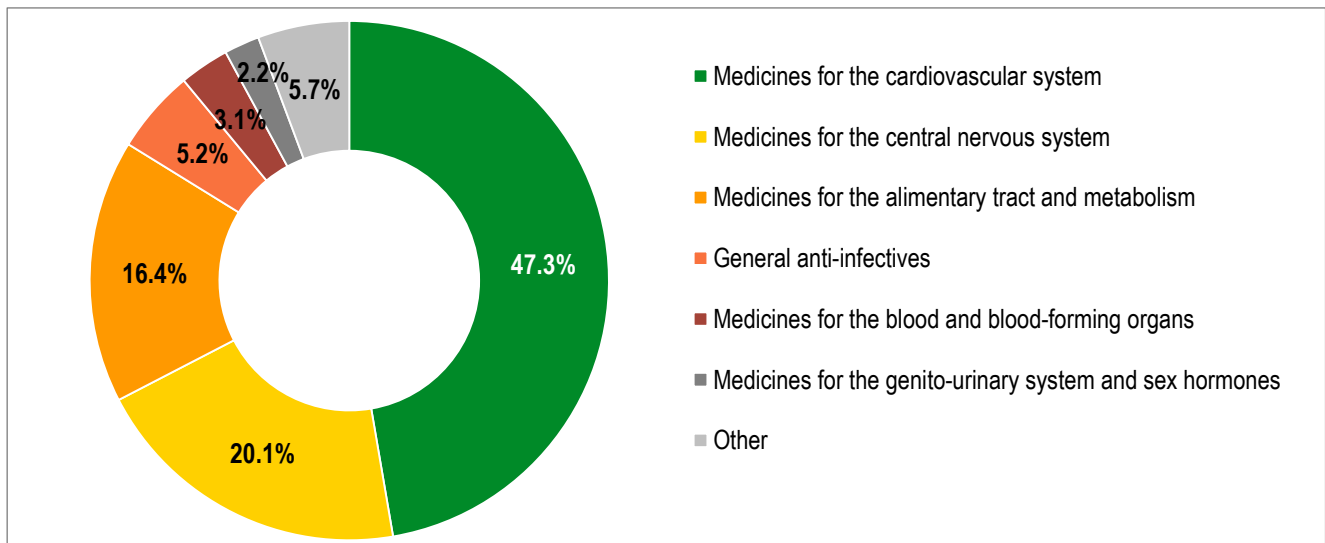
Atoris (atorvastatin) remained the leading prescription pharmaceutical in 2016 in terms of sales, followed by Lorista* (losartan), including losartan in combination with a diuretic, Nolpaza* (pantoprazole), Prenessa* (perindopril), including perindopril in combination with a diuretic, and Valsacor (valsartan), including valsartan in combination with a diuretic. Among the ten leading prescription pharmaceuticals in terms of sales were also Enap (enalapril), including enalapril in combination with a diuretic, Emanera* (esomeprazole), Roswera* (rosuvastatin), Zyllt* (clopidogrel), and Karbis* (candesartan), including candesartan in combination with a diuretic.

In most European markets, we market our prescription pharmaceuticals under our own brand names and have 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 ten biggest markets



Sales of prescription pharmaceuticals by therapeutic class



Medicines for the treatment of cardiovascular diseases

Statins

Krka launched statins twenty years ago. Like many years before, Krka was the leading producer of statins also last year in the markets of Slovenia, central, eastern, and south-eastern Europe. In comparison to the year before, Krka increased its market share to almost 25%. In many markets, our market shares exceeded 40%. Our most important statin medicines, Atoris and Roswera,* are the most often prescribed statins in the area.

Atoris (atorvastatin) remained the leading statin in the area also in 2016. Its market share further increased and accounted for 15% of statin sales, and more than 30% of atorvastatin sales in the above-mentioned area. Krka has remained the only

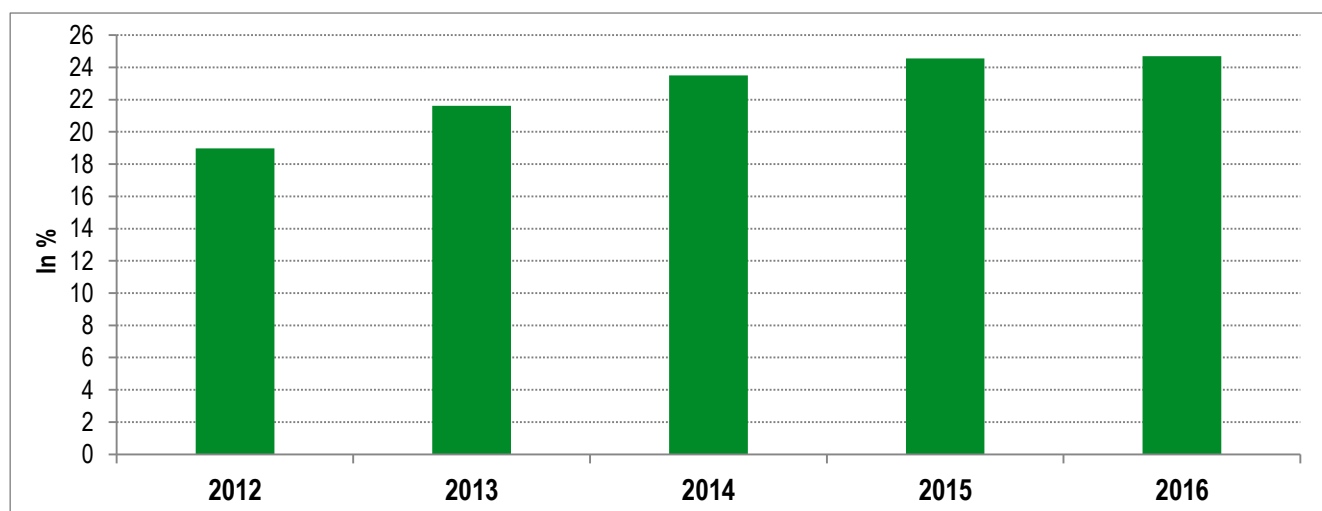
pharmaceutical company in the area marketing all six atorvastatin strengths. Krka is the only pharmaceutical company that also supplies 30 mg and 60 mg tablets. In 2016, we marketed these two strengths in 20 markets.

Roswera* (rosuvastatin) is the leading generic rosuvastatin in the markets of Slovenia, central, eastern and south-eastern Europe, holding a more than 20% market share. In terms of sales volume in this area, it only lags behind Atoris, making it the second most frequently prescribed statin. Roswera* accounts for more than one third of the market shares in Poland, Croatia, Lithuania, and several other markets, making it the leading rosuvastatin. Krka is the first pharmaceutical company to market rosuvastatin in strengths of 15 mg and 30 mg. In 2016, we marketed these two strengths in 18 markets.

Atordapin* (atorvastatin/amlodipine) is Krka's first tablet containing a combination of two active ingredients for the treatment of hyperlipidemia and high blood pressure. Krka started marketing it in 2013. Last year, we launched a fixed-dose combination of amlodipine and rosuvastatin, Krka's latest statin, **Rosudapin*** (rosuvastatin/amlodipine). Krka was the first and only manufacturer in Europe to market the rosuvastatin and amlodipine fixed-dose combination in Poland, Slovenia, and Latvia. We plan to launch it also in other markets in the future.

New statins have been gaining ground, but nevertheless **Vasilip** (simvastatin) has for years remained the market leader among generic medicines containing simvastatin.

Market share of Krka's medicines among statins in the markets of Slovenia, central, eastern and south-eastern Europe



One in four patients takes Krka statins.

Krka's statins and their fixed-dose combinations

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

ACE inhibitors

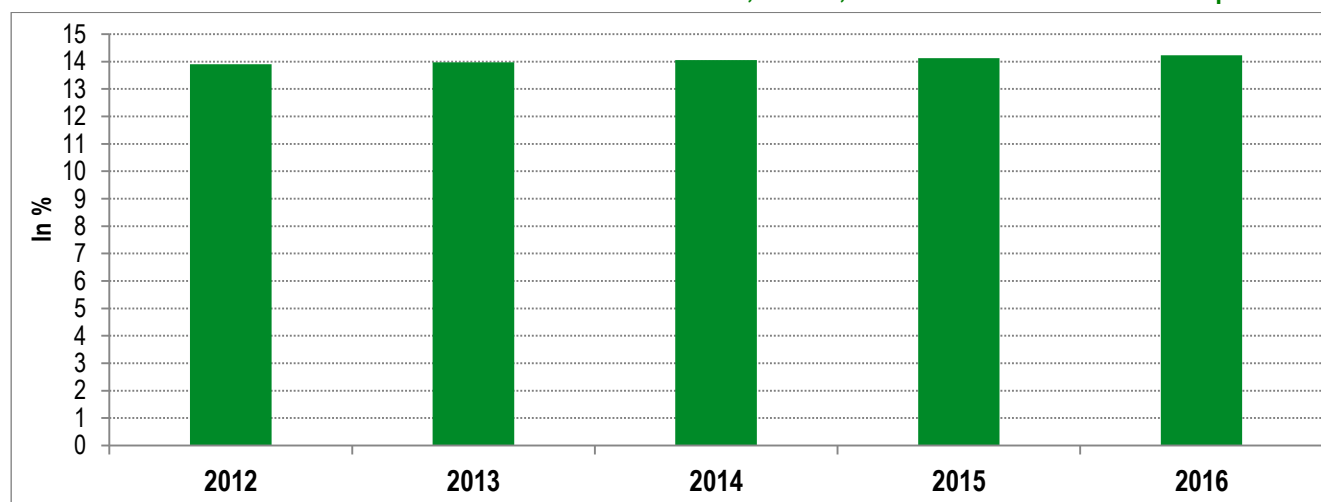
Krka has been the leading generic producer of medicines in the ACE-inhibitor group in the markets of Slovenia, central, eastern, and south-eastern Europe, where we increased our market share compared to 2015. We added another two fixed-dose combinations with a calcium channel blocker to our range of medicines in this group: ramipril/amlodipine and lisinopril/amlodipine. Krka's ACE-inhibitor group currently 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.

Krka has the most comprehensive range of medicines containing perindopril among all generic pharmaceutical manufacturers in Europe. The 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. In 2016, we started marketing the triple fixed-dose combination also in Romania, Ukraine, Serbia, Belarus, and Azerbaijan. Last year, like the year before, Krka was the leading generic manufacturer of medicines containing perindopril in Europe.

Retaining a more than 30% market share, **Enap** (enalapril) – including enalapril/hydrochlorothiazide fixed-dose combinations – has remained the leading enalapril in the markets of Slovenia, central, eastern and south-eastern Europe, even though Krka has lately focused on promotion of new ACE inhibitors. Krka is among the leading generic manufacturers of enalapril also in Germany. In addition to the combination of enalapril and hydrochlorothiazide, we market the fixed-dose combination of enalapril and lercanidipine, **Elernap***. Ranking as the leading generic manufacturer of this fixed-dose combination, Krka has recorded strong sales in Western Europe. In 2016, we also launched it as the first generic manufacturer in Georgia.

Ampril* (ramipril), including ramipril in fixed-dose combinations with hydrochlorothiazide, are Krka's third most important medicines in the group. Our most important market is the Russian Federation, where Ampril* ranks among the leading ramipril products, with a 40% market share. In 2016, we launched **Tenlisa**, lisinopril and amlodipine in a fixed-dose combination there.

Krka's market share in ACE inhibitors in the markets of Slovenia, central, eastern and south-eastern Europe



Krka's ACE inhibitors and their fixed-dose combinations

perindopril (Prenessa/Perineva)

perindopril/indapamide (Co-Prenessa/Co-Perineva/Prenewel)

perindopril/amlodipine (Amlessa/Dalnessa/Tonarssa/Dalveva)

perindopril/amlodipine/indapamide (Co-Amlessa/Co-Dalnessa/Co-Dalveva/Amlewel/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)

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)

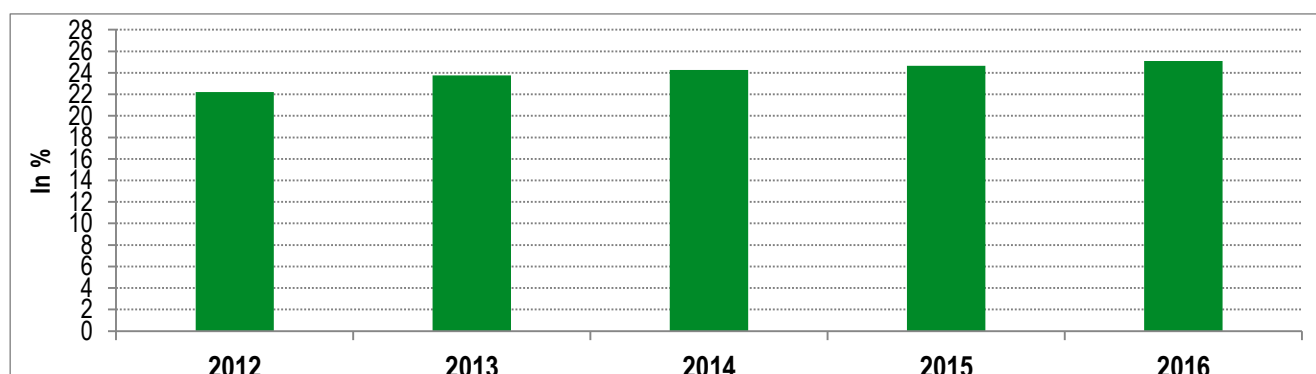
In 2016, Krka strengthened its position as the leading sartan manufacturer in the markets of Slovenia, central, eastern, and south-eastern Europe, as our market share expanded to more than 25%. Almost one third of all patients treated with sartans in the area take Krka's sartans.

Lorista* (losartan) is Krka's most important sartan, and the range is supplemented by its combinations with hydrochlorothiazide and amlodipine. It accounted for a 40% market share, together with combinations, and took the leading place among the sartans in the area. In Germany, Krka is among the leading generic manufacturers of losartan. In 2016, Krka was the first to start marketing **Tenloris***, a combination of losartan and amlodipine, in Germany, Georgia, and Uzbekistan.

Our valsartan products include **Valsacor** (valsartan), valsartan fixed-dose combinations with hydrochlorothiazide, and **Vamloset*** (valsartan/amlodipine), a fixed-dose combination of valsartan and a calcium channel blocker. Including fixed-dose combinations with valsartan, Valsacor is the leading generic valsartan, accounting for more than a 20% market share in the markets of Slovenia, central, eastern and south-eastern Europe. Valsartan sales are also strong in western Europe, where Krka is among the leading generic manufacturers, while Krka leads among all generic pharmaceutical companies in Germany. Krka started marketing new strengths of Valsacor in many markets, and Vamloset* as the first generic manufacturer in Armenia, and Azerbaijan.

Krka sartan group includes **Karbis*** (candesartan) and **Tolura*** (telmisartan) and their fixed-dose combinations, the leading generic medicines in their respective active ingredient groups in the markets of Slovenia, central, eastern, and south-eastern Europe. Krka is the leading generic manufacturer of candesartan in Germany, and among the leaders in telmisartan. We started marketing candesartan in Belgium last year, and Tolura* in Albania.

Market share of Krka's medicines among sartans in the markets of Slovenia, central, eastern and south-eastern Europe



One in three patients takes Krka's sartans.

Krka's sartans and their fixed-dose combinations

losartan (Lorista/Lavestra)

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

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

valsartan (Valsacor)

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

valsartan/amlodipine (Vamloset/Valodip)

telmisartan (Tolura/Telmista)

telmisartan/hydrochlorothiazide (Tolucombi/Telmista H)

candesartan (Karbis/Candecor/Canocord)

candesartan/hydrochlorothiazide (Karbicombi/Cancombino/Canocombi)

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

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

olmesartan (Olimestra)

olmesartan/hydrochlorothiazide (Co-Olimestra)

Other medicines for the treatment of high blood pressure

Krka's range of medicines for the treatment of high blood pressure besides ACE-inhibitors and sartans includes medicines in 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. We started marketing it in Spain, Poland, the Czech Republic, Finland, and several other markets. We made Niperten* available to markets in Germany, Georgia and Turkmenistan, and Sobycombi* in Germany and Georgia.

Other medicines for the treatment of 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 the Russian Federation two years ago as the first European generic pharmaceutical company. It became the leading generic ivabradine there last year. We also entered new markets, and as the first generic started marketing it, in Poland, Hungary, Bulgaria, and Belarus.

Medicines for the treatment of the central nervous system

Antipsychotics

Also last year, like several years before, Krka maintained its position as the leading generic manufacturer of antipsychotics in the markets of Slovenia, central, eastern and south-eastern Europe. Krka markets five products in the atypical antipsychotic group. They come in various pharmaceutical dosage forms: quetiapine in tablets and prolonged-release tablets, olanzapine and risperidone tablets and orodispersible tablets. We sell most antipsychotics in Western Europe, where we are among the leading generic manufacturers of aripiprazole, olanzapine and risperidone orodispersible tablets.

Aryzalera* (aripiprazole) is our newest antipsychotic, which we started marketing in 2014. In 2016, it remained the leading generic aripiprazole in the markets of Slovenia, central, eastern, and south-eastern Europe. In 2016, we started marketing it in new markets: France, and Bosnia and Herzegovina. We have entered more than 25 markets with aripiprazole so far, and Krka is among the leading generic manufacturers of aripiprazole in Europe.

Krka is among the leading generic producers of olanzapine in Europe. We market olanzapine **under the brand name Zalasta***. It is the leading generic olanzapine in the Czech Republic and in certain other small markets, while in the Russian Federation and certain small markets it is the most successful of all competitors' products. Zalasta* has won almost a 50% market share in the Russian Federation. This is the only generic olanzapine in orodispersible tablets in that market.

One of Krka's atypical antipsychotics is **Kventiax*** (quetiapine). We put Kventiax* prolonged-release tablets on the market in 2015. Last year, we started marketing the product in Croatia and Ireland. Kventiax* is the leading generic quetiapine in the markets of Slovenia, central, eastern, and south-eastern Europe. Krka also markets two other antipsychotics, **Zypsilan*** (ziprasidone), the leading generic ziprasidone in the area, and **Torenda*** (risperidone), the leading risperidone orodispersible tablets.

Krka's atypical antipsychotics

aripiprazole (Aryzalera/Aripipan/Arisppa/Zylaxera)

olanzapine (Zalasta/Zolrix)

quetiapine (Kventiax/Quentiax)

risperidone (Torendo/Rorendo)

ziprasidone (Zypsilan/Zypsila/Ypsila)

Antidepressants

Krka has been the leading generic manufacturer of antidepressants in the markets of Slovenia, central, eastern, and south-eastern Europe for many years. In 2016, Krka saw the highest increase in sales of all pharmaceutical manufacturers, and with an almost 10% market share was the most successful among all competitors.

Dulsevia* (duloxetine) is Krka's new antidepressant. We started marketing it in the above-mentioned markets two years ago, and in 2016 also in Georgia, and as the first generic pharmaceutical company also in Poland and Macedonia. Krka is among the leading manufacturers of generic duloxetine in Europe. It is the leading generic duloxetine in Germany, and the most successful among all competitors' products in Poland and Slovakia.

Elicea* (escitalopram) has been for many years the leading generic escitalopram in the markets of Slovenia, central, eastern, and south-eastern Europe. In 2016, we increased sales more than any of our competitors and the market share to almost 15%. Elicea* is the most successful among all competitors' products in Kazakhstan, Serbia, and Latvia. Krka was the first to start marketing escitalopram orodispersible tablets (Elicea Q-Tab) in the Russian Federation.

Our range of antidepressants includes **Alventa*** (venlafaxine), the leading venlafaxine in the Czech Republic, Hungary, Slovakia, Slovenia, and Estonia. In several markets, it holds more than one third of the market share. Venlafaxine sales were good also in Western Europe. Krka has for several years been among the leading generic manufacturers of venlafaxine in Europe.

We recorded strong sales of **Asentra** (sertraline), the leading generic sertraline, and **Mirzaten** (mirtazapine), the leading mirtazapine in the markets of Slovenia, central, eastern, and south-eastern Europe. Also in Germany, Krka is among the leading generic producers of mirtazapine.

Krka's antidepressants

duloxetine (Dulsevia/Duloxalta)

escitalopram (Elicea/Ecytara/Escitalex/Anxila)

venlafaxine (Alventa/Olwexya)

sertraline (Asentra)

mirtazapine (Mirzaten)

Medicines for the treatment of Alzheimer's disease

Krka has been the leading generic producer of medicines for the treatment of Alzheimer's disease for many years in the markets of Slovenia, central, eastern, and south-eastern Europe, where we further increased our market share in 2016 in comparison to the year before. Krka's portfolio comprises all four active ingredients used for 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 area making available rivastigmine orodispersible tablets.

A large proportion of medicines in that group is sold in Western Europe, where Krka takes the leading place among generic manufacturers of galantamine, and ranks among the leading generic manufacturers of memantine and donepezil. In Portugal, Marixino* is the most successful among all competitors' products, and our products are among the leading generic products in Slovakia, the Czech Republic, Slovenia, and in other countries.

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

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

galantamine (Galsya SR/Galnora)

donepezil (Yasnal/Yasnor)

rivastigmine (Nimvastid)

Medicines for the treatment of Parkinson's disease

In 2016, Krka increased its market share and strengthened its position as one of the leading generic producers of medicines for the treatment of Parkinson's disease in the markets of Slovenia, central, eastern, and south-eastern Europe.

Opryme (pramipexole) is the leading generic pramipexole in Lithuania, Slovakia, Hungary, and several other markets. It is the most successful among all competitors' products in Romania, Portugal, and the Czech Republic. Krka is the only manufacturer that markets the prolonged-release pharmaceutical dosage form in Portugal, and also started marketing it as

the first generic pharmaceutical company in Poland and Serbia. In 2015 and 2016, Krka was the leading generic manufacturer of pramipexole with prolonged release in Europe.

Rolpryna SR* (ropinirole) is the most successful among all products with ropinirole in Poland, while in Romania and Estonia, Germany, Lithuania, Slovakia, and many other markets, it is the leading generic ropinirole. In 2016, we started marketing it in Bosnia and Herzegovina. Krka remained the leading generic manufacturer of prolonged release ropinirole in Europe also in 2016.

Krka's new medicine for the treatment of Parkinson's disease is **Rasagea*** (rasagiline). Krka started marketing it in 2015. Last year, we offered it to more than ten new markets, among them: Spain, France, Italy, and several other western European markets. In Romania, Lithuania, Hungary, and several other markets, Krka marketed it as the first generic pharmaceutical company. Krka is among the leading manufacturers of generic rasagiline in Europe.

Analgesics

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. We are the leading generic manufacturer in Germany, while in the markets of Slovenia, central, eastern, and south-eastern Europe, Doreta* holds more than a 40% market share and is the most successful of all competitors' products. In 2016, we started marketing it in Belgium. Krka was the first in Europe to launch an innovative prolonged-release pharmaceutical dosage form for relieving pain by taking only two tablets per day. We started marketing Doreta SR* in Poland, the Czech Republic, Portugal, Slovakia, Slovenia and in Bulgaria.

We started marketing **Aclexa*** (celecoxib) in 2014, and its market share rose to more than 30%. Its position as the leading generic celecoxib was further strengthened in the markets of Slovenia, central, eastern, and south-eastern Europe. In Poland, the Czech Republic, Lithuania, and Estonia, Aclexa* holds a more than 40% market share and is the most successful of all competitors' products. We record strong sales of celecoxib also in western Europe, where we rank among the leading generic manufacturers. In 2016, we launched Aclexa* in Belgium, and as the first generic pharmaceutical company in the Russian Federation.

Krka's analgesics include **Naklofen Duo** (diclofenac) and **Nalgesin*** (naproxen), which is also marketed as a non-prescription medicine, and was put on the market in 2016 in the Czech Republic, Finland, and Azerbaijan.

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

Pragiola* (pregabalin) from the group of antiepileptic agents is among our new medicines for the treatment of diseases of the central nervous system. We started marketing it in 2014, and in 2016 we were among the leading generic manufacturers of pregabalin in Europe. Pragiola* has taken the leading place among all generic pharmaceuticals in Germany, Austria, and certain other markets. We entered new markets with pregabalin and started marketing it in Italy and France.

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

Proton pump inhibitors

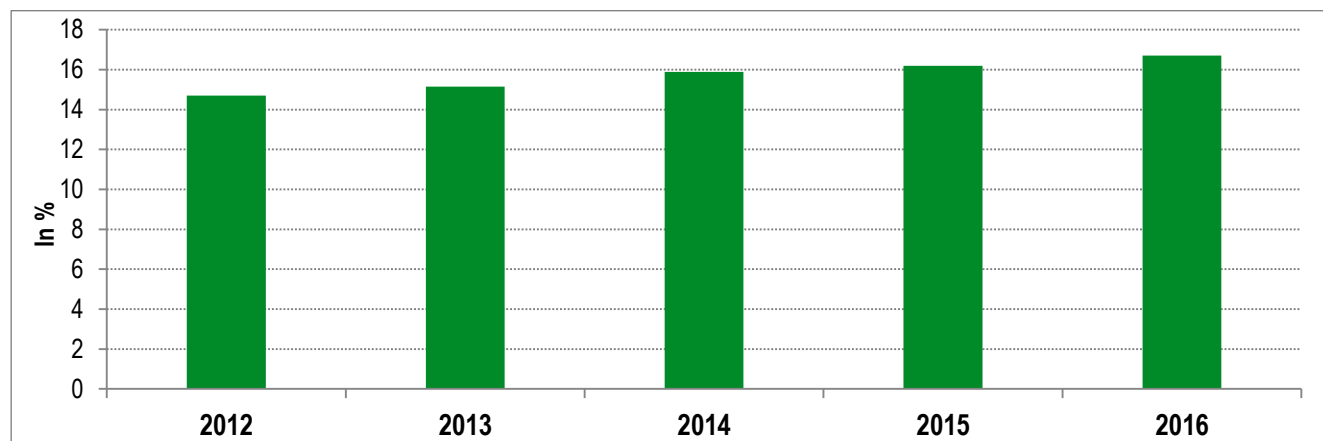
Krka has been the leading manufacturer of proton pump inhibitors since 2009 in the markets of Slovenia, central, eastern, and south-eastern Europe. In 2016, we increased our market share and further strengthened our position. Krka is among the leading manufacturers of medicines in the proton pump inhibitor group in Germany, Slovenia, Slovakia, and several other markets. In Germany, almost one quarter of all patients who take proton pump inhibitors are treated with Krka's medicines, and in Slovenia 50%.

In 2016, Krka increased the market share of **Nolpaza*** (pantoprazole) in the markets of Slovenia, central, eastern, and south-eastern Europe to almost 30% and strengthened its position as the leading generic pantoprazole. In many markets, including the big ones, for example Germany and the Russian Federation, Krka has taken the lead among all pantoprazole manufacturers. We started marketing Nolpaza* powder for solution for injection in 2016 also in the Russian Federation, Azerbaijan, and in several small markets.

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 Poland, the Czech Republic, Croatia, and several other markets, Emanera* holds more than one third of the market share and is the most successful of all competitors' products. Krka is the leading generic manufacturer of esomeprazole in the Russian Federation, Germany, Romania, and other markets, and is among the leading generic manufacturers also in the United Kingdom. Doctors in Germany most often choose Krka's out of all esomeprazole products.

Lanzul* (lansoprazole) and **Gelbra*** (rabeprazole) supplement the range of our proton pump inhibitors. Krka is among the leading generic manufacturers of lansoprazole and rabeprazole in Europe.

Market share of Krka's medicines among proton pump inhibitors in the markets of Slovenia, central, eastern, and south-eastern Europe



Krka's proton pump inhibitors

esomeprazole (Emanera/Emozul/Escadra)

pantoprazole (Nolpaza/Appryo)

rabeprazole (Gelbra/Zulbex)

lansoprazole (Lanzul/Lansoptol)

omeprazole (Ultop)

Oral antidiabetics

Gliclada* (gliclazide) is in the group of sulfonylureas, and is Krka's most important oral anti-diabetic agent. Krka is among Europe's leading generic manufacturers of gliclazide prolonged-release tablets. Gliclada* accounts for more than a 30% market share in Slovakia, Slovenia, and Estonia and is the most successful of all competitors' products, with a 40% market share in the Czech Republic.

Our portfolio of antidiabetics includes **Meglimid** (glimepiride) and **Enyglid*** (repaglinide). Krka is among the leading generic manufacturers of repaglinide in Germany.

Medicines for the treatment of obesity

This group of medicines includes Krka's **Orsoten** (orlistat). A non-prescription medicine with 60 mg of orlistat is also available under the brand Orsoten Slim. Our sales volume of orlistat is the highest in the Russian Federation, where Orsoten is the leading generic orlistat, with an almost 40% market share. Orsoten is also among the leading medicines for the treatment of obesity in this market.

Medicines for the systemic treatment of infections

Krka is among the leading macrolide manufacturers in the markets of Slovenia, central, eastern, and south-eastern Europe. Krka has been the most successful manufacturer of fluoroquinolones among the competitors for many years and increased its market share also in 2016.

Fromilid (clarithromycin) has been the leading generic macrolide in the area for many years. It has been the leading clarithromycin, with a more than a 50% market share in Hungary, Croatia, Ukraine, and many other markets. In the Russian Federation, the Czech Republic and elsewhere, Fromilid is the leading generic clarithromycin. In 2016, Krka started marketing another macrolide antibiotic agent, **Azibiot** (azithromycin), in new markets: Armenia, Mongolia, and Bosnia and Herzegovina. Since we first put them on the markets, more than 6 million patients have been treated with Azibiot, and more than 40 million patients with our clarithromycin.

We also market four fluoroquinolone antibiotic agents. Krka's newest antibiotic agent is **Levalox*** (levofloxacin), which we started marketing in 2015. Last year, we placed it on many new markets: France, Italy, Austria, Scandinavian countries, Ireland, and elsewhere. We also presented **Moloxin*** (moxifloxacin) in new markets. In 2016, we started marketing moxifloxacin tablets in Bosnia and Herzegovina, and solution for injection in Slovenia, as the first generic product also in Poland and Slovakia. We record strong sales also in Western Europe, where we rank among the leading generic manufacturers of moxifloxacin. The fluoroquinolone group of antibiotics includes **Nolicin** (norfloxacin), the leading fluoroquinolone in the markets of Slovenia, central, eastern, and south-eastern Europe, holding a more than 70-per cent market share of norfloxacin products, and **Ciprinol** (ciprofloxacin), which is also among leading fluoroquinolones in the area.

Our range of antibiotics includes a cephalosporin antibiotic, **Furocef*** (cefuroxime), which we started marketing in 2016 in Spain, Lithuania, and several other small markets. In 2016, we added an antibiotic agent from the oxazolidinone group to our range of medicines for the systemic treatment of infections. Krka was among the first generic pharmaceutical companies that started marketing **Linezolid Krka** (linezolid) in Germany, Austria, Slovenia, Finland, and several other markets.

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

The most important medicine in this group is **Zyllt*** (clopidogrel). Krka is among the leading manufacturers of generic clopidogrel in Europe. In Hungary, Zyllt is the leading clopidogrel, holding a more than 30% market share. In the Russian Federation, Kazakhstan, and in several small markets, it holds more than 20% of the market.

Medicines for the treatment of diseases of the urinary tract

Krka's most important medicine for the treatment of diseases of the urinary tract is **Vizarsin*** (sildenafil). It is available in tablets and orodispersible tablets that we put on the markets also in Ukraine and Moldova last year. In the Russian Federation, Krka is the only manufacturer to have placed sildenafil orodispersible tablets on the market.

Our newest medicine for the treatment of diseases of the urinary tract is **Dulovesic*** (duloxetine). Krka started marketing it in 2015. Krka is the leading generic manufacturer of duloxetine for the treatment of stress urinary incontinence in Germany, and among the leading generic manufacturers in western Europe. Krka's range of medicines for the treatment of diseases of the urinary tract has been supplemented by **Asolfena** (solifenacin), **Finpros** (finasteride), and **Tanyz/Tanyz ERAS** (tamsulosin). These three are the leading generic medicines in this group in Slovenia and in the Czech Republic.

Medicines for the treatment of diseases of the respiratory system

Krka's newer medicines for the treatment of diseases of the respiratory system are **Monkasta*** (montelukast), **Dasselta*** (desloratadine), and **Cezera*** (levocetirizine). In the markets of Slovenia, central, eastern, and south-eastern Europe, all three products are among the leading generic products in their respective active ingredient groups. Krka is among the leading generic manufacturers of desloratadine also in western Europe. Dasselta is the leading generic desloratadine in the Czech Republic, Croatia, and in certain other markets. Monkasta* leads among all competitors in Lithuania, while Cezera* is the leading generic levocetirizine there, in Slovenia, Estonia, and Ireland.

Oncology medicines

Krka's most important oncology medicine is **Meaxin*** (imatinib). It is the leading generic imatinib in Poland, Slovakia, Slovenia, and in certain other markets, and is the most successful of all competitors' products in Croatia, and Bosnia and

Herzegovina. In 2016, we made it available also in Serbia, and were among the first generic pharmaceutical companies to place it on markets in western Europe: in Germany, France, Spain, and several other markets.

Ecansya* (capecitabine) is the leading generic capecitabine in Slovenia and Kazakhstan, and the most successful among all competitors' products in Bosnia and Herzegovina. **Escepran*** (exemestane) and **Tolnexa** (docetaxel) are also leading products in that market. Our range of oncology medicines is supplemented by **Lortanda*** (letrozole) and **Tezalom** (temozolomide).

We were the only manufacturer in 2016 to make **dexamethasone** 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 and 4 mg tablets in Slovenia, and plan to make them available also on other markets.

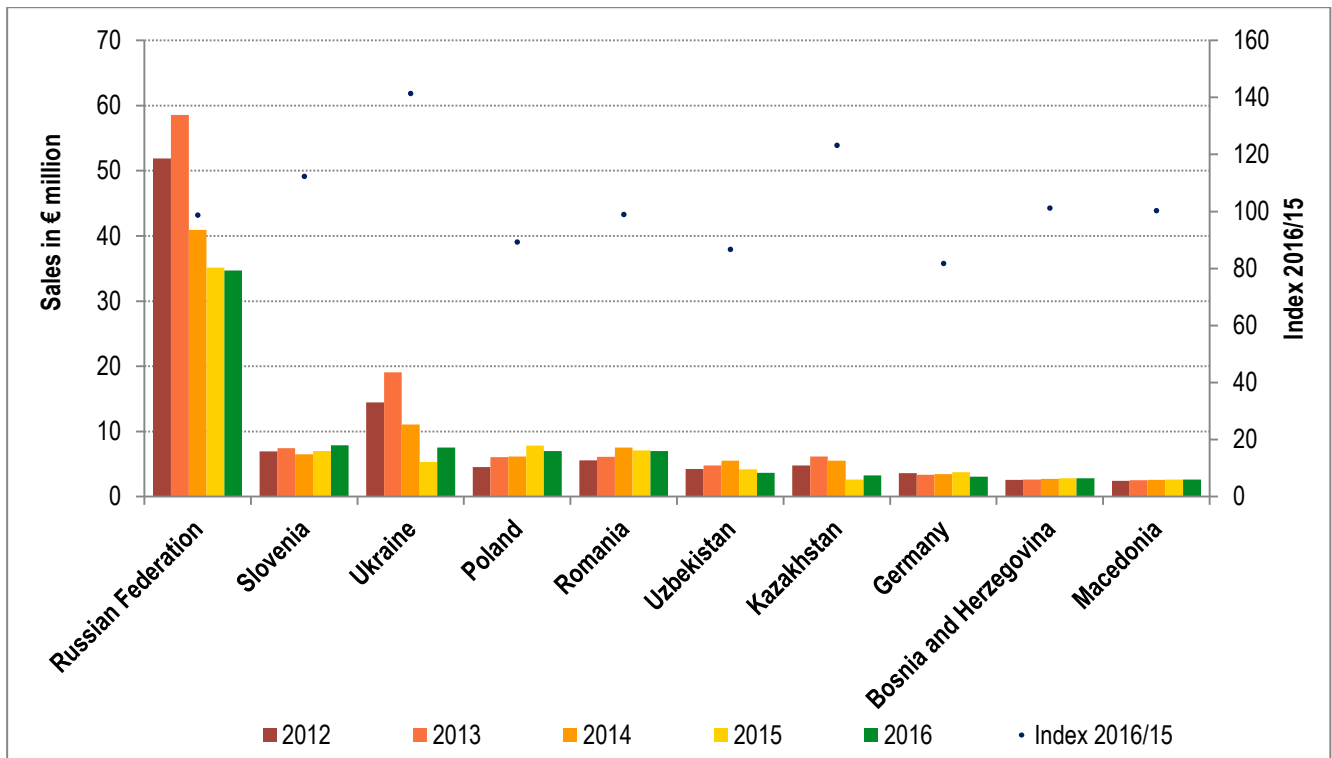
Non-prescription products

In 2016, the Krka Group's sales of non-prescription pharmaceuticals totalled €111.2 million, a 3% increase compared to the year before. Among the ten largest markets, sales saw the highest growth in relative terms in Ukraine, Kazakhstan, and Slovenia, and among other markets in Ireland, the Czech Republic and in Estonia. The sales volume of non-prescription products rose by 3%.

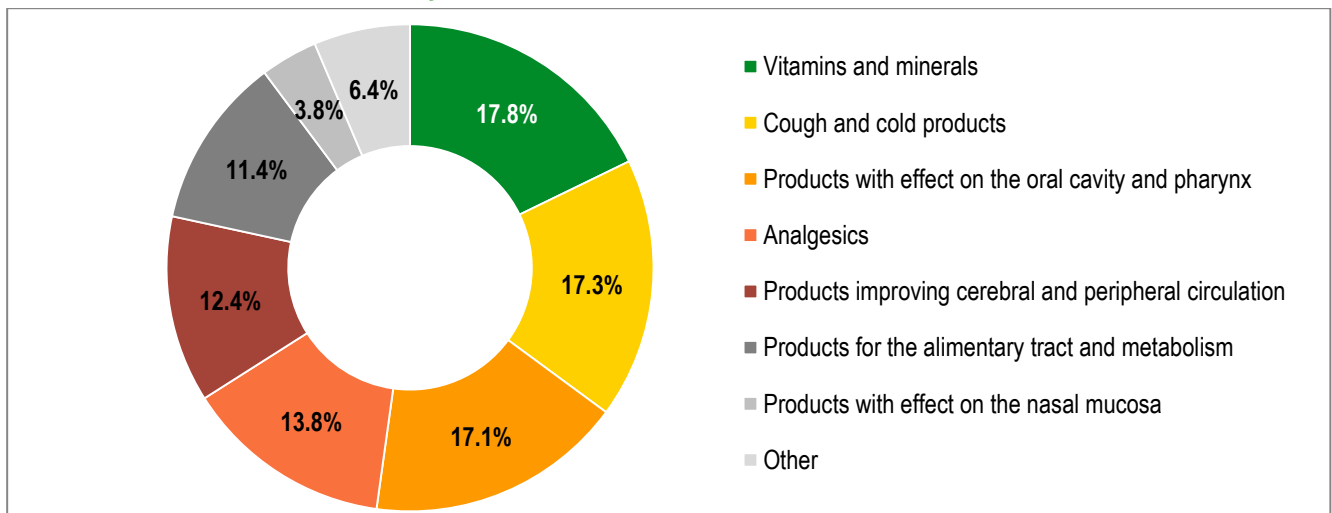
We market non-prescription products through Krka's marketing-and-sales network in most countries of central, eastern, and south-eastern Europe.

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

Sales of non-prescription products in the ten largest markets



Sales of non-prescription products by therapeutic class in 2016



Septolete was the most important of Krka's non-prescription brands last year, and saw the sharpest rise also in comparison to absolute sales. The Septolete brand comprises products for alleviating sore throat problems. In 2015, we launched our new product for sore throats, **Septolete Total*** (benzydamine hydrochloride/cetylpyridinium chloride), available in lozenges and spray. Septolete Total* relieves pain, treats inflammation symptoms, and acts as a disinfectant. In 2016, we made the product available in 15 new markets, including Italy, Serbia, Portugal, Finland, and many eastern European markets. Septolete Total* has generated a substantial part of the Septolete brand total sales and contributed significantly to increasing the market share in most markets.

Herbion is the second most important non-prescription product brand, and includes herbal cough syrups for various kinds of coughs. **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 2016, we expanded the marketing of these products to new markets, especially in western Europe. We made Herbion ivy syrup available in Germany, and Herbion Iceland moss syrup* in Germany, Portugal, and Mongolia. In Romania, Herbion product sales saw the sharpest increase of all herbal cough products, and Herbion Iceland moss syrup* is the most successful product of all herbal syrups in Estonia. In Ukraine, Herbion took third place among all cough products, and pharmacists most often recommended Herbion brand products.

Krka's third most important non-prescription product brand is **Bilobil**. It contains ginkgo extract and is used for the improvement of concentration and memory. We market it in 28 markets of Europe and the Middle East. Of all ginkgo products, Bilobil won the leading place in Hungary, Slovenia, Romania, Ukraine, and Belarus, and was among the leading products of its kind in Poland and Serbia. In terms of sales volume, it is the most successful against all competitors' products, with an almost 15% market share in the markets of Slovenia, central, eastern, and south-eastern Europe. In 2016, we started marketing Bilobil Intense 120 mg ginkgo tablets also in Kyrgyzstan.

Nalgesin S* (naproxen) is one of the most successful Krka non-prescription products. In 2016, it also placed among the leading products in terms of absolute sales growth. Also available in the market is a prescription medicine containing the same active ingredient. Krka is the leading manufacturer of naproxen in the markets of Slovenia, central, eastern, and south-eastern Europe and recorded its sharpest sales increase in 2016 by increasing the market share to more than 55%. In Slovenia, pharmacists of all available products most often recommend Nalgesin S* to patients for relieving certain types of pain.

Pikovit* and **Duovit** are our brands of vitamins and minerals. The Duovit brand contains products for adults, adjusted to the specific needs of the male and female body, while Pikovit* includes products for children. Pikovit* is the leading brand of vitamins and minerals for children in Ukraine, Kazakhstan, and several other eastern European markets.

The nasal decongestant **Septanazal** (xylometazoline/dexpanthenol) is available as a spray for adults and children. Septanazal decongests the nose, and heals and protects damaged and inflamed nasal mucosa. We started marketing it in Albania, Azerbaijan, Tajikistan, Armenia, and Kyrgyzstan in 2016. Septanazal has been placed on 26 markets so far.

In 2016, we added **Ulcavis** (bismuth subcitrate) to our range, another non-prescription product with an effect on the alimentary tract. It is indicated for the treatment of gastritis. In combination with antibiotics and proton pump inhibitors, it is also used for the removal of *Helicobacter pylori* bacteria. We started marketing it in the Russian Federation, and in the future we will place it on other markets as well. In terms of absolute sales value growth, Ulcavis is one of the Krka's leading non-prescription products.

In 2016, we started marketing a new non-prescription product, **Flebaven** (diosmin/hesperidin). It contains 500 mg of micronized purified flavonoid fraction. This corresponds to 450 mg diosmin and 50 mg flavonoids expressed as hesperidin. It is used for the treatment of chronic venous insufficiency, and acute haemorrhoidal syndrome. We started marketing it in the Russian Federation.

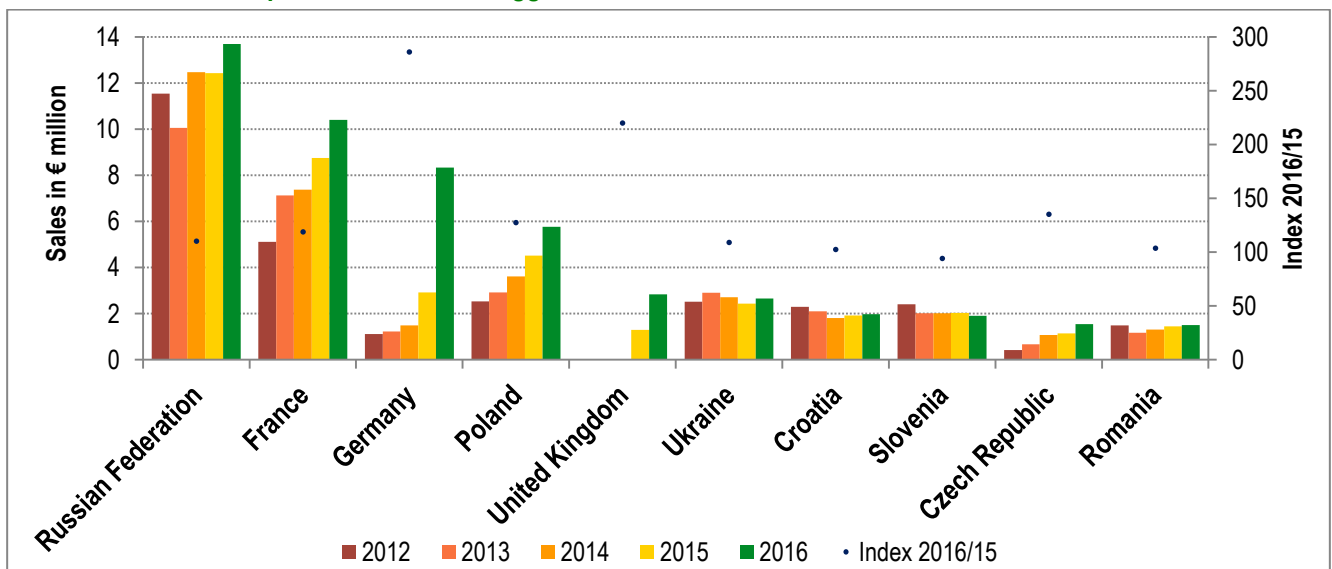
Animal health products

In 2016, the Krka Group sales of animal health products amounted to €62.8 million, a 20% increase compared to 2015. As far as our ten leading markets are concerned, sales in Germany, the United Kingdom, and the Czech Republic increased most in relative terms. Among other markets, the rise was most notable in Italy and Portugal. As regards absolute sales growth, our leading markets included France, the Russian Federation, and Poland. Sales volume of animal health products rose by 24%. Of total animal health product sales, farm animal products account for approximately one half and those for companion animals for the other half.

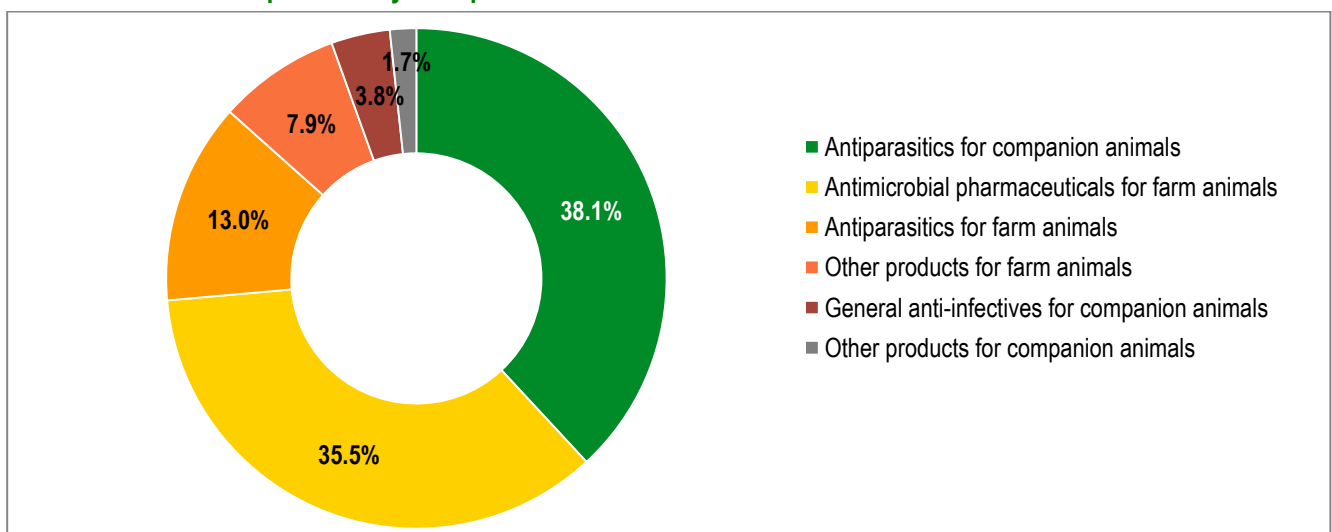
We market our animal health products through Krka's sales-and-marketing network in the markets of Slovenia, eastern, and south-eastern Europe. We have also expanded the network to the western Europe and established it in Germany, the United Kingdom, and Belgium. In other western European and overseas 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), Fypryst* (fipronil), Enroxil* (enrofloxacin), and Dehinel Plus* (febantel/praziquantel/pyrantel embonate).

Sales of animal health products in the ten biggest markets



Sales of animal health products by therapeutic class in 2016



The most important Krka animal health product in 2016 was **Milprazon*** (milbemycin oxime/praziquantel), for the treatment of internal parasites in dogs and cats. We started marketing it in 2014. After three years on the market, it has become Krka's leading animal health product and placed first also in terms of absolute sales growth. In 2016, we started marketing it also in Ukraine. We have been marketing Milprazon* in 25 markets.

Fypryst* (fipronil) is another Krka's leading animal health product for companion animals. **Fypryst* Combo** (fipronil/S-methoprene) complements the range. Fypryst is available as a spot-on solution or cutaneous spray, which we also started marketing in Portugal and the Czech Republic last year. We put Fypryst* Combo on the market also in the United Kingdom and the Russian Federation, where Fypryst holds a more than 50% market share of all fipronil products.

In 2016, we made available a new antiparasitic, **Ataxxa** (permethrin/imidacloprid), for the treatment of companion animals. It combines two active ingredients for the effective treatment of external parasites in dogs. It is available as a spot-on solution in four strengths. We started marketing the product on several markets, including Slovenia, Romania, Poland, the Czech Republic, and Croatia.

Dehinel Plus* (febantel/praziquantel/pyrantel embonate) for companion animals is also among the five leading animal health products. It is available in tablets, **Dehinel Plus* Flavour** flavoured tablets, and **Dehinel Plus* XL** tablets for large dogs. In 2016, we started marketing Dehinel* Plus in new western European markets: the United Kingdom, Italy and Portugal.

The non-steroidal anti-inflammatory medicine **Rycarfa** (carprofen) is used for the treatment of companion animals. In 2016, we started marketing carprofen tablets in new Western European markets, Italy and Portugal.

Floron* (florfenicol) is Krka's most important product for farm animals and also one of Krka's leading animal health products. It is available in four pharmaceutical dosage forms: solution for injection, oral solution, oral powder, and premix for medicated feed. We started marketing Floron* premix for medicated feed in the Russian Federation in 2016, where it holds an 85% market share among imported florfenicol-based products. Floron* oral solution represents one half of all florfenicol products in the Polish market, which makes Krka the leading supplier in that segment.

Another product used in the treatment of farm animals is a fluoroquinolone **Enroxil*** (enrofloxacin), which took fourth place in terms of sales volume among Krka's animal health products. 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. In 2016, these products were offered in several new markets. We were among the first generic pharmaceutical companies to start marketing Enroxil* Max in Romania, Slovenia, the Czech Republic, and several other markets, and Enroxil* tablets in Italy and Ireland, and Enroxil* in various pharmaceutical dosage forms also in the United Kingdom and Germany.

Marfloxin* (marbofloxacin) is a fluoroquinolone antibiotic agent. It is available in two pharmaceutical dosage forms: tablets and solution for injection, including a 2% solution for injection for dogs and cats. In 2016, we started marketing it in the Russian Federation and Portugal, and as the first generic pharmaceutical company in Croatia.

Leading Krka's animal health products for farm animals include a combined broad-spectrum chemotherapeutic, **Trisulfon** (trimethoprim/sulfamonomethoxine), and antiparasitics **Flimabend** (flubendazole) and **Toltarox*** (toltrazuril). Krka's range of antibiotics for farm animals also includes **Amatib** (amoxicillin). We complemented the range with **Doxatib** (doxycycline) in 2016. It is available as a powder for use in drinking water and is the medicine of choice for the treatment of respiratory tract infections in pigs and chickens. We started marketing it in Slovenia, the Czech Republic, and Hungary.

The animal health product portfolio also includes the disinfectant **Ecocid* S** and **Ecocid Advanced** containing peroxyacetic acid.

Health resorts and tourist services

Sales revenues generated by health resorts and tourist services amounted to €34.6 million in 2016, accounting for a 9% increase.

The Terme Krka spa resort group recorded 354,779 overnight stays in Šmarješke Toplice, Dolenjske Toplice, Strunjan, Otočec and Novo Mesto, a 4% rise compared to 2015. Foreign guests accounted for almost 30%, and domestic guests for about 70% of all overnight stays. The majority of foreign guests were Italian, with 30,000 overnight stays. The number of overnight stays of guests from the Russian Federation reached almost 10,000, an approximately 9% increase compared to the year before.

Talaso Strunjan recorded a very high annual occupancy rate of 84%, the most of all business units. The occupancy rate in Terme Dolenjske Toplice grew by 6 percentage points to 72%, and in Terme Šmarješke Toplice by 3 percentage points to more than 69%. Hoteli Otočec recorded a 45% occupancy rate, which was slightly more than in 2015.

Products marketed under different brand names in individual markets

Active ingredient	Brand names
Prescription pharmaceuticals	
amlodipine	Tenox, Hipres, Amlonor, Alneta
aripiprazole	Aryzalera, Aripipan, Arisppa, Zylaxera
atorvastatin/amlodipine	Atordapin, Atorcombo, Amaloris
bisoprolol	Niperten, Sobycor, Sobyc
bisoprolol/amlodipine	Sobycombi, Niperten Combi, Bisodipin
candesartan	Karbis, Candecor, Canocord
candesartan/hydrochlorothiazide	Karbicombi, Cancombino, Canocombi, Candecombi, Candecor H, Candecor HD
capecitabine	Ecansya, Cansata
cefuroxime	Furocef, Ricefan, Ceferoxan
celecoxib	Aclexa, Dilaxa
clopidogrel	Zyllt, Kardogrel
desloratadine	Dasselta, Esradin, Desradin
donepezil	Yansal, Yasnoro
duloxetine	Dulsevia, Duloxalta, Dulovesic, Loxentia, Duloxenta
enalapril/lercanidipine	Elernap, Elyrno
escitalopram	Elicea, Ecytara, Escitalex, Anxila
esomeprazole	Emanera, Emozul, Escadra
exemestane	Escepran, Etadron
galantamine	Galsya SR, Galnora
gliclazide	Gliclada, Glyclada, Laaglyda
imatinib	Meaxin, Neopax, Meapax, Itivas
ivabradine	Bravadin, Bixebra, Brivecor
lansoprazole	Lanzul, Lansoptol
letrozole	Lortanda, Likarda
levocetirizine	Cezera, Lertazin
levofloxacin	Levalox, Levnibiot, Leviaben, Levaxela
losartan	Lorista, Lavestra
losartan/amlodipine	Tenloris, Alortia, Lortenza, Losamlo
memantine	Marixino, Memando, Maruxa, Memaxa, Mentixa, Maryzola
metoprolol	Bloxazoc, Metazero
montelukast	Monkasta, Monalux
moxifloxacin	Moloxin, Moflaxa, Moxibiot, Moflaxya
naproxen	Nalgesin, Analgesin, Naldorex
olanzapine	Zalasta, Zolrix
pantoprazole	Nolpaza, Appryo
perindopril	Prelessa, Perineva
perindopril/amlodipine	Amlessa, Dalnessa, Tonarssa, Dalneva
perindopril/amlodipine/indapamide	Co-Amlessa, Co-Dalnessa, Co-Dalneva, Amlewel, Dalnecombi, Tonanda
perindopril/indapamide	Co-Prelessa, Co-Perineva, Prenewel
pregabalin	Pragiola, Pregabador, Pregabio
quetiapine	Kventiax, Quentiax
rabeprazole	Gelbra, Zalbex
ramipril	Ampril, Amprilan
rasagiline	Ralago, Rasagea, Raglysa
repaglinide	Enyglid, Repodiab
risperidone	Torendo, Rorendo
ropinirole	Rolpryna SR, Ralnea SR
rosuvastatin	Roswera, Roxera, Sorvasta
rosuvastatin/amlodipine	Rosudapin, Rosmela
sildenafil	Vizarsin, Sildegra
telmisartan	Tolura, Telmista
telmisartan/hydrochlorothiazide	Tolucombi, Telmista H

tramadol/paracetamol	Doreta, Doreta SR, Tramabian
valsartan and hydrochlorothiazide	Valsacombi, Co-Valsacor, Valsacor H, Valsacor HD, Valsaden, Janartan
valsartan/amlodipine	Vamloset, Valodip, Wamlox, Amlu-Valsacor
venlafaxine	Alventa, Olwexya
ziprasidone	Zypsilan, Zypsila, Ypsila
Non-prescription products	
benzylamine hydrochloride/cetylpyridinium chloride	Septotele Total, Septabene, Septotele Extra, Septotele Omni, Septotele Ultra, Septotele Duo
Icelandic moss extract	Herbion Iceland moss, Herbisland, Herbihelix
naproxen	Nalgesin S, Analgesin, Nalgedol, Ilgesin
vitamins for children	Pikovit, Divakid
Animal health products	
biocide	Ecocid, Oxacid
enrofloxacin	Enroxil, Xacin, Enrox
febantel/praziquantel/pyrantel embonate	Dehinel Plus, Anthelmin Plus
fipronil	Fypzyst, Fypzyst Combo, Amflee
florfenicol	Floron, Fenflor
flubendazole	Flimabend, Flimabo
marbofloxacin	Marfloxin, Quiflox, Quiflor
milbemycin oxime/praziquantel	Milprazon, Milquantel
toltrazuril	Toltarox, Tolzesya, Bovicox

Research and development

Krka's research and development form part of a vertically integrated business model. It was introduced to control the entire development process, from research to manufacturing active ingredients and finished products. The vertically integrated approach facilitates the development of new products and maintenance of their competitiveness.

Krka closely follows trends and scientific achievements in various therapeutic areas, so we are able to respond quickly to marketing opportunities. Correct development and patent baselines serve as the foundations for research and the development of new products. Thanks to our knowledge and the implementation of the most complex advanced methods, we are able to control all processes, from the preparation of incoming materials, active ingredients, and finished products, to their continuing evaluation.

The vertically integrated business model is one of the key advantages in Krka's development and is applied from the very first stages of production, in development of active ingredients. We plan and manage processes for the preparation and evaluation of incoming materials and active ingredients. We develop and implement technologically complex methods for the preparation and evaluation of Krka's high-quality active ingredients that are incorporated into finished products. Krka develops and manufactures most of its key active ingredients, so our products are of high quality, effective and safe. The development of finished products also involves complex preclinical, clinical and pharmacokinetic or bioequivalent studies. They are especially important for developing medicines in new therapeutic areas and in innovative pharmaceutical dosage forms in established therapeutic areas. Because of them, we can be the first or among the first to launch generic medicines on selected key markets and respond quickly to the requirements of various marketing environments.

The development results are used in preparing marketing authorisation documents critical for obtaining marketing authorisations on time and launching products on many markets. We launch our medicines and maintain their positions in more than 70 global markets thanks to well-prepared marketing authorisation documents, knowing and following marketing authorisation laws, proper marketing authorisation strategy and correct management of marketing authorisation procedures. Timely and effective development results and marketing authorisation procedures facilitate the quick placement of new products on the market. We follow and comply with increasingly strict regulatory requirements, and adjust development activities to further improve and redesign already established products.

In compliance with 2016–2020 development strategy, we pay attention to our products at all stages, starting with development. In order to achieve our goals, we have established tighter links between research, development and manufacturing of active ingredients and finished products. Interconnections between research, development and production provide for the successful introduction and manufacture of new and already established products. Comprehensive monitoring of products throughout their life cycles and compliance with regulatory requirements guarantee undisturbed supplies of competitive and high-quality medicines to various markets.

In the segment of similar biological medicinal products, we plan to connect with other external partners which is the standard approach in this product field. We have formed a group of experts in recombinant DNA technologies and products. The group monitors and analyses the technology and product pipelines of our potential partners. We follow the development of products in several therapeutic areas, including diabetes, autoimmune disorders and oncology. We evaluate projects and carry out careful evaluations of more than ten products in various development phases at any given time. The main areas of our collaboration in these projects are expected to be the regulatory area, evaluation of product quality and safety and, above all, product efficacy. Krka's expertise in regulatory matters relating to product marketing authorisation in the European Union and on Krka's traditional markets will be of prime importance for the potential partners specialised for the production of biotechnological products. As an essential part of the marketing authorisation dossier on the safety and efficacy of similar biological medicinal products, planning and conducting clinical trials will be another complementary field in collaborative projects.

Investment and achievements

Investments in research and development are essential for innovative approaches, attaining and maintaining competitiveness of products. Scientific and technological discoveries advance at a fast pace, 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.

We develop several new products every year by applying Krka's research-and-development solutions. They include advanced active ingredients in innovative pharmaceutical dosage forms, in particular prolonged-release tablets. Even though the number of doses taken per day can be reduced, balanced prolonged release of active ingredients is ensured. An important step forward is orodispersible tablets. Their administration is simple. Patients may take them without liquid and they dissolve in the mouth within seconds. Krka has developed more than 70 fixed-dose combinations with many active ingredients in various pharmaceutical dosage forms of different strengths. We have launched many of them on the market as the first generic pharmaceutical company.

Krka has high-tech laboratories for development and control carrying out complex interdisciplinary work and engaging developers expert in pharmacy, chemistry, medicine, biology, and physics. We are expanding our research-and-development facilities and introducing the most advanced technological processes in order to produce high-quality, safe and effective medicines in advanced pharmaceutical dosage forms.

Krka upgrades technological processes and introduces new ones. We are also expanding our facilities for the development and manufacture of active ingredients and finished products. Recently, we have been increasing capacities for the development of oncology medicines. Krka has introduced two new processes to upgrade the technology for manufacturing pellets, capsules and tablets containing various ingredients.

We also cooperate with external institutions for research and development to improve and broaden both our knowledge and development results.

The department encourages innovations by 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 the chemical synthesis of active ingredients and finished dosage forms. Krka's R&D was awarded for innovative procedures for the preparation of two active ingredients, tapentadol and tulathromycin. We applied innovative solutions to quetiapine prolonged-release tablets, imidacloprid/permethrin spot-on solution for animal treatment, a new pharmaceutical dosage form and technological procedure for Septabene, and paracetamol/tramadol bilayer tablets providing optimum release of the two ingredients. R&D has also successfully responded to stability-related challenges presented by the rosuvastatin/amlodipine combination in single-layer tablets and obtained a marketing authorisation.

We received the highest awards in the country from the Slovenian Chamber of Commerce and Industry. We received the gold award for API development and its use in prolonged-release formulations for treating schizophrenia and bipolar disorder. The innovation applied on an industrial scale with repeatable results rests on a matrix system with quetiapine and provides for the prolonged release of the active ingredient throughout the day. Due to the innovative tablet structure, plasma levels of the active ingredient are less prone to fluctuations, reducing the risk of adverse drug reactions. This allows for better control of signs and symptoms and improves patients' quality of life. The development of an advanced medicine like this is a complex process requiring knowledge of the active ingredient synthesis, development and manufacturing of the finished pharmaceutical form, and patent and market authorisation laws and regulations.

A silver award by Slovenian Chamber of Commerce and Industry was conferred on Krka in 2016 for the innovation Development of a new synthesis route and new crystalline forms of a macrolide antibiotic. The new synthesis route for tulathromycin is shorter, has fewer purifying stages, and enables the last stage to be carried out without solvents, which in turn generates less waste, and is faster compared to existing procedures, while the quality is the same. The innovation is important also in terms of environmental protection. Owing to the shorter procedure, less generated waste, and simple recovery of used reagents, the environmental impact is not very great and so-called green or sustainable chemistry is enhanced.

Protecting our know-how and industrial property

In 2016, Krka submitted patent applications for three inventions and, based on priority applications from 2015, two international patent applications.

In 2016, Krka registered 84 trademarks in Slovenia, and submitted 38 international and 61 national trademark applications and one European trademark.

New products and marketing authorisations of the Krka Group

In 2016, Krka obtained marketing authorisations for **19** new medicines in **41** pharmaceutical dosage forms and strengths.

Krka obtained marketing authorisations for medicines containing new active ingredients and new fixed-dose combinations for human use as follows: **Ravalsyo/Valarox/Ravalsya** (valsartan/rosuvastatin), **Teldipin/Telassmo** (telmisartan/amlodipine), **Ramipril/Amlodipine**, **Emtricitabine/Tenofovir disoproxil Krka** (emtricitabine/tenofovir disoproxil), **Roticox/Etoxib/Etorix/Itorox/Bericox** (etoricoxib), **Bartal/Abrea** (acetylsalicylic acid), **Dutrys** (dutasteride), and **Flebaven** (diosmin/hesperidin). Krka received marketing authorisations for several new products in new dosage forms and strengths. **Moloxin/Moflaxa/Moxibiot** (moxifloxacin), **Linezolid Krka** (linezolid); **Azibiot** (azithromycin) powder for oral suspension; **Dexamethason Krka** (dexamethasone); **Atoris Combi** (atorvastatin/amlodipine) 20 mg/5 mg and 20 mg/10 mg film-coated tablets; **Lorista** (losartan) 150 mg film-coated tablets. We also obtained marketing authorisations for new formulations: **Bixebra/Bravadin** (ivabradine), **Ramipril/Hydrochlorothiazide Krka** and **Clarithromycin Krka**.

Krka obtained marketing authorisations for two animal health medicines: **Doxatib** (doxycycline) and **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone acetate).

We obtained **546** new marketing authorisations under various authorisation procedures for prescription pharmaceuticals, non-prescription products, and animal health products.

Prescription pharmaceuticals

In 2016, we obtained marketing authorisations for 16 new prescription products in 38 pharmaceutical dosage forms and strengths.

We added eight new medicines to our portfolio of medicines for the treatment of cardiovascular diseases. We were the first in Europe to obtain marketing authorisations under the European decentralised procedure for the fixed-dose combination **Ravalsyo/Valarox/Ravalsya** (valsartan/rosuvastatin) 80 mg/10 mg, 80 mg/20 mg, 160 mg/10 mg, and 160 mg/20 mg film-coated tablets. The tablets contain a unique combination of two established active ingredients: valsartan, which reduces blood pressure, and rosuvastatin, a cholesterol-lowering agent. Krka's first fixed-dose combination of this kind provides for optimum plasma levels of the two ingredients and requires fewer tablets, providing for effective and comprehensive cardiovascular disease management.

We obtained marketing authorisations under the European decentralised procedure for the fixed-dose combination **Teldipin/Telassmo** (telmisartan/amlodipine) 40 mg/5 mg, 40 mg/10 mg, 80 mg/5 mg, and 80 mg/10 mg tablets. The medicine contains telmisartan, an angiotensin II receptor antagonist, and amlodipine, a calcium channel blocker. The fixed-dose telmisartan/amlodipine combination contains two active ingredients with different mechanisms of action used for the treatment of high blood pressure. The medicine may be used as a replacement therapy in patients who have already been taking the same doses of two active ingredients in separate tablets. The active ingredients complement each other, providing for effective and safe treatment and reducing the risk of certain adverse effects, such as peripheral oedema. Patients tolerate it better. They also need to take fewer tablets per day, which improves patient compliance.

We obtained marketing authorisations as the first generic pharmaceutical company in 21 countries under the European decentralised procedures for **Bixebra/Bravadin** (ivabradine) 5 mg and 7.5 mg film-coated tablets. Ivabradine is a medicine which lowers heart rate and improves cardiac function in the long-term. Adding ivabradine to the standard therapy for patients with chronic heart failure or stable angina pectoris reduces the need for admission to hospital and risk of cardiovascular events and improves the quality of life.

We obtained marketing authorisations under the European decentralised procedure for the new fixed-dose combination **ramipril/amlodipine** 5 mg/5 mg, 5 mg/10 mg, 10 mg/5 mg, and 10 mg/10 mg hard capsules. Active ingredients have different mechanisms of action. Ramipril is in the angiotensin-converting enzyme (ACE) inhibitor class of medicines, with a direct effect on smooth muscles in peripheral arteries, and amlodipine is a calcium channel blocker. This medicine may be

used to lower high blood pressure as a replacement therapy for patients who have already been taking the same doses of two active ingredients in separate tablets. This fixed-dose combination of active ingredients helps the treatment of hypertension and blood pressure control.

We obtained marketing authorisations in the Russian Federation for the fixed-dose combinations of **Atoris Combi** (atorvastatin/amlodipine) 20 mg/5 mg, and 20 mg/10 mg film-coated tablets. Active ingredients in the medicine lower elevated blood pressure and cholesterol levels. The two new strengths improve control of cardiovascular risk factors and reduce the risk of cardiovascular complications.

We obtained marketing authorisations under the European decentralised procedure for **Ramipril/Hydrochlorothiazide Krka** (ramipril/hydrochlorothiazide) 2.5 mg/12.5 mg, and 5 mg/25 mg tablets. The new formulation of the fixed-dose combination contains ramipril acting as an angiotensin-converting enzyme (ACE) inhibitor and hydrochlorothiazide with a diuretic effect.

We obtained marketing authorisations under the European decentralised procedure for **Bartal/Abrea** (acetylsalicylic acid) 75 mg, 100 mg, and 160 mg gastro-resistant tablets. According to ample scientific evidence, acetylsalicylic acid is a safe and effective medicine for the prevention of recurrent cardiovascular events in patients with coronary arterial disease. It is used in the prevention of myocardial infarction, the treatment of patients with stable and unstable angina pectoris, the inhibition of platelet aggregation after cardiac surgeries, prevention of arterial and venous thrombosis, and ischemic cardiovascular events.

In the Russian Federation, we obtained a marketing authorisation for **Lorista** (losartan) 150 mg film-coated tablets. This new strength helps the treatment of chronic heart failure, because patients receive the maximum daily dose by taking just one tablet.

We obtained marketing authorisations in all European countries under the EU centralised procedure (CP) for a fixed-dose combination of two new active ingredients, **Emtricitabine/Tenofovir disoproxil Krka** (emtricitabine/tenofovir disoproxil) 200 mg/245 mg film-coated tablets. The two active ingredients are in the nucleoside reverse transcriptase inhibitor (NRTI) class of medications. Krka has entered a new therapeutic area in the treatment of HIV infection in adults with this medicine.

We were the first company to obtain marketing authorisations under the European decentralised procedure for **Dexamethason Krka** (dexamethasone) 4 mg, 8 mg, 20 mg, and 40 mg tablets. Dexamethasone is a broad-spectrum corticosteroid. Krka's unique range of strengths allows the optimum dose to be achieved by taking fewer tablets. High doses of dexamethasone may be used in the treatment of oncology patients, so it may be used as support for other oncology medicines produced by Krka.

We added four new medicines to Krka's portfolio of antibiotic agents. We obtained marketing authorisations in 14 countries under the European decentralised procedure for **Moloxin/Moflaxa/Moxibiot** (moxifloxacin) 400 mg/250 ml solution for infusion, a medicine with a broad antimicrobial action. It is used for the treatment of pneumonia and infections of the skin and soft tissue. Moloxin solution for infusion and tablets complement Krka's range of antimicrobial agents containing moxifloxacin.

We obtained a marketing authorisation under the European decentralised procedure for **Linezolid Krka** (linezolid) solution for infusion. Linezolid is an oxazolidinone antibacterial agent. It has a unique mechanism of action, which inhibits bacterial protein synthesis. It acts against gram-positive pathogens, including streptococci, MRSA, and enterococci resistant to vancomycin. It also prevents the possibility of cross resistance to other antibiotics. It is used in the treatment of severe pneumonia, and severe dermal and subdermal infections.

We added **Clarithromycin Krka** (clarithromycin) 250 mg and 500 mg film-coated tablets to Krka's portfolio of macrolide antibiotics. This medicine may be used in the treatment of respiratory infections, skin and skin structure infections, and *Helicobacter pylori* eradication. We obtained marketing authorisations under the European decentralised procedure in 11 countries.

Under the national procedure in Hungary, we obtained marketing authorisations for **Azibiot** (azithromycin) 100 mg/5 ml and 200 mg/5 ml powder for oral suspension. It is used for therapy in paediatric and geriatric patient populations, and indicated for the treatment of respiratory tract infections, skin and soft tissue infections, and certain genital diseases.

We obtained marketing authorisations under the European decentralised procedure for the nonsteroidal anti-inflammatory drug (NSAID) **Roticox/Etoxib/Etoriax/Ilorox/Bericox** (etoricoxib), available in 30 mg, 60 mg, 90 mg, and 120 mg film-coated tablets. The medicine is indicated for the treatment of degenerative and inflammatory rheumatoid arthritis and may also be used for the short-term treatment of moderate pain associated with dental surgery. The occurrence of an adverse drug reaction in the upper gastrointestinal tract is not common, which is an advantage. The medicine does not contain lactose and may be taken by patients suffering from lactose intolerance.

We obtained marketing authorisations under the European decentralised procedure for **Dutrys** (dutasteride) 0.5 mg soft capsules. By inhibiting 5-alpha-reductase, it reduces dihydrotestosterone plasma levels and is effective in the treatment of prostate hyperplasia. The medicine may be used independently or in combination with alpha blockers for the treatment of moderate to severe symptoms of benign prostatic hyperplasia (BHP), to reduce the risk of urinary blockage and after surgery in BHP patients.

We expanded our market opportunities in European markets by obtaining marketing authorisations for Krka's key medicines for the treatment of cardiovascular diseases, central nervous system disorders, and analgesics. We obtained marketing authorisations for the innovative combination **Alortya/Tenloris/LosAmlo** (losartan/amlodipine) film-coated tablets in four strengths, an important addition to Krka's medicines for the treatment of high blood pressure. We were the first to obtain marketing authorisations for the medicine under the European decentralised procedure in Hungary, Slovenia, Germany, and the Czech Republic. The complementary effect of two active ingredients reduces the likelihood of adverse effects and improves tolerability. We obtained marketing authorisations under the European decentralised procedure for the fixed-dose combination **Enalapril/Lercanidipine Krka** film-coated tablets in two strengths. We obtained marketing authorisations under the European decentralised procedures for **Olimesta/Olmeacor/Olimestra** (olmesartan) film-coated tablets in three strengths and the fixed-dose combination **Olimesta Comp/Olimesta Combi/Olmeacor HCT/Co-Olimestra** (olmesartan/hydrochlorothiazide) film-coated tablets in four strengths.

We entered new European markets with medicines for the treatment of increased cholesterol levels. We obtained marketing authorisations under the European decentralised procedures for **Rosuvastatin Krka** film-coated tablets in six strengths, **Ezetimibe Krka** (ezetimibe) tablets, and the fixed-dose combination **Ezetimibe/Simvastatin Krka** (ezetimibe/simvastatin) tablets in three strengths.

We obtained a marketing authorisation under the European decentralised procedure for **Ralago/Rasagea** (rasagiline) 1 mg tablets for the treatment of Parkinson's disease. We obtained a marketing authorisation in Portugal under the national procedure for the fixed-dose combination **Tramadol/Paracetamol Krka** in 75 mg/650 mg tablets.

In various eastern European countries, we obtained marketing authorisations for Krka's key medicines in various therapeutic groups. We obtained marketing authorisations for medicines for the treatment of cardiovascular diseases as follows: **Atoris** (atorvastatin), **Roswera** (rosuvastatin), **Bravadin** (ivabradine), **Metazero/Metoprolol Krka** (metoprolol succinate) prolonged-release tablets in four strengths; fixed-dose combinations **Co-Amlessa** (perindopril/amlodipine/indapamide), **Atoris Combi** (atorvastatin/amlodipine), **Roxera Combi** (amlodipine/rosuvastatin), **Co-Prenessa** (perindopril/indapamide), **Tenlisa** (lisinopril/amlodipine); and **Sobycombi/Niperten Combi** (bisoprolol/amlodipine). We obtained marketing authorisations for Krka's sartans and their fixed-dose combinations as follows: **Lortenza** (losartan/amlodipine), **Vamloset** (valsartan/amlodipine), **Telmista H** and **Telmista HD** (telmisartan/hydrochlorothiazide), **Lorista H 100** (losartan/hydrochlorothiazide), **Firmasta H150**, **Firmasta H300**, **Firmasta HD300** (irbesartan/hydrochlorothiazide), and **Valsacor** (valsartan). We also obtained marketing authorisations for medicines in the antimicrobial group as follows: **Linezolid Krka** (linezolid) film-coated tablets, **Azibiot** (azithromycin) 250 mg and 500 mg tablets, **Moflaxya** (moxifloxacin) tablets, and **Levaxela/Levnibiot** (levofloxacin) film-coated tablets and solution for infusion. We obtained marketing authorisations for two oncology medicines: **Neopax** (imatinib), and **Letrozol Krka** (letrozole). We expanded marketing opportunities with marketing authorisations in new markets for medicines as follows: **Pregabia** (pregabalin), **Kventiax SR** (quetiapine) prolonged-relief tablets and **Kventiax** (quetiapine) film-coated tablets, **Zalasta** (olanzapine), **Elicea** (escitalopram), **Dulsevia** (duloxetine), **Maruxa** (memantine), **Nolpaza** (pantoprazole) powder for solution for injection, **Cezera** (levocetirizine) and **Vizarsin QTab** (sildenafil) orodispersible tablets. We obtained marketing authorisations in new markets for analgesics **Doreta** (tramadol/paracetamol) and **Naklofen** gel and solution for injection.

In the markets of south-eastern Europe, we obtained new marketing authorisations for antibiotics. We obtained marketing authorisations for **Moloxin** (moxifloxacin) solution for infusion, **Levalox** (levofloxacin) film-coated tablets and solution for infusion; **Azibiot** (azithromycin), and **Furocef** (cefuroxime) film-coated tablets. We also obtained new marketing authorisations for the treatment of cardiovascular diseases as follows: **Bloxazoc** (metoprolol succinate), and fixed-dose combinations **Rosudapin** (rosuvastatin/amlodipine) and **Tenloris** (losartan/amlodipine). We obtained marketing authorisations for the following medicines for the treatment of the central nervous system: **Dulsevia** (duloxetine), **Pragiola** (pregabalin), **Aryzalera/Zylaxera** (aripiprazole) and **Opryme** (pramipexole). We obtained marketing authorisations on new markets for a cytostatic **Ecansya** (capecitabine), and an analgesic, **Tramadol Krka** solution for injection.

In various countries of the markets overseas, we obtained new marketing authorisations for medicines as follows: **Emanera** (esomeprazole), **Ezoleta** (ezetimibe), and **Marixino** (memantine).

Non-prescription products

In the Russian Federation and Moldova, we obtained marketing authorisations for **Flebaven** film-coated tablets. One tablet comes with 500 mg of micronized purified flavonoid fraction containing 90% of diosmin (450 mg) and 10% of other flavonoids (50 mg) expressed as hesperidin. It is used for the treatment of chronic venous insufficiency, lymphoedema, and acute hemorrhoidal syndrome.

We expanded marketing opportunities with key products that help alleviate common cold and influenza symptoms. We obtained marketing authorisations in the Czech Republic, Portugal, Ireland and Germany under the European decentralised procedure for **Septanazal nasal spray for adults** and **Septanazal nasal spray for children**. We also obtained marketing authorisations for the two products in various east European markets.

We obtained marketing authorisations in new markets to further strengthen the position of our **Septolete** brand. We obtained marketing authorisations for **Septolete Total/Septolete Extra** spray in the Russian Federation, Belarus, Kyrgyzstan, Kazakhstan, Ukraine, Turkmenistan, Uzbekistan, and Moldova, and for **Septolete Total/Septolete Extra** lozenges in Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Kazakhstan, Moldova, Mongolia, Tajikistan, Ukraine, and Uzbekistan.

We obtained marketing authorisations for **Septolete Apple**, **Septolete Cherry** and **Septolete Lemon** (cetylpyridinium chloride) in the Republic of South Africa.

We obtained marketing authorisations under the decentralised procedure in three European countries for our herbal products **Herbion** ivy syrup, and for **Herbion Iceland moss** in Mongolia and Armenia.

We obtained marketing authorisations in Ukraine for our established product **Desradin** (desloratadine), and in Turkmenistan and Mongolia for **Ulcavis** (bismuth subcitrate) film-coated tablets, an alimentary tract medicine.

Animal health products

In 2016, we obtained marketing authorisations for two new animal health products, **Doxatib** (doxycycline) and **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone acetate).

We obtained marketing authorisations under the European decentralised procedure in 19 countries for **Doxatib** (doxycycline) powder for use in drinking water. The medicine supplements Krka's range of antimicrobial agents for farm animals and is used as the medicine of choice in the treatment of respiratory tract infections in pigs and chickens. We also obtained the marketing authorisation for 5 kg packs suitable for use on large farms.

We obtained marketing authorisations under the European decentralised procedure in 22 countries for a new fixed-dose combination, **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone acetate) ear drops, a suspension for dogs. The medicine is a combination of two antimicrobial agents and a corticosteroid and is indicated for the treatment of otitis external of bacterial and fungal origin in dogs. It complements Krka's portfolio of antimicrobial agents for companion animals. It is available in droppers.

We also increased the number of marketing authorisations for established products. As the first generic pharmaceutical company, we obtained marketing authorisations under the European decentralised procedure in 15 countries and under the national procedure in the Russian Federation and Kazakhstan for **Fypryst Combo/Fyperix Combo/Amflee Combo** (fipronil/S-methoprene) spot-on in five strengths. The medicine is indicated for the treatment and prevention of infestations with ticks, fleas, and lice in dogs, cats, and ferrets. It provides for comprehensive external parasite control, as it acts also on parasites in their development stages.

We obtained marketing authorisations for two medicines from the group of medicines for farm animals: in Belgium for **Enrox Classic** (enrofloxacin) solution for injection, and in Croatia for **Floron Minidose** (florfenicol) solution for injection. We obtained marketing authorisations in Serbia, Ukraine, and Moldova for **Amatib** (amoxicillin) oral powder for treating infections of the respiratory tract, and in Bosnia and Herzegovina for **Dehelman** (levamisole) oral powder for treating parasitic gastrointestinal and lung infestations. We obtained marketing authorisations in east European markets for **Gentamicin** solution for injection, **Giraxa** (colistin) oral powder and **Entemulin** (tiamulin) granules for use in drinking water. We extended our range of companion animal products in various markets. We obtained marketing authorisations in Bosnia and Herzegovina, and Macedonia for the fixed-dose combination **Ataxxa** (imidacloprid/permethrin) spot-on solution for dogs in four strengths, and in Ukraine, Kazakhstan, and Macedonia for **Marfloxin** (marbofloxacin) solution for injection for treating infections in dogs and cats. We obtained marketing authorisations in Serbia for the fixed-dose combination **Milprazon** (milbemycin oxime/praziquantel) film-coated tablets in two strengths for cats. The medicine is indicated for the treatment and prevention of infections with internal parasites. We obtained marketing authorisations in Moldova for **Enroxil** (enrofloxacin) flavoured tablets for the treatment of mixed infections in dogs and cats, **Dehinel Plus Flavour** and **Dehinel Plus XL** (febantel/pyrantel/praziquantel) for treating parasitic gastrointestinal infestations in dogs, **Fypryst** (fipronil) cutaneous spray for the treatment of external parasites, and **Rycarfa** (carprofen) flavoured tablets for pain relief.

Health resorts and tourist services

We introduced several new developments in medical wellness programmes provided by Terme Krka. Patients may undergo a diagnostic breast ultrasound at Talaso Strunjan. Terme Dolenjske Toplice have introduced a new physical therapy technique for the mobilisation of the nervous system and improved lymph drainage techniques. Spiroergometry measurements have been introduced at the doctor's surgery for cardiology at Terme Šmarješke Toplice. This diagnostic method is used to determine precisely the consumption of oxygen during increasing exercise, individual anaerobic threshold, and diagnose potential cause for shortness of breath in coronary patients. In Terme Šmarješke Toplice, we have added Vitadetox Senior and Slimfit Senior detoxication and weight loss programmes to the existing range. They are adapted to people aged over 60.

We have introduced a new process for cooking food under vacuum (sous-vide) in all our business units. Food prepared by this method tastes good, and all the vital nutrients that might be lost either in liquid or vapour with other cooking methods are preserved.

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 the changing market demands, we continually optimise the cost-effectiveness of products and technologies, improve processes to reduce flow time along the entire supply chain, and integrate supply processes in all Krka Group companies and in other contracted production sites.

With the introduction of advanced technological processes into 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. Our adjustments to increasingly more challenging conditions in individual markets have been made easier and more effective by implementing a management process for the entire product life cycle.

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

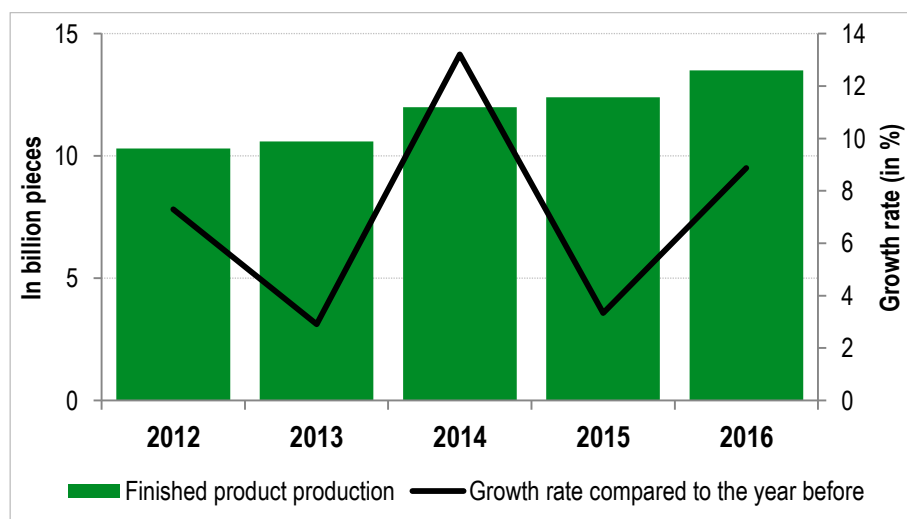
With continuous process improvements we have considerably reduced the average time from order to supply to the customer, thus increasing our responsiveness and the flexibility of processes in the supply chain. We will continue to optimise the inventory of raw materials and finished products. In 2016, we carefully followed the EU legislation against falsifying medicines (FMD) and prepared technical and systemic solutions needed in the implementation of the new directive on ensuring secondary packaging that proves the medicine is in its original packaging, and the implementation of a unique code 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 a large proportion of active ingredients which we build into finished products are produced and technologically controlled at various production sites in Slovenia and abroad. In this way, we have been reducing the dependency on external suppliers in this key segment of the supply chain.

We have been improving the cost efficiency of the production of key intermediates and raw ingredients 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 have continued the intensive production of active ingredients at our own production sites in Novo Mesto and Krško. In 2016, we increased the production quantities by 9%.

Production of finished pharmaceutical products



The key aim of production is to timely secure a sufficient quantity of quality products to meet market needs, while optimally using the available resources of the controlling company and subsidiaries, and in cooperation with contractors. In 2016, we produced and packaged a record quantity, 13.5 billion products, an increase of 9% compared to 2015. We again produced the highest monthly and quarterly amounts of products ever.

Considering the increasingly more demanding quality standards in pharmaceutical production (including legislation on falsifying medicines, the originality of closing secondary packaging and implementation of a unique code on each final packaging), intensive investments in production equipment, expanding our range of products and growth in terms of quantity, we were successful at continuing to optimise the production processes. Increasing batch sizes, transfers of products to new equipment and improving the yield made the greatest contribution. This resulted in improving the cost efficiency of production processes and better production capacity. We also updated the technological and production conditions in order to provide a larger supply of diverse sterile pharmaceuticals.

In 2016, we revised the processes connecting research and development and API and medicine production in order to enable a quicker transfer of products from development to production. In this way, we will ensure the effective launch of new products and improve the vertical integration of all key areas.

Notol 2 production plant opened at the end of 2015, and accounts for an important share of production capacities. The installation of additional equipment continues, which will ensure a significant increase in output.

In 2016, we also increased production in the newly built distribution centre in the Russian Federation, to which we transferred new technologies and products which are of major importance for the Russian market, thereby further consolidating our position as a local producer. We produce around 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 and to achieve better internationalisation and reduce risks in the production process, we increased activities related to production technology transfer to contractors and expanded the network of contractual medicine producers.

We have been upgrading 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 have also been expanding the use of digital manufacturing documents and increasing process automation.

Supply process

Krka mostly makes the raw materials that we turn into products. Additionally, we buy raw materials in the market. In 2016, 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 ingredients market, we managed to secure enough raw ingredients for the smooth production of finished products. We also secured finished products, produced 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 economising by considering the currency exchange rates. We increased integration and optimised purchasing processes with Krka's subsidiaries. We continued improving partnership relation strategies 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 contractual producers in order to secure timely realisation and response to sales needs.

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

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

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

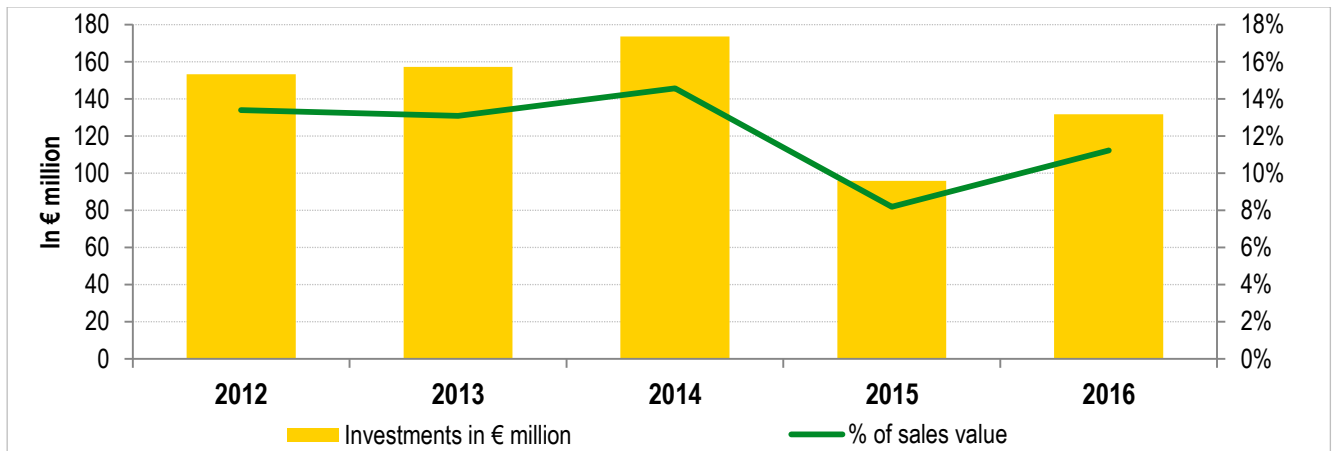
Investments

In 2016, the Krka Group allocated €132 million for investments, €78 million to the controlling company, and €54 million to subsidiaries. We invested primarily in increasing and updating production capacities. We also pursued our strategic objective of developing our own generic pharmaceuticals by investing in research and development capacities and through our production and distribution centres around the world.

In Slovenia, Croatia, the Russian Federation, and Germany, more than twenty investment projects are in progress intended to increase our production capacities by more than one third. The annual production volume of tablets and capsules will increase from 13.5 billion tablets and capsules to more than 17 billion.

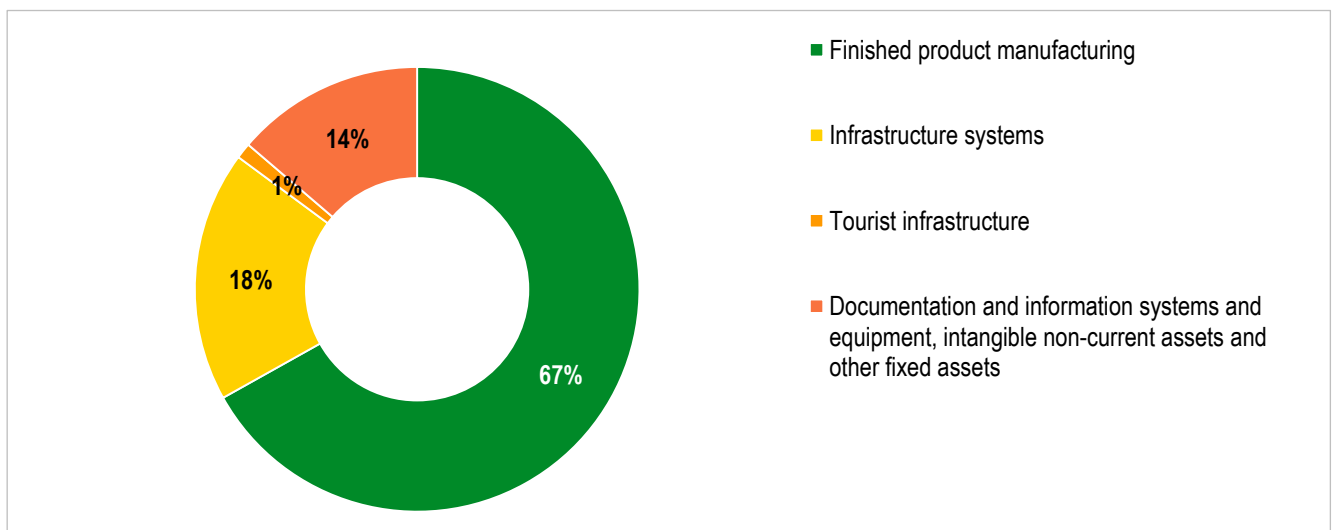
All projects comply with environmental standards. The selected equipment matches the best available technology, provides for environmental protection and efficient energy use and at the same time ensures safe and efficient operations.

Krka Group investments in the period from 2012 to 2016



In 2016, we invested primarily in the production of finished products and upgrading development infrastructure and power utilities. Infrastructure buildings and systems, including the construction of Razvojno-kontrolni center 4 (laboratory building number 4 for product development and control), will support business functions of the entire Krka Group. Investments accounted for 11% of sales revenues generated in 2016.

Structure of the Krka Group investments in 2016



New capacities for development purposes

Krka's key investment in development capacities and quality assurance in the years to come is the product development and quality control facility, the Razvojno-kontrolni center 4 (Slovene abbreviation: RKC 4), at the production site in Novo Mesto. The building will be in the immediate vicinity of the other three buildings for product development and control, and will be connected to RKC 2 and RKC 3. 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 spring 2017, the supply lines of building RKC 4 will be installed, making the assembly of the laboratory equipment possible. The 18,000 square-metre building will be equipped and ready for use in the second half of 2017.

Notol 2

Notol 2, a plant for the production of solid pharmaceutical dosage forms, is located in Ločna, Novo Mesto, Krka's central location. The €210 million production plant provides the capacity and support for implementing Krka's vertically integrated business model. Its advantage is a high level of automation and computer support, with an emphasis on computer-controlled production and automated computer-controlled material flow systems.

We first started production in January 2015, and opened the plant officially in the same year in November. After two years in use, work has been running smoothly and production capacity is increasing all the time.

As a result, Notol 2 has come close to its goal, which is to produce 4.5 billion tablets, film-coated tablets, and capsules per year. In January 2015, the plant started manufacturing Rawel SR prolonged-release tablets. All other production transfers were carried out swiftly, and regular manufacturing was established along with the qualifications of the technological equipment.

By the end of 2016, slightly more than 2 billion finished products were made at Notol 2. We have started acquiring new equipment in order to meet market demand, and for manufacturing new products. By doing so, the plant will be fully equipped and the capacity will rise to the planned volume.

We have been increasing and upgrading manufacturing capacities

In 2016, we completed an €8 million extension to the Sterile Products Department for spray production. Regular production on new lines started in autumn 2016.

Also in progress is the €11 million project to extend our pellet-coating capacity at OTO, the solid dosage forms production plant. The extended plant will be ready for use by the end of June 2017.

We replaced two high-bay stacker cranes and increased the speed and reliability of the logistic system at the Notol plant for production of solid dosage forms.

A new investment in Krško, the construction of Hidrogeniranje 2, a hydrogenation plant, will provide capacities for technologies that require treatment with hydrogen. This will further increase Krka's capacities for the independent production of pharmaceutical ingredients.

We continue to install equipment at the new plant in the Russian Federation

Krka-Rus 2 in Istra in the Russian Federation is among the most important investments in Krka's subsidiaries. During the first stage, we built a new plant and logistics centre, and in 2015 we began to install additional technological and logistics equipment. Production capacity has increased to two thirds of the planned final capacity, a total of 2.5 billion tablets and capsules a year. We installed other logistic equipment and reached full capacity of the warehouse and logistics system. The value of new equipment installed by the end of 2016 was slightly more than €20 million.

We are extending our production programme in Croatia

The production capacities of the production-and-distribution centre in Jastrebarsko in Croatia have been extended and refurbished. We have acquired new manufacturing facilities and laboratory capacities for solid dosage forms of oncology medicines. In 2016, the equipment was assembled and installed, while the production start-up and gradual transfer of

technologies to the new technological equipment are planned for the second quarter of 2017. The investment is estimated at €34 million.

Refurbishment of production rooms of TAD Pharma

TAD Pharma, our subsidiary in Germany, refurbished the air-conditioning systems in production rooms and laboratories. Krka's investment amounted to €0.6 million.

Energy supply projects

Krka has constructed new manufacturing plants in Novo Mesto, so the demand for power has been rising. After the start-up of all machines in Notol 2 and the completion of RKC 4, demand is expected to amount to approximately 20 MW. We built a new transformer station in 2016. We are also completing the construction of two cable ducts to connect the Ločna transformer station with Krka's power supply network. Krka will be supplied through 20 kV supply lines from the Ločna substation for permanent demand of approximately 25 MW. Krka has invested more than €3 million in extending and improving the power supply infrastructure of its manufacturing plant in Novo Mesto.

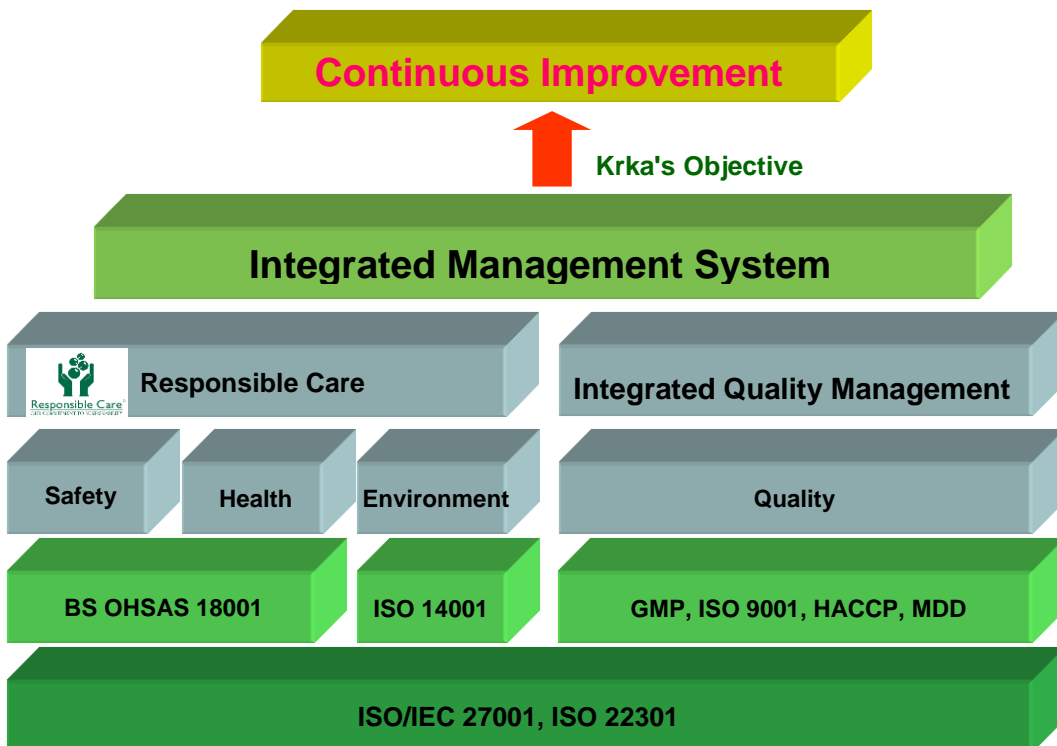
Integrated management system and quality

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 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, we therefore deal with all quality-related risks and opportunities systematically. Owing to advances in process development, we continuously meet the expectations of our clients and obtain new opportunities for further improvements.

Management system and quality

We manage various aspects of our operations (quality, the environment, occupational safety, foodstuffs safety, medical devices, compliance, information security, and business continuity management) in a uniform way with our integrated management system (IMS). The purpose of the IMS is to achieve optimum business targets. The IMS 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, and the GXP and HACCP principles, *Medical Device Directive* (MDD), and ISO 14001, BS OHSAS 18001, ISO/IEC 27001, and ISO 22301 standards. The quality management and environmental care systems were upgraded in 2015 and 2016, and certified in 2016 according to the ISO 9001:2015 and 14001:2015 standards.

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 the Krka Group's operations. We systematically and consistently manage processes, from purchasing, research and development, production, marketing and sales to monitoring customer satisfaction. Customer satisfaction and sustainable business success will remain our key objectives in the future.

Inspections and audits of the management and quality system

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

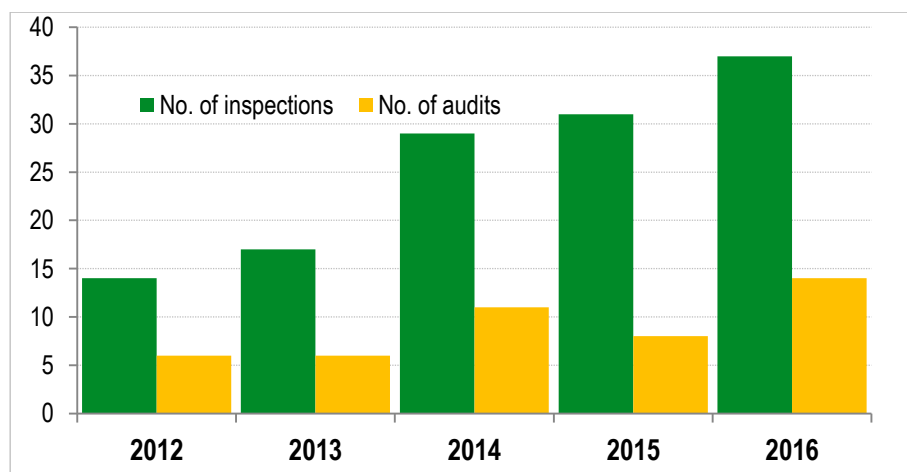
Krka manufactures a variety of medicinal products and is therefore monitored by several Slovenian competent bodies or institutions. The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) monitors medicinal products and devices made by Krka. The Health Inspectorate of the Republic of Slovenia (ZIRS) monitors self-medication remedies 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 (UVHVR) inspects feed additives and catering. The Metrology Institute of the Republic of Slovenia exercises supervision of measuring devices used in manufacturing and trade, and prepacked products.

In 2016, Krka underwent even more inspections and audits than before. New laws and regulations entered into force in many countries, leading to stricter requirements with regard to contracting partners. JAZMP regularly inspects medicinal products and API manufacturing processes, clinical trials, and the implementation of pharmacovigilance. In 2016, it carried out ten inspections. In two instances, it verified the extension of laboratory and API production capacities. Seven inspections were regular. Based on these, Krka renewed GMP certificates confirming that manufacturing is carried out in conformity with the GMP principles and guidelines applicable to medicinal products and APIs. We also passed the third pharmacovigilance inspection conducted by JAZMP on behalf of the European Medicines Agency (EMA). We also passed the inspection carried out by the Chemical Office of the Republic of Slovenia of the Ministry of Health, and renewed the GLP certificate for the test laboratory of Pharmacokinetics and Preclinical Research. We passed all inspections and audits. The inspectors confirmed suitability of and compliance with regulatory requirements applied in the production of pharmaceuticals and APIs.

The manufacture of medicinal products is also inspected by foreign bodies, because medicines are marketed in markets outside the European Union. The laws in the Russian Federation have changed, so we applied for an inspection, which we passed. We obtained the Russian GMP certificates required to renew marketing authorisations and for new authorisations on the Russian market.

We added new products to Krka's list of medicines, so in compliance with the *Medicinal Products Act (ZZdr-2)* and regulations on the wholesale distribution of medicinal products, we renewed permits to deal in the wholesale of a limited range of products. We have been entered in the register kept by the Administration of the Republic of Slovenia for Food Safety, Veterinary and Plant Protection (UVHVR) as the wholesale distributor of animal health products.

Number of inspections and audits at the Krka Group



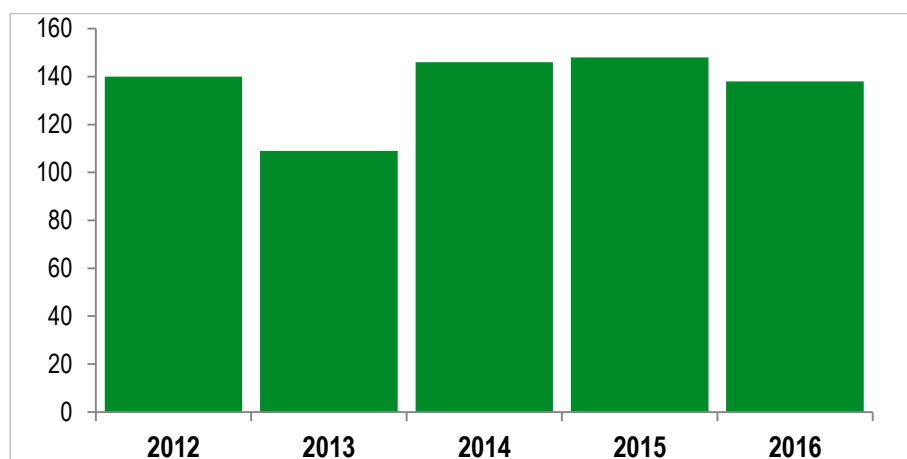
UVHVVR inspected the production of feed additives twice, conducted six regular inspections in the Catering Department and confirmed compliance of operations with HACCP.

The Health Inspectorate of the Republic of Slovenia (ZIRS) carried out one regular inspection of the 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.

Our partners conduct audits of the quality management system every year in order to review compliance with contractual requirements, GMP, and the suitability of the pharmacovigilance system. In 2016, Krka underwent 14 audits and passed each of them. Their findings prove that Krka meets the requirements of all partners.

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

We carry out a number of inspections of our suppliers and contracting 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 elementary corporate process rules of operation. Our duty is to upgrade quality systems, thus improving process efficiency, and the quality and competitiveness of products and services. To achieve this, it is vital that our employees undergo continuous training and constantly upgrade their knowledge in 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

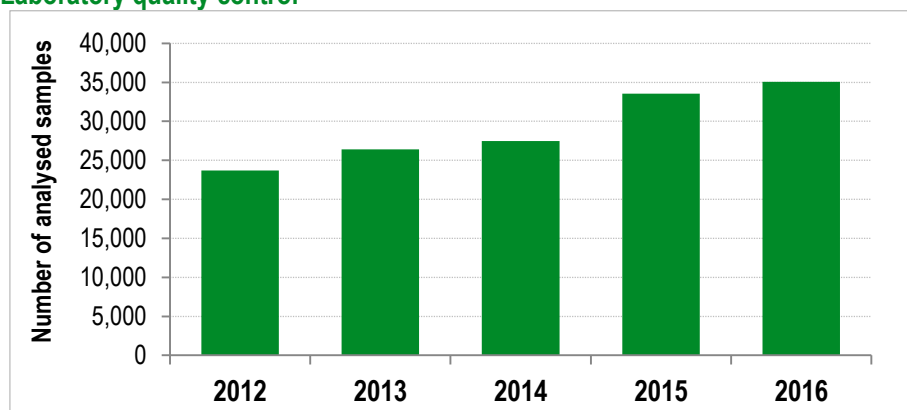
international laws and regulations by introducing new knowledge and tools, an in-depth understanding of processes, and suitable resources.

We have established a quality management system for active ingredients, excipients, and packaging materials. It ensures that only materials 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. Krka's own technology, research and development are employed to manufacture active ingredients for certain products. They are produced by our contracting partners and are also included in our quality assurance processes.

The qualifications and validations of investment and computer projects, production and laboratory equipment, utilities, air-conditioning systems, technological procedures, cleaning processes, calibrations and maintenance processes contribute to quality assurance in production and control processes. Process validations and packaging validations are intended to ensure the compliance of technological procedures applied in bulk product manufacturing and the packaging of finished products. We apply validation processes to confirm the suitability of transport conditions.

We assess the quality of products, bulk products and intermediate products, active ingredients, incoming materials, production rooms and equipment, and production processes with laboratory control at all our production sites, and manage risks in all areas of our operations. We take all necessary measures to avoid untimely product supplies. We follow the quality of products on the market throughout their life-cycle to maintain it at the appropriate level. We regularly optimise our processes, so that they accord with our business goals and comply with regulatory requirements. Krka shares knowledge and analytical methods on the corporate level and with its partners to ensure the same quality of work and medicinal products.

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 constantly upgrade our documentation and information systems in compliance with process requirements to ensure the transparent and efficient use of information. Documents proving the quality of our products are arranged systematically and are 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. 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 medicinal product 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 laws concerning medicines. This is followed by issuing certificates and producing batch documents for

clients. In-depth communication and certain responsibilities arising from a partnership are the result of long-term cooperation. We regularly update finished product certificates of conformity in accordance with the guidelines of good manufacturing practices that apply to EU countries.

We 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 the satisfaction of our clients with Krka products and services. Our quality system addresses our clients' demands and expectations in accordance with the legislative requirements and 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 for key processes in Krka that affect the quality, safety and effectiveness of products.

Krka places a strong emphasis on environmental protection and occupational health and safety (ISO 14001, BS OHSAS 18001) as well as on sincere and fair public relations. As a result, we have been granted the right to use the 'Responsible Care' logo every year.

Quality management begins with daily work in each organisational unit, with all processes and products, and with every individual. There is always room for improvement, so we continuously promote quality (also in relation to efficiency, economising, knowledge, useful suggestions and the environment) under the title 'Your Quality Counts'. To increase the commitment to quality, a series of professional and motivation articles is published in our internal magazine, *Utrip*. The commitment to management systems is also reflected in the good results of periodic measurements of the organisational climate.

Our permanent objective is to integrate and pursue uniformity of management and quality systems in the processes of all Krka Group companies. In view of this, we upgrade systems and pursue their optimisation. In 2016, 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. Last year, the focus was primarily on risks related to single-copy documents kept at Krka. Krka's internal rules on archiving documentary materials comply with the *Slovenian Protection of Documents and Archives and Archival Institutions Act (ZVDAGA)*. ISMS is regularly reviewed with self-inspections, audits, and external security inspections. Also in 2016, an external security inspection was carried out. All Krka's subsidiaries adopted the guidelines set out in the *Information Security Policy*.

Regular and continuous training courses for our employees and raising their awareness are key elements in the successful implementation of the ISMS.

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.

We control and ensure increased information safety with the in-depth application of the latest supervision and information security tools, such as intrusion detection and intrusion prevention systems (IDS/IPS), security information and event management (SIEM) system, vulnerability management, protection of Krka networks from unwanted traffic (Secure Web Gateway), and the introduction of Mobile Device Management (MDM) tools. The application of all these tools has been extended to all our units abroad.

We maintain great 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, the data centre has been doubled in Novo Mesto. Together with the basic data centre, it ensures a high level of redundancy, meeting the requirements of high redundancy and data safety. Safety copies are produced in real time for all computer systems, applications and data bases at a remote location outside Novo Mesto.

System	Annual availability in %				
	2016	2015	2014	2013	2012
Business system	99.9	99.9	99.8	99.8	99.9
Production system	99.9	99.9	99.7	99.9	99.8
Documentation system	99.8	99.7	99.9	99.8	99.1
E-mail	99.8	99.9	99.8	99.8	99.9

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). The BCMS comprises procedures for optimising Krka's resistance against damaging incidents, and if incidents should occur, the procedures 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.

SUSTAINABLE DEVELOPMENT

Krka's mission is to enable people healthy and high quality living. This can only be achieved with balanced, sustainable and continuous development aimed at keeping the environment clean and healthy for present and future generations.

We are fully aware that as an economic entity, we must contribute to improving the present state of the environment. We therefore strive to have the least impact on the environment, safety and health as possible. This effort guides our research, improvement of production processes, training and education of employees, investments in technologies to lower environmental impacts, effect on employees, and care for a pleasant working environment.

We support the balanced development of the industry, environmental protection, health care, and open and correct relationships with the public. This is why we do not regard investments in environmental protection, occupational safety and developing social environment as costs, but as long-term investments that help us preserve or even improve the quality of the living environment.

Sustainable development is not accidental; it is our commitment and responsibility. We aim for the sustainable improvement of the given circumstances by supplementing our actions and starting new projects according to annual plans. We regard sustainable reporting as an account that includes all items related to economic, social and environmental impacts, and we are obliged to report to our employees and the public.

Responsibility to employees

Krka's operations are based on good international relations, which result in employee satisfaction. Our values – speed and flexibility, partnership and trust, creativity and efficiency – guide us in setting our goals, reaching results, cooperating and working with employees. Our employees contribute most to the company's results. Together, we encourage a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible and efficient work. We strive to ensure that all our activities reflect responsibility to employees and Krka's values.

A dynamic international environment offers many challenges and opportunities for growth and development. By working in various cultural environments, employees broaden their horizons and understanding. 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.

Care for interpersonal relations, the quality of life and work, the best possible working conditions, interesting work challenges, international environment, social security and occupational safety form the foundations for a stimulating working environment in which the goals and needs of the individual are linked with the company's objectives.

Equal opportunity, respect for legal norms and rules, and an ethical approach to other people and the wider social community represent the foundations of our work. We respect human rights as they are defined in internationally recognised principles and guidelines, including the *Universal Declaration of Human Rights*. We abide by all legal norms and rules related to human rights issues in all the countries where we operate. All employees learn from the *Krka Code of Ethics*, which binds us to respect ethical and professional standards of work, knowledge and behaviour. Our employees have the same opportunities, regardless of their gender, race, religion, nationality or cultural differences. In relation to this, the employees have the opportunity to express their opinions in organisational climate surveys. As we appreciate quality, we do not only pay attention to knowledge and skills when selecting new employees, but also high working and ethical standards.

The employees work in an international environment where they have the opportunity to develop professionally and personally through the challenges related to their duties. They can also attend many different courses on leadership, personal and professional development or foreign languages. We believe that an individual's success is based on the desire to achieve excellence, professional, personal and interpersonal relation development.

As we make long-term plans, we think about future employees even before they enter the job market. We offer scholarships to those students who demonstrate talent and ability during their studies. The students on our scholarships are connected with Krka during their studies. We systematically work with them to enable them to have 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 2016, Krka had 47 scholarship students, 10 of whom graduated. We also work with secondary schools and faculties to ensure compulsory industrial placement of secondary school and university students. In 2016, 271 pupils and students acquired work experience at our company.

It is our aim to be successful in the international environment, which can only be achieved with motivated and enthusiastic employees. In order to achieve this, the organisational climate allows employees to work with efficiency and satisfaction. By regularly measuring the organisational climate, we make sure that employees have the opportunity to express their opinions. Analyses of findings are a good tool for preparing improvements, which contribute to creating an efficient and creative environment and enthusiastic employees. We foster the awareness that every employee helps to create a working environment, an organisational climate and thus also business results.

The company's competitiveness and performance are also maintained through the continuous improvement of internal processes and a quick response to market needs. This is becoming increasingly important, given our intensive growth and expansion to new markets. The Krka Group is becoming increasingly complex, which is why we give special attention to our organisational efficiency. The continuous search for new solutions regarding processes and structure, reorganisation and restructuring of 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.

Key data for 2016

Number of employees	10,889 of which 45.5 % in Slovenia
Average age	39.65 years
Share of female employees	64.14%
Share of female employees in management positions	45.6%
Share of employees with at least university qualification	56.6%
Share of on-going employees	88% (women 87.2% and men 90%)
Change in the number of employees in 2016	+325

Number of employees on 31 December 2016

	2016	2015	2014	2013	2012	Index 2016/15
Krka Company in Slovenia	4343	4292	4256	4190	4085	101
Krka Company representative offices outside Slovenia	546	506	482	438	410	107
Krka Company	4889	4798	4738	4628	4495	102
Subsidiaries outside Slovenia	5388	5151	5130	4764	4287	105
Terme Krka Group	576	578	585	605	627	100
Farma GRS*	36	37	46	51	52	97
Krka Group	10889	10564	10499	10048	9461	103

* Including the micro-companies whose founder is Farma GRS.

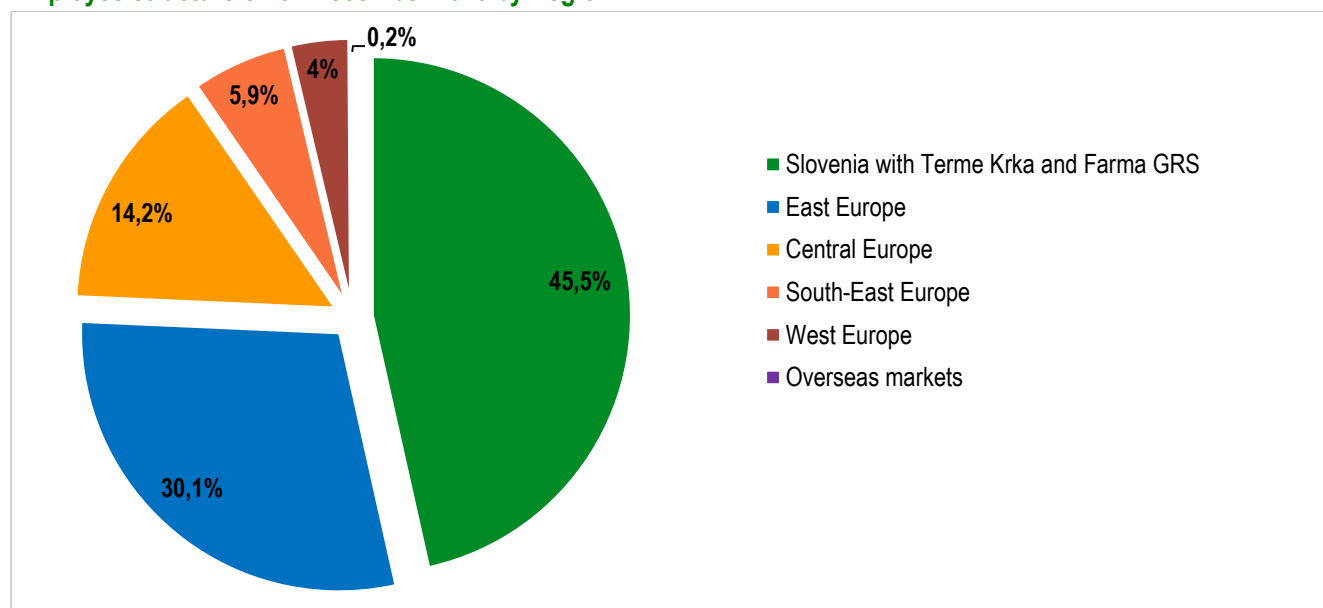
Educational structure

One of the pillars of Krka's human resource policy is the continuous improvement of the educational structure of our employees, as we are aware that only extensive investment in development, demanding technology and highly qualified experts enable a quick and effective response to the demands of a highly competitive market. The share of employees with at least university-level qualifications is 56.6%, or 6,159 employees. They include 169 employees with a doctoral degree and 396 employees with a master's degree or specialisation.

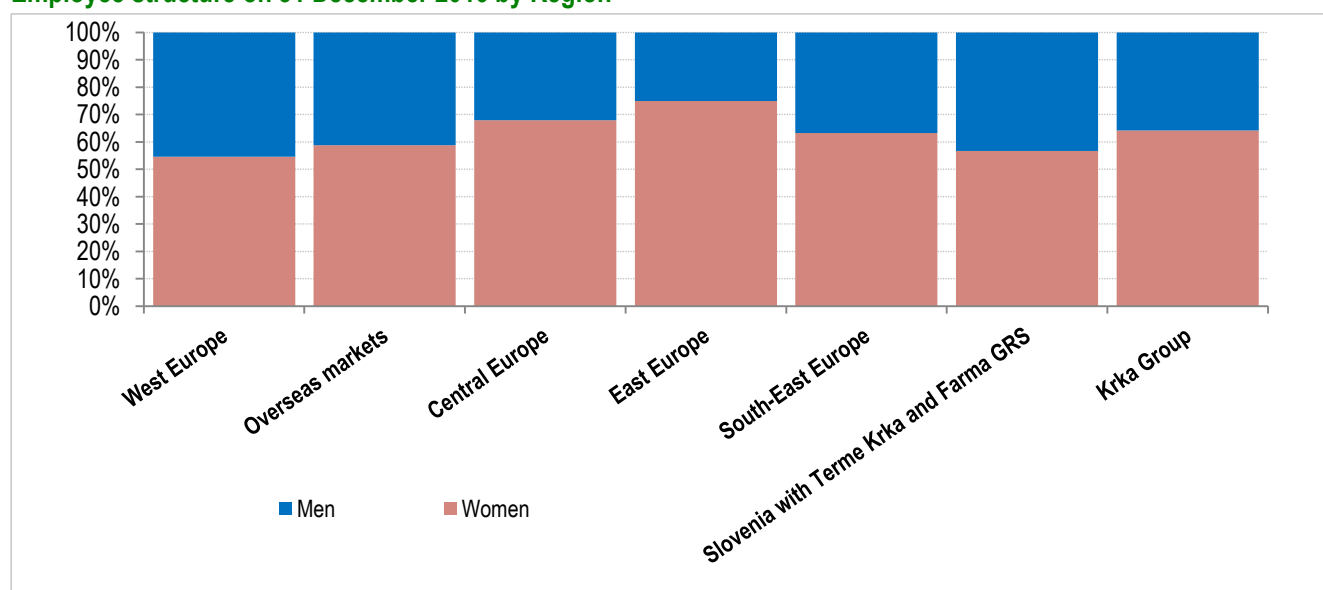
Educational structure of the Krka Group employees as at 31 December 2016

	2016	2015	2014	2013	2012
PhD	169	152	126	111	106
Master of Science	396	349	339	323	281
University Degree	5594	5291	5306	4927	4522
Higher Professional Education Degree	1422	1385	1282	1200	1072
Vocational College Degree	265	304	271	272	263
Secondary School Education, Level V	1868	1844	1891	1889	1864
Other	1175	1239	1284	1326	1353
Krka Group	10889	10564	10499	10048	9461

Employee structure on 31 December 2016 by Region



Employee structure on 31 December 2016 by Region



Employee education and development

Investing in the knowledge and development of all employees is essential to the success of Krka and its employees. The development of employees is systematically planned and encourages **professional and personal development**, enabling the acquisition of relevant knowledge and experience in various fields.

We identify and systematically train our **key and promising employees** early in their careers. By training and allowing them to gain experience in various areas and by mentoring and coaching them, we prepare them to take on the most challenging and responsible tasks in the Company.

As we are aware that early identification of talent is essential, we developed a project which focuses on revealing the potential of the employees in their first year of employment. Employees who stand out as being motivated and having insight and the ability to connect in order to achieve goals are invited to a workshop where they can take part in individual and teamwork tasks. We offer the possibility of a meeting, where we talk about their strong points and areas where they could develop. Everyone who has potential is monitored and included in more challenging tasks.

This method of identifying talent is also used occasionally when looking for candidates to work in challenging positions and with some internal transfers of employees to other positions. It gives us an insight into candidates and their characteristics and the potential for development. Participants at workshops can learn a lot about themselves and opportunities for development.

In 2016, there were 1,221 key and promising employees, which is 11.3 % of the entire Krka Group team.

The need to train key and promising employees and well-trained leaders encouraged us to start our own leadership programme. All three programmes are adapted to different levels of leadership: Krka International Leadership School, the Krka Operational Leadership School and a basic level leadership programme. 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 professional 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. Our employees also attend leadership and management training programmes at renowned business schools.

Mentorship, which is a goal-oriented and planned process which enables an exchange of experience and development of employee potential, is implemented with new employees who have just started their jobs and with employees who take on new and more responsible tasks. A special form of mentorship on an international level is used for the systematic development of employees with high potential from various countries. Employees with high potential meet distinguished Krka employees, deal with current issues and pursue targeted development of their potential and competences.

An important tool enabling effective leadership, motivation and the development of employees is the Krka appraisal interview. Managers and employees use it to define objectives, discuss priorities and expectations relating to work and employee development, and on that basis, plan the employees' training. All employees are involved in the Krka appraisal system.

Competence-based systems for various working areas enable us to identify the needs pertaining to the development, knowledge upgrade and further skills development of our employees. Competencies are a good basis for the recruitment of new employees and for designing training and skills development programmes and their evaluation.

We provide our employees with continuous education and training in various specialist fields, such as management and personal growth, foreign languages, particularly English and Russian, quality management, and modern information technology.

Our employees learn about the most recent developments at faculties, institutes and other institutions in Slovenia and abroad. In 2016, 310 Krka employees were also part-time students, of whom 41 were involved in post-graduate studies. Krka supports them by partly funding the fees and by granting them study leave.

Krka was one of the first companies in Slovenia to develop programmes for national vocational qualifications (NVQ). We enable our employees to obtain practical skills directly from the working process. We are the only company in the country to offer six programmes of national vocational qualification in the field of pharmaceutical industry. Employees in pharmacies and other pharmaceutical companies are involved in these programmes. In 2016, we awarded **99 certificates for 3 vocational qualifications** (fourth level of education). 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 the 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 heads 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 2016 to preparing educational programmes related to people management, solving conflict 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.

On average, every employee in the Krka Group attended various training and professional development sessions seven times, totalling 43 hours. Krka spends 0.7% of its operating revenues on employee education and training.

In order to connect employees from various countries and achieve synergy in the pursuit of our goals, we organise international conferences on: marketing, sales, technology, human resources, and regulatory affairs. They are an opportunity for employees of Krka and its subsidiaries and representative offices abroad to exchange experiences, analyse current challenges, and discuss common strategies and goals and how to transfer good practices to enable the Company's success in the future.

Employee remuneration and motivation

We acknowledge good work and encourage employees to perform well through a performance bonus system. 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 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

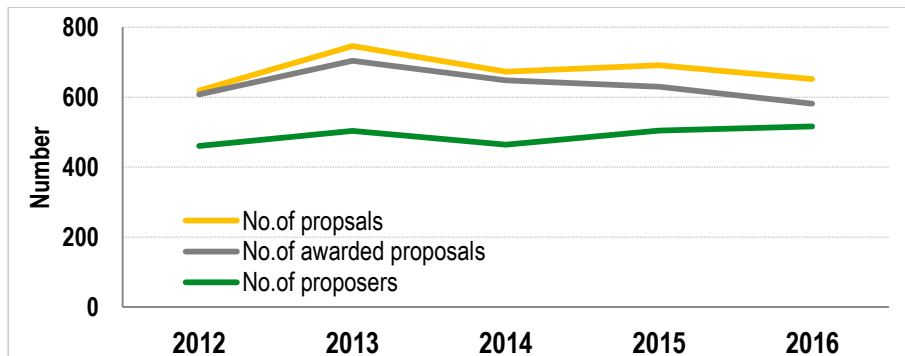
The inventive work system, which has been in place in Krka since 2003, enables all employees to be included in the continuous improvement system in the quality system, and hence also the integrated management system. We encourage our employees to always search for better solutions in their jobs. Innovations are directed especially at resolving issues related to economy, production, logistics, technology, engineering, administration, the environment, business and information science. 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 due to their proposal improvements have been made.

We encourage inventive work by conferring awards quarterly, by a token award with a thank you letter from the President of the Management Board and CEO, announcements on the Krkanet and in the internal magazine Utrip, publications of

interviews with individual proposers in 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.

Number of employees' proposals and proposals



Quality of life

At Krka, we care for the health and well-being of employees. We participate in areas that contribute to the quality of life beyond the working environment.

For several decades, we have supported the well-being of our employees and good interpersonal relationships by organising a wide range of cultural and sports events. We inform our employees about the importance of a healthy diet and offer good quality meals in all of the Company's locations.

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 a winter sports day. Krka employees also meet at gatherings honouring the disabled, blood donors, firemen, sportsmen, on environmental cleaning campaign days, at events celebrating the opening of new facilities, as well as cultural and other events.

Employees also have access to a wide range of sports activities. The Krka Trim Club organises sports activities which are attended by approximately 1,000 employees every week in their spare time. The Krka Culture and Arts Society contributes to the cultural life. It organises gallery exhibitions, a choir, a theatre club, creative workshops and visits to cultural events.

We organise a traditional New Year's gathering for Krka retirees, who can be members of the Krka Pensioners Club, through which they keep in touch with other former Krka employees.

Health and safety at work

Krka provides its employees with a safe working environment. The latest developments in occupational health and safety, and fire prevention are incorporated into every new project and technology. We constantly 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 the health of our employees is a common 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 to any kind of violence, weekly and preventive medical workouts, sports, cultural and social

events, healthy meals at our canteens, workshops on the topic of healthy lifestyle and the negative effects of psychoactive substances, which are given by doctors, etc. In 2016, we further upgraded the system of promotion of health and increased the awareness of the employees on 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 the scale from 1 to 5 (1 is the lowest).

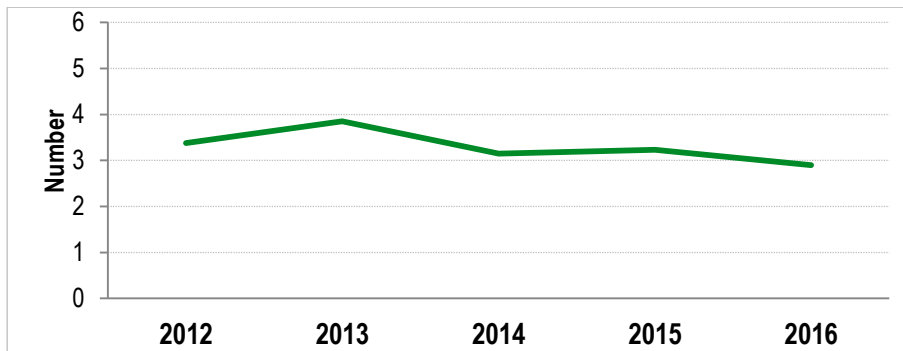
The Interpersonal Relations and Sick Leave project, which has helped reduce sick leave, has been in place for several years. In 2016, 4.7 % of employees in the Krka Group were on sick leave and 6.7% were on maternity leave.

A total of 5.1% of employees of Krka, d. d. have a registered disability who, in accordance with the legislation related to the disabled and their limitations, work in appropriate job positions. 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 with their work activities in job positions that are adjusted to their abilities. Krka also provides appropriate re-qualification programmes for employees who can no longer perform in their current job positions.

The occupational safety system complies with the BS OHSAS 18001:2007 standard and is incorporated into the Krka integrated management system. Each organisational unit at Krka includes a health and safety at work group together with a certified health and safety officer. At the company level, we have a health and safety at work team that prepares key objectives and programmes, submitting them to the Management Board for approval.

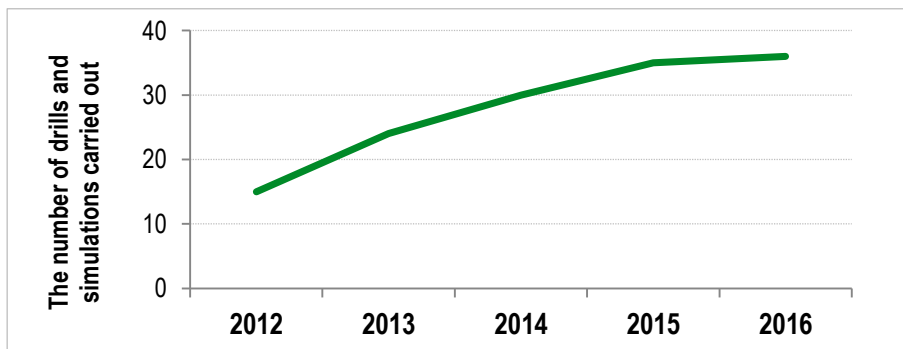
We continually monitor data on workplace accidents. The LTAR (Lost Time Accident Rate) indicator in the graph below indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work. In 2016 the LTAR reached 2.90, which is by 10% better than in 2015. The majority of injuries were minor. Men represented 70% of all injured persons and 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 like large fires or major spillage of hazardous substances. The Fire Protection Department and the Industrial Fire Brigade are responsible for emergency interventions. In 2016, we conducted 36 emergency drills, of which four were major, to be better prepared for emergency events. In these four drills we worked hand-in-hand with the Novo Mesto Fire and Rescue Service and the 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 was tested.

The number of drills and simulations carried out to be better prepared for cases of emergency



Communicating with employees

Open and regular communication between the management team and employees is vital to the processes of the Company's internationalisation and optimisation as well as change and risk control, and decision-making.

We promote responsible and ethical communication, and encourage open and two-way exchanges at all levels. This is how we create a productive working environment, develop a sense of belonging, and build a culture of mutual trust and respect, lifelong learning and responsible and efficient work.

We keep employees informed about the Company events by means of various internal communication tools.

The Works Council is the link between the employees and the Management Board. Its members represent all organisational units in the Company. Employees can therefore put their initiatives and questions forward through members or the President of the Works Council or through the Worker Director.

Another important source of information is the annual worker assemblies where the President and members of the Management Board inform employees about the operating results of the past year, plans for the current year, the Group's development strategy, and other news. At these assemblies employees may ask questions and put forward their proposals. If employees wish to 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.

Employees also receive news regularly by way of our internal weekly bulletin *Bilten*, which is available in print and electronic form, and via our monthly magazine *Utrip*. *Utrip* contributes to a better understanding of Krka's vision, mission and values, as well as the Krka Group's strategies and policies. Local editions of *Utrip* (*Puls* in countries outside Slovenia) and *Bilten* (*Bulletin*) report on local news from our markets and the most relevant corporate news.

Our intranet website Krkanet is a tool for internal communication. It is the central venue for posting documents and offers support for our business processes and project work. Subject matter is in two languages and is accessible to all the employees in the Krka Group, while in key markets employees also have access to portals in their local language.

We also send out news via the electronic address Krkaš.si, notice boards and information screens, as well as by means of internal communication campaigns on important company strategies. Another Krka newsletter in electronic form is the M-Bulletin intended for our marketing and sales staff outside Slovenia.

We use surveys to measure employee satisfaction with internal communication. The results help us to improve and optimise the use of the media and tools for internal communication.

Responsibility to investors

Krka's principal objective is to maximise the company's value and act on behalf of all stakeholders, including shareholders (investors). We demonstrate our responsibility by achieving our business objectives, operating in a transparent manner and communicating with investors.

The transparency of our business operations complies with the adopted good practices of corporate governance as stipulated by corporate governance codes.

Quality communication with investors and analysts is an important aspect of Krka's attainment of its primary objective, because it helps investors understand our business story. In 2016, we received the award from the business daily newspaper *Finance* for best annual report and best report on the business operations analysis and plans.

We strive to make our communication with investors as transparent, prompt and consistent as possible. The information that we pass on to investors is mainly related to our business results and the company's future strategy. We comply with the company's information disclosure policy at all times.

The main communication objectives are to:

- achieve a fair market 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);
- Annual General Meetings;
- 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 Finances Division by phone +386 7 331 7591 or e-mail 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 operations. 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 and other pharmaceutical companies. More than 90% of all our customers are long-term customers. We value their opinions and proposals, and continuously make an effort

to satisfy them with our sales and post-sales services. This is why we use annual opinion polls to check customer satisfaction with our products, sales personnel, order processing, complaint procedures and their general level of satisfaction.

In 2016, we used an online opinion poll for the first time, to which the response was 82%. Special attention was paid to identifying customer expectations and major areas of satisfaction. The success of ensuring customer satisfaction, in addition to a high 89% index of total customer satisfaction, is also reflected in customer loyalty and growing business operations.

Responsibility to indirect customers

One of the biggest and most important customer groups is the indirect customer group or the professional public. It comprises doctors, veterinarians and pharmacists who prescribe, recommend and dispense Krka's products representing a link with the end customers.

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 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 2016, which were held around large international congresses. They were attended by over 350 participants from 20 countries. To accompany international professional events in Slovenia, which were attended by more than 1,350 participants from 14 countries, a professional programme and a visit to the plant 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 and ethical promotion. The advertising of pharmaceutical products is subject to strict regulation and control.

Medical representatives are regularly professionally trained to provide the professional public with the most cutting-edge treatment options, and accurate and current information on 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 2016, we updated several e-courses.

We follow modern technological trends, which show an increased use of digital media such as smart phones and tablets. In 2016, we continued to provide our medical representatives with tablet computers to facilitate the presentation of Krka's products, as well as planning and recording their work. Around 80% of medical representatives were using tablet computers at the end of the year.

In 2016, we introduced web applications with an added value for the user. We prepared three for the professional public. The Krka's medicines application, offers a more simple overview of therapeutic groups, with a list of Krka's medicines. The KrkaStatinCalc app helps doctors calculate the most appropriate dose of statin for each patient. The KrkaVetExpert app is intended for veterinarians. It simplifies the calculation of doses for farm animals. The advantage of these apps is that once they have been uploaded to a mobile device, they also work off-line.

Feedback and opinions obtained through daily contact and independent market research are important. In the Russian Federation, our largest market according to a Com-con survey, we are the most recognised supplier of medicines among pharmacists and the leaders in visiting pharmacies. We are also among the leaders as regards the work of our medical representatives and the number of doctor visits from ten specialist areas of medicine. According to Cegedim, we are the leading foreign supplier of medicines in Poland, our second largest market, in terms of the satisfaction of the professional

public with suppliers of medicines, with general practitioners and psychiatrists, and among leaders with cardiologists, internist doctors and gastroenterologists.

We are one of the few generic pharmaceutical companies whose products have had clinical efficacy demonstrated in several international clinical trials. In 2016, the results of two recently completed international clinical trials were presented at two of the most renowned European congresses. At the congress of the European Society of Cardiology in Rome, two posters were presented showing the results obtained in the Rosu-path study in which patients were treated with rosuvastatin. It was the first clinical study in the world that also demonstrated the efficacy and safety of additional strengths of rosuvastatin (15 mg and 30 mg). At the European Society of Hypertension, the results were presented of the Victory clinical trial in which patients were treated with valsartan. The results of some clinical trials with Krka's medicines have been published on PubMed, one of the largest digital biomedical libraries for the professional public in the world.

Responsibility to end users

We care for the health of the end users of our products with high-quality, effective and safe products. A broad range of Krka's products is used to treat the most common illnesses of modern times.

We feel great responsibility to our end users, so we put all our efforts into ensuring the high quality of our products and services. The quality of active ingredients, excipients and all incoming materials through to the finished products is examined with laboratory tests using state-of-the-art and validated analytical methods, devices and procedures. All our prescription pharmaceuticals and non-prescription products are tested and comply with all regulations. We market only those products which have been approved and comply with requirements and regulations.

We implement health protection, safety systems according to clear guidelines incorporated into our operations. Our risk management system related to health, consumer safety and protection complies with legal requirements and regulations.

Our system of collecting information about risks to the health of patients or public health related to prescription pharmaceuticals and non-prescription products, scientific data evaluation, assessing the possibilities for reducing and preventing risks and taking the basic measures needed for the safe use of medicines complies with European legislation and the regulations of other countries where Krka holds marketing authorisations.

Trust is the result of a long-term relationship which we form and nourish through appropriate communication. With end users, we engage in responsible and professional communication, complying with relevant legislation. We do our best to ensure that our consumers receive all the necessary information about our products.

Product and related information is presented on product, corporate and specialist web pages in 26 languages and on over 100 web pages. In accordance with the new standards, the web pages adjust to the device as more and more users access the Internet via mobile devices rather than computers. Promotional and educational videos on non-prescription products are available on YouTube in several languages on one site.

Diverse web content and channels developed in accordance with the needs of users and digital trends allow for quick access to current information on Krka's products.

We contribute to social progress

We care for people's health and high quality life with the production of quality, safe and effective medicines. Since the very beginnings we have worked closely with the local community.

In 2016, the Krka Company allocated 0.31% of its total sales to sponsorships and grants. We implement our sense of social responsibility by supporting health care and sports, humanitarian actions, science, education and culture, and we also support those whose efforts help protect the natural environment.

We support non-profit activities at the local and national level, in Slovenia and abroad. We support groups and individuals whose projects or activities promote social progress. By supporting international associations we are strengthening international cooperation.

Our priority is to support long-term projects that can contribute to improving the lives of as many people as possible, and to projects that promote mass participation and work with young people. In 2016, the Krka Company helped more than 700 institutions, associations and organisations to achieve their goals.

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 cooperation and partnership. We particularly support amateur clubs at the broad local level that enable young people to take part in recreational and competitive sports. As positive role models, young sportsmen and women are important representatives of Krka. This is why we support projects, clubs and associations that work with young people, and we intend to do this in the future.

We develop partnerships by sponsoring and donating to numerous organisations. Every year, we organise a meeting with clubs and associations that bear Krka's name and present our strategy regarding Krka's image, operations and plans. We also assess common achievements and present new guidelines and the possibilities for cooperation. Last year we met for the tenth consecutive time. The meeting was attended by 148 representatives of clubs and associations, among them were 89 young sportsmen, musicians and others. At the meeting, we conferred recognition certificates for the best presentation of a sponsor, for work with young people and for sports achievements.

There are 7,200 members, of whom 2,300 are younger than 18 in all the clubs and associations. Over 250 staff work in these clubs and associations. Last year, they attended 3,380 times at state competitions and 660 times at European and international competitions in 43 countries around the world. We also assist clubs and associations with organisation, while Krka employees take part in individual projects and organisation and administrative boards.

Trim klub Krka, established in 1971, plays a very important role in developing employee sports activities. In 2016, the club was mostly engaged in caring for employees' participation in sports, organisation of competitions and meetings, as well as organisation of events attended by Krka's sportsmen/women in events outside the company. Activities were regularly attended by 2,200 members.

Launched in 2009, one of our most notable projects is the campaign Caring for Your Health – Together We Scale the Heights. 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 which helps improve physical and emotional well-being. 11,000 hikers have walked the routes signposted by Krka, which is almost the number of all employees. We happily welcome every new hiker encouraged by our campaign to take a new step towards better health.

Krka Retirees Society has been active since 2000. They are united by their concern for their health and the quality of life and encouragement of lifelong learning. They organise trips, walks, visits to cultural institutions and lectures, Sunday meetings and countryside visits, sports meetings, annual meetings with members, social gatherings, creative workshops and courses. They also work with Trim klub Krka sports club.

In accordance with our mission, Living a healthy life, Krka allocates considerable funds to providing health-care institutions with modern and better equipment and 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 societies and associations.

We support cultural creativity

We know that culture is a sort of haven for human beings, contributing to greater value in life, and is of great significance for every nation. This is why we support various cultural genres and activities that make an important contribution to society.

Krka's Culture and Arts Society celebrated 45 years in 2016. Krka's Mixed Choir, which has given over 500 performances, plays an important part in social activity. There are also many gallery exhibitions. A new exhibition is opened every month in the Krka Gallery in Novo Mesto and Ljubljana. Altogether they have held more than 700 exhibitions. Drama Club meetings have been held in Krka's business premises in Ljubljana for over 25 years, and the 200th meeting was held in November 2016. Members of the Club may attend creative workshops every month. The Society strengthened its prominent position among providers of literary culture by organising the popular Dolenjska Book Fair, which provides information about new

books in the Slovenian market and encourages the reading culture. The 40th fair will be held in 2017. In 2016, Krka's Culture and Arts Society received the Novo Mesto coat of arms for its many years of important achievements and for making an important contribution to the promotion of culture.

We also support the symphony orchestra of the Glasbena šola Marjan Kozina music school, Dolenjski muzej museum, Galerija Božidar Jakac gallery in Kostanjevica and the Pihalni orkester Krka brass band. Krka has supported the Anton Podbevšek Teater theatre since it was founded.

In February 2016, the fifth book, a collection of poems – *A Poem Like a Water Drop Shimmers*, was published by Krka. The poems were collected as part of Krka's international contest in all those countries where Krka has its companies and subsidiaries.

We also supported numerous other cultural projects locally and far beyond state borders.

We have been organising Krka's cultural evenings since 2008. In 2016, we held the 10th event in the summer in Dolenjska.

Charity work

In 2016, the Krka Group allocated 0.17% of sales for donations or about a half of the means for sponsorship and donations.

We have been the biggest donor to the Dragotin Kette Primary School for children with special needs for many years. We also support occupational activity centres and nursing homes and give presents to children in the holiday season. In 2016, we also donated to the Red Cross and Karitas. We have helped individuals and the disabled when natural disasters struck in Slovenia and abroad. We donated to the People in Need Fund and several school funds that enable additional activities and help for children from socially threatened families. We also support several non-profit, non-governmental and non-political organisations.

Volunteering has been a part of the organisational culture since the company was established. Since 2012, we have held a socially responsible campaign, Krka's Week of Charity and Volunteering under the slogan 'Charity is also a part of us'. During the last five years, more than 4,800 Krka employees have worked as volunteers. Krka's Week of Charity and Volunteering brought together 1,361 Krka employees, more than 25% of all those employed at Krka and Terme Krka in Slovenia; 100 employees participated for the first time. 261 employees donated blood. At various Krka locations in Slovenia, our employees collected 3.1 tonnes of clothes, toys, footwear, food, books and other consumables for adults and children. We collected 260 kg of cat and dog food and helped in two animal shelters. We socialised with residents of 37 nursing homes and people in care from eight occupational activity centres and schools for children with special needs, preparing various workshops and presentations for them. The charity week ended with an open day, when Krka was presented to nearly 4,000 employees and their relatives.

Individuals contribute to the development of society by volunteering throughout the year. There are over 1,300 blood donors in the company. Several employees are members of various non-profit associations and organisations. Krka has always helped people who suffered due to natural disasters, accidents or social misfortune. We also collect donations through our Works Council for fellow employees who have been victims of major disasters, accidents and incidents.

Many of our employees have been volunteers for several years on sponsorship boards of various associations and societies, in nursing homes, in schools for children with special needs, and in other institutions to which we give our special attention.

Following proposals made by Krka employees on the best volunteer who participates in one or more charity areas and whose work and results make the lives of many in the community better, at the end of every year we select two and award them with recognitions.

We support new scientific discoveries

Science and technology develop very quickly. We at Krka are well aware of this, so since 1971 we have been encouraging young people to be creative and innovative, and to strive for excellence in their research by means of Krka Prizes Fund,

thus paving the way for new discoveries that will result in new products in future generations. The principle of Krka's Awards is to raise interest in research among students, pupils and mentors in educational institutions.

Young researchers have the option to have their research and development potentials recognised, thus increasing employment options in the industry. It is of major importance that they search for practical solutions in their research, thus contributing to treating the many illnesses of our time. Similarly, the role of mentors is important, as they make a significant contribution to progress through training young people and sharing new knowledge.

In 2016, five Krka Prizes were conferred for special achievements in research, and 25 to graduate and post-graduate students, while 23 secondary school students were awarded 12 Krka Prizes for team projects. With these awards we wish to encourage high-school students to recognise research challenges and opportunities that lead them to look for scientific solutions.

The main objective of the Krka Prizes Fund is to encourage cooperation between Krka and research and educational institutions, as this is the only way to make knowledge transfer possible. Many successful research projects in various areas of pharmaceutical and related sciences that will contribute to the patients' health even more efficiently in the future originate from a combination of basic and applied research.

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 part of Krka's everyday business operations at all levels and in all areas.

To minimise our impact on the environment, we have been using renewable sources of energy since autumn 2010. We installed a new solar power station on the roof and the façade of the new packaging material warehouse to generate green energy. Another contribution to a cleaner environment is electric vehicles. We follow global trends, which point to rapid development of electric vehicles, so we built our first charging station at Krka's HQ. It can be used by employees, business partners and visitors.

Environment protection is one of our key strategies, and is included in all processes from development to finished product. In order to reduce pollution and energy consumption, we encourage all Krka employees to be responsible for their actions every day. One way is with our internal communication campaign Your care for the environment!, with which we encourage energy savings, print savings and recycling.

We have been involved in activities to improve air quality and the development of sustainable mobility. They are included in Krka's Mobility Plan, with which we encourage the use of alternative and less environmentally harmful ways of commuting. We inform our employees about these issues in the internal magazine and the via Mobility website on the internet. In September 2016, we organised a Krka day without cars as part of the European Mobility Week. We encouraged our employees to walk to work, to ride a bike or use public transport. In this way, we contributed to sustainable mobility and health and at the time we helped to realise programmes directed at sustainability.

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 should live and work within the boundaries defined by our natural environment. This means using all natural resources sustainably, bringing emissions to the lowest possible level, protecting biotic diversity and being aware that natural heritage must be protected for future generations and all living beings. The slogan of the seventh general union environment action plan 'Living well within the limits of our planet' is our guideline, so environmental protection is an important part of our business strategy. As our operations affect people, the community and the natural environment, we strive to lower the effects on the environment to ensure a clean and healthy living environment for employees and the broad community. Environmental sustainability is becoming increasingly important to our customers, our employees and the public, so we have incorporated it into Krka's daily business operations. The ISO 14001 environmental care system implemented in 2001

is regularly updated. The requirements of the new standard ISO 14001:2015 were included in the 2016 update. That is why we included environmental care in the earliest developmental activities and projects, as well as in the entire product life cycle.

Through a holistic approach to environmental protection, we wish to foster a positive and responsible attitude to the environment among all the 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 in relation to the environment as the basis for recognising environmental standards and setting goals, and one of the important ways to strengthen environmental awareness among all 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 using 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 undertaken in any such events;
- check environmental impacts regularly;
- increase employees' environmental awareness through education and training;
- inform employees and other interested parties about the present state and achievements related to the environment;
- comply regularly with legal and other requirements adopted by Krka;
- raise the 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 laws 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 containing ozone depleting substances. In 2016, we noted small individual deviations from the legally allowed concentrations at wastewater outlets. In each case, we took appropriate corrective measures to ensure compliance of our operations with the current laws. In 2016 non-compliance was not established and no financial or non-financial sanctions were imposed by the Inspectorate for the Environment and Nature which conducts inspections, or any environmental inspections.

Environmental milestones in 2016

- Reduction in the use of drinking water in the preparation of pharmaceutical waters by 3%;
- reduction of the use of river water for energy by over 8%;
- transfer of waste air polluted with volatile organic substances from the water purification system to thermal oxidation, thereby reducing the load of wastewater at the inlet of the treatment plant;
- increase in the quantity of collectible recyclable and usable waste by 27%;
- replacement of the steam boiler in Ljutomer;
- construction the water treatment plant with an advanced oxidation process in the plant at Jastrebarsko in Croatia;
- 1.8% lower average fuel consumption in transport.

Costs of environmental protection

We allocated €6 million to environmental protection in 2016. The direct costs of environmental protection total €4.5 million and include the costs of wastewater discharge and treatment, waste management, waste air treatment, noise management, monitoring costs, environmental levies and other indirect costs of environmental protection. Our investments in environmental protection amounted to €1.5 million last year. By investing in equipment and technologies, we ensure continuous improvement in all fields of environmental protection.

Use of natural resources

Water

Water is gold, which has been proven by history. But according to an old folk tale, it also brings bread, health, happiness, rich harvests and prosperity. Although Slovenia is a country rich in water, water supplies are vulnerable and distributed unevenly. Water consumption is a very important element of environmental protection, so we consistently plan, monitor and control it. Many of our activities are aimed at maintaining the quality of the River Krka. All water systems at Krka are managed in compliance with Good Manufacturing Practice and the HACCP system.

Consumption of drinking and river water

Krka's main sources of energy are:

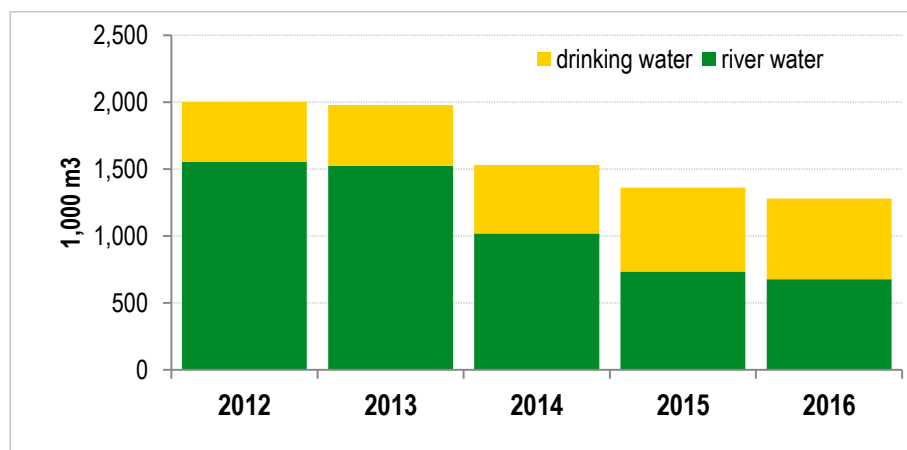
- drinking water from the municipal utility services;
- river water.

A computer-operated surveillance system is used to closely monitor the consumption of drinking water by large users. We prevent failures and uncontrolled run-offs through correct planning, implementation and preventive maintenance of pipelines. This is why the increase in drinking water consumption lags behind the growth in output.

Over 80% of the drinking water is used in production processes. Drinking water is the raw material for the preparation of high-quality purified waters used in the production of pharmaceutical products. We use membrane technology in the process, which has lowered the consumption of chemicals and reduced the impact on the environment. We ensure consistent water quality by suitable preventive maintenance and by monitoring the operations of machines. With technological improvements we ensure quality, extend the useful life of equipment, reduce the use of water and chemicals, and generation of waste. In 2016, we reduced the use of river water by 8% and the use of drinking water for the preparation of pharmaceutical waters by 3%.

More than 62% of the river water is used for cooling by various heat exchangers, especially in API production, while the remaining 38% is used in the preparation of technological waters for energy supply and production.

Consumption of drinking and river water



Consumption of drinking and river water		2016	2015	2014	2013	2012
Total water consumption	m ³	1,279,065	1,362,297	1,531,957	1,978,658	2,001,988
Drinking water	m ³	600,781	628,770	513,375	455,403	447,268
River water	m ³	678,284	733,527	1,018,582	1,523,255	1,554,720

Energy

Krka's main sources of energy are:

- natural gas;
- liquid petrol gas;
- electric power; and
- fuel oil as back-up fuel.

Consumption of energy in GJ	2016	2015	2014	2013	2012
Energy (total)	910,031	889,239	836,284	801,631	792,221
Electric power	313,560	308,585	292,895	309,765	317,064
Natural gas	569,831	559,010	523,837	469,241	447,338
Liquid petrol gas	22,975	20,083	19,395	19,372	19,303
Fuel oil (extra light)	3,665	1,561	157	3,293	8,516

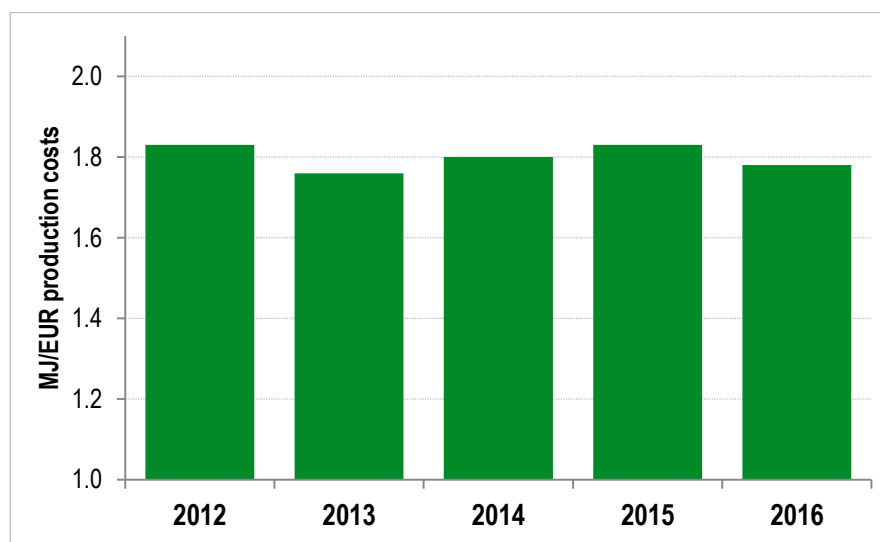
The electric power supply comes from the public utility electricity grid, from Krka's own generators powered by renewable sources, such as the solar power station, and from the natural gas powered cogeneration of thermal and electric power.

Generated electric power – alternative sources in GJ (total)	2016	2015	2014	2013	2012
Solar power plant	238	241	223	243	289
Cogeneration	49,617	48,180	48,989	13,238	0

Specific use of energy

Specific energy use has been declining as a result of several energy-efficiency measures. In 2015, we started production in the new plants Notol 2 and Sinteza 1, but these are not yet at full capacity. We also fully established climatic conditions, which has a negative effect on the specific use of energy. Despite the start-up of the new plants, the specific use of energy remained similar to 2015.

Specific use of energy

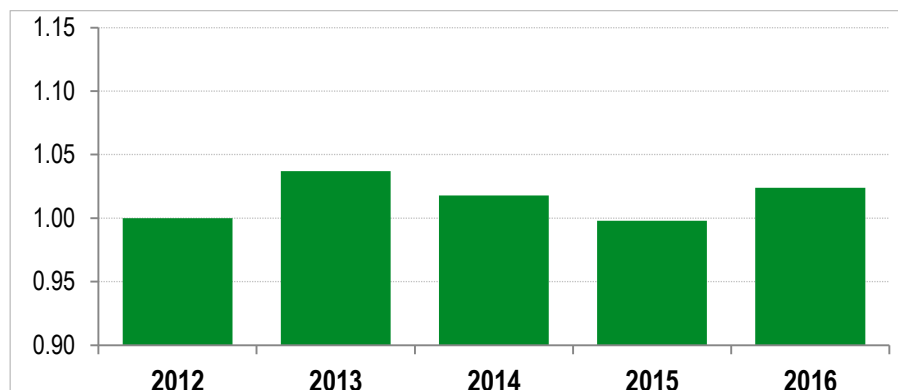


		2016	2015	2014	2013	2012
Specific use of energy	MJ/€	1.78	1.83	1.80	1.76	1.83

Energy efficiency index

Energy efficiency means that less energy is used for the same purpose. In the past few years, we have been reducing the specific use of energy and energy efficiency index. Despite the start up of our new plants, the specific use of energy and energy efficiency index remained similar to the 2015 figures.

Energy efficiency index



	2016	2015	2014	2013	2012
Energy efficiency index	1.024	0.998	1.018	1.037	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

Replacing the steam boiler

There are two steam boilers in the Ljutomer boiler room. The older one has been replaced with a new one of a more appropriate size which is more efficient in terms of energy. The size was selected based on previous use of technological steam. Both boilers together will produce the highest possible annual energy yield. We selected the best technology with equipment for the first and second level of wastewater use with a condensation of flue gases and a burner, whereby NOx emissions are lower than 100 mg/m³, which is below the legal requirements.

The selected technology increased the energy yield of the boiler room from 89% to 96%.

Central glycol cooling system –1 °C

With all new projects related to the preparation of dry air, dehumidification technology with glycol refrigeration is used, enabling the recovery of waste heat from cooling production units. New investments and reconstructions in seven plants that also need glycol cooling energy are planned for 2017. 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 2016, project documents were prepared and construction was started. It will be completed in the first half of 2017. With the central system, we will save more than 15% in investments and 22% in regular annual operating and maintenance costs.

Energy management

The energy management system includes regular company energy audits. In the past, we conducted thorough audits, specialist audits of individual systems and internal energy audits.

Based on positive experience from previous audits, we began a thorough energy audit of all our industrial sites in Slovenia. A continuous increase in production capacity and scope is a feature of Krka's operations. This also leads to big changes in energy consumption, as new buildings also increase the number of devices and systems, so the gradual optimisation of existing systems and processes based on good practice and experience is even more important.

Biodiversity*

Slovenia has above-average biodiversity. Approximately 26,000 species live in Slovenia, including 800 animal and 66 plant endemic species, which is more than 1% of all known living creatures. 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*, an EIA is an area of the habitat or a large ecosystem unit which is an important contributor 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 comprises 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, thick-shelled fresh water shellfish, *Proteus anguina*, 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 waste water is treated appropriately at the municipal waste water treatment plants in Ljutomer and Vipav Krško, so that our emissions do not endanger biodiversity.

Transport

We use all means of transport. Transport is organised through our own transport department. We use our own vehicles or employ contractual carriers. Our products are mostly 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 2016, we organised transport for 9,556 shipments of finished products, raw materials and packaging materials. Krka's vehicles travelled over 1.8 million km. By modernising the car pool and providing additional training for the drivers, we reduced average fuel consumption by 1.8%.

In 2016, we recorded no extraordinary events or accidents that would jeopardise the environment, property or people's safety. 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 2016, we organised a school of economical driving for truck drivers. We pay special attention to ensuring that all our contractual carriers and their drivers are duly informed of the requirements and characteristics of transporting pharmaceutical products.

Krka's car pool comprises 19 vehicles and is regularly modernised. All vehicles ensure appropriate conditions for drivers and meet environmental standards. Dispatch processes and transport were updated with new software that enables better planning and control of transport. We continued the expansion of two-level loading and thus increased the utilisation of the loading area, reducing the number of transports.

* Biodiversity is the degree of variation of living organisms of all types. Among other things, it includes terrestrial, marine and other aquatic ecosystems and ecological complexes. This includes diversity within species, between species and the diversity of ecosystems.

Emissions

Wastewaters

Waste water 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 the priorities regarding environmental protection at Krka. By means of several activities and professional work, we strive for the long-term preservation of water quality in all our production sites. Wastewater in Ločna is treated with Krka's modern industrial treatment plant, which follows requirements based on the best available technologies (BAT) in this field, while waste water from dislocated plants is treated by 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 water treatment plant. In 2016, we treated 705,741 m³ of wastewater, or 10,219 m³ less than the year before. We generated 315,987 m³ 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 2016, we generated a total of 17,673 m³ of wastewater.

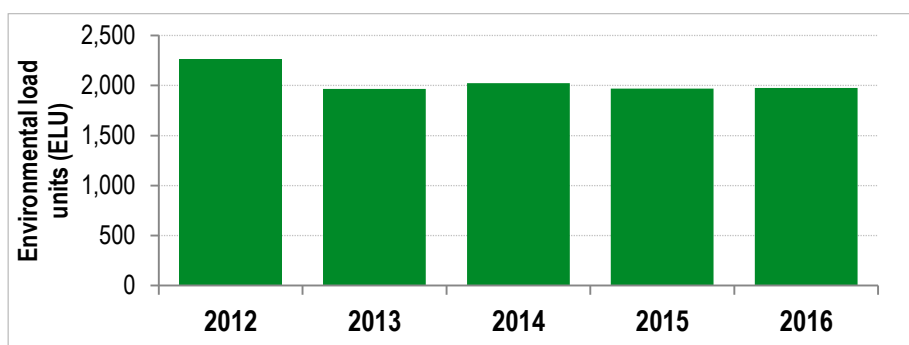
Our plant in Šentjernej generates industrial and municipal wastewater. Effluents are discharged by the public sewerage system and treated by the new municipal waste treatment plant in Šentjernej. In 2016, we generated a total of 19,315 m³ of wastewater.

Our plant in Ljutomer generates industrial and municipal wastewater. Effluents are discharged by the public sewerage system and treated by the new municipal waste treatment plant in Ljutomer. In 2016, we generated a total of 30,600 m³ of wastewater.

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 2016, we generated a total of 34,689 m³ of wastewater.

The total environmental load units (EO) in comparison to 2015 remained the same. The well-managed wastewater treatment has been upgraded with additional control mechanisms for reduction of emissions and for lowering potential risks to an acceptable level. 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 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

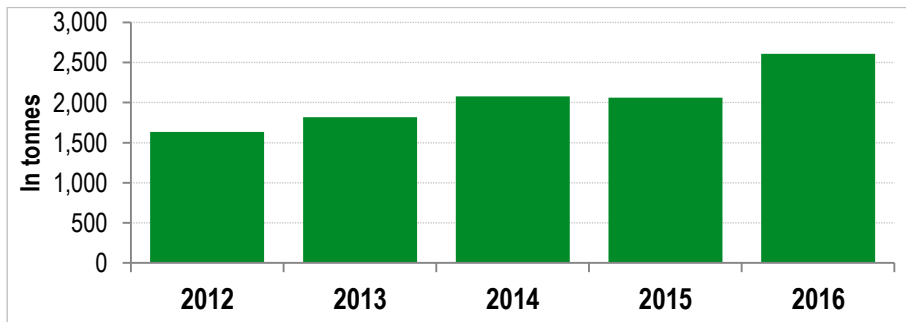
We treat waste responsibly, according to the laws and requirements. Waste is an important source of raw materials and energy, so special attention is paid to separating waste at the source, i.e. at the point where it is generated. For this

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.

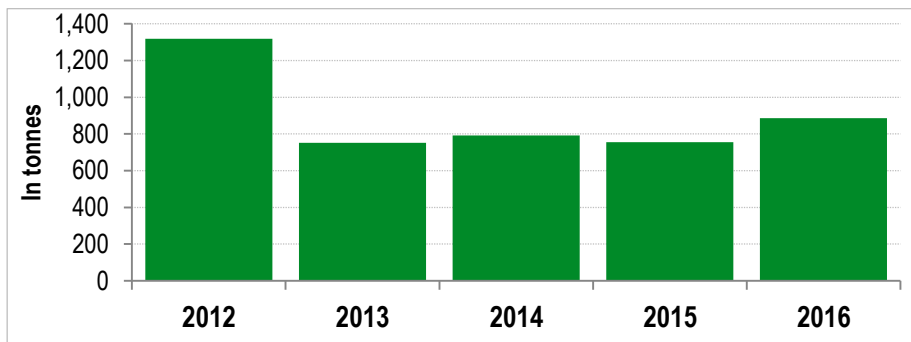
Packaging accounts for most waste in the market, so we optimise the packaging size of individual products.

Our aim in handling waste is the continuous improvement in the ratio between the amount of separated waste for recycling and processing as well as disposed waste. In 2016, we continued the positive trend and increased the quantity of separated and recycled waste by 27%. Only 7.7% of all waste is disposed in landfills. By implementing the aerobic stabilisation of the sludge system at the treatment plant, the quantity of sludge in 2016 decreased by 3%, even though the waste treatment plant had a heavy workload. These results can only be achieved with responsible work by all employees, so providing regular training on waste management is also an important part of our activities.

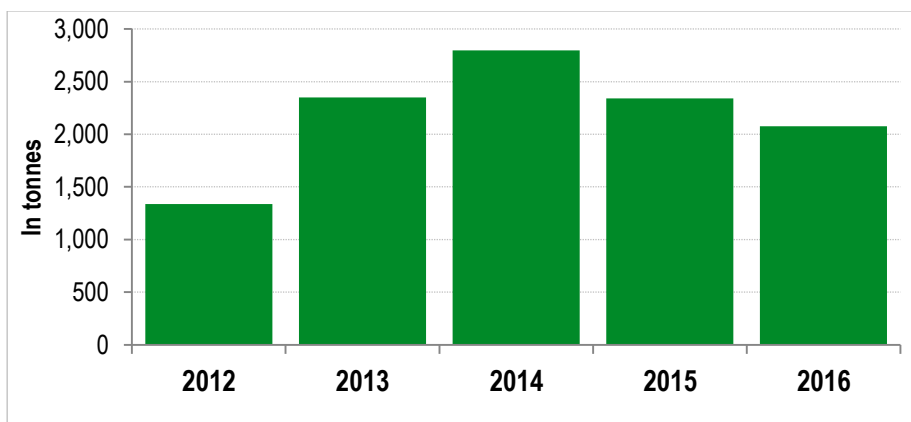
Recyclable waste



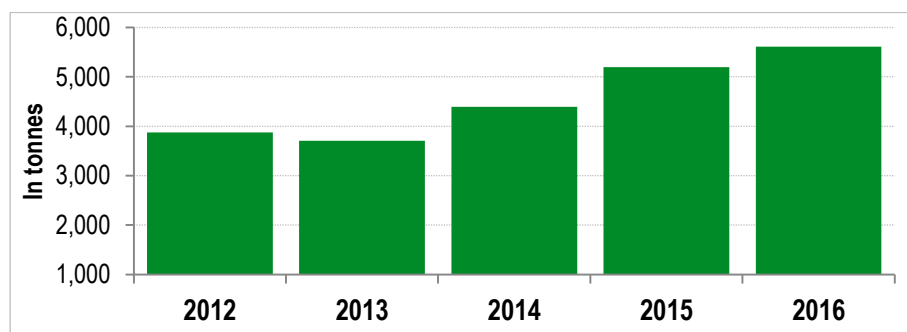
Waste disposed at landfills



Waste for biological treatment and processing



Waste for incineration



Noise

We have been reducing noise emissions as much as possible by installing equipment with lower noise emissions, setting up noise barriers, and by fitting cargo vehicles with electrical cooling aggregates. All measurements comply with the laws.

Air emissions

The quality of air that we breathe influences our health and quality of life, so at Krka, air emissions are reduced by treatment systems fitted to all outlets that constitute 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 for thermal oxidation of waste air ensure high efficiency in eliminating organic materials, and the least possible emissions of these materials into the air. Pollution with PM₁₀ particles is a big problem in Slovenia. These particles are a health hazard especially because they enter the respiratory system causing many health problems, have a negative effect on the environment and cause damage to 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 in the surrounding air, is released into the environment.

		2016	2015	2014	2013	2012
Air emissions						
Energy related CO ₂ – direct	t CO ₂ ek	33,227	32,288	30,147	27,367	26,542
Energy related CO ₂ – indirect	t CO ₂ ek	43,115	42,430	40,273	42,593	43,596
TOTAL CO₂	t CO₂ek	76,432	74,718	70,420	69,960	70,138

We generate direct emissions of CO₂ 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. We increased direct emissions of CO₂ at Ločna due to the cogeneration of electric power, but reduced indirect emissions, as this part of electric power was not taken from the public electricity grid, which generally produces higher CO₂ emissions. Nevertheless, total emissions of CO₂ somewhat increased as we started production in the Notol 2 plant.

Environmental protection at Krka's subsidiaries outside Slovenia

We operate in the global market, so responsibility to the natural environment is to the greatest extent possible included in the activities of subsidiaries and representative offices abroad. By permanent cooperation, information exchange and investment, we transfer good practices in environmental protection to all subsidiaries, considering the local laws. We have set up separate waste collection systems, and waste is only handed over to authorised waste collection and treatment companies. Wastewater is collected, analysed and treated by municipal wastewater treatment plants. In Jastrebarsko in Croatia, we installed advanced technology for cleaning wastewater with an oxidation process. We are also planning to open our own treatment plant for cleaning waste water in Krka-Rus in the Russian Federation. Highly effective, absolute filtration devices are built in on sources of dust emissions. We transfer good practices in the rational use of energy and water to subsidiaries.

We included our subsidiary Terme Krka in the energy management system. We began exchanging good practices and had internal training on efficient use of energy. We also conducted an energy audit of two hotels. Only with organisational and smaller investment measures, did we decrease the use of energy and associated costs, paying off the investment in less than a year and a half.

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 2016, 385 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 of environmental issues, thus reducing effects on the environment to the greatest extent possible.

We inform the public about our environmental activities via public announcements in the media and at various seminars, symposia and round tables. We are actively involved 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 our closest neighbours, as we impact their living space and the quality of life. We feel greatly responsible to the local community with whom we share the environment. We organise traditional bi-annual meetings for local residents; (the last one was in 2015). We inform local residents about our activities, performance, and plans related to environmental protection. Such meetings make an ideal opportunity for an open dialogue and exchange of opinions. We consider the information we obtain on the views of the local people and our role in protecting the environment in planning environmental goals and programmes.

Krka's sustainable development indicators for 2016

ENVIRONMENTAL DATA		2016	2015	2014	2013	2012
Total water consumption	m ³	1,279,06	1,362,29	1,429,23	1,978,65	2,001,98
Drinking water	m ³	600,781	628,770	513,375	455,403	447,268
River water	m ³	678,284	733,527	1,018,58	1,523,25	1,554,72
Energy consumption (total)	GJ ¹	910,031	889,239	836,284	802,293	792,221
Electric power	GJ	313,560	308,585	292,895	310,387	317,064
Natural gas	GJ	569,831	559,010	523,837	469,241	447,338
Liquid petrol gas	GJ	22,975	20,083	19,395	19,372	19,303
Fuel oil (extra light)	GJ	3,665	1,561	157	3,293	8,516
Generated electric power – alternative sources (total)		49,855	49,212	48,421	49,212	13,481
Solar power plant	GJ	238	241	223	243	289
Cogenerated electric power	GJ	49,617	48,180	48,989	13,238	0
Energy intensity						
Specific use of energy	MJ/€	1.78	1.83	1.8	1.76	1.83
Energy efficiency index ²		1.024	0.998	1.018	1.037	1
Wastewater (total)	m ³	1,123,73	1,277,94	1,320,90	1,632,79	1,721,73
Cooling water	m ³	315,987	458,522	558,862	930,988	894,236
Industrial wastewater	m ³	807,748	819,422	762,041	701,807	827,503
– Suspended solids load	t	25.9	15.8	21.7	20.62	22.1
– Biochemical oxygen demand	t	3.7	4.7	5.3	7	20.8
– Chemical oxygen demand	t	67.4	74.1	80.8	66.7	88.5
– Nitrogen	t	4.1	3.7	3.1	3.8	3.8
– Phosphorus	t	0.7	0.3	0.3	0.3	
Environmental load units (ELU) ³	EO	1,977	1,969	2,024	1,967	2,271
Waste (total)	t	11,472	10,640	10,303	8881	8397
Hazardous waste (total)	t	5611	5198	4394	3705	3878
– Solid waste	t	735	704	608	508	518
– Liquid waste	t	4876	4494	3786	3197	3360
Non-hazardous waste (subtotal)	t	5816	5442	5909	5176	4519
Disposal at landfills (subtotal)	t	886	755	792	751	1,319
– Mixed waste (disposal)	t	886	755	792	751	665
– Biomass (disposal)	t	0	0	0	0	654
Mixed waste (energy use)	t	228	272	233	244	229
Biomass (composting)	t	2077	2341	2797	2351	1338
Recycling waste (total)	t	2610	2063	2079	1819	1633
– Paper	t	1038	1018	1021	953	790
– Plastics	t	295	273	301	237	221
– Glass	t	118	86	119	104	105
– Metal	t	436	159	126	121	129
– Wood	t	723	527	512	404	382
Electrical and electronic equipment	t	15	11	8	11	6

Air emissions						
Energy related CO ₂ – direct	t CO ₂ ek ⁴	33,227	32,288	30,147	27,367	26,542
Energy related CO ₂ – indirect	t CO ₂ ek	43,115	42,430	40,273	42,593	43,596
Energy related SO ₂	t	1	1	1	1	1
Energy related NO _x	t	28	26	24	23	23
Ozone-depleting substances and fluorinated greenhouse	t CO ₂ ek	2366	1298	1421	903	2203
Compliance						
Extraordinary events		0	0	0	0	0
Environmental protection (total)						
Environmental protection costs	In € thousand	6,004	7,010	6,531	5,950	6,545
Investments in environmental programmes	In € thousand	4,540	4,361	4,154	4,103	4,220
		1,464	2,649	2,377	1,874	2,325
SOCIETY						
Number of employees		4889	4798	4738	4627	4495
Slovenia		4343	4292	4256	4189	4085
Representative offices abroad		546	506	482	438	410
Health and safety						
Sick leave rate	%	5.8	5.6	5.1	4.8	4.7
Number of accidents		21	23	22	28	22
Lost time accident rate (LTAR)		2.9	3.14	3.23	3.14	3.85
Proportion of disabled employees	%	5.1	5	5.1	4.9	5
Education and training						
Number of education and training hours	hours/employee	36.8	60	42	40.6	40
Education and training costs	EUR/employee	854	745	741	750	822

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 CO₂ was based on the emission factors published on the website of the Slovenian Environment Agency.

Who's who in Krka

Jože Colarič

President of the Management Board and CEO

Vinko Zupančič

Member of the Management Board and Director of API R&D, Production and Supply

Aleš Rotar

Member of the Management Board and Director of Research and Development

David Bratož

Member of the Management Board

Milena Kastelic

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

Borut Lekše

Deputy CEO–Legal Affairs and Head of Legal Affairs

Dušan Dular

Senior Professional Consultant

Mojca Vidmar Berus

Director of Corporate Performance Management

Marko Lampret

Technical Director

Ljubica Mikša

Assistant Chief Executive–QM

Elizabeta Suhadolc

Director of Marketing and Director of Pharmaceuticals

Alenka Jerman

Deputy Director of Marketing and Deputy Director of Pharmaceuticals

Breda Barbič-Žagar

Medical Director and Director of Strategic Marketing

Samo Komel

Director of Non-Prescription Products

Jože Primc

Director of Animal Health

Damjan Možina

Director of Sales and Director of Region East Europe

Tomaž Sever

Deputy Director of Sales and Director of Region Central Europe

Miran Bevec

Deputy Director of Sales for the Russian Federation and Director of Key Market Russian Federation

Mojca Prah Klemenčič

Director of Region Slovenia and Director of Key Market Slovenia

Andrej Klobučar

Director of Region South-East Europe

Boštjan Korošec

Director of Region West Europe and Director of Key Market West Europe

Matjaž Zavolovšek

Director of Region Overseas Markets

Zdravko Čuk

Director of Key Market Croatia

Tomaž Indihar

Director of Key Market Poland

Jan Gala

Director of Key Market Poland

Katalin Hubay

Director of Key Market Hungary

Amelia Tataru

Director of Key Market Romania

Vadim Kolesnikov

Director of Key Market Ukraine

Suzana Kolenc

Director of New Products

Zvone Simončič

Director of Pharmaceutical R&D

Valentina Zaletel-Mišmaš

Director of Pharmaceutical Production

Marko Herga

Director of API R&D and Production

Andrej Bavdek

Director of API Production

Brane Kastelec

Director of Finance

Mateja Vrečer

Director of Quality Management

Boris Dular

Director of Human Resources

Miran Kapš

Director of Information Technology and Telecommunications

Elvira Medved

Head of Public Relations

Mihael Florjanič

Head of Industrial Property

Andrej Škulj

Head of Health and Safety at Work

Darja Colarič

Head of Public Services

Mira Rataj Siročič

Head of Internal Audit



Living a healthy life.

Financial Report 2016



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INTRODUCTION TO THE FINANCIAL STATEMENTS

The financial statements consist of two separate sections.

The first section illustrates the consolidated financial statements and related notes of the Krka Group, whereas the second section illustrates the financial statements and related notes of Krka, d. d., Novo mesto (hereinafter also the Krka Company). 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 Annual General Meeting held on 6 July 2006.

The financial statements of the Krka Company and the Krka Group are presented in euros, rounded to the nearest thousand. They form an integral part of the 2016 Annual Report, which is published via the SEOnet electronic announcement system of the Ljubljana Stock Exchange, via the ESPI system of the Warsaw Stock Exchange and on the Krka website (<http://www.krka.si/sl/za-vlagatelje/financna-porocila/>).

Each section of the financial statements was audited by ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., and two separate reports as individual chapters have been prepared accordingly.

The Statement of Compliance presented below includes an acknowledgement of responsibility for all financial statements of both the Krka Company 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 the Company 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 2016.

The Management Board hereby acknowledges that:

- the financial statements of the Krka Company and its subsidiaries were prepared on a going concern basis,
- the selected accounting policies are applied consistently and any changes in accounting policies have been reported,
- the accounting estimates have been prepared in a fair and reasonable manner and in compliance with the principles of prudence and due diligence,
- the financial statements and the notes thereto for the Krka Company and the Krka Group have been prepared in accordance with the applicable legislation and the IFRS, as adopted by the European Union.

The Management Board is responsible for taking measures required to preserve assets of the Krka Company and the Krka Group's 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 regards 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, 17 March 2017

CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP

Consolidated statement of financial position

In € thousand	Notes	31 Dec 2016	31 Dec 2015
Assets			
Property, plant and equipment	12	874,100	826,192
Intangible assets	13	113,511	116,940
Loans	14	8,801	7,696
Investments	15	10,138	7,580
Deferred tax assets	16	31,260	27,949
Other non-current assets		257	241
Total non-current assets		1,038,067	986,598
Assets held for sale		467	41
Inventories	17	280,653	272,878
Trade receivables	18	510,406	433,133
Other receivables	18	33,777	31,540
Loans	14	9,441	37,380
Investments	15	77	11,808
Cash and cash equivalents	19	38,630	35,826
Total current assets		873,451	822,606
Total assets		1,911,518	1,809,204
Equity			
Share capital	20	54,732	54,732
Treasury shares	20	-29,690	-20,071
Reserves	20	109,678	73,387
Retained earnings	20	1,308,668	1,296,688
Total equity holders of the parent		1,443,388	1,404,736
Non-controlling interests within equity	20	1,056	1,248
Total equity		1,444,444	1,405,984
Liabilities			
Provisions	22	90,807	84,865
Deferred revenue	23	12,158	13,381
Deferred tax liabilities	16	12,348	12,736
Total non-current liabilities		115,313	110,982
Trade payables	24	128,437	103,871
Income tax payable		1,666	8,030
Other current liabilities	25	221,658	180,337
Total current liabilities		351,761	292,238
Total liabilities		467,074	403,220
Total equity and liabilities		1,911,518	1,809,204

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	2016	2015
Revenues	5	1,174,424	1,164,607
Costs of goods sold	7	-547,669	-489,648
Gross profit		626,755	674,959
Other operating income	6	7,863	26,576
Selling and distribution expenses	7	-317,418	-310,568
R&D expenses	7	-117,994	-115,393
General and administrative expenses	7	-76,771	-76,140
Operating profit		122,435	199,434
Financial income	10	65,679	25,561
Financial expenses	10	-71,816	-44,283
Net financial result		-6,137	-18,722
Profit before tax		116,298	180,712
Income tax	11	-7,842	-22,527
Net profit		108,456	158,185
Attributable to:			
– equity holders of the parent		108,452	158,245
– non-controlling interest		4	-60
Basic earnings per share (in €)	21	3.35	4.86
Diluted earnings per share (in €)	21	3.35	4.86

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	2016	2015
Net profit		108,456	158,185
Other comprehensive income for the year			
Other comprehensive income for the year reclassified to profit or loss in future periods			
Translation reserve	20	26,021	-9,826
Change in fair value of available-for-sale financial assets	20	2,558	192
Deferred tax effect	20	-581	-33
Net other comprehensive income for the year reclassified to profit or loss in future periods	20	27,998	-9,667
Other comprehensive income for the year that will not be reclassified to profit or loss in future periods			
Recalculation of post-employment benefits	22	-2,961	-3,946
Deferred tax effect	22	559	315
Net other comprehensive income for the year that will not be reclassified to profit or loss in future periods		-2,402	-3,631
Total other comprehensive income for the year (net of tax)		25,596	-13,298
Total comprehensive income for the year (net of tax)		134,052	144,887
Attributable to:			
– equity holders of the parent		134,048	144,947
– non-controlling interest		4	-60

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of changes in equity

In € thousand	Reserves								Retained earnings			Total equity holders of the parent	Non-controlling interests within equity	Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	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
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	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
Repurchase 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
Total transactions with owners, recognised in equity	0	-9,619	9,619	0	0	0	0	0	50,488	12,586	-158,470	-95,396	-196	-95,592
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.

2016 Annual Report – Financial Report of the Krka Group

In € thousand	Reserves								Retained earnings			Total equity holders of the parent	Non-controlling interests within equity	Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserve	Other profit reserves	Retained earnings	Profit for the year			
Balance at 1 Jan 2015	54,732	-10,677	10,677	105,897	14,990	30,000	-8,981	-75,292	1,001,636	79,528	148,081	1,350,591	1,308	1,351,899
Net profit	0	0	0	0	0	0	0	0	0	0	158,245	158,245	-60	158,185
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	-3,472	-9,826	0	0	0	-13,298	0	-13,298
Total comprehensive income for the year (net of tax)	0	0	0	0	0	0	-3,472	-9,826	0	0	158,245	144,947	-60	144,887
Transactions with owners, recognised in equity														
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	0	50,041	-50,041	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	148,081	-148,081	0	0	0
Repurchase of treasury shares	0	-9,394	0	0	0	0	0	0	0	0	0	-9,394	0	-9,394
Formation of reserves for treasury shares	0	0	9,394	0	0	0	0	0	0	0	-9,394	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-81,408	0	-81,408	0	-81,408
Total transactions with owners, recognised in equity	0	-9,394	9,394	0	0	0	0	0	50,041	16,632	-157,475	-90,802	0	-90,802
Balance at 31 Dec 2015	54,732	-20,071	20,071	105,897	14,990	30,000	-12,453	-85,118	1,051,677	96,160	148,851	1,404,736	1,248	1,405,984

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of cash flows

In € thousand	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		108,456	158,185
Adjustments for:		166,828	116,835
– amortisation/depreciation	12, 13	105,803	107,308
– foreign exchange differences		4,506	1,364
– investment income		-23,844	-26,087
– investment expenses		70,748	9,392
– interest expenses and other financial expenses		1,756	2,331
– financial income		17	0
– income tax	11	7,842	22,527
Operating profit before changes in net operating current assets		275,284	275,020
Change in trade receivables		-73,529	31,250
Change in inventories		-7,775	-26,618
Change in trade payables		14,034	476
Change in provisions		1,519	-18,226
Change in deferred revenues		-1,223	-1,524
Change in other current liabilities		28,703	16,114
Income tax paid		-23,521	1,449
Net cash from operating activities		213,492	277,941
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		919	878
Proceeds from sale of current investments		0	24
Dividends received		835	1,288
Proceeds from sale of property, plant and equipment		1,197	3,193
Purchase of intangible assets	13	-4,414	-5,807
Purchase of property, plant and equipment	12	-116,996	-103,053
Acquisition of subsidiaries and a share of minority interest without obtained assets		-40	0
Non-current loans		-2,662	-2,092
Proceeds from repayment of non-current loans		1,345	1,086
Payments to acquire non-current investments		-82	-100
Proceeds from sale of non-current investments		68	35
Payments/Proceeds in connection with current investments and loans		28,430	-35,575
Payments in connection with derivative financial instruments		-45,041	-6,919
Proceeds from derivative financial instruments		21,292	11,639
Net cash used in investing activities		-115,149	-135,403
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-296	-672
Acquisition/Repayment of current borrowings		0	-38,000
Dividends and other profit shares paid		-86,001	-81,208
Repurchase of treasury shares		-9,619	-9,394
Net cash used in financing activities		-95,916	-129,274
Net increase in cash and cash equivalents		2,427	13,264
Cash and cash equivalents at beginning of the year		35,826	23,585
Effect of exchange rate fluctuations on cash held		377	-1,023
Net cash and cash equivalents at end of the year		38,630	35,826

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Notes to the consolidated financial statements

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The consolidated financial statements for the year ending on 31 December 2016 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).

The consolidated financial statements were approved by the Krka Management Board on 17 March 2017.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available for sale, where the fair value has been taken into account. The methods applied in measuring 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 euro has been rounded to the nearest thousand.

The use of estimates and judgements

The preparation of financial statements requires the management of the controlling company to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities of the Group, as well as the reported income and expenses for the period.

Management estimates include, among other things: determining 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 considers all the factors that may affect these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, management makes judgements while considering potential changes in the business environment, new business events, new and additional information that may be available, as well as experience.

Until 31 December 2012, the Krka Group recognised the TAD Pharma trademark as an item of intangible assets with an indefinite useful life, determining its assessed recoverable amount on each reporting dates. As of

1 January 2013, the TAD Pharma trademark is recognised as an item of intangible assets with a finite useful life. The need for the impairment of the TAD Pharma trademark and goodwill that arose on the acquisition of TAD Pharma is assessed annually.

Key estimates and assumptions as on the day of the statement of financial position, 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 testing goodwill impairment are verified at least once a year. A determination of the present value of future cash flows requires management to assess estimated future cash flows from each cash-generating unit to which goodwill is allocated, as well as to determine the appropriate discount rate and other significant items identified in Note 13. The Company has found no evidence of goodwill impairment. The carrying amount of goodwill of €42,644 thousand did not change in the 2016 financial year. In addition, the Company carried out TAD Pharma trademark impairment testing and found that the carrying amount of the trademark on 31 December 2016 was equal to €39,011 thousand (2015: €39,859 thousand).

- Note 18 Impairment testing of receivables

Receivable impairment is recognised upon the preparation of annual and quarterly financial statement of individual companies in the Krka Group. Impairment is recognised for doubtful receivables not believed to be settled or to be settled in their full amount, based on a uniform methodology applicable to the Krka Group, considering the likely recovery or assessed customer default. The methodology contains quantitative and qualitative criteria classified into the following four groups: analysis of experience with the individual customer and of its financial statements, qualitative assessment of the customer by sales staff and estimated country risk of individual customers. Receivable impairment is thus computed with an algorithm that contains all the above criteria.

- Note 22 Post-employment benefits

Defined post-employment benefit obligations include the present value of termination benefits on retirement. These are recognised on the basis of the actuarial calculation approved by the controlling company's Management Board. The actuarial calculation is made by applying assumptions and estimates effective at the time of the calculation, and as a result of future changes, may differ from actual assumptions applicable at that future time. This applies primarily to determining of the discount rate, assessment of employee turnover, mortality assessment, and 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 foregoing 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 patent rights or competition law. A provision is recognised when the Company has present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements, as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. The Management 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 short-term liabilities

The Krka Group accrues contractually agreed discounts in its financial statements, when, based on annual sales, individual customers acquire the right to discount recognition in the following financial year, i.e. when contractually agreed terms and conditions of discounts are fulfilled. The assessed rate of discount depends on the facts known when the financial statement was prepared, 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 the policies applied by the Group.

The accounting policies and calculation methods used are consistent with those applied in the previous year. The accounting policies and methods used are noted below, and have been applied if relevant events occurred in Group companies in the reporting period.

New standards and interpretations effective from 1 January 2016

Amendments to IFRS 11 – Joint Arrangements: Accounting for Acquisition of Interests in Joint Operations

The amendments to *IFRS 11* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant *IFRS 3 – Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not measured again on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to *IFRS 11* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under the common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively.

These amendments do not affect consolidated financial statements of the Krka Group, as no interest was acquired in a joint operation during the period.

Amendments to IAS 16 – Property, Plant and Equipment, and IAS 38 – Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in *IAS 16* and *IAS 38* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that

are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment, and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively and do not have any impact on the consolidated financial statements of the Krka Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 – Property, Plant and Equipment, and IAS 41 – Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 – *Property, Plant and Equipment* will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance* will apply.

These amendments have no impact on the financial statements of the Krka Group, as the Krka Group has no bearer plants.

Amendments to IAS 27 – Consolidated and Separate Financial Statements: Equity Method in Separate Financial Statements

The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively.

These amendments have no impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 1 – Presentation of Financial Statements: Disclosure Initiative

The amendments to IAS 1 – *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements; and
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and statement(s) of profit or loss and OCI.

These amendments have no impact on the financial statements of the Krka Group.

Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Income tax, and IAS 28 – Investment in Associates and Joint Ventures: applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 – *Consolidated Financial Statements*. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 – *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the consolidated financial statements, as the Krka Group does not apply the consolidation exception.

Annual improvements to standards and interpretations - 2012 – 2014 cycle

Amendments to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of the disposal methods to another (through sale or through distribution to the owners) should not be considered a new plan of disposal but a continuation of the original plan. There is therefore no interruption in the application of the requirements in *IFRS 5*. This amendment is applied prospectively.

IFRS 7 – Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee could constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in *IFRS 7* in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19 – Employee Benefits (revised)

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This amendment must be applied prospectively.

Basis for consolidation

Subsidiaries

Subsidiaries are entities controlled by the parent company. Control exists when the controlling company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable 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 at 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 into the functional currency by applying the exchange rate valid at the date of the transaction.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into euros at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated into euros at the average annual exchange rate, which in view of transaction dynamics is closest to the exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised directly in other comprehensive income – as translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Operating profit

Operating profit comprises profit before tax and financial items. Financial items include interest on bank balances, deposits, available-for-sale investments, interest paid on borrowings, profit or loss from the sale of available-for-sale financial instruments, and foreign exchange gains or losses from the translation of all monetary assets and liabilities in foreign currency.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. With instruments not recognised at fair value through profit or loss, fair value is increased or decreased by any directly attributable transaction costs associated with the instrument's purchase or issue. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows 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.

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 presented as a deduction from total equity.

Dividends

Dividends are recognised in the Group's consolidated financial statements in the period in which they are declared by the Annual General Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses (see accounting policy "Impairment").

Cost includes expenditures that are 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 on which they are located, as well as capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of property, plant and equipment and are recognised within "other income" or "other expenses" in profit or loss.

As 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 life of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

Estimated useful lives are as follows:

- for buildings: 15 to 60 years,
- for plant and equipment: 2 to 20 years,
- for furniture: 5 years,
- for computer equipment: 4 to 6 years, and
- for means of transport 5 to 15 years.

Intangible assets

Goodwill

Goodwill which arises on the acquisition of a 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 acquired company.

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 recoverable amount on each reporting date. As of 1 January 2013, the TAD Pharma trademark is recognised as an item of intangible assets with a useful life of 50 years. Any need for impairment of the TAD Pharma trademark and goodwill that arose on acquisition of TAD Pharma, is assessed annually.

Research and development

All other costs referring to research and development work within the Group are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets 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 of goodwill) from the date that they are available for use.

The estimated useful lives for software, licences and other rights are 2 to 10 years, and 50 years for the TAD Pharma 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 sales.

An inventory unit of raw materials and materials, as well as supporting and packaging materials is valued at cost, including all direct cost of purchase. Inventories of material are carried at moving average prices. Inventories of finished products and work in progress are carried at standard cost, which, in addition to the direct cost of material includes costs of production, such as direct labour cost, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Fixed-price variances are determined in accordance with the current valuation of inventories using production costs. An inventory unit of merchandise is valued at cost, including the cost of purchase, import duties and all costs directly attributable to the acquisition, reduced by discounts. Inventories of merchandise are carried at moving average prices.

Impairments

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence 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 of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss.

For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets are reassessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the 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. 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 its employees anniversary bonuses and termination benefits upon retirement. Provisions are set aside for these obligations. The Company has no other pension obligations.

Provisions are determined by discounting at the reporting date the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is made by means of the projected unit credit method. Employee benefit costs, as well as costs of interest are recognised in profit or loss, whereas restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in other comprehensive income.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions for lawsuits

The Group discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of an anticipated potential amount, if the indemnification claim is not yet disclosed.

Revenues from sales of goods and services rendered

Revenues from sales of goods are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenues from services rendered are recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale, but transfer usually occurs when the product has left the Group's warehouse.

No revenues are recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing managerial involvement with the goods. Revenues from the sale of goods and services rendered are measured at selling prices stated in invoices or other documents, reduced by rebates approved when the sale is made, including those granted for early payment.

Government assistance

Revenues referring to government grants are initially recognised when there is a reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grants. Revenues that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the revenue is recognised. Revenues that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, 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 in force at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the financial position liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax bases on the expected method of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

The Krka Group presents basic and diluted earnings per share (EPS) data. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Krka Group are in 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 internal reporting system applied by the controlling company's management in the decision-making process.

Inter-segment pricing is determined on an arm's length basis.

The segments include: the European Union (all countries of the European Union), South-East Europe (Serbia, Bosnia and Herzegovina, Macedonia, Montenegro, Kosovo, Albania) and East Europe (Russian Federation and other former Soviet Union countries, excluding the Baltic countries).

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

Amendments to standards and interpretations

New IFRS Standards and Interpretations adopted by the EU but not yet effective

The standards and interpretations noted below have been issued and adopted by the EU, but are not yet effective up to the date of issuing of the Krka financial statements. The Krka Group will apply the new and revised standards and interpretations when they take effect. The Krka Group did not apply any revised standards or interpretations prior to their effective date.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments*, bringing together the requirements of all individual phases of the IASB's project to replace *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The revised standard introduces new requirements for the classifying and measuring of financial assets and liabilities, recognising of their impairment, and hedge accounting. The revised *IFRS 9* is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is required, but comparative information is not compulsory.

The adoption of the revised *IFRS 9* will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of its financial liabilities.

The Krka Group plans to adopt the new standard on the required effective date.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued *IFRS 15* which establishes a five-step model that will apply to revenue earned from a contract with a customer. Under *IFRS 15*, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognising revenue. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Krka Group is currently assessing the impact of the new standard, and plans to adopt it on the required effective date.

New IFRS Standards and Interpretations not yet Adopted by the EU

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and it replaces *IAS 17 – Leases*, *IFRIC 4 – Determining Whether an Arrangement Contains a Lease*, *SIC-15 – Operating Leases – Incentives* and *SIC-27 – Evaluating the Substance*

of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially the same as current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but, not before the Group applies IFRS 15. A lessee may choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Krka Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 14 – Regulatory Deferral Accounts

IFRS 14 is an optional standard and permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position, and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Income tax, and IAS 28 – Investment Entities: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that adopts the amendments early must apply them prospectively.

The Krka Group estimates that the amendment will not have any impact on the consolidated financial statements.

Amendments to IAS 12 – Income Tax: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. If an entity applies the amendments for an earlier period, it must disclose this fact.

The Krka Group estimates that the amendment will not have any impact on the consolidated financial statements.

Amendments to IAS 7 – Statement of Cash Flows: Disclosure Initiative

The amendments to *IAS 7 – Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity 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. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

These amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The application of the amendments will result in additional disclosures provided by the Krka Group.

Clarifications to IFRS 15 – Revenue from the Contracts with Customers

In April 2016, the IASB issued amendments to *IFRS 15* to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition

The amendments clarify:

- when a promised goods or service are distinct within the context of the contract;
- how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators;
- how to apply the control principle in service transactions and reframe the indicators;
- clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time; and
- the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract.

They also add two practical expedients to the transition requirements of *IFRS 15* for:

- completed contracts under the full retrospective transition approach; and
- contract modifications at transition.

The amendments have an effective date of 1 January 2018, which is the effective date of *IFRS 15*. The amendments are intended to clarify the requirements in *IFRS 15*, not to change the standard. Entities are required to apply these amendments retrospectively. Early application is permitted and must be disclosed.

The Krka Group is currently assessing the impact of the clarification, and plans to adopt it on the required effective date.

Amendments to IFRS 2 – Share-based Payment: Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to *IFRS 2 – Share-based Payment* that address three main areas:

- the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;

- the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if chosen for all three amendments and other criteria are met. These amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Krka Group is assessing the potential effect of the amendments on its (consolidated) financial statements.

Amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4

The amendments address concerns arising from implementing the new IFRS 9 before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

These amendments are effective for annual periods beginning on or after 1 January 2018. The Krka Group is assessing the potential effect of the amendments on its consolidated financial statements.

Annual Improvements to IFRS 2014–2016 Cycle

Include amendments to three Standards:

- *IFRS 12 – Disclosure of Interests in Other Entities*: effective for annual periods beginning on or after 1 January 2017. The amendments clarify the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with *IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations*.
- *IFRS 1 – First-time Adoption of International Financial Reporting Standards* effective for annual periods beginning on or after 1 January 2018. The amendments deleted the short-term exemptions in paragraphs E3–E7 of *IFRS 1*, because they have now served their intended purpose.
- *IAS 28 – Investments in Associates and Joint Ventures*. The amendment is effective for annual periods beginning on or after 1 January 2018. The amendments 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.

The Krka Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration

Interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.

The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

IFRIC 22 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Interpretation can be applied either prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation in or the beginning of a prior reporting period presented as comparative information.

The Krka Group is assessing the potential effect of the amendments on its consolidated financial statements.

Amendments to IAS 40 – Transfers of Investment Property

The amendments clarify the requirements on transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Amendments are applied to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.

The Krka Group is assessing the potential effect of the amendments 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 given 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

In € thousand	European Union		South-East Europe		East Europe		Other		Elimination		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenues from external customers	738,381	741,495	58,262	55,775	332,286	327,466	45,495	39,871	0	0	1,174,424	1,164,607
Sales between group companies	210,500	219,216	29,614	22,632	164,744	188,245	0	0	-404,858	-430,093	0	0
Other operating income	5,114	24,332	776	102	1,973	2,142	0	0	0	0	7,863	26,576
Operating expenses	-666,180	-627,380	-46,573	-45,754	-318,017	-293,260	-29,082	-25,355	0	0	-1,059,852	-991,749
Operating expenses to Group companies	-366,106	-403,104	-32,396	-26,900	-340,858	-352,696	-8	-9	739,368	782,709	0	0
Operating profit	77,315	138,447	12,465	10,123	16,242	36,348	16,413	14,516	0	0	122,435	199,434
Interest income	392	492	210	4	314	385	0	0	0	0	916	881
Interest income from Group companies	929	1,117	0	0	9	0	0	0	-938	-1,117	0	0
Interest expenses	-641	-324	0	0	9	-6	0	0	0	0	-632	-330
Interest expenses to Group companies	-282	-542	0	0	-779	-650	0	0	1,061	1,192	0	0
Net financial result	-3,241	-823	-548	-106	-576	-16,814	-1,772	-979	0	0	-6,137	-18,722
Income tax	-5,698	-17,266	-154	-885	-1,793	-3,577	-197	-799	0	0	-7,842	-22,527
Net profit	68,376	120,358	11,763	9,132	13,873	15,957	14,444	12,738	0	0	108,456	158,185
Investments	115,718	78,313	192	142	15,907	17,434	0	0	0	0	131,817	95,889
Depreciation	67,781	71,515	1,943	1,923	28,213	25,807	367	282	0	0	98,304	99,527
Amortisation	4,838	5,114	322	291	2,117	2,193	222	183	0	0	7,499	7,781
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Total assets	1,394,236	1,394,853	40,107	38,680	467,293	368,309	9,882	7,362	0	0	1,911,518	1,809,204
Goodwill	42,644	42,644	0	0	0	0	0	0	0	0	42,644	42,644
Trademark	39,011	39,859	0	0	0	0	0	0	0	0	39,011	39,859
Total liabilities	364,038	309,305	9,251	8,231	67,764	64,079	26,021	21,605	0	0	467,074	403,220

5. Revenues

In € thousand	2016	2015
Revenues from the sale of products	1,086,198	1,079,207
Revenue from the sale of services	42,526	35,038
Revenues from the sale of material and merchandise	45,700	50,362
Total revenues	1,174,424	1,164,607

To enhance the revenue presentation, we reclassified revenues achieved in 2015 as follows: revenues from the sale of products were increased by €18,263 thousand, while revenues from the sale of material and merchandise were reduced by that same amount. Therefore, the comparative data for 2015 are not equal to the audited data published in the Financial Report 2015.

6. Other operating income

In € thousand	2016	2015
Reversal of non-current provisions	384	20,243
Deferred revenue reversal	1,491	1,984
Gain on sale of property, plant and equipment and intangible assets	793	526
Reversal of receivable impairment	1,401	1,711
Collected written-off receivables	358	4
Other income	3,436	2,108
Total other operating income	7,863	26,576

Detailed information of non-current provisions reversal is included in note 22.

7. Costs by nature

In € thousand	2016	2015
Cost of goods and material	341,908	313,140
Costs of services	237,201	225,197
Employee benefit costs	336,616	323,419
Amortisation and depreciation	105,803	107,308
Inventory write-offs and allowances	14,793	12,843
Receivable impairment and write-offs	750	4,610
Formation of provisions for lawsuits	3	165
Other operating expenses	33,220	35,443
Total costs	1,070,294	1,022,125
Change in the value of inventories of products and work in progress	-10,442	-30,376
Total	1,059,852	991,749

8. Employee benefit costs

In € thousand	2016	2015
Gross wages and salaries and continued pay	260,739	249,848
Social security contributions	21,058	20,431
Pension insurance contributions	35,667	34,259
Payroll tax	1,266	1,080
Post-employment benefits and other non-current employee benefits	5,069	5,231
Other employee benefits costs	12,817	12,570
Total employee benefit costs	336,616	323,419

Post-employment benefits and other non-current employee benefits are explained in detail in Note 23. Other employee benefit costs in 2016 include mostly the vacation bonus and commuting allowances.

9. Other operating expenses

In € thousand	2016	2015
Grants and assistance for humanitarian and other purposes	1,557	1,997
Environmental protection expenses	3,559	3,392
Other taxes and levies	21,837	23,833
Loss on sale of property, plant and equipment and intangible assets	1,298	2,396
Other expenses	4,969	3,825
Total other operating expenses	33,220	35,443

Other levies include €17,544 thousand (2015: €19,044 thousand) for various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries.

10. Financial income and expense

In € thousand	2016	2015
Net foreign exchange differences	42,628	0
Interest income	916	881
Change in fair value of investments through profit or loss	8	0
Derivative financial instruments income	21,292	23,368
– income	21,292	11,639
– change in fair value	0	11,729
Income from dividends and other shares of the profit	835	1,288
Other financial income	0	24
Total financial income	65,679	25,561
Net foreign exchange differences	0	-34,956
Interest expenses	-632	-330
Change in fair value of investments through profit or loss	-10	-78
Derivative financial instruments expenses	-69,440	-6,919
– expenses	-45,041	-6,919
– change in fair value	-24,399	0
Other financial expenses	-1,734	-2,000
Total financial expenses	-71,816	-44,283
Net financial result	-6,137	-18,722

11. Income tax

Adjustment to effective tax rate

In € thousand	2016	2015
Income tax	11,167	23,317
Deferred tax	-3,325	-790
Total income tax	7,842	22,527
Profit before tax	116,298	180,712
Income tax at the rate of 17%	19,771	30,721
Increased expenses	-859	-1,403
Tax exempt expenses	1,491	7,859
Tax incentives	-15,410	-15,770
Revenues decreasing the tax base	211	218
Revenues increasing the tax base	121	42
Effect of changed tax rate from 17% to 19% on deferred taxes	-524	0
Effect of different tax rates	1,291	1,156
Other	2,825	-296
Total income tax	7,842	22,527
Effective tax rate	6.7%	12.5%

The major share of tax incentives comprise investments in R&D and investment relief.

12. Property, plant and equipment

In € thousand	31 Dec 2016	31 Dec 2015
Land	36,575	35,227
Buildings	403,257	408,238
Equipment	343,390	352,005
Property, plant and equipment being acquired	84,635	24,180
Advances for property, plant and equipment	6,243	6,542
Total property, plant and equipment	874,100	826,192

The biggest investment of controlling company in 2016, in the amount of €25,550 thousand, relates to the construction of the Notol 2 plant (2015: €16,589 thousand). Investments in the construction of the development and control centre (RKC 4) reached €11,657 thousand (2015: €2,496 thousand); €8,412 was invested in the increased capacity of the palette storage in the OTO plant (manufacture of solids). This is a new project introduced in 2016, so no comparable data for 2015 exists. In addition, €3,963 thousand were invested on expanding of the production of pump sprays (2015: €2,393 thousand) and €1,273 thousand on the construction of a multipurpose warehouse. The latter is a new project introduced in 2016, so no comparable data for 2015 exists. A total of €3,571 thousand was spent on various projects in the area of information technology and telecommunications (2015: €2,555 thousand).

Major investments in subsidiaries include investment in the subsidiary Krka Farma Zagreb totalling €30,077 thousand (2015: €659 thousand). An investment of €13,781 thousand was made in the Krka-Rus subsidiary in Russian Federation (2015: €8,941 thousand) and €1,125 thousand in the Terme Krka Group (2015: €940 thousand).

Movement of property, plant and equipment (PPE)

In € thousand	Land	Buildings	Equipment	PPE being acquired	Advances for PPE	Total
Cost						
Balance at 1 Jan 2015	34,760	737,241	907,859	25,954	3,908	1,709,722
Additions	0	0	0	87,485	2,868	90,353
Capitalisation – transfer from PPE under construction	544	26,171	61,480	-88,195	0	0
Disposals, deficit, surplus	-3	-2,707	-14,117	-7	0	-16,834
Translation reserve	-74	-7,042	-4,973	-1,057	-234	-13,380
Transfers, reclassification	0	-215	294	0	0	79
Balance at 31 Dec 2015	35,227	753,448	950,543	24,180	6,542	1,769,940
Balance at 1 Jan 2016	35,227	753,448	950,543	24,180	6,542	1,769,940
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, deficit, surplus	-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
Balance at 31 Dec 2016	36,575	776,308	1,000,233	84,635	6,243	1,903,994
Accumulated depreciation						
Balance at 1 Jan 2015	0	-321,265	-541,979	0	0	-863,244
Depreciation	0	-27,077	-72,450	0	0	-99,527
Disposals, deficit, surplus	0	1,888	13,106	0	0	14,994
Transfers, reclassification	0	9	-57	0	0	-48
Translation reserve	0	1,235	2,842	0	0	4,077
Balance at 31 Dec 2015	0	-345,210	-598,538	0	0	-943,748
Balance at 1 Jan 2016	0	-345,210	-598,538	0	0	-943,748
Depreciation	0	-26,479	-71,825	0	0	-98,304
Disposals, deficit, surplus	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
Balance at 31 Dec 2016	0	-373,051	-656,843	0	00	-1,029,894
Carrying amount						
Balance at 1 Jan 2015	34,760	415,976	365,880	25,954	3,908	846,478
Balance at 31 Dec 2015	35,227	408,238	352,005	24,180	6,542	826,192
Balance at 1 Jan 2016	35,227	408,238	352,005	24,180	6,542	826,192
Balance at 31 Dec 2016	36,575	403,257	343,390	84,635	6,243	874,100

No borrowing costs were capitalised to property, plant or equipment in 2016.

The carrying amount of items of property, plant and equipment which are temporarily not used amounted to €756 thousand at 31 December 2016 (2015 year-end: €719 thousand).

Of total property, plant and equipment, which were used as at 31 December 2016, 27% were fully depreciated (23% as at 31 December 2015). 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 2016	31 Dec 2015
Goodwill	42,644	42,644
Trademark	39,011	39,859
Concessions, patents, licenses and similar rights	28,184	30,506
Intangible assets being acquired	3,672	3,931
Total intangible assets	113,511	116,940

The item of goodwill fully refers to the purchase of the company TAD Pharma and the item of trademark relates to TAD Pharma.

Movement of intangible assets (IA)

In € thousand	Goodwill	Trademark	Concessions, patents, licenses and similar rights	IA being acquired	Total
Cost					
Balance at 1 Jan 2015	42,644	42,403	106,540	5,463	197,050
Additions	0	0	0	5,536	5,536
IA being acquired	0	0	6,719	-6,719	0
Disposals, deficit, surplus	0	0	-1,955	-350	-2,305
Transfers, reclassification	0	0	135	3	138
Translation reserve	0	0	-124	-2	-126
Balance at 31 Dec 2015	42,644	42,403	111,315	3,931	200,293
Balance at 1 Jan 2016	42,644	42,403	111,315	3,931	200,293
Additions	0	0	0	4,450	4,450
Transfer from IA being acquired	0	0	4,712	-4,712	0
Disposals, deficit, surplus	0	0	-844	0	-844
Transfers, reclassification	0	0	-126	0	-126
Translation reserve	0	0	697	3	700
Balance at 31 Dec 2016	42,644	42,403	115,754	3,672	204,473
Accumulated amortisation					
Balance at 1 Jan 2015	0	-1,696	-75,029	0	-76,725
Amortisation	0	-848	-6,933	0	-7,781
Disposals, deficit, surplus	0	0	1,100	0	1,100
Transfers, reclassification	0	0	-135	0	-135
Translation reserve	0	0	188	0	188
Balance at 31 Dec 2015	0	-2,544	-80,809	0	-83,353
Balance at 1 Jan 2016	0	-2,544	-80,809	0	-83,353
Amortisation	0	-848	-6,651	0	-7,499
Disposals, deficit, surplus	0	0	125	0	125
Transfers, reclassification	0	0	90	0	90
Translation reserve	0	0	-325	0	-325
Balance at 31 Dec 2016	0	-3,392	-87,570	0	-90,962
Carrying amount					
Balance at 1 Jan 2015	42,644	40,707	31,511	5,463	120,325
Balance at 31 Dec 2015	42,644	39,859	30,506	3,931	116,940
Balance at 1 Jan 2016	42,644	39,859	30,506	3,931	116,940
Balance at 31 Dec 2016	42,644	39,011	28,184	3,672	113,511

Of total intangible assets in use as at 31 December 2016, 57% were fully amortised (56% as at 31 December 2015). The share of fully amortised intangible assets is calculated in consideration of their cost.

Impairment testing of goodwill and TAD Pharma trademark

Impairment testing was applied to the TAD Pharma trademark and associated goodwill which arose on the takeover of the German company TAD Pharma by the controlling entity Krka at the end of 2007.

The recoverable amount of goodwill that arose on the acquisition of the stake in TAD Pharma was determined using the cash flow projection method based on five-year financial plans of the cash generating unit. The controlling entity Krka and TAD Pharma were considered cash generating units. A pre-tax discount rate of 8.5% was applied in the projection for both cash-generating units, TAD Pharma and Krka. Cash flows over 5 years were extrapolated assuming the average annual growth at 2.0% for both cash-generating units. Other important assumptions about future market and economic conditions include the growth in sales in the first year, long-term growth rates in sales, and operating profit increased by amortisation and depreciation (EBITDA) The same average annual growth was applied in 2016 as in the previous financial year, while a 9% discount rate applied to both cash-generating units in 2015.

The Management Board has assessed that a reasonable change in the discount rate or growth rate would not result in goodwill impairment.

Considering the above assumptions, the assessed recoverable amount exceeds the carrying amount and therefore no impairment is required.

14. Loans

In € thousand	31.12.2016	31.12.2015
Non-current loans	8,801	7,696
– loans to others	8,801	7,696
Current loans	9,441	37,380
– portion of non-current loans maturing next year	1,201	155
– loans to others	8,240	37,224
– current interest receivable	0	1
Total loans	18,242	45,076

Most non-current loans are housing loans that are 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 rates for related parties. The actual interest rate fluctuated between 0.701% and 0.868% in 2016 (2015: between 0.825% and 1.133%). The maximum repayment period is 15 years.

Short-term loans to others include bank deposits totalling €8,000 thousand made by the controlling company Krka. These deposits mature in more than 90 days (2015 year-end: €36,000 thousand).

15. Investments

In € thousand	31 Dec 2016	31 Dec 2015
Non-current investments	10,138	7,580
– available-for-sale financial assets	10,138	7,580
Current investments including derivative financial instruments	77	11,808
– shares and interests held for trading	77	79
– derivative financial instruments	0	11,729
Total investments	10,215	19,388

Available-for-sale financial assets amounting to €761 thousand are investments in shares and interests in companies in Slovenia (2015 year-end: €688 thousand), and €9,377 thousand of investments in shares of companies abroad (2015 year-end: €6,892 thousand).

The derivative financial instruments comprise short-term forward contracts, which the Krka Group agreed as a means of hedging the risk arising from the volatility of the Russian rouble.

Movement in available-for-sale financial assets

In € thousand	Available-for-sale financial assets
Balance at 1 Jan 2015	7,388
Adjustment to market value	192
Balance at 31 December 2015	7,580
Balance at 1 Jan 2016	7,580
Adjustment to market value	2,558
Balance at 31 Dec 2016	10,138

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 €2,558 thousand in 2016 (2015: €192 thousand). No adjustment was recognised in profit or loss in 2015 or 2016.

16. Deferred tax assets and liabilities

In € thousand	Receivables		Liabilities	
	2016	2015	2016	2015
Investments, property, plant and equipment and intangible assets	316	377	13,206	13,530
Available-for-sale financial assets	1,727	1,546	1,384	803
Inventories	14,116	11,686	106	97
Receivables/liabilities	5,512	4,525	296	365
Provisions for post-employment benefits and other non-current employee benefits	10,329	9,651	0	0
Transfer of tax loss	1,904	2,223	0	0
Total	33,904	30,008	14,992	14,795
Offsetting	-2,644	-2,059	-2,644	-2,059
Net	31,260	27,949	12,348	12,736

In € thousand	Balance at 1 Jan 2015	Recognised in income statement	Translation reserve	Recognised in other comprehensive income	Balance at 31 Dec 2015	Recognised in income statement	Translation reserve	Recognised in other comprehensive income	Balance at 31 Dec 2016
Investments, property, plant and equipment and intangible assets	-13,545	400	-8	0	-13,153	283	-20	0	-12,890
Available-for-sale financial assets	775	0	1	-33	743	0	-1	-399	343
Inventories	13,029	-1,428	-12	0	11,589	2,406	15	0	14,010
Receivables/liabilities	3,445	974	-259	0	4,160	370	425	261	5,216
Provisions for post-employment benefits and other non-current employee benefits	9,434	-97	-1	315	9,651	-580	-3	1,261	10,329
Transfer of tax loss	1,333	941	-51	0	2,223	-299	-20	0	1,904
Total	14,471	790	-330	282	15,213	2,180	396	1,123	18,912

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to €2,240 thousand at the end of 2016 (€2,370 thousand at the end of 2015).

17. Inventories

In € thousand	31 Dec 2016	31 Dec 2015
Material	122,515	111,113
Work in progress	63,212	64,369
Products	86,369	90,395
Merchandise	7,783	6,287
Inventory advances	774	714
Total inventories	280,653	272,878

Write-offs and allowances of inventories amounted to €14,793 thousand (2015: €12,843 thousand).

18. Trade and other receivables

In € thousand	31 Dec 2016	31 Dec 2015
Current trade receivables	510,406	433,133
Other current receivables	33,777	31,540
Total receivables	544,183	464,673

The receivable write-offs and impairment recorded within operating expenses amounted to €750 thousand in 2016 (2015: €4,610 thousand).

Current trade receivables

In € thousand	Gross value	Receivable allowances	Net value at 31 Dec 2016	Net value at 31 Dec 2015
Current trade receivables due from Slovenian customers	10,577	307	10,270	9,566
Current trade receivables due from foreign customers	524,158	24,022	500,136	423,567
Total current trade receivables	534,735	24,329	510,406	433,133

Of the total amount, 58% of trade receivables were secured with the SID - Prva kreditna zavarovalnica, d. d. (2015 year-end: 57%).

Other current receivables

Other current receivables refer mostly to receivables due by the state, in particular arising from corporate income tax in the amount of €8,471 thousand (2015: €1,313 thousand), and other receivables due from the state amounting to €18,954 thousand (2015: €24,019 thousand).

19. Cash and cash equivalents

In € thousand	31 Dec 2016	31 Dec 2015
Cash in hand	78	32
Bank balances	38,552	35,794
Total cash and cash equivalents	38,630	35,826

The Krka Group concluded contracts with two banks on an authorised overdraft limit on bank accounts in a total amount of € 1,500 thousand (in 2015, contracts worth in total €2,500 thousand were concluded with four banks). No negative balances were recorded on these bank accounts as at 31 December 2016, hence no overdraft facilities were utilised.

20. Equity

Share capital

Krka reduced its share capital by withdrawing of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General Meeting held 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, while the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Treasury shares

As at 31 December 2016, the controlling company held 493,130 treasury shares, which accounts for 1.50% of the share capital value.

At the 19th Annual General Meeting held on 3 July 2014, the shareholders passed 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, could not exceed 10% of the 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 the respective market prices. The Company may also acquire treasury shares outside the regulated market. When purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not be more than 25 times the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group, which is an approximation of the highest closing price of KRKG shares on the regulated market.

Treasury shares acquired on the basis of this authorisation may be disposed of in the following ways:

- to be exchanged for equity-stakes in other companies, based on its M&A strategy; or
- to be sold to a strategic partner

Repurchase of treasury shares in 2016

	Number of shares	Weighted average share price (in €)	Value of shares (in € thousand)
Balance at 31 Dec 2015	326,277		20,071
Repurchases in 2016	166,853	57.65	9,619
Balance at 31 Dec 2016	493,130		29,690

The subscription fee is included in the weighted average price of shares.

The 2016 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 €29.690 thousand as at the reporting date and increased by €9,619 thousand based on their formation as a result of the additional repurchase of treasury shares.

The share premium is to be used under the terms and purposes defined by the applicable act. The share premium was reported as €105,897 thousand as at 31 December 2016, 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 the reduction in share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2016, 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 2016, 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 up to the amount of €30,000 thousand. Statutory reserves can be used for cover losses, to formation reserves for treasury shares, to decrease share capital by share withdrawal, and to regulate dividend policy.

The fair value reserve includes the cumulative change in the fair value of available-for-sale financial assets and post-employment benefits. Compared to the previous period, the fair value reserve increased by €651 thousand, amounting to €-11,802 thousand as at 31 December 2016. The total change results from a decrease in the fair value of available-for-sale financial assets (by €2,558 thousand), a reduction of €581 thousand referring to the related deferred tax effect, a reduction on account of the restatement of post-employment benefits by €1,879

thousand, and an increase of €553 thousand referring to the related deferred tax effect due to the restatement of post-employment benefits.

Compared to the previous period, *translation reserves* increased by €26,021 thousand and amounted to €-59,097 thousand as at 31 December 2016. The increase is a result of exchange rate gains occurring during the translation of individual items in financial statements of foreign operations into the reporting currency.

Retained earnings

Retained earnings rose based on the majority shareholder's profit in the amount of €108,452 thousand. The decrease, on the other hand, is a result of the allocation of accumulated profit to dividend payout (€85,933 thousand) in accordance with the resolution adopted at the 22nd Annual General Meeting held on 7 July 2016, and of an additional formation of reserves for treasury shares by the controlling company in 2016 (€9,619 thousand). The increase is a result of the acquisition by Terme Krka of an equity share in Golf Grad Otočec.

The amount of the dividend payout shown in the statement of cash flows differs from the figure confirmed by the Annual General Meeting and included in the statement of changes in equity, by the amount of the change between the opening and closing balance of liabilities for dividend payout of €68 thousand (2015: €200 thousand).

Dividends per share

The declared gross dividend per share in 2016 was €2.65 (2015: €2.50).

Non-controlling interests within equity

In € thousand	Non-controlling interest		Equity attributable to non-controlling interest		Net profit for the year attributable to the non-controlling interest	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Interest held by minority shareholders in Golf Grad Otočec, d. o. o.*	30.8%	36.9%	979	1,187	-12	-74
Interest held by minority shareholders in Farma GRS, d. o. o.**	0.3 %	0.3 %	77	61	16	14
Total			1,056	1,248	4	-60

*Terme Krka has 69.19% holding in Golf Grad Otočec, d. o. o.; the remaining shareholders include IMP PROMONT-ELEKTRO d.o.o. (3.05 %), Abanka Vipa d.d. (6.10 %), Trimo, d.d. (6.10 %), Lesnina inženiring, d.d. (6.10 %), Telekom Slovenije, d.d. (4.51 %), IMP PROMONT d.o.o. (3.05 %) and Vodnogospodarsko podjetje Novo mesto, d.d. (1.91 %).

** 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.

In 2016, Terme Krka acquired a 3.05% share in Begrad, d.d., and another 3.05% share in Kovinotehna MKI d.o.o., amounting to €40 thousand in total.

21. Earnings per share

Basic earnings per share amounted to €3.35 in 2016, and decreased by 31% over the previous year, when it amounted to €4.86. The calculation took into account profit for the period attributable to the controlling interests in the amount of €108,452 thousand (2015: €158,245 thousand). The weighted average number of shares was

accounted for in the calculation for both years, i.e. 32,408,870 shares for 2016 and 32,550,928 shares for 2015. Treasury shares were eliminated from the calculation.

All shares issued by the controlling company are ordinary shares, so the diluted earnings per share ratio equalled the basic earnings per share.

22. Provisions

In € thousand	31 Dec 2015	Formation	Utilisation	Reversal	Translation reserve	31 Dec 2016
Provisions for lawsuits	264	3	-34	-67	0	166
Provisions for post-employment benefits and other non-current employee benefits	84,131	9,454	-3,275	-317	-23	89,970
Other provisions	470	436	-235	0	0	671
Total provisions	84,865	9,893	-3,544	-384	-23	90,807

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of the anticipated amount if the indemnification claim is not yet disclosed. External advisers for disputes referring to intellectual property are engaged to define the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed.

In total, 10 lawsuits referring to intellectual property were filed against Krka and its subsidiaries, totalling €7,700 thousand, as well as 25 lawsuits referring to other areas (labour legislation, civil lawsuits), totalling €1.173 thousand. Based on its familiarisation with the content of the disputes and based on the legal opinion of external experts, the Management of the Company assessed that there was no need to set aside provisions relating to the above disputes and lawsuits. However, provisions of total €166 thousand were set aside on account of other legal actions.

Provisions for post-employment benefits and other non-current employment benefits are based on a calculation performed by a certified actuary and were accounted for under the following assumptions:

- the selected discounted interest rate is 1.75% annually, which equals the return on 15-year corporate bonds with a high credit rating in euro area at the end of November 2016 (2015: 1.92%);
- 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 available mortality tables; and
- increase in wages of 1.80% (the same as in 2015).

Provisions for post-employment benefits

In € thousand	2016	2015
Balance at 1 Jan	68,270	62,298
Employee benefit costs (CSC)	3,013	3,040
Interest costs (IC)	1,518	1,582
Post-employment benefits paid	-2,241	-2,596
Actuarial surplus/deficit, of that:	2,961	3,946
– change in financial assumptions	1,893	4,148
– experience	1,068	-202
Balance at 31 Dec	73,521	68,270

Sensitivity analysis

Change in	Discount rate		Salary increase	
	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities in € thousand	-4,391	4,858	4,830	-4,410

23. Deferred revenue

In € thousand	31 Dec 2015	New deferred revenue received	Deferred revenue reversal	31 Dec 2016
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	2,650	0	-266	2,384
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	4,100	0	-173	3,927
Grants by the European Regional Development Fund received for the Sinteza 4 project	4	0	-4	0
Grants by the European Regional Development Fund for development of new technologies (FBD project)	437	0	-97	340
Grants by the European Regional Development Fund for setting up information and technology solutions system GEN-I	19	0	-5	14
Grants by the the European Regional Development Fund for Development Centres of the Slovene Economy	6,094	0	-675	5,419
Subsidy for acquisition of electric vehicles	0	5	0	5
Property, plant and equipment received free of charge	55	26	-28	53
Emission coupons	22	20	-26	16
Other deferred revenue	0	217	-217	0
Total deferred revenue	13,381	268	-1,491	12,158

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 reduced by the proportionate share of the depreciation of assets to which the grants refer and by any other types of expenses incurred.

24. Trade payables

In € thousand	31 Dec 2016	31 Dec 2015
Payables to domestic suppliers	45,748	38,298
Payables to foreign suppliers	78,696	61,742
Payables from advances	3,993	3,831
Total trade payables	128,437	103,871

25. Other current liabilities

In € thousand	31 Dec 2016	31 Dec 2015
Accrued contractual discounts on products sold	150,080	128,179
Payables to employees – gross wages, other receipts and charges	38,112	33,657
Derivative financial instruments	12,670	0
Other	20,796	18,501
Total other current liabilities	221,658	180,337

Accrued contractually agreed discounts on products sold include discounts to which the customers are entitled when the relevant terms and conditions are fulfilled; these discounts are not granted to customers in the year of sale. In terms of value, the majority i.e. three quarters, accounts for discounts tied to sales based on public tenders in some West European markets.

The item "Other" also includes current liabilities to the state on account of VAT payable in the amount of €6,894 thousand (2015: €11,254 thousand) and other current liabilities to the state totalling €4,804 thousand (2015: €3,437 thousand).

26. Contingent liabilities and commitments

In € thousand	31 Dec 2016	31 Dec 2015
Guarantees issued	12,846	19,150
Other	620	620
Total contingent liabilities	13,466	19,770

Major items of guarantees issued include a counter guarantee for the due payment of potential liabilities from an issued customs guarantee of €6,000 thousand in Belarus; a contract bond issued on behalf of the subsidiary TAD Pharma in the amount of €3,000 thousand; and a contract bond issued on behalf of the subsidiary Krka Farmaceutici Milano of €3,000 thousand. The item 'Other' includes the affected property in Serbia in the amount of €620 thousand.

Based on contracts signed in connection with on-going investments, the Krka Group at year end accounted for €62,643 thousand of future liabilities resulting from the acquisition of property, plant and equipment (2015 year-end: €35,596 thousand).

Operating lease

In € thousand	31 Dec 2016	31 Dec 2015
Up to 1 year	2,446	2,741
1-5 years	4,166	3,843
More than 5 years	52	0
Total lease liabilities	6,664	6,584

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 also refer to leasing equipment and cars.

27. Financial instruments and financial risks

The long-term stability of the Krka Group performance is managed by means of active risk management. Due to the extensive scope of the international import and export business, the Group is primarily exposed to foreign exchange and credit risks.

Credit risk

The receivable recovery process is the key element of Krka's efficient working capital management. The Krka Group introduced a centralised credit control process in 2004. The credit control process involves all clients exceeding annual sales of €100 thousand. At the end of 2016, trade receivables included in the credit control process accounted for more than 95% of total trade receivables, and involved more than 400 clients.

The credit control process 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 each 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 employ controls of available limits and overdue receivables. A control is exerted 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 before a new shipment is released.

The process of credit control and authorisations for granting credit limits to clients are determined by company rules. A credit control also involves 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 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.

In 2016, the reversal of allowances for bad receivable exceeded the newly accrued impairments of receivables and receivable write-offs, so overall credit risk management added to the positive results of the Krka Group.

Since 2009, the Krka Group has secured a part of its trade receivables with a credit insurance company. Trade receivables owed 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. At the end of 2016, 58% of the Krka Group's receivables due from final customers was insured with the credit insurance company.

Credit risk exposure

The carrying amount of financial assets accounts for the biggest exposure to credit risk as illustrated below.

In € thousand	Note	31 Dec 2016	31 Dec 2015
Loans	14	18,242	45,076
Investments	15	10,215	19,388
Trade receivables	18	510,406	433,133
Cash and cash equivalents	19	38,630	35,826
Total		577,493	533,423

For the financial assets exposed to credit risk, loans and receivables are presented separately.

Loans by geographical region

In € thousand	31 Dec 2016	31 Dec 2015
Slovenia	17,694	44,499
South-East Europe	151	143
East Europe	115	150
Central Europe	272	284
West Europe	10	0
Overseas markets	0	0
Total	18,242	45,076

Trade receivables by geographical region

In € thousand	31 Dec 2016	31 Dec 2015
Slovenia	10,273	9,565
South-East Europe	91,356	86,980
East Europe	232,772	175,172
Central Europe	70,174	63,807
West Europe	102,770	94,840
Overseas markets	3,061	2,769
Total	510,406	433,133

Of the total amount, 58% of trade receivables were secured with SID - Prva kreditna zavarovalnica, d. d.

Maturity analysis of loans as at the reporting date

In € thousand	Gross 2016	Allowance 2016	Gross 2015	Allowance 2015
Not-past due	18,237	0	45,072	0
Past due up to 20 days	0	0	1	0
Past due between 21 and 50 days	3	0	0	0
Past due between 51 and 180 days	2	0	1	0
Past due more than 180 days	11	11	13	11
Total	18,253	11	45,087	11

Maturity structure of trade receivables as at the reporting date

In € thousand	Gross 2016	Allowance 2016	Gross 2015	Allowance 2015
Not-past due	482,961	1,943	416,109	2,548
Past due up to 20 days	17,481	276	11,638	187
Past due between 21 and 50 days	4,683	128	1,565	91
Past due between 51 and 180 days	5,542	320	5,421	789
Past due more than 180 days	24,068	21,662	23,498	21,483
Total	534,735	24,329	458,231	25,098

The Krka Group agrees to extended terms with some customers. If the Group did not extend payment terms to some customers, the maturity structure of receivables would be as follows at the reporting date: not past due €414,877 thousand (2015: 413,561 thousand); past due up to 20 days: €36,153 thousand (2015: 11,451 thousand); past due between 21 and 50 days €7,619 thousand (2015: €1,474 thousand); past due between 51 and 180 days €44,740 thousand (2015: €4,632 thousand); and past due more than 180 days: €7,017 thousand (2015: €2,015 thousand).

Movement of allowances for loans

In € thousand	2016	2015
Balance at 1 Jan	11	11
Balance at 31 Dec	11	11

Movements of allowances for trade receivables

In € thousand	2016	2015
Balance at 1 Jan	25,098	19,546
Formation of allowance	6,328	7,545
Receivables written-off	-2,733	-9
Reversal of allowances	-4,290	-1,843
Recovered receivables previously written-off	-459	0
Effect of exchange rate differences	385	-141
Balance at 31 Dec	24,329	25,098

Liquidity risk

Stable performance, with no major fluctuations or deviations, low indebtedness, and stable cash flows from operations continued to assure Krka's strong financial structure in 2016, and there were only a few instances when Krka utilised short-term borrowings. Furthermore, all liabilities were settled regularly and within the agreed terms. Krka's liquidity risk in 2016 was assessed as low.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 Dec 2016

In € thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
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
Total non-derivative financial liabilities	282,784	282,784	282,784	0	0	0
Derivative financial instruments	12,670	12,670	12,670			
Total derivative financial liabilities	12,670	12,670	12,670			
Total	295,454	295,454	295,454	0	0	0

Maturity of financial liabilities as at 31 Dec 2015

In € thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Payables to suppliers excluding advances	100,040	100,040	100,040	0	0	0
Other liabilities excluding amounts owed to the state, to employees and advances	135,426	135,426	135,426	0	0	0
Total non-derivative financial liabilities	235,466	235,466	235,466	0	0	0
Total derivative financial liabilities	0	0	0	0	0	0
Total	235,466	235,466	235,466	0	0	0

Currency risk

Due to its highly diversified international operations, the Krka Group is exposed to the risk of changes in foreign exchange rates on some of the markets it operates.

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 comprising a long position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

The Russian rouble accounts for 59% and the major share of the currency position of the Krka Group. The position in the roubles arises from trade receivables in Krka's largest sales market, and partly also from subsidiary funding by the controlling company of the manufacturing capacities in the Russian Federation.

The exposure to the Romanian leu represents 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. Other currencies, among them the British pound, US dollar, Swedish krona, Hungarian forint, Czech koruna, Ukrainian hryvnia,

Serbian dinar, Macedonian denar and Kazakh tenge all together constitute 9% of the currency position of the Krka Group.

Also in 2016, Krka closely monitored volatile currencies to which the Krka Group was exposed. At the beginning of the year, the value of the Russian rouble was on a downward trend due to the deteriorating global capital markets and slumping oil prices, and reached its lowest at 91.8 roubles to one euro. After the oil price decline in January and February, a gradual, yet unstable recovery followed, accompanied by a rise in value of the rouble. The increased value of the rouble was accompanied by unfavourable macroeconomic data published during the year, geopolitical risks, economic sanctions and challenging relationships with the European Union and the US, posing a risk of another depreciation of the rouble in mid-2016. An increase in oil prices and, therefore, improved macroeconomic expectations for the upcoming periods provided the grounds for strengthening the rouble also in the second half of the year. From the beginning to the end of 2016, the value of the rouble expressed in euros gradually rose by 25%.

At the beginning of the year, the value of the Polish zloty went down, because credit rating agencies downgraded Poland's credit rating. Later in the year, the zloty gained against the euro, but still remained unstable. The value of the zloty was affected by the distrust of credit rating agencies and institutional investors in the measures adopted by the Polish government, and ranged between 4.25 and 4.50 to one euro.

In 2016, the value of one Romanian leu ranged between 4.45 and 4.55 to one euro. Throughout the year, the Croatian kuna generally retained its value, but as usual saw a slight increase during the tourist season and an equal drop in the off season.

The US dollar significantly strengthened due to the expected increases in interest rates at the end of 2015 and at the beginning of 2016. After the US Federal Reserve adopted less aggressive rhetoric about increasing interest rates, the dollar gradually started losing value against the euro. Later on in the year, its value started rising again due to good macroeconomic indicators and the economic outlook. Especially after the US presidential elections in November, the dollar strengthened significantly as a result of the expected government stimulus to increase US economic activity and less restrictive US monetary policy. The Krka Group is exposed to the US dollar primarily in purchasing, but the currency position in the US dollar is relatively low.

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.

In 2016, we occasionally used forward contracts to provide hedging for the Russian rouble. The rouble strengthened, so we generated net foreign exchange gains and also accrued net costs related to occasional hedging by forward contracts.

We used forward contracts to hedge against the rouble-related risk in the periods of increased volatility of the currency. This was in the first half of the year, when oil prices fluctuated widely, and in the last year-quarter, when global currency markets underwent increased instability due to the uncertain outcome of the US presidential elections and the negotiations of oil-producing countries on limiting production.

The 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. These currencies are generally subject to less marked fluctuations against the euro.

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

Currency risk exposure

In € thousand	31 Dec 2016				
	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
Financial position exposure (net)	49,064	51,241	20,666	196,434	57,317

* EUR is the functional currency and not exposed to foreign currency risk.

In € thousand	31 Dec 2015				
	EUR*	PLN	HRK	RUB	RON
Loans	44,600	257	0	55	88
Trade receivables	132,478	46,774	18,628	142,082	54,584
Trade payables	-77,899	-1,630	-572	-5,583	-419
Financial position exposure (net)	99,179	45,401	18,056	136,554	54,253

* EUR is the functional currency and not exposed to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2016	2015	2016	2015
PLN	4.36	4.18	4.41	4.26
HRK	7.53	7.61	7.56	7.64
RUB	74.17	68.09	64.30	80.67
RON	4.49	4.45	4.54	4.52

* number of local currency's units for one euro

The above-stated exchange rates were used to calculate items in the financial statements as at 31 December, and are equal to the reference exchange rate of the ECB effective on 31 December.

Sensitivity analysis

A 10% or 1% increase in the euro exchange rate in respect of currencies stated as at 31 December 2016 or 31 December 2015 would increase or decrease profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, particularly interest rates, remain unchanged. The calculation of the above-stated effect of exchange rate volatility considered the balance of receivables, liabilities and borrowings denominated in the local currencies.

In € thousand	Effect on profit or loss before tax			
	2016		2015	
Currency fluctuation	+ 10%	- 10%	+ 10%	- 10%
RUB	19,643	-19,643	13,655	-13,655
Currency fluctuation	+ 1%	- 1%	+ 1%	- 1%
PLN	512	-512	454	-454
HRK	207	-207	181	-181
RON	573	-573	543	-543

Any additional 10% change in the value of the Russian rouble or any additional 1% change in the Polish zloty, Croatian kuna or Romanian leu against the euro, would result in an additional change in profit or loss before tax in the above-stated amounts.

Interest rate risk

The Krka Group was not exposed to the changes in reference interest rates in 2016, as it repaid all of its borrowings in the previous years and did not raise any new ones.

Exposure to interest rate risk

In € thousand	2016	2015
Financial instruments at fixed interest rate	18,242	45,075
Financial assets	18,242	45,075
Financial liabilities	0	0
Financial instruments at variable interest rate	0	0
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 2016, so an increase or decrease in variable interest rates would have no impact on the operating result of the Group.

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 Annual General 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.

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 Group follows the 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 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 2016 and 2015.

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 2016	31 Dec 2015
Trade payables and other current liabilities	350,095	284,208
Cash and cash equivalents	38,630	35,826
Net indebtedness	311,465	248,382
Equity	1,444,444	1,405,984
Equity and net indebtedness	1,755,909	1,654,366
Gearing (debt/equity) ratio	17.7%	15.00 %

Fair value

In € thousand	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	8,801	8,801	7,696	7,696
Available-for-sale financial assets	10,138	10,138	7,580	7,580
Current loans	9,441	9,441	37,380	37,380
Short-term financial investments	77	77	11,808	11,808
– shares and interests held for trading	77	77	79	79
– derivative financial instruments	0	0	11,729	11,729
Trade receivables	510,406	510,406	433,133	433,133
Cash and cash equivalents	38,630	38,630	35,826	35,826
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-282,784	-282,784	-235,466	-235,466
Other current liabilities	-12,670	-12,670	0	0
– derivative financial instruments	-12,670	-12,670	0	0
Total	282,039	282,039	297,957	297,957

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; and
- level 3 – assets the value of which cannot be determined using observable market data.

Assets at fair value

In € thousand	31 Dec 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	8,775	0	1,363	10,138	6,217	0	1,363	7,580
Shares and interests held for trading	77	0	0	77	79	0	0	79
Derivative financial instruments	0	0	0	0	0	0	11,729	11,729
Total assets at fair value	8,852	0	1,363	10,215	6,296	0	13,092	19,388
Assets for which fair value is disclosed								
Non-current loans	0	0	8,801	8,801	0	0	7,696	7,696
Current loans	0	0	9,441	9,441	0	0	37,380	37,380
Trade receivables	0	0	510,406	510,406	0	0	433,133	433,133
Cash and cash equivalents	0	0	38,630	38,630	0	0	35,826	35,826
Total assets for which fair value is disclosed	0	0	567,278	567,278	0	0	514,035	514,035
Total	8,852	0	568,641	577,493	6,296	0	527,127	533,423

Liabilities at fair value

In € thousand	31 Dec 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivative financial instruments	0	0	12,670	12,670	0	0	0	0
Total liabilities at fair value	0	0	12,670	12,670	0	0	0	0
Liabilities for which fair value is disclosed								
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	282,784	282,784	0	0	235,466	235,466
Total liabilities for which fair value is disclosed	0	0	282,784	282,784	0	0	235,466	235,466
Total	0	0	295,454	295,454	0	0	235,466	235,466

The fair value of non-current loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for 2016 and 2015 was computed based on the 2% annual interest rate.

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not reduced by any costs that may arise upon the sale or purchase of securities.

28. Related party transactions

Data on groups of persons

By the end of the year, members of the Management Board of the controlling company held 37,040 of Krka shares i.e. 0.1129% of total equity or 0.1147% of voting rights, whereas 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 7,384 shares, i.e. 0.0225% of the total equity or 0.0228% of voting rights.

Equity stakes held by members of the Management and Supervisory Boards of the controlling company and their shares of voting rights

	31 Dec 2016			31 Dec 2015		
	Number of shares	Equity share (in %)	Share of voting rights (in %)	Number of shares	Equity share (in %)	Share of voting rights (in %)
Members of the Management Board						
Jože Colarič	22,500	0.0690	0.0697	22,500	0.0686	0.0693
Aleš Rotar	13,915	0.0420	0.0431	13,023	0.0397	0.0401
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
Total members of the Management Board	37,040	0.1129	0.1147	36,148	0.1102	0.1114
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Simona Razvornik Škofič	0	0.0000	0.0000	0	0.0000	0.0000
Andrej Slapar	0	0	0	0	0.0000	0.0000
Anja Strojín Štampar	0	0	0	0	0.0000	0.0000
Boris Žnidarič	0	0	0	0	0.0000	0.0000
Members of the Supervisory Board (employee representatives)						
Tomaž Sever	500	0.0015	0.0015	500	0.0015	0.0015
Franc Šašek	1,400	0.0043	0.0043	1,000	0.0030	0.0031
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total members of the Supervisory Board	2,130	0.0065	0.0066	1,730	0.0052	0.0053
Total	39,170	0.1194	0.1213	37,878	0.1154	0.1167

Treasury shares were eliminated from the calculation of voting rights (493,130 treasury shares as at 31 December 2016 and 326,277 as at 31 December 2015).

Remuneration paid to groups of persons (gross)

In € thousand	2016	2015
Members of the Management Board in the controlling company	2,331	2,540
Managers of subsidiaries	2,532	2,640
Members of the Supervisory Board in the controlling company	206	189
Members of the Supervisory and Management Boards in subsidiaries	2	2
Total gross remuneration paid to groups of persons	5,071	5,371

Remuneration paid to Members of the Management Board in the controlling company and managers of subsidiaries includes wages and salaries, fringe benefits and any other earnings.

Remuneration paid to Members of the Supervisory Board in the controlling company represents earnings in connection with exercising the function within the Supervisory Board. Remuneration paid to Members of the Supervisory and Management Boards in subsidiaries, who simultaneously act as Members of the Management Board in the controlling company or are employed under individual employment contracts, also includes earnings only for exercising the function within the Supervisory and Management Boards.

Gross earnings paid to persons employed under individual employment contracts in 2016 amounted to €11,679 thousand (2015: €11,306 thousand).

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
Total members of the Management Board	1,383	566	48	948	3,710	2,331	985

In € thousand	Net fringe benefits and other earnings					
	Insurance benefits	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
Total members of the Management Board	10.97	14.10	16.09	3.64	2.86	47.66

* Members of the Management Board since 1 January 2016

Remuneration paid to members of the Management Board in the controlling company in 2015

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	393	151	14	433	169	826	334
Aleš Rotar	306	123	9	290	114	596	246
Zvezdana Bajc*	276	111	9	263	103	539	223
Vinko Zupančič	222	91	10	207	81	429	182
Danica Novak Malnar*	140	63	6	10	5	150	74
Total members of the Management Board	1,337	539	48	1,203	472	2,540	1,059

In € thousand	Net fringe benefits and other earnings					
	Insurance benefits	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	4.22	2.82	6.58	0.03	0.54	14.19
Aleš Rotar	3.38	2.82	1.44	0.92	0.55	9.11
Zvezdana Bajc	3.38	2.82	1.21	0.97	0.55	8.93
Vinko Zupančič	3.37	2.82	2.81	0.78	0.55	10.33
Danica Novak Malnar*	1.47	2.82	0.06	0.91	0.64	5.90
Total members of the Management Board	15.82	14.10	12.10	3.61	2.83	48.46

* Members of the Management Board until 31 December 2015

The item of 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 2016

In € thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	22.26	16.19	1.98	1.44	0.00	0.00	24.24	17.63
Julijana Kristl	19.38	14.09	2.21	1.61	0.36	0.27	21.95	15.97
Simona Razvornik Škofič	21.31	15.50	2.20	1.60	0.18	0.13	23.69	17.23
Andrej Slapar	21.31	15.50	1.72	1.25	0.00	0.00	23.03	16.75
Anja Strojín Štampar	20.13	14.64	1.66	1.21	0.00	0.00	21.79	15.85
Boris Žnidarič*	9.17	6.67	0.77	0.56	0.17	0.13	10.11	7.36
Matej Pirc**	12.00	8.73	0.83	0.60	0.32	0.23	13.15	9.56
Members of the Supervisory Board (employee representatives)								
Franc Šašek	20.93	15.22	2.70	1.96	0.00	0.00	23.63	17.18
Tomaž Sever	19.38	14.09	2.70	1.96	0.44	0.32	22.52	16.37
Mateja Vrečer	19.38	14.09	2.21	1.61	0.00	0.00	21.59	15.70
Total remuneration paid to members of the Supervisory Board	185.25	134.72	18.98	13.80	1.47	1.08	205.70	149.60

* Member of the Supervisory Board since 7 July 2016

** Member of the Supervisory Board until 7 July 2016

In accordance with a resolution adopted at the 16th Annual General Meeting held on 7 July 2011, members of the controlling company's Supervisory Board are entitled to an attendance fee, which for each individual member of the controlling company's Supervisory Board amounts to €275.00 gross. The members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual member amounts to 80% of the attendance fee for Supervisory Board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the number of attendances, each member of the Supervisory Board in every financial year is entitled to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the Supervisory Board or sessions of the Supervisory Board Commissions – reaches 50% of the basic pay for exercising the function for each Supervisory Board member, taking into account actual payouts on an annual level.

In addition to attendance fees, members of the Company's Supervisory Board also annually receive basic pay for exercising the function in the amount of €15,500 gross each. The Chairman 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 member of the Supervisory Board, whereas the Vice-Chairman 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 Commission 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 Commission is further entitled to a bonus corresponding to 50% of the additional fee for exercising the function of a member of the Supervisory Board Commission.

Members of the Company's Supervisory Board and members of the Supervisory Board Commission receive basic pay 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 Commission is entitled in every financial year – regardless of the foregoing or the number of commissions he is a member of or presides over – to receive bonuses until the total

amount of these bonuses reaches 50% of the basic pay for exercising the function for each Supervisory Board member, taking into account actual payouts on an annual level.

Loans to groups of persons

In € thousand	Balance		Repayments	
	31 Dec 2016	31 Dec 2015	2016	2015
Members of the Management Board in the controlling company	1.78	1.02	2.34	1.36
Managers of subsidiaries	0	0	0	0
Members of the Supervisory Board in the controlling company	0	0	0	0
Members of the Supervisory and Management Boards in subsidiaries	0	0	0	0
Total loans to groups of persons	1.78	1.02	2.34	1.36

Loans granted to staff employed under individual employment contracts as at 31 December 2016 were recorded at €167 thousand (€72 thousand as at 31 December 2015). Repayments of loans by staff employed under individual employment contracts in 2016 reached €14 thousand (2015: €12 thousand).

29. Profile of the Group

Transactions between Group companies and groups of persons were implemented on the basis of sale and purchase contracts, whereby intercompany transactions were based on market prices of products and services.

Controlling entity	Share capital			Headcount at 31 Dec 2016	Headcount at 31 Dec 2015
	Share in equity	value at 31 Dec 2016	Currency		
Controlling entity					
KRKA, d. d., Novo mesto	100%	54,732,265	EUR	4889	4798
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto	100%	14,753,239	EUR	576	578
Farma GRS, d. o. o., Novo mesto	99.7%	1,003,000	EUR	36	37
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	180	175
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	208	205
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	55	57
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,020,600	MKD	37	36
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	19,550	BGN	70	63
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	361	320
KRKA FARMA LLC, Istra, Russian Federation	100%	753,874,800	RUB	2048	1924
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100,000	UAH	346	353
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	13,500	USD	115	109
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	884	881
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	220	229
KRKA Magyarország Kft, Budapest, Hungary	100%	44,880,000	HUF	189	181
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	121	121
UAB KRKA Lietuva, Vilnius, Lithuania	100%	9,847	EUR	74	73
SIA KRKA Latvia, Riga, Latvia	100%	9,954	EUR	39	39
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	203	190
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	5	4
KRKA Pharma GmbH, Vienna, Austria	100%	36,500	EUR	28	24
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	29	24
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10,000	EUR	44	39
KRKA FARMACEUTICI MILANO, S.R.L., Milan, Italy	100%	10,000	EUR	58	49
Krka France Eurl, Paris, France	100%	10,000	EUR	21	23
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	9	7
KRKA Belgium, SA, Brussels, Belgium	95%	200,000	EUR	24	8
KRKA Finland Oy, Espoo, Finland	100%	2,500	EUR	12	11
KRKA UK Ltd, London, United Kingdom	100%	1,000	GBP	7	5
KRKA USA, LLC, Wilmington, USA	100%	10,000	USD	0	0

The subsidiary Terme Krka held 69.2% interest in Golf Grad Otočec, d. o. o. at 31 December 2016; Farma GRS held 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 subsidiary Krka France Eurl held a 5% interest in the subsidiary KRKA Belgium, SA.

30. Educational structure of employees

	2016		2015	
	Average headcount	Share (in %)	Average headcount	Share (in %)
PhD	162	1.5	137	1.3
Master of Science	369	3.4	340	3.2
University Degree	5,494	51.0	5,312	50.4
Higher Professional Education Degree	1,404	13.0	1,327	12.6
Vocational College Degree	270	2.5	279	2.7
Secondary School Education, Level V	1,871	17.4	1,878	17.8
Skilled workers	912	8.5	944	9.0
Unskilled workers	292	2.7	315	3.0
Total (average for the period)	10,774	100.0	10,532	100.0

31. Transactions with audit companies

The annual fee for auditing the Krka Group's financial statements in 2016 amounted to €459 thousand (2015: €477 thousand). In addition, the auditing firms provided various non-auditing services to the Group in 2016, charging a fee of €76 thousand.

32. Subsequent events

The following events occurred over the period from the reporting date to 31 March 2017:

Krka acquired 37,744 treasury shares worth €1,983,317 in total, bringing the total number of treasury shares to 530,874, accounting for 1.619% 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 2016, 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 2016 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). 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 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 81,7 million EUR as at 31 December 2016 and represent 4,3 % 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 forecasted earnings before interest, tax and depreciation (EBITDAs), sales 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 were significant to the Group as they represent 26,7% of total consolidated assets as at 31 December 2016. The Group is exposed to credit and performance risk arising from the Group'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 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 receivable. 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 detailed analyses of ageing of receivables and review of disputable trade receivables. We have reviewed the extent to which receivables to third parties have been secured through insurance companies; 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 receivable, the related risks such as credit risk and the aging of trade receivables in note 27 of the consolidated financial statements.

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.

Ljubljana, 17 March 2017

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 2016	31 Dec 2015
Assets			
Property, plant and equipment	12	609,543	610,067
Intangible assets	13	29,302	31,557
Investments in subsidiaries	14	321,185	302,114
Trade receivables due from subsidiaries	15	23,515	10,704
Loans	16	18,302	26,300
Investments	17	10,136	7,578
Deferred tax assets	18	12,101	11,567
Other non-current assets		92	88
Total non-current assets		1,024,176	999,975
Assets held for sale		41	41
Inventories	19	236,214	230,568
Trade receivables	20	479,234	402,189
Other receivables	20	21,408	16,602
Loans	16	52,504	75,907
Investments	17	77	11,808
Cash and cash equivalents	21	24,049	24,622
Total current assets		813,527	761,737
Total assets		1,837,703	1,761,712
Equity			
Share capital	22	54,732	54,732
Treasury shares	22	-29,690	-20,071
Reserves	22	170,583	159,965
Retained earnings	22	1,244,823	1,238,585
Total equity		1,440,448	1,433,211
Liabilities			
Provisions	25	78,903	73,585
Deferred revenue	26	2,788	3,168
Total non-current liabilities		81,691	76,753
Trade payables	27	148,562	132,065
Borrowings	24	105,269	66,244
Income tax payable		0	7,509
Other current liabilities	28	61,733	45,930
Total current liabilities		315,564	251,748
Total liabilities		397,255	328,501
Total equity and liabilities		1,837,703	1,761,712

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Income statement

In € thousand	Notes	2016	2015
Revenues	5	1,071,709	1,086,526
Costs of goods sold	7	-510,131	-485,810
Gross profit		561,578	600,716
Other operating income	6	3,312	23,409
Selling and distribution expenses	7	-281,290	-276,802
R&D expenses	7	-122,874	-120,840
General and administrative expenses	7	-61,806	-60,321
Operating profit		98,920	166,162
Financial income	10	78,225	36,735
Financial expenses	10	-72,733	-43,524
Net financial result		5,492	-6,789
Profit before tax		104,412	159,373
Income tax payable	11	-1,540	-13,111
Net profit		102,872	146,262
Basic earnings per share (in €)	22	3.17	4.49
Diluted earnings per share (in €)	22	3.17	4.49

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Statement of other comprehensive income

In € thousand	Notes	2016	2015
Net profit		102,872	146,262
Other comprehensive income for the year			
Other comprehensive income for the year reclassified to profit or loss in future periods			
Change in fair value of available-for-sale financial assets	22	2,558	192
Deferred tax effect	22	-581	-33
Net other comprehensive income for the year reclassified to profit or loss in future periods		1,977	159
Other comprehensive income for the year that will not be reclassified to profit or loss in future periods			
Recalculation of post-employment benefits	25	-2,619	-4,067
Deferred tax effect	25	559	346
Net other comprehensive income for the year that will not be reclassified to profit or loss in future periods		2,060	-3,721
Total other comprehensive income for the year (net of tax)		83	-3,562
Total comprehensive income for the year (net of tax)		102,789	142,700

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Statement of changes in equity

In € thousand	Reserves							Retained earnings			Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	
Balance at 1 Jan 2016	54,732	-20,071	20,071	105,897	14,990	30,000	-10,993	1,051,677	50,040	136,868	1,433,211
Net profit	0	0	0	0	0	0	0	0	0	102,872	102,872
Other comprehensive income for the year											
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	999	0	-1,082	0	-83
Total comprehensive income for the year (net of tax)	0	0	0	0	0	0	999	0	-1,082	102,872	102,789
Transactions with owners, recognised directly in equity											
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	50,488	-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
Repurchase 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
Total transactions with owners, recognised directly in equity	0	-9,619	9,619	0	0	0	0	50,488	447	-146,487	-95,552
Balance at 31 Dec 2016	54,732	-29,690	29,690	105,897	14,990	30,000	-9,994	1,102,165	49,405	93,253	1,440,448

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
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	
Balance at 1 Jan 2015	54,732	-10,677	10,677	105,897	14,990	30,000	-7,431	1,001,636	55,244	126,245	1,381,313
Net profit	0	0	0	0	0	0	0	0	0	146,262	146,262
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	-3,562	0	0	0	-3,562
Total comprehensive income for the year (net of tax)	0	0	0	0	0	0	-3,562	0	0	146,262	142,700
Transactions with owners, recognised directly in equity											
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	50,041	-50,041	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	126,245	-126,245	0
Repurchase of treasury shares	0	-9,394	0	0	0	0	0	0	0	0	-9,394
Formation of reserves for treasury shares	0	0	9,394	0	0	0	0	0	0	-9,394	0
Dividends paid	0	0	0	0	0	0	0	0	-81,408	0	-81,408
Total transactions with owners, recognised directly in equity	0	-9,394	9,394	0	0	0	0	50,041	-5,204	-135,639	-90,802
Balance at 31 Dec 2015	54,732	-20,071	20,071	105,897	14,990	30,000	-10,993	1,051,677	50,040	136,868	1,433,211

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Statement of cash flows

In € thousand	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		102,872	146,262
Adjustments for:		116,846	73,981
– amortisation/depreciation	12, 13	81,765	82,836
– foreign exchange differences		-4,689	2,964
– investment income		-34,836	-36,887
– investment expenses		70,391	8,733
– interest expense and other financial expense		2,675	3,224
– income tax	11	1,540	13,111
Operating profit before changes in net operating current assets		219,718	220,243
Change in trade receivables		-88,001	60,785
Change in inventories		-5,646	-29,487
Change in trade payables		6,218	3,106
Change in provisions		1,238	-18,789
Change in deferred revenues		-380	-666
Change in other current liabilities		3,201	-6,744
Income tax paid		-16,266	11,488
Net cash from operating activities		120,082	239,936
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,379	1,755
Proceeds from sale of current investments		0	24
Dividends received		835	1,288
Proportionate profit of subsidiaries		11,051	10,399
Proceeds from sale of property, plant and equipment		945	1,627
Purchase of intangible assets	13	-4,140	-5,252
Purchase of property, plant and equipment	12	-66,201	-75,393
Acquisition of subsidiaries and a share of minority interest without obtained assets		-19,250	-3,537
Refund of subsequent payments in subsidiaries		79	285
Non-current loans		-2,512	-9,449
Proceeds from repayment of non-current loans		5,198	9,320
Payments to acquire non-current investments		-71	-30
Proceeds from sale of non-current investments		68	35
Payments/Proceeds in connection with current investments and loans		32,928	-28,469
Payments in connection with derivative financial instruments		-45,041	-6,919
Proceeds from derivative financial instruments		21,292	11,639
Net cash used in investing activities		-63,440	-92,677
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-1,355	-1,367
Repayment of non-current borrowings		-500	-1,500
Acquisition/Repayment of current borrowings		39,666	-36,455
Dividends and other profit shares paid	21	-86,001	-81,208
Repurchase of treasury shares	21	-9,619	-9,394
Net cash used in financing activities		-57,809	-129,924
Net increase in cash and cash equivalents		-1,167	17,335
Cash and cash equivalents at beginning of the year		24,622	8,203
Effect of exchange rate fluctuations on cash held		594	-916
Net cash and cash equivalents at end of the year		24,049	24,622

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Notes to the financial statements

Krka, d. d., Novo mesto is the controlling company of the Krka Group, with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia.

The Krka 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).

The financial statements were approved by Krka Management Board on 17 March 2017.

Basis of measurement

The financial statements have been prepared at 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 measuring 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: determining of the useful life and residual value of property, plant and equipment, as well as intangible assets; allowances made for inventories and receivables; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of potential provisions for lawsuits; as well as assumptions and estimates relating to impairment of goodwill. Regardless of the fact that management duly considers all factors that may affect the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, management makes judgements while considering potential changes in the business environment, new business events, new and additional information that may be available, as well as experience.

Key estimates and assumptions as at the day of the statement of financial position, 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 controlling company has found no need for the impairment of investments in subsidiaries as at 31 December 2016.

- Note 20 Impairment testing of receivables

Receivable impairment is recognised when preparing the annual and quarterly financial statements of Krka. Impairment is recognised for doubtful receivables not believed to be settled or to be settled in their full amount, based on a uniform methodology applicable to the Krka Group, considering the likely recovery or assessed customer default. The methodology contains quantitative and qualitative criteria classified into the following four groups: analysis of experience with the individual customer and their financial statements, qualitative assessment of the customer by sales staff and the estimated country risk of individual customer. Receivable impairment is thus computed by means of an algorithm that includes all the above criteria

- Note 24 Post-employment benefits

Defined post-employment benefit obligations include the present value of termination benefits on retirement. They are recognised on the basis of the actuarial calculation approved by the Company's Management Board. The actuarial calculation is made by using assumptions and estimates effective at the time of the calculation, and as a result of future changes, may differ from actual assumptions applicable at that future time. This applies primarily to the determination of the discount rate, the assessment of employee turnover and mortality assessment, as well as the assessment of the increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

- Note 24 Provisions for lawsuits and contingent liabilities

Several lawsuits and claims have been brought against the Krka Company for alleged breaches of patent rights or competition law. A provision is recognised when the Company has present obligations (legal or constructive) as a result of past events, when a reliable estimate can be made of the amount of obligation, and when 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 27 Other short-term liabilities

Krka accrues contractually agreed discounts in its financial statements when, based on the 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 when the financial statement was prepared, past experience in trading with individual customers, and other relevant facts.

2. Significant accounting policies

The Krka Company applies the same accounting policies in all periods, presented in the accompanying financial statements.

The accounting policies and calculation methods used are consistent with those applied in the previous year, with the exception of newly adopted standards and interpretations as noted below and which have been applied if relevant events occurred in the Krka Company in the reporting period.

New standards and interpretations effective from 1 January 2016

Amendments to IFRS 11 – Joint Arrangements: Accounting for Acquisition of Interests in Joint Operations

The amendments to *IFRS 11* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant *IFRS 3 – Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not measured again on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to *IFRS 11* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under the common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively.

These amendments do not affect consolidated financial statements of the Krka Company, as no interest was acquired in a joint operation during the period.

Amendments to IAS 16 – Property, Plant and Equipment, and IAS 38 – Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in *IAS 16* and *IAS 38* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment, and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively and do not have any impact on the consolidated financial statements of the Krka Company, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 – Property, Plant and Equipment, and IAS 41 – Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of *IAS 41*. Instead, *IAS 16 – Property, Plant and Equipment* will apply. After initial recognition, bearer plants will be measured under *IAS 16* at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of *IAS 41* measured at fair value less costs to sell. For government grants related to bearer plants, *IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance* will apply.

These amendments have no impact on the financial statements of the Krka Company, as the Krka Company has no bearer plants.

Amendments to IAS 27 – Consolidated and Separate Financial Statements: Equity Method in Separate Financial Statements

The amendments to *IAS 27* will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively.

These amendments have no impact on the consolidated financial statements of the Krka Company.

Amendments to IAS 1 – Presentation of Financial Statements: Disclosure Initiative

The amendments to *IAS 1 – Presentation of Financial Statements* clarify, rather than significantly change, existing *IAS 1* requirements. The amendments clarify:

- the materiality requirements in *IAS 1*;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements; and
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and statement(s) of profit or loss and OCI.

These amendments have no impact on the financial statements of the Krka Company.

Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Income tax, and IAS 28 – Investment in Associates and Joint Ventures: applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under *IFRS 10 – Consolidated Financial Statements*. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to *IFRS 10* clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to *IAS 28 – Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the financial statements, as the Krka Company does not apply the consolidation exception.

Annual improvements to standards and interpretations - 2012 – 2014 cycle

Amendments to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of the disposal methods to another (through sale or through distribution to the owners) should not be considered a new plan of disposal but a continuation of the original plan. There is therefore no interruption in the application of the requirements in *IFRS 5*. This amendment is applied prospectively.

IFRS 7 – Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee could constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in *IFRS 7* in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19 – Employee Benefits (revised)

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no

deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This amendment must be applied prospectively.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated into euros (the functional currency of the Company) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated into euros at the exchange rate applicable on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are re-translated into euros at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised directly in other comprehensive income. Non-cash items measured at historical cost in foreign currency are translated into the functional currency by applying the exchange rate valid at the date of transaction.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. With instruments not recognised at fair value through profit or loss, fair value is increased by any directly attributable transaction costs associated with the instrument's purchase or issue. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows 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.

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 the 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 presented as a deduction from total equity.

Dividends

Dividends are recognised in the Company's financial statements in the period in which they are declared by the Annual General Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses (see accounting policy "Impairment"). The cost of an item of property, plant and equipment as at 1 January 2004, the date of transition to IFRS, is determined by reference to its fair value at that date.

Cost includes expenditures that are 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 on which they are located, as well as capitalised borrowing costs in line with the adopted strategy. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on 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 Company. If borrowings raised by the Company are earmarked and cannot be attributed directly to the acquisition of an asset under construction, the pro-rata amount of costs is capitalised only when borrowings

exceed 10% of the value of all investments of the accounting period. The pro-rata amount of costs is calculated using the capitalisation rate as the weighted average costs of borrowings that have not been settled in the accounting period. The pro-rata amount of costs increases the cost of significant assets under construction; i.e. assets that account for more than 10% of total investments in the period and the construction of which extends over a period of more than 6 months.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

Amortisation and depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

Estimated useful lives are as follows:

- for buildings: 15 to 60 years,
- for plant and equipment: 2 to 20 years,
- for furniture: 5 years,
- for computer equipment: 4 to 6 years, and
- for means of transportation: 5 to 15 years.

Intangible assets

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 for software, licences and other rights are 2 to 10 years.

Inventories

In the statement of financial position, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price at the reporting date, less selling expenses and other possible administrative expenses which are usually connected with sales.

An inventory unit of raw materials and materials, as well as supporting and packaging materials is valued at cost, including all direct cost of purchase. Inventories of material are carried at moving average prices. Inventories of finished products and work in progress are carried at standard cost, which, in addition to the direct cost of

material, includes the cost of production, such as: direct labour cost, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Fixed-price variances are determined in accordance with the current valuation of inventories using production costs. An inventory unit of merchandise is valued at cost, including the cost of purchase, import duties and all costs directly attributable to the acquisition, reduced by discounts. Inventories of merchandise are carried at moving average prices.

Impairments

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss.

For available-for-sale financial assets that are equity securities, the reversal is recognised directly in comprehensive income.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to assets in the unit (group of units) on a pro rata basis of the asset's carrying amount.

The recoverable amount of an asset or cash-generating unit is the 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, the Company is liable to pay its employees anniversary bonuses and termination benefits upon retirement. The Company has no other pension obligations.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is made by means of the projected unit credit method. Employee benefit costs and the cost of interest are recognised in profit or loss, whereas a 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 the 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 relation to the lawsuit's favourable or unfavourable outcome is assessed annually. 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 sales of goods and services rendered

Revenues from sales 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 assistance

Deferred revenues referring to government grants are initially recognised when there is a reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grants. Deferred revenues that compensate the Company for expenses incurred are recognised on a systematic basis in

the same periods in which the revenue is recognised. Revenues that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, 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 in force at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the statement of financial position liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax is based on the expected method of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

The Krka Company presents basic and diluted earnings per share (EPS) data. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Krka Company are in the same class of ordinary no-par value shares.

Segment reporting

An operating segment is a distinguishable component of the Company that is engaged in providing products or services within a particular geographically defined economic environment. Segments are different in terms of risks and returns. The Krka Company's segment reporting is based on internal reporting system applied by the management in the decision-making process.

Inter-segment pricing is determined on an arm's length basis.

The segments include: the European Union (all countries of the European Union), South-East Europe (Serbia, Bosnia and Herzegovina, Macedonia, Montenegro, Kosovo, Albania) and East Europe (Russian Federation and other former Soviet Union countries, excluding the Baltic countries).

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

Amendments to standards and interpretations

New IFRS Standards and Interpretations adopted by the EU but not yet effective

The standards and interpretations noted below have been issued and adopted by the EU, but are not yet effective up to the date of issuing of the Krka financial statements. The Krka Company will apply the new and revised standards and interpretations when they take effect. The Krka Company did not apply any revised standards or interpretations prior to their effective date.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments*, bringing together the requirements of all individual phases of the IASB's project to replace *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The revised standard introduces new requirements for the classifying and measuring of financial assets and liabilities, recognising of their impairment, and hedge accounting. The revised *IFRS 9* is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is required, but comparative information is not compulsory.

The adoption of the revised *IFRS 9* will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of its financial liabilities.

The Krka Company plans to adopt the new standard on the required effective date.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued *IFRS 15* which establishes a five-step model that will apply to revenue earned from a contract with a customer. Under *IFRS 15*, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognising revenue. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Krka Company is currently assessing the impact of the new standard, and plans to adopt it on the required effective date.

New IFRS Standards and Interpretations not yet Adopted by the EU

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and it replaces *IAS 17 – Leases*, *IFRIC 4 – Determining Whether an Arrangement Contains a Lease*, *SIC-15 – Operating Leases – Incentives* and *SIC-27 – Evaluating the Substance*

of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially the same as current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but, not before the Group applies IFRS 15. A lessee may choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Krka Company plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 14 – Regulatory Deferral Accounts

IFRS 14 is an optional standard and permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position, and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Income tax, and IAS 28 – Investment Entities: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that adopts the amendments early must apply them prospectively.

The Krka Company estimates that the amendment will not have any impact on the consolidated financial statements.

Amendments to IAS 12 – Income Tax: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. If an entity applies the amendments for an earlier period, it must disclose this fact.

The Krka Company estimates that the amendment will not have any impact on the consolidated financial statements.

Amendments to IAS 7 – Statement of Cash Flows: Disclosure Initiative

The amendments to *IAS 7 – Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity 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. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

These amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The application of the amendments will result in additional disclosures provided by the Krka Company.

Clarifications to IFRS 15 – Revenue from the Contracts with Customers

In April 2016, the IASB issued amendments to *IFRS 15* to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition

The amendments clarify:

- when a promised goods or service are distinct within the context of the contract;
- how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators;
- how to apply the control principle in service transactions and reframe the indicators;
- clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time; and
- the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract.

They also add two practical expedients to the transition requirements of *IFRS 15* for:

- completed contracts under the full retrospective transition approach; and
- contract modifications at transition.

The amendments have an effective date of 1 January 2018, which is the effective date of *IFRS 15*. The amendments are intended to clarify the requirements in *IFRS 15*, not to change the standard. Entities are required to apply these amendments retrospectively. Early application is permitted and must be disclosed.

The Krka Company is currently assessing the impact of the clarification, and plans to adopt it on the required effective date.

Amendments to IFRS 2 – Share-based Payment: Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to *IFRS 2 – Share-based Payment* that address three main areas:

- the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;

- the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if chosen for all three amendments and other criteria are met. These amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Krka Company is assessing the potential effect of the amendments on its (consolidated) financial statements.

Amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4

The amendments address concerns arising from implementing the new IFRS 9 before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

These amendments are effective for annual periods beginning on or after 1 January 2018. The Krka Company is assessing the potential effect of the amendments on its consolidated financial statements.

Annual Improvements to IFRS 2014–2016 Cycle

Include amendments to three Standards:

- *IFRS 12 – Disclosure of Interests in Other Entities*: effective for annual periods beginning on or after 1 January 2017. The amendments clarify the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with *IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations*.
- *IFRS 1 – First-time Adoption of International Financial Reporting Standards* effective for annual periods beginning on or after 1 January 2018. The amendments deleted the short-term exemptions in paragraphs E3–E7 of *IFRS 1*, because they have now served their intended purpose.
- *IAS 28 – Investments in Associates and Joint Ventures*. The amendment is effective for annual periods beginning on or after 1 January 2018. The amendments 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.

The Krka Company is assessing the potential effect of the amendments on its consolidated financial statements.

IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration

Interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.

The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

IFRIC 22 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Interpretation can be applied either prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation in or the beginning of a prior reporting period presented as comparative information.

The Krka Company is assessing the potential effect of the amendments on its consolidated financial statements.

Amendments to IAS 40 – Transfers of Investment Property

The amendments clarify the requirements on transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Amendments are applied to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.

The Krka Company is assessing the potential effect of the amendments on its consolidated financial statements.

3. Determination of fair value

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods presented below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price.

Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated 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

In € thousand	European Union		South-East Europe		East Europe		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenues	671,327	680,820	57,931	51,484	300,682	318,742	41,769	35,480	1,071,709	1,086,526
Other operating income	3,033	22,364	25	15	254	1,030	0	0	3,312	23,409
Operating expenses	-613,975	-591,902	-45,124	-42,610	-287,920	-283,906	-29,082	-25,355	-976,101	-943,773
Operating profit	60,385	111,282	12,832	8,889	13,016	35,866	12,687	10,125	98,920	166,162
Interest income	627	1,005	0	0	770	651	0	0	1,397	1,656
Interest expenses	-1,562	-1,372	0	0	0	0	0	0	-1,562	-1,372
Net financial result	8,149	9,214	-108	282	-777	-15,306	-1,772	-979	5,492	-6,789
Income tax	-940	-8,781	-200	-701	-203	-2,830	-197	-799	-1,540	-13,111
Net profit	67,594	111,715	12,524	8,470	12,036	17,730	10,718	8,347	102,872	146,262
Investments	80,663	69,592	0	0	0	0	0	0	80,663	69,592
Depreciation	53,922	56,913	1,694	1,689	20,079	18,338	367	282	76,062	77,222
Amortisation	3,573	3,518	308	266	1,600	1,647	222	183	5,703	5,614
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Total assets	1,300,003	1,294,913	41,895	39,325	485,928	420,117	9,877	7,357	1,837,703	1,761,712
Total liabilities	296,209	242,426	9,103	7,457	65,922	57,013	26,021	21,605	397,255	328,501

5. Revenues

In € thousand	2016	2015
Revenues from the sale of products	975,496	979,153
Revenues from the sale of services	10,242	5,372
Revenues from the sale of material and merchandise	85,971	102,001
Total revenues	1,071,709	1,086,526

6. Other operating income

In € thousand	2016	2015
Reversal of non-current provisions	0	20,000
Deferred revenue reversal	416	922
Gain on sale of property, plant and equipment and intangible assets	253	152
Reversal of receivable impairment	707	468
Collected written-off receivables	0	2
Other income	1,936	1,865
Total other operating income	3,312	23,409

7. Costs by nature

In € thousand	2016	2015
Cost of goods and material	337,618	335,882
Costs of services	326,305	313,056
Employee benefit costs	204,915	199,029
Amortisation and depreciation	81,765	82,836
Inventory write-offs and allowances	9,312	7,723
Receivable impairment and write-offs	67	3,517
Other operating expenses	21,245	23,214
Total costs	981,227	965,257
Change in the value of inventories of products and work in progress	-5,126	-21,484
Total	976,101	943,773

8. Employee benefit costs

In € thousand	2016	2015
Gross wages and salaries and continued pay	159,372	154,572
Social security contributions	11,864	11,648
Pension insurance contributions	20,918	20,158
Post-employment benefits and other non-current employee benefits	4,364	4,307
Other employee benefit costs	8,397	8,344
Total employee benefit costs	204,915	199,029

Post-employment benefits and other non-current employee benefits are explained in detail in Note 25. Other employee benefit costs primarily include the vacation bonus and commuting allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2016 amounted to €38,403 thousand (2015: €37,463 thousand). Additional pension insurance amounted to €6,372 thousand (2015: €6,073 thousand).

9. Other operating expenses

In € thousand	2016	2015
Grants and assistance for humanitarian and other purposes	1,198	1,443
Environmental protection expenses	2,068	2,156
Other taxes and levies	13,557	15,821
Loss on sale of property, plant and equipment and intangible assets	940	1,736
Other expenses	3,482	2,058
Total other operating expenses	21,245	23,214

Other levies include €11,915 thousand of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries (2015: €13,996 thousand).

10. Financial income and expense

In € thousand	2016	2015
Net foreign exchange differences	43,642	0
Interest income	1,397	1,656
Derivative financial instruments income	21,292	23,368
– income	21,292	11,639
– change in fair value	0	11,729
Income from dividends and other shares of the profit	11,886	11,687
– dividends	835	1,288
– profits of subsidiaries	11,051	10,399
Other financial income	8	24
Total financial income	78,225	36,735
Net foreign exchange differences	0	-33,303
Interest expenses	-1,562	-1,372
Change in fair value of investments through profit or loss	-10	-78
Derivative financial instruments expenses	-69,440	-6,919
– expenses	-45,041	-6,919
– change in fair value	-24,399	0
Other financial expenses	-1,721	-1,852
Total financial expenses	-72,733	-43,524
Net financial result	5,492	-6,789

11. Income tax

Adjustment to effective tax rate

In € thousand	2016	2015
Income tax	2,096	13,531
Deferred tax	556	-420
Total income tax	1,540	13,111
Profit before tax	104,412	159,373
Income tax at the rate of 17%	17,750	27,094
Tax exempt expenses	1,984	4,170
Increased expenses	-92	-872
Tax incentives	-14,951	-15,300
Revenues decreasing the tax base	-2,006	-1,981
Effect of changed tax rate from 17% to 19% on deferred taxes	-1,145	0
Total income tax	1,540	13,111
Effective tax rate	1.5%	8.2%

Major share of tax incentives comprise investments in R&D and investment relief.

12. Property, plant and equipment

In € thousand	31 Dec 2016	31 Dec 2015
Land	24,005	22,826
Buildings	258,880	275,657
Equipment	278,847	295,893
Property, plant and equipment being acquired	42,049	12,822
Advances for property, plant and equipment	5,762	2,869
Total property, plant and equipment	609,543	610,067

The Krka Company biggest investment in 2016, in the amount of €25,550 thousand, relates to the construction of the Notol 2 plant (2015: €16,589 thousand). Investments in the construction of the development and control centre (RKC 4) reached €11,657 thousand (2015: €2,496 thousand); €8,412 was invested in the increased capacity of the palette storage in the OTO plant (manufacture of solids). This is a new project introduced in 2016, so no comparable data for 2015 exists. In addition, €3,963 thousand was invested on expansion of the production of pump sprays (2015: €2,393 thousand) and €1,273 thousand on the construction of a multipurpose warehouse. The latter is a new project introduced in 2016, so no comparable data for 2015 exists.

A total of €3,571 thousand was spent on various projects in the area of information technology and telecommunications (2015: €2,555 thousand).

Movement of property, plant and equipment (PPE)

In € thousand	Land	Buildings	Equipment	PPE being acquired	Advances for PPE	Total
Cost						
Balance at 1 Jan 2015	22,285	520,171	761,994	8,884	3,828	1,317,162
Additions	0	0	0	65,299	-959	64,340
Capitalisation – transfer from PPE under construction	544	9,723	51,094	-61,361	0	0
Disposals, deficit, surplus	-3	-1,371	-8,764	0	0	-10,138
Transfers, reclassification	0	-215	322	0	0	107
Balance at 31 Dec 2015	22,826	528,308	804,646	12,822	2,869	1,371,471
Balance at 1 Jan 2016	22,826	528,308	804,646	12,822	2,869	1,371,471
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, deficit, surplus	-5	-1,184	-12,467	0	0	-13,656
Transfers, reclassification	0	-370	496	0	0	126
Balance at 31 Dec 2016	24,005	530,473	832,141	42,049	5,762	1,434,430
Accumulated depreciation						
Balance at 1 Jan 2015	0	-233,297	-460,243	0	0	-693,540
Depreciation	0	-20,345	-56,877	0	0	-77,222
Disposals, deficit, surplus	0	982	8,431	0	0	9,413
Transfers, reclassification	0	9	-64	0	0	-55
Balance at 31 Dec 2015	0	-252,651	-508,753	0	0	-761,404
Balance at 1 Jan 2016	0	-252,651	-508,753	0	0	-761,404
Depreciation	0	-19,737	-56,325	0	0	-76,062
Disposals, deficit, surplus	0	610	12,105	0	0	12,715
Transfers, reclassification	0	185	-321	0	0	-136
Balance at 31 Dec 2016	0	-271,593	-553,294	0	0	-824,887
Carrying amount						
Balance at 1 Jan 2015	22,285	286,874	301,751	8,884	3,828	623,622
Balance at 31 Dec 2015	22,826	275,657	295,893	12,822	2,869	610,067
Balance at 1 Jan 2016	22,826	275,657	295,893	12,822	2,869	610,067
Balance at 31 Dec 2016	24,005	258,880	278,847	42,049	5,762	609,543

No borrowing costs were capitalised to property, plant or equipment in 2016.

The carrying amount of items of property, plant and equipment which are temporarily not used amounted to €679 thousand at 31 December 2016 (2015 year-end: €660 thousand).

Of total property, plant and equipment, which were used as at 31 December 2016, 29% were fully depreciated (25% as at 31 December 2015). 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 2016	31 Dec 2015
Concessions, patents, licenses and similar rights	25,635	27,642
Intangible assets being acquired	3,667	3,915
Total intangible assets	29,302	31,557

Intangible assets refer to software and registration documentation for new pharmaceuticals.

Movement of intangible assets (IA)

In € thousand	Concessions, patents, licenses and similar rights	IA being acquired	Total
Cost			
Balance at 1 Jan 2015	84,065	5,460	89,525
Additions	0	5,252	5,252
Transfer from IA being acquired	6,447	-6,447	0
Disposals, deficit, surplus	-1,615	-350	-1,965
Transfers, reclassification	135	0	135
Balance at 31 Dec 2015	89,032	3,915	92,947
Balance at 1 Jan 2016	89,032	3,915	92,947
Additions	0	4,174	4,174
Transfer from IA being acquired	4,422	-4,422	0
Disposals, deficit, surplus	-791	0	-791
Transfers, reclassification	-126	0	-126
Balance at 31 Dec 2016	92,537	3,667	96,204
Accumulated amortisation			
Balance at 1 Jan 2015	-56,405	0	-56,405
Amortisation	-5,614	0	-5,614
Disposals, deficit, surplus	764	0	764
Transfers, reclassification	-135	0	-135
Balance at 31 Dec 2015	-61,390	0	-61,390
Balance at 1 Jan 2016	-61,390	0	-61,390
Amortisation	-5,703	0	-5,703
Disposals, deficit, surplus	99	0	99
Transfers, reclassification	92	0	92
Balance at 31 Dec 2016	-66,902	0	-66,902
Carrying amount			
Balance at 1 Jan 2015	27,660	5,460	33,120
Balance at 31 Dec 2015	27,642	3,915	31,557
Balance at 1 Jan 2016	27,642	3,915	31,557
Balance at 31 Dec 2016	25,635	3,667	29,302

Of total intangible assets in use as at 31 December 2016, 46% were fully amortised (44% as at 31 December 2015). The share of fully amortised intangible assets is calculated in consideration of their cost.

14. Investments in subsidiaries

Movement of investments in subsidiaries

In € thousand	Investments in subsidiaries
Costs	
Balance at 1 Jan 2015	308,110
Establishment of new companies	2
Subsequent payments	1,090
Share capital increase	2,446
Refund of subsequent payments	-543
Balance at 31 Dec 2015	311,105
Balance at 1 Jan 2016	311,105
Subsequent payments	1,856
Share capital increase	17,394
Refund of subsequent payments	-179
Balance at 31 Dec 2016	330,176
Accumulated impairment	
Balance at 1 Jan 2015	-8,991
Balance at 31 Dec 2015	-8,991
Balance at 1 Jan 2016	-8,991
Balance at 31 Dec 2016	-8,991
Carrying amount	
Balance at 1 Jan 2015	299,119
Balance at 31 Dec 2015	302,114
Balance at 1 Jan 2016	302,114
Balance at 31 Dec 2016	321,185

The Krka 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 is determined by applying the methods that are most appropriate in terms of individual investment.

The Krka Company also holds an investment in the subsidiary KRKA-RUS LLC in the Russian Federation. In view of the markedly unfavourable fluctuation of the Russian rouble exchange rate during 2016, Krka carried out an impairment test of the investment and found that there was no need for impairment.

Ownership shares in subsidiaries

In € thousand	Share in equity	Share capital	Value of share in subsidiaries	
	31 Dec 2016	31 Dec 2016	31 Dec 2016	31 Dec 2015
KRKA-RUS LLC, Istra, Russian Federation	100%	61,608	117,965	100,571
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%	18,920	19,738	19,738
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	3,966	18,697	18,697
KRKA FARMA LLC, Istra, Russian Federation	100%	11,724	15,170	15,170
Krka France Eurl, Paris, France	100%	10	4,662	2,806
KRKA Pharma GmbH, Vienna, Austria	100%	37	2,344	2,344
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,279	1,279
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	1,002	1,002
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	100%	10	1,350	1,350
Farma GRS, d. o. o., Novo mesto	99.7%	1,003	1,000	1,000
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	793	802	802
KRKA Magyarország Kft, Budapest, Hungary	100%	145	184	363
KRKA Belgium, SA, Brussels, Belgium	95%	200	196	196
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	10	10
KRKA Sverige AB, Stockholm, Sweden	100%	16	16	16
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	13	11	11
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	8	10	10
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	10	10	10
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	10	10	10
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
SIA KRKA Latvia, Riga, Latvia	100%	10	10	10
KRKA UKRAINE LLC, Kiev, Ukraine	100%	4	9	9
KRKA USA, LLC, Wilmington, USA	100%	9	8	8
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	4	4
KRKA Finland Oy, Espoo, Finland	100%	3	1,003	1,003
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA UK Ltd, London, United Kingdom*	100%	1	2	2
Total			321,185	302,114

The subsidiary Terme Krka held a 69.2% interest in Golf Grad Otočec, d. o. o. at 31 December 2016; 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 due from subsidiaries

Total trade receivables due from subsidiaries of €23,515 thousand (2015 year-end: €10,704 thousand) are due from Krka-Rus in the Russian Federation.

16. Loans

In € thousand	31 Dec 2016	31 Dec 2015
Non-current loans	18,302	26,300
– loans to subsidiaries	9,830	18,908
– loans to others	8,472	7,392
Current loans	52,504	75,907
– portion of non-current loans maturing next year	11,708	2,459
– loans to subsidiaries	32,397	37,040
– loans to others	8,203	36,230
– current interest receivable	196	178
Total loans	70,806	102,207

Non-current loans to other entities comprise non-current loans that are extended by the Company to its employees in accordance with internal acts. 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 rates for related parties. The actual interest rate fluctuated between 0.701% and 0.868% in 2016 (2015: between 0.825% and 1.133%). The maximum repayment period is 15 years.

Short-term loans to others include bank deposits totalling €8,000 thousand. These deposits mature in more than 90 days (2015 year-end: €36,000 thousand).

Loans granted to subsidiaries, including related current interest receivable

In € thousand	31 Dec 2016	31 Dec 2015
Non-current loans to subsidiaries	20,606	20,550
KRKA-RUS LLC, Istra, Russian Federation	15,701	15,277
KRKA UKRAINE LLC, Kiev, Ukraine	1,136	1,509
LLC “KRKA Kazakhstan”, Almaty, Kazakhstan	1,013	1,013
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	986	990
KRKA Belgium, SA, Brussels, Belgium	970	959
KRKA Bulgaria EOOD, Sofia, Bulgaria	500	500
SIA KRKA Latvia, Riga, Latvia	300	300
KRKA Finland Oy, Espoo, Finland	0	2
Current loans to subsidiaries	32,415	37,072
TERME KRKA, d. o. o., Novo mesto	32,333	37,067
KRKA UK Ltd, London, United Kingdom	82	1
Farma GRS, d. o. o., Novo mesto	0	3
KRKA FARMACÉUTICA, S.L., Madrid, Spain	0	1
Total loans to subsidiaries	53,021	57,622

The maximum repayment period on non-current loans to subsidiaries is 4 years.

17. Investments

In € thousand	31 Dec 2016	31 Dec 2015
Non-current investments	10,136	7,578
– available-for-sale financial assets	10,136	7,578
Current investments including derivative financial instruments	77	11,808
– shares and interests held for trading	77	79
– derivative financial instruments	0	11,729
Total investments	10,213	19,386

Available-for-sale financial assets amounting to €760 thousand are investments in shares and interests in companies in Slovenia (2015 year-end: €687 thousand), and €9,376 thousand of investments in shares of companies abroad (2015 year-end: €6,891 thousand).

The derivative financial instruments comprise short-term forward contracts, which the Krka Company agreed as a means of hedging the risk arising from the volatility of the Russian rouble.

Movement in available-for-sale financial assets

In € thousand	Available-for-sale financial assets
Balance at 1 Jan 2015	7,386
Adjustment to market value	192
Balance at 31 Dec 2015	7,578
Balance at 1 Jan 2016	7,578
Adjustment to market value	2,558
Balance at 31 Dec 2016	10,136

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 €2,558 thousand in 2016 (2015: €192 thousand). No adjustment was recognised in profit or loss in 2015 or 2016.

18. Deferred tax assets and liabilities

In € thousand	Receivables		Liabilities	
	2016	2015	2016	2015
Available-for-sale financial assets	1,727	1,546	1,384	804
Receivables	1,929	2,217	0	0
Provisions for post-employment benefits and other non-current employee benefits	9,829	8,608	0	0
Total	13,485	12,371	1,384	804
Offsetting	-1,384	-804	-1,384	-804
Net	12,101	11,567	0	0

In € thousand	Balance at 1 Jan 2015	Recognised in income statement	Recognised in other comprehensive income	Balance at 31 Dec 2015	Recognised in income statement	Recognised in other comprehensive income	Balance at 31 Dec 2016
Available-for-sale financial assets	775	0	-33	742	182	-581	343
Receivables	1,779	438	0	2,217	-288	0	1,929
Provisions for post-employment benefits and other non-current employee benefits	8,279	-17	346	8,608	-662	1,559	9,829
Total	10,833	421	313	11,567	-556	22	12,101

Deferred taxes were restated using the new tax rate of 19%, instead of the 17% rate applicable in the previous year. The total impact of the changed tax rates amounts to €1,145 thousand.

19. Inventories

In € thousand	31 Dec 2016	31 Dec 2015
Material	112,208	103,895
Work in progress	61,978	61,941
Products	52,478	54,934
Merchandise	8,816	9,172
Inventory advances	734	626
Total inventories	236,214	230,568

Write-offs and allowances of inventories amounted to €9,312 thousand (2015: €7,723 thousand).

20. Trade and other receivables

In € thousand	31 Dec 2016	31 Dec 2015
Current trade receivables	479,234	402,189
- current trade receivables due from subsidiaries	273,876	217,352
- current trade receivables due from customers other than subsidiaries	205,358	184,837
Other current receivables	21,406	16,602
Total receivables	500,642	418,791

Current trade receivables

Current trade receivables due from subsidiaries

In € thousand	31 Dec 2016	31 Dec 2015
KRKA-RUS LLC, Istra, Russian Federation	83,806	70,266
KRKA FARMA LLC, Istra, Russian Federation	78,916	72,609
KRKA-FARMA d. o. o., Zagreb, Croatia	22,706	4,854
TAD Pharma GmbH, Cuxhaven, Germany	17,464	8,980
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	11,233	7,764
KRKA Sverige AB, Stockholm, Sweden	10,278	8,507
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	9,113	7,794
KRKA FARMACÉUTICA, S.L., Madrid, Spain	8,477	8,495
KRKA-FARMA DOOEL, Skopje, Macedonia	7,604	8,277
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	6,615	4,709
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	5,383	3,177
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	3,154	1,185
Krka France Eurl, Paris, France	2,524	3,581
KRKA Pharma GmbH, Vienna, Austria	2,194	1,369
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	1,799	3,104
Receivables due from other Group companies	2,610	2,681
Total current receivables due from subsidiaries	273,876	217,352

Current trade receivables due from customers other than subsidiaries

In € thousand	Gross value	Receivable allowances	Net value at 31 Dec 2016	Net value at 31 Dec 2015
Current trade receivables due from Slovenian customers other than subsidiaries	8,521	30	8,491	8,037
Current trade receivables due from foreign customers other than subsidiaries	216,692	19,825	196,867	176,800
Total trade receivables due from customers other than subsidiaries	225,213	19,855	205,358	184,837

The receivable write-offs and impairment recorded within operating expenses amounted to €67 thousand in 2016 (2015: €3,517 thousand).

Of the total amount, 61% of trade receivables were secured with the SID - Prva kreditna zavarovalnica, d.d. (2015 year-end: 58%).

Other current receivables

The majority of other current receivables, totalling €21,408 thousand, comprise receivables due from the state on account of VAT amounting to €10,914 thousand (2015 year-end: €11,769 thousand).

The Company recorded €287 thousand of advances for services (2015 year-end: €355 thousand).

21. Cash and cash equivalents

In € thousand	31 Dec 2016	31 Dec 2015
Cash in hand	2	1
Bank balances	24,047	24,621
Total cash and cash equivalents	24,049	24,622

The Krka Company concluded contracts with two banks on an authorised overdraft limit on bank accounts in a total amount of €1,500 thousand (in 2015, contracts worth in total €2,500 thousand were concluded with four banks). No negative balances were recorded on these bank accounts as at 31 December 2016, hence no overdraft facilities were used.

22. Equity

Share capital

Krka reduced its share capital by withdrawing of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with resolution adopted at the 19th Annual General 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, while the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Treasury shares

As at 31 December 2016, the Krka Company held 493,130 treasury shares, which accounts for 1.50% of the share capital value.

At the 19th Annual General Meeting held on 3 July 2014, the shareholders passed 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, could not exceed 10% of share capital or 3,279,344 of shares.

Based on this authorisation, the Company is allowed to acquire treasury shares on the regulated market at the respective market prices. The Company may also acquire treasury shares outside the regulated market. When purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not be more than 25 times the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group, which is an approximation of the highest closing price of KRKG shares on the regulated market.

Treasury shares acquired on the basis of this authorisation may be disposed of in the following ways:

- to be exchanged for equity-stakes in other companies, based on its M&A strategy; or
- to be sold to a strategic partner.

Repurchase of treasury shares in 2016

	Number of shares	Weighted average share price (in €)	Value of shares (in € thousand)
Balance at 31 Dec 2015	326,277		20,071
Repurchases in 2016	166,853	57.65	9,619
Balance at 31 Dec 2016	493,130		29,690

The subscription fee is included in the weighted average price of shares.

The 2016 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 €29.690 thousand as at the reporting date and increased by €9,619 thousand based on their formation as a result of the additional repurchase of treasury shares.

The share premium is to be used under the terms and purposes as defined by the applicable act. The share premium was reported at €105,897 thousand as at 31 December 2016 and consists of the general equity revaluation adjustment (€90,659 thousand) that was included among share premium during the transfer to IFRS; the share premium (€10,844 thousand) formed pursuant to a special regulation applicable in the ownership transformation of the controlling company; and €4,394 thousand of share premium resulting from the reduction in share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2016, 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 2016, 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 up to the amount of €30,000 thousand. Statutory reserves can be used for cover losses, to formation reserves for treasury shares, to decrease share capital by share withdrawal, and to regulate dividend policy.

The fair value reserve includes the cumulative change in the fair value of available-for-sale financial assets and post-employment benefits. Compared to the previous period, the fair value reserve increased by €999 thousand, amounting to €-9,994 thousand as at 31 December 2016. The total change results from a decrease in the fair value of available-for-sale financial assets (by €2,558 thousand), a reduction of €581 thousand referring to the related deferred tax effect, a reduction on account of the restatement of post-employment benefits by €1,537 thousand, and an increase of €559 thousand referring to the related deferred tax effect due to the restatement of post-employment benefits.

Retained earnings

Retained earnings grew based on the profit from the financial year amounting to €102,872 thousand. The decrease, on the other hand, is a result of the allocation of accumulated profit to dividend payout (€85.933 thousand) in accordance with the resolution adopted by the 22nd Annual General Meeting held on 7 July 2016, and of €9,619 thousand of an additional formation of reserves for treasury shares in 2016.

The amount of the dividend payout, shown in the statement of cash flows differs from the figure confirmed by the Annual General Meeting and included in the statement of changes in equity, by the amount of the change between the opening and closing balance of liabilities for dividend payout of €68 thousand (2015: €200 thousand).

Dividends per share

The declared gross dividend per share in 2016 was €2.65 (2015: €2.50).

Identification of distributable profit

In € thousand	2016	2015
Compulsory appropriation of profit		
Net profit	102,872	146,262
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for treasury shares	-9,619	-9,394
– allocation to statutory reserves	0	0
Profit after compulsory appropriation	93,253	136,868
- formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0
Surplus of profit	93,253	136,868
Identification of distributable profit		
– surplus of profit	93,253	136,868
- retained earnings	49,405	50,040
Distributable profit	142,658	186,908

23. Earnings per share

Basic earnings per share amounted to €3.17 in 2016, and decreased by 29% over the previous year, when it amounted to €4.49. The calculation took into account net profit of €102,872 thousand (€146,262 thousand in 2015). The weighted average number of shares was accounted for in the calculation for both years, i.e. 32,408,870 shares for 2016 and 32,550,928 shares for 2015. Treasury shares were eliminated from the calculation.

All shares issued by Krka are ordinary shares, so the diluted earnings per share ratio equalled the basic earnings per share.

24. Borrowings

In € thousand	31 Dec 2016	31 Dec 2015
Current borrowings	105,269	66,244
– portion of non-current borrowings maturing next year	0	500
– borrowings from subsidiaries	105,110	65,443
– current interest payable	159	301
Total borrowings	105,269	66,244

Borrowings from subsidiaries, including current interest payable

In € thousand	31 Dec 2016	31 Dec 2015
Current borrowings from subsidiaries	105,269	66,244
TAD Pharma GmbH, Cuxhaven, Germany	94,089	62,863
Farma GRS, d. o. o., Novo mesto	8,629	1,305
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	2,436	1,009
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	0	503
KRKA FARMACÉUTICA, S.L., Madrid, Spain	61	319
TERME KRKA, d. o. o., Novo mesto	54	245
Total borrowings from subsidiaries	105,269	66,244

Current borrowings are denominated in euro and were extended for the period of one year. These borrowings were not secured.

25. Provisions

In € thousand	31 Dec 2015	Formation	Utilisation	31 Dec 2016
Provisions for post-employment benefits and other non-current employee benefits	73,585	8,444	-3,126	78,903
Total provisions	73,585	8,444	-3,126	78,903

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount if the indemnification claim is not yet disclosed. External advisers for disputes referring to intellectual property are engaged to define the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed.

In addition to 6 lawsuits in progress against Krka referring to intellectual property totalling €950 thousand of indemnification claims, another 2 lawsuits referring to other areas (labour legislation, civil lawsuits) totalling €33 thousand have been filed against the Company. Based on its familiarisation with the content of disputes and based on legal opinion of external experts, the management of Krka assessed that there was no need to set aside provisions relating to the above disputes and lawsuits.

Provisions for post-employment benefits and other non-current employment benefits are based on a calculation performed by a certified actuary and were accounted for under the following assumptions:

- The selected discounted interest rate is 1.75% annually, which equals the return on 15-year corporate bonds with a high credit rating in euro area at the end of November 2016 (2015: 1.92%);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal acts;
- staff turnover depending in particular upon the employees' age;
- mortality rates calculated on the basis of the latest mortality tables; and
- increase in wages of 1.80% (the same as in 2015).

Provisions for post-employment benefits

In € thousand	2016	2015
Balance at 1 Jan	58,848	53,025
Employee benefit costs (CSC)	2,835	2,517
Interest costs (IC)	1,166	1,328
Post-employment benefits paid	-1,905	-2,089
Actuarial surplus/deficit, of that:	2,619	4,067
– change in financial assumptions	1,410	4,094
– experience	1,209	-27
Balance at 31 Dec	63,563	58,848

Sensitivity analysis

Change in	Discount rate		Salary increase	
	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities in € thousand	-4,177	4,623	4,597	-4,195

26. Deferred revenue

In € thousand	31 Dec 2015	Deferred revenue received	Deferred revenue reversal	31 Dec 2016
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	2,650	0	-266	2,384
Grants by the European Regional Development Fund received for the Sinteza 4 project	4	0	-4	0
Grants by the European Regional Development Fund for development of new technologies (FBD project)	437	0	-97	340
Grants by the European Regional Development Fund for setting up information and technology solutions system GEN-I	19	0	-5	14
Subsidy for acquisition of electric vehicles	0	5	0	5
Property, plant and equipment received free of charge	36	11	-18	29
Emission coupons	22	20	-26	16
Total deferred revenue	3,168	36	-416	2,788

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 reduced by the proportionate share of the depreciation of assets to which the grants refer and by any other types of expenses incurred.

27. Trade payables

In € thousand	31 Dec 2016	31 Dec 2015
Payables to subsidiaries	56,943	58,766
Payables to domestic suppliers	41,387	34,124
Payables to foreign suppliers	46,799	35,733
Payables from advances	3,433	3,442
Total trade payables	148,562	132,065

Payables to subsidiaries

In € thousand	31 Dec 2016	31 Dec 2015
KRKA FARMA LLC, Istra, Russian Federation	19,477	13,156
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	6,345	9,074
KRKA ROMANIA S.R.L., Bucharest, Romania	4,163	3,141
KRKA-FARMA d. o. o., Zagreb, Croatia	4,076	13,160
KRKA Magyarország Kft, Budapest, Hungary	3,899	3,158
KRKA ČR, s. r. o., Prague, Czech Republic	3,235	2,448
Farma GRS Group, Novo mesto	3,186	3,168
TAD Pharma GmbH, Cuxhaven, Germany	2,572	2,333
KRKA UKRAINE LLC, Kiev, Ukraine	2,022	2,916
Krka France Eurl, Paris, France	1,421	286
KRKA-RUS LLC, Istra, Russian Federation	1,258	922
KRKA Slovensko, s.r.o., Bratislava, Slovakia	964	821
UAB KRKA Lietuva, Vilnius, Lithuania	853	755
LLC "KRKA Kazakhsta", Almaty, Kazakhstan	577	402
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	494	452
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	355	401
KRKA-FARMA DOOEL, Skopje, Macedonia	339	295
KRKA Belgium, SA, Brussels, Belgium	338	269
KRKA Bulgaria EOOD, Sofia, Bulgaria	334	392
SIA KRKA Latvia, Riga, Latvia	271	165
KRKA Pharma GmbH, Vienna, Austria	219	313
KRKA FARMACÉUTICA, S.L., Madrid, Spain	148	152
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	128	198
KRKA Finland Oy, Espoo, Finland	82	161
TERME KRKA, d. o. o., Novo mesto	70	73
KRKA Sverige AB, Stockholm, Sweden	50	28
KRKA UK Ltd, London, United Kingdom	40	90
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	23	35
KRKA USA, LLC, Wilmington, USA	4	2
Total payables to subsidiaries	56,943	58,766

28. Other current liabilities

In € thousand	31 Dec 2016	31 Dec 2015
Accrued contractual discounts on products sold	14,141	12,985
Payables to employees – gross wages, other receipts and charges	27,726	26,185
Derivative financial instruments	12,670	0
Other	7,196	6,760
Total other current liabilities	61,733	45,930

Accrued contractually agreed discounts on products sold include discounts to which the customers are entitled when the relevant terms and conditions are fulfilled; these discounts are not granted to customers in the year of sale.

The item "Other" also includes current liabilities to the state on account of VAT payable in the amount of €5,554 thousand (2015: €5,029 thousand).

29. Contingent liabilities and commitments

In € thousand	31 Dec 2016	31 Dec 2015
Guarantees issued	13,598	21,306
Other	620	620
Total contingent liabilities	14,218	21,926

Major items of guarantees issued include a counter guarantee for the due payment of potential liabilities from an issued customs guarantee of €6,000 thousand in Belarus; a contract bond issued on behalf of the subsidiary TAD Pharma in the amount of €3,000 thousand; and a contract bond issued on behalf of the subsidiary Krka Farmaceutici Milano of €3,000 thousand. The item 'Other' includes the affected property in Serbia in the amount of €620 thousand.

Based on contracts signed in connection with on-going investments, the Krka Company at year end accounted for €53,484 thousand of future liabilities resulting from the acquisition of property, plant and equipment (2015 year-end: €41,259 thousand).

Operating lease

In € thousand	31 Dec 2016	31 Dec 2015
Up to 1 year	1,026	974
1-5 years	856	1,012
More than 5 years	0	0
Total lease liabilities	1,882	1,986

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 also refer to leasing of equipment.

30. Financial instruments and financial risks

The long-term stability of the Krka Company performance is managed by means of active risk management. Due to the extensive scope of the international import and export business, the Company is primarily exposed to foreign exchange risk and to credit risks.

Credit risk

The receivable recovery process is the key element of Krka's efficient working capital management. The Krka Group introduced a centralised credit control process in 2004. The credit control process involves all clients exceeding annual sales of €100 thousand. At the end of 2016, trade receivables included in the credit control process accounted for more than 95% of total trade receivables, and involved more than 400 clients.

The credit control process 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 each 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 employ controls of available limits and overdue receivables. A control is exerted 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 before a new shipment is released.

The process of credit control and authorisations for granting credit limits to clients are determined by company rules. A credit control also involves 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 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 has secured a part of its trade receivables with a credit insurance company. Trade receivables owed 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. At the end of 2016, 61% of the Krka Company's receivables due from final customers was insured with the credit insurance company.

Credit risk exposure

The carrying amount of financial assets accounts for the biggest exposure to credit risk as illustrated below.

In € thousand	Note	31 Dec 2016	31 Dec 2015
Non-current receivables due from subsidiaries		23,515	10,704
Loans	16	70,806	102,207
Investments	17	10,213	19,386
Trade receivables	20	479,234	402,189
Cash and cash equivalents	21	24,049	24,622
Total		607,817	559,108

For the financial assets exposed to credit risk, loans and receivables are presented separately.

Loans by geographical region

In € thousand	31 Dec 2016	31 Dec 2015
Slovenia	50,026	81,564
South-East Europe	516	518
East Europe	17,925	17,873
Central Europe	300	300
West Europe	2,039	1,952
Overseas markets	0	0
Total	70,806	102,207

Trade receivables and non-current receivables due from subsidiaries by geographical region

In € thousand	31 Dec 2016	31 Dec 2015
Slovenia	8,672	8,239
South-East Europe	96,857	73,717
East Europe	258,023	209,600
Central Europe	69,580	58,836
West Europe	66,556	59,732
Overseas markets	3,061	2,769
Total	502,749	412,893

Of the total amount, 61% of trade receivables due from customers other than subsidiaries were secured with SID - Prva kreditna zavarovalnica (2015: 58%)

Maturity analysis of loans as at the reporting date

In € thousand	Gross 2016	Allowance 2016	Gross 2015	Allowance 2015
Not-past due	70,785	0	102,198	0
Past due up to 20 days	0	0	2	0
Past due between 21 and 50 days	3	0	0	0
Past due between 51 and 180 days	6	0	3	0
Past due more than 180 days	23	11	15	11
Total	70,817	11	102,218	11

Maturity structure of trade receivables and non-current receivables due from subsidiaries as at the reporting date

In € thousand	Gross 2016	Allowance 2016	Gross 2015	Allowance 2015
Not-past due	477,522	1,808	396,064	1,361
Past due up to 20 days	10,420	77	7,380	64
Past due between 21 and 50 days	4,691	49	2,576	1
Past due between 51 and 180 days	10,095	77	5,739	428
Past due more than 180 days	21,001	18,969	22,674	19,686
Total	523,729	20,980	434,433	21,540

The Krka Company agrees to extended terms with some customers. If the Company did not extend payment terms to some customers, the maturity structure of receivables would be as follows at the reporting date: not past due €473,871 thousand (2015: €389,241 thousand); past due up to 20 days: €11,365 thousand (2015: €7,981 thousand); past due between 21 and 50 days €4,677 thousand (2015: €2,753 thousand); past due between 51 and 180 days €10,084 thousand (2015: €9,929 thousand); and past due more than 180 days: €2,032 thousand (2015: €2,988 thousand).

Movement of allowances for loans

In € thousand	2016	2015
Balance at 1 Jan	11	11
Balance at 31 Dec	11	11

Movements of allowances for trade receivables and non-current receivables due from subsidiaries

In € thousand	2016	2015
Balance at 1 Jan	21,540	15,580
Formation of allowance	6,829	6,408
Receivables written-off	-2,503	0
Reversal of allowances	-4,427	-467
Recovered receivables previously written-off	-459	0
Effect of exchange rate differences	0	19
Balance at 31 Dec	20,980	21,540

Liquidity risk

Stable performance, with no major fluctuations or deviations, low indebtedness, and a stable cash flows from operations, continued to assure Krka's strong financial structure in 2016 and there were only a few instances when Krka utilised short-term borrowings. Furthermore, all liabilities were settled regularly and within the agreed terms. Krka's liquidity risk in 2016 was assessed as low.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 Dec 2016

In € thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Other 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	266,975	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

Maturity of financial liabilities as at 31 Dec 2015

In € thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Other non-current borrowings	503	505	505	0	0	0
Other current borrowings	65,741	65,646	63,276	2,370	0	0
Payables to suppliers excluding advances	128,623	128,623	128,623	0	0	0
Other liabilities excluding amounts owed to the state, to employees and advances	14,737	14,737	14,737	0	0	0
Total non-derivative financial liabilities	209,604	209,511	207,141	2,370	0	0
Total derivative financial liabilities	0	0	0	0	0	0
Total	209,604	209,511	207,141	2,370	0	0

Currency risk

Due to its highly diversified international operations, Krka is exposed to the risk of changes in foreign exchange rates on some of the markets it operates.

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 comprising a long position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

Also in 2016, Krka closely monitored volatile currencies to which the Krka Group was exposed. At the beginning of the year, the value of the Russian rouble was on a downward trend due to the deteriorating global capital markets and slumping oil prices, and reached its lowest at 91.8 roubles to one euro. After the oil price decline in January and February, a gradual, yet unstable recovery followed, accompanied by a rise in value of the rouble.

The increased value of the rouble was accompanied by unfavourable macroeconomic data published during the year, geopolitical risks, economic sanctions and challenging relationships with the European Union and the US, posing a risk of another depreciation of the rouble in mid-2016. An increase in oil prices and, therefore, improved macroeconomic expectations for the upcoming periods provided the grounds for strengthening the rouble also in the second half of the year. From the beginning to the end of 2016, the value of the rouble expressed in euros gradually rose by 25%.

At the beginning of the year, the value of the Polish zloty went down, because credit rating agencies downgraded Poland's credit rating. Later in the year, the zloty gained against the euro, but still remained unstable. The value of the zloty was affected by the distrust of credit rating agencies and institutional investors in the measures adopted by the Polish government, and ranged between 4.25 and 4.50 to one euro.

In 2016, the value of one Romanian leu ranged between 4.45 and 4.55 to one euro. Throughout the year, the Croatian kuna generally retained its value, but as usual saw a slight increase during the tourist season and an equal drop in the off season.

The US dollar significantly strengthened due to the expected increases in interest rates at the end of 2015 and at the beginning of 2016. After the US Federal Reserve adopted less aggressive rhetoric about increasing interest rates, the dollar gradually started losing value against the euro. Later on in the year, its value started rising again due to good macroeconomic indicators and the economic outlook. Especially after the US presidential elections in November, the dollar strengthened significantly as a result of the expected government stimulus to increase US economic activity and less restrictive US monetary policy.

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.

In 2016, we occasionally used forward contracts to provide hedging for the Russian rouble. The rouble strengthened, so we generated net foreign exchange gains and also accrued net costs related to occasional hedging by forward contracts.

We used forward contracts to hedge against the rouble-related risk in the periods of increased volatility of the currency. This was in the first half of the year, when oil prices fluctuated widely, and in the last year-quarter, when global currency markets underwent increased instability due to the uncertain outcome of the US presidential elections and the negotiations of oil-producing countries on limiting production.

The 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. These currencies are generally subject to less marked fluctuations against the euro.

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

Currency risk exposure

In € thousand	31 Dec 2016			
	EUR*	PLN	RUB	RON
Non-current receivables due 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
Financial position exposure (net)	1,240	45,262	217,817	53,458

* EUR is the functional currency and not exposed to foreign currency risk.

In € thousand	31 Dec 2015			
	EUR*	PLN	RUB	RON
Non-current receivables due from subsidiaries	0	0	10,704	0
Loans	86,929	0	15,277	0
Trade receivables	125,594	41,713	160,597	54,584
Borrowings	-66,244	0	0	0
Trade payables	-90,335	-9,227	-14,132	-3,174
Financial position exposure (net)	55,943	32,486	172,446	51,410

* EUR is the functional currency and not exposed to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2016	2015	2016	2015
PLN	4.36	4.18	4.41	4.26
RUB	74.17	68.09	64.30	80.67
RON	4.49	4.45	4.54	4.52

* number of local currency's units for one euro

The above-stated exchange rates were used to calculate items in the financial statements as at 31 December, and are equal to the reference exchange rates of the ECB effective on 31 December.

Sensitivity analysis

A 10% or 1% increase in the euro exchange rate in respect of currencies stated as at 31 December 2016 or 31 December 2015 would increase or decrease profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, particularly 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 the profit or loss before tax			
	2016		2015	
Currency fluctuation	10%	-10%	10%	-10%
RUB	21,782	-21,782	17,245	-17,245
Currency fluctuation	1%	-1%	1%	-1%
PLN	453	-453	325	-325
RON	535	-535	514	-514

Any additional 10% change in the value of the Russian rouble or any additional 1% change in the Polish zloty or Romanian leu in against the euro, would result in an additional change in profit or loss before tax in the above-stated amounts.

Interest rate risk

In 2016, the reference interest rate changes had no impact on Krka's interest rate exposure as the only non-current borrowings from a subsidiary in Portugal were raised in the euro at a fixed interest rate.

Exposure to interest rate risk

In € thousand	2016	2015
Financial instruments at fixed interest rate	-61,049	-671
Financial assets	42,254	65,027
Financial liabilities	-103,303	-65,698
Financial instruments at variable interest rate	30,508	36,795
Financial assets	32,315	37,040
Financial liabilities	-1,807	-245

Analysis of the cash flow's 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 2016 by €305 thousand. A decrease/increase of the interest rate by 100 basis points would increase/decrease profit or loss for 2015 by €368 thousand. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, particularly foreign exchange rates, remain unchanged.

A detailed schedule of current borrowings is presented below.

Current borrowings

In € thousand	31 Dec 2016	31 Dec 2015
Current borrowings inclusive of current portion of non-current borrowings	105,110	65,943
– from banks	0	500
– other	105,110	65,443
Current borrowings exclusive of current portion of non-current borrowings	105,110	65,443
Average balance of current borrowings	85,277	83,671
Interest paid in the financial year	947	1,329
Other cost of raising current borrowings	12	31
Average effective cost of current borrowings (financial year)	1.12%	1.63 %
Currency structure of current borrowings		
– EUR	100%	100%
Structure of current borrowings in terms of interest rates:		
– variable	0%	0%
– fixed	100%	100%

Capital management

Krka reduced its share capital by withdrawing 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General 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.

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.

The Krka Company follows the 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. Krka has no specific goals as regards the ownership share held by employees, and no share option plans.

There were no changes in Krka's approach to capital management in 2016 or 2015.

The Krka Company 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 2016	31 Dec 2015
Borrowings	105,269	66,244
Trade payables and other current liabilities	210,295	177,995
Cash and cash equivalents	24,049	24,622
Net indebtedness	291,515	219,617
Equity	1,440,448	1,433,211
Equity and net indebtedness	1,731,963	1,652,828
Gearing (debt/equity) ratio	16.8%	13.3 %

Fair value

In € thousand	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables due from subsidiaries	23,515	23,515	10,704	10,704
Non-current loans	18,302	18,302	26,300	26,977
Available-for-sale financial assets	10,136	10,136	7,578	7,578
Current loans	52,504	52,504	75,907	75,907
Short-term financial investments	77	77	11,808	11,808
– shares and interests held for trading	77	77	79	79
– derivative financial instruments	0	0	11,729	11,729
Trade receivables	479,234	479,234	402,189	402,189
Cash and cash equivalents	24,049	24,049	24,622	24,622
Current borrowings	-105,269	-105,269	-66,244	-66,244
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-160,861	-160,861	-143,360	-143,360
Other current liabilities	12,670	12,670	0	0
– derivative financial instruments	12,670	12,670	0	0
Total	329,017	329,017	349,504	350,181

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; and
- level 3 – assets the value of which cannot be determined using observable market data.

Assets at fair value

In € thousand	31 Dec 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	8,775	0	1,361	10,136	6,217	0	1,361	7,578
Shares and interests held for trading	77	0	0	77	79	0	0	79
Derivative financial instruments	0	0	0	0	0	0	11,729	11,729
Total assets at fair value	8,852	0	1,361	10,213	6,296	0	13,090	19,386
Assets for which fair value is disclosed								
Trade receivables from subsidiaries	0	0	23,515	23,515	0	0	10,704	10,704
Non-current loans	0	0	18,302	18,302	0	0	26,977	26,977
Current loans	0	0	52,504	52,504	0	0	75,907	75,907
Trade receivables	0	0	479,234	479,234	0	0	402,189	402,189
Cash and cash equivalents	0	0	24,049	24,049	0	0	24,622	24,622
Total assets for which fair value is disclosed	0	0	597,604	597,604	0	0	540,399	540,399
Total	8,852	0	598,965	607,817	6,296	0	553,489	559,785

Liabilities at fair value

In € thousand	31 Dec 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivative financial instruments	0	0	12,670	12,670	0	0	12,670	12,670
Total liabilities at fair value	0	0	12,670	12,670	0	0	12,670	12,670
Liabilities for which fair value is disclosed								
Non-current borrowings	0	0	0	0	0	0	0	0
Current borrowings	0	0	105,269	105,269	0	0	105,269	105,269
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	160,861	160,861	0	0	160,861	160,861
Total liabilities for which fair value is disclosed	0	0	266,130	266,130	0	0	266,130	266,130
Total	0	0	278,800	278,800	0	0	278,800	278,800

The fair value of non-current loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for 2016 and 2015 was computed based on the 2% annual interest rate

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

31. Related party transactions

Intragroup transactions

Transactions with Group companies in 2016 are presented below.

In € thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto*	205	800	0	12,064
Farma GRS, d. o. o., Novo mesto**	533	12,744	11,223	20
KRKA-FARMA d. o. o., Zagreb, Croatia	35,047	20,991	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	11	21,475	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	14,089	2,573	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	15,520	1,575	0	0
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	4	362	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	20	2,231	0	0
KRKA-RUS LLC, Istra, Russian Federation	79,397	3,320	0	5,780
KRKA FARMA LLC, Istra, Russian Federation	73,169	69,685	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	31	9,862	0	0
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	12,148	3,445	0	0
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	36,615	41,745	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	15	12,484	0	0
KRKA Magyarország Kft, Budapest, Hungary	1	13,992	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	5	7,177	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	3	4,546	0	0
SIA KRKA Latvia, Riga, Latvia	0	2,906	0	0
KRKA Finland Oy, Espoo, Finland	1,318	635	0	0
TAD Pharma GmbH, Cuxhaven, Germany	58,717	15,375	165,375	
KRKA Sverige AB, Stockholm, Sweden	20,125	290	0	0
KRKA Pharma GmbH, Vienna, Austria	4,905	2,281	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	7,011	739	0	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	26,414	1,290	33,321	0
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	6,202	2,818	0	0
Krka France Eurl, Paris, France	5,451	2,995	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	5,912	1	380	0
KRKA UK Ltd, London, United Kingdom	1,017	422	0	78
KRKA Belgium, SA, Brussels, Belgium	973	2,130	0	0
KRKA USA, LLC, Wilmington, USA	0	8	0	0
Total	404,858	260,897	210,299	17,942

* Including the subsidiary Golf Grad Otočec, d. o. o.

** Including 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 2016, the interest rate ranged between 0.628% and 4.216%.

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 subsidiaries is presented in Note 20 and the balance of payables to subsidiaries is presented in Note 27.

Data on groups of persons

By the end of the year, members of the Management Board of the Krka Company held 37,040 of Krka shares i.e. 0.1129% of total equity or 0.1147% of voting rights.

By the end of the year, members of the Supervisory Board of the Krka Company 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 Supervisory Boards of Krka and their shares of voting rights

	31 Dec 2016			31 Dec 2015		
	Number of shares	Equity share (in %)	Share of voting rights (in %)	Number of shares	Equity share (in %)	Share of voting rights (in %)
Members of the Management Board						
Jože Colarič	22,500	0.0690	0.0697	22,500	0.0686	0.0693
Aleš Rotar	13,915	0.0420	0.0431	13,023	0.0397	0.0401
David Bratož	0	0.0000	0.0000	0	0.0000	0.0000
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
Milena Kastelic	505	0.0015	0.0016	505	0.0015	0.0016
Total members of the Management Board	37,040	0.1129	0.1147	36,148	0.1102	0.1114
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Simona Razvornik Škofič	0	0.0000	0.0000	0	0.0000	0.0000
Andrej Slapar	0	0	0	0	0.0000	0.0000
Anja Strojini Štampar	0	0	0	0	0.0000	0.0000
Boris Žnidarič	0	0	0	0	0.0000	0.0000
Members of the Supervisory Board (employee representatives)						
Tomaž Sever	500	0.0015	0.0015	500	0.0015	0.0015
Franc Šašek	1,400	0.0043	0.0043	1,000	0.0030	0.0031
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total members of the Supervisory Board	2,130	0.0065	0.0066	1,730	0.0052	0.0053
Total	39,170	0.1194	0.1213	37,878	0.1154	0.1167

Treasury shares were eliminated from the calculation of voting rights (493,130 treasury shares as at 31 December 2016 and 326,277 as at 31 December 2015).

Remuneration paid to groups of persons (gross)

In € thousand	2016	2015
Members of the Management Board	2,331	2,540
Members of the Supervisory Board	206	189
Total gross remuneration paid to groups of persons	2,537	2,729

Gross earnings paid to persons employed under individual employment contracts in 2016 amounted to €10,688 thousand (2015: €10,121 thousand).

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
Total members of the Management Board	1,383	566	48	948	371	2,331	985

In € thousand	Net fringe benefits and other earnings					
	Insurance benefits	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
Total members of the Management Board	10.97	14.10	16.09	3.64	2.86	47.66

* Members of the Management Board since 1 January 2016

Remuneration paid to members of the Management Board in 2015

In € thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	393	151	14	433	169	826	334
Aleš Rotar	306	123	9	290	114	596	246
Zvezdana Bajc*	276	111	9	263	103	539	223
Vinko Zupančič	222	91	10	207	81	429	182
Danica Novak Malnar*	140	63	6	10	5	150	74
Total members of the Management Board	1,337	539	48	1,203	472	2,540	1,059

In € thousand	Net fringe benefits and other earnings					Total
	Insurance benefits	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	
Jože Colarič	4.22	2.82	6.58	0.03	0.54	14.19
Aleš Rotar	3.38	2.82	1.44	0.92	0.55	9.11
Zvezdana Bajc*	3.38	2.82	1.21	0.97	0.55	8.93
Vinko Zupančič	3.37	2.82	2.81	0.78	0.55	10.33
Danica Novak Malnar*	1.47	2.82	0.06	0.91	0.64	5.90
Total members of the Management Board	15.82	14.10	12.10	3.61	2.83	48.46

* Members of the Management Board until 31 December 2015

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 2016

In € thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	22.26	16.19	1.98	1.44	0.00	0.00	24.24	17.63
Julijana Kristl	19.38	14.09	2.21	1.61	0.36	0.27	21.95	15.97
Simona Razvornik Škofič	21.31	15.50	2.20	1.60	0.18	0.13	23.69	17.23
Andrej Slapar	21.31	15.50	1.72	1.25	0.00	0.00	23.03	16.75
Anja Strojini Štampar	20.13	14.64	1.66	1.21	0.00	0.00	21.79	15.85
Boris Žnidarič*	9.17	6.67	0.77	0.56	0.17	0.13	10.11	7.36
Matej Pirc**	12.00	8.73	0.83	0.60	0.32	0.23	13.15	9.56
Members of the Supervisory Board (employee representatives)								
Franc Šašek	20.93	15.22	2.70	1.96	0.00	0.00	23.63	17.18
Tomaž Sever	19.38	14.09	2.70	1.96	0.44	0.32	22.52	16.37
Mateja Vrečer	19.38	14.09	2.21	1.61	0.00	0.00	21.59	15.70
Total remuneration paid to members of the Supervisory Board	185.25	134.72	18.98	13.80	1.47	1.08	205.70	149.60

* Member of the Supervisory Board since 7 July 2016

** Member of the Supervisory Board until 7 July 2016

In accordance with a resolution adopted at the 16th Annual General Meeting held on 7 July 2011, members of the controlling company's Supervisory Board are entitled to an attendance fee, which for each individual member of the controlling company's Supervisory Board amounts to €275.00 gross. The members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual member amounts to 80% of the attendance fee for Supervisory Board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the

number of attendances, each member of the Supervisory Board is in every financial year entitled to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the Supervisory Board or sessions of the Supervisory Board Commissions – reaches 50% of the basic pay for exercising the function for each Supervisory Board member, taking into account actual payouts on an annual level.

In addition to attendance fees, members of the Company's Supervisory Board also annually receive basic pay for exercising the function in the amount of €15,500 gross each. The Chairman 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 member of the Supervisory Board, whereas the Vice-Chairman 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 Commission 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 Commission is further entitled to a bonus corresponding to 50% of the additional fee for exercising the function of a member the Supervisory Board Commission.

Members of the Company's Supervisory Board and members of the Supervisory Board Commission receive basic pay 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 Commission is in entitled every financial year– regardless of foregoing or the number of commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each Supervisory Board member, taking into account actual payouts on an annual level.

Loans to groups of persons

In € thousand	Balance		Repayments	
	31 Dec 2016	31 Dec 2015	2016	2015
Members of the Management Board	1.78	1.02	2.34	1.36
Members of the Supervisory Board (employee representatives)	0	0	0	0
Total loans to groups of persons	1.78	1.02	2.34	1.36

Loans granted to staff employed under individual employment contracts as at 31 December 2016 were recorded at €169 thousand (€72 thousand as at 31 December 2015). Repayments of loans by staff employed under individual employment contracts in 2016 reached €14 thousand (2015: €12 thousand). The loans granted to the afore-mentioned persons were used for housing purposes.

32. Educational structure of employees

	2016		2015	
	Average headcount	Share (in %)	Average headcount	Share (in %)
PhD	130	2.7	107	2.2
Master of Science	239	4.9	216	4.5
University Degree	1,522	31.4	1,461	30.6
Higher Professional Education Degree	587	12.1	554	11.6
Vocational College Degree	206	4.3	213	4.5
Secondary School Education, Level V	1,190	24.6	1,209	25.3
Skilled workers	757	15.6	783	16.4
Unskilled workers	214	4.4	233	4.9
Total (average for the period)	4,845	100.0	4,776	100.0

33. Transactions with the audit company

The agreed fee for the audit services performed in 2016 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to €124 thousand (2015: €129 thousand). In addition, the audit firm also provided a translation of the 2016 Financial Report of Krka, charging a translation fee of €9 thousand.

34. Subsequent events

The following events occurred over the period from the reporting date to 31 March 2017:

Krka acquired 37,744 treasury shares worth €1,983,317 in total, bringing the total number of treasury shares to 530,874, accounting for 1.619% 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 2016, 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 2016 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). 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/Group ABC 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 were significant to the Company as they represent 26,1% of total assets as at 31 December 2016. 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 receivable. 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 detailed analyses of ageing of receivables and review of disputable trade receivables. We have reviewed the extent to which receivables to third parties have been secured through insurance companies; reviewed the process of prolongation of the payment terms after the sales. In addition, we evaluated the adequacy of the Company's disclosures regarding trade receivable, the related risks such as credit risk and the aging of trade receivables in note 30 of the separate financial statements.



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.

Ljubljana, 17 March 2017

Sanja Košir Nikasinič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

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Certified auditor

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ENCLOSURE 1

Repurchased treasury shares in 2016 by days

Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)
4 Jan 2016	322	64.11	20,643	11 Apr 2016	985	61.07	60,156	30 Aug 2016	1,427	59.41	84,779
5 Jan 2016	1,217	64.32	78,279	13 Apr 2016	307	60.84	18,677	31 Aug 2016	1,474	59.46	87,645
7 Jan 2016	1,555	63.21	98,285	14 Apr 2016	395	60.93	24,067	1 Sept 2016	1,631	58.97	96,178
8 Jan 2016	2,311	62.68	144,865	15 Apr 2016	639	60.97	38,958	2 Sept 2016	1,097	60.14	65,969
11 Jan 2016	2,136	61.66	131,705	18 Apr 2016	704	61.05	42,979	5 Sept 2016	646	59.78	38,620
12 Jan 2016	2,275	61.20	139,231	20 Apr 2016	437	61.02	26,665	6 Sept 2016	1,424	59.73	85,054
13 Jan 2016	1,686	61.32	103,383	21 Apr 2016	1,522	61.05	92,920	7 Sept 2016	872	59.67	52,032
14 Jan 2016	2,189	61.11	133,761	22 Apr 2016	969	60.89	59,003	8 Sept 2016	936	59.59	55,774
15 Jan 2016	2,226	60.81	135,360	25 Apr 2016	1,578	61.10	96,413	9 Sept 2016	892	59.26	52,863
18 Jan 2016	94	60.51	5,688	26 Apr 2016	1,375	60.96	83,816	12 Sept 2016	1,269	58.36	74,062
19 Jan 2016	6	60.67	364	29 July 2016	335	59.10	19,797	13 Sept 2016	913	59.19	54,043
20 Jan 2016	2,384	61.27	146,056	1 Aug 2016	942	59.59	56,136	14 Sept 2016	407	59.47	24,203
21 Jan 2016	1,767	61.10	107,967	2 Aug 2016	1,982	60.08	119,077	15 Sept 2016	1,625	59.55	96,770
22 Jan 2016	833	61.11	50,901	3 Aug 2016	2,198	59.90	131,671	16 Sept 2016	780	59.87	46,702
25 Jan 2016	952	61.50	58,549	4 Aug 2016	689	59.43	40,948	19 Sept 2016	694	59.80	41,500
26 Jan 2016	1,244	61.81	76,889	16 Aug 2016	218	58.56	12,765	20 Sept 2016	1,251	60.18	75,285
27 Jan 2016	2,327	61.13	142,259	18 Aug 2016	1,694	59.41	100,635	21 Sept 2016	1,696	60.53	102,660
28 Jan 2016	2,308	60.73	140,168	19 Aug 2016	1,754	59.76	104,821	22 Sept 2016	676	59.99	40,553
29 Jan 2016	444	61.11	27,133	22 Aug 2016	1,513	59.59	90,166	23 Sept 2016	1,715	60.54	103,819
1. Feb 2016	378	61.64	23,299	23 Aug 2016	357	59.10	21,099	26 Sept 2016	1,689	59.63	100,716
2 Feb 2016	1,057	61.30	64,791	24 Aug 2016	543	59.40	32,252	27 Sept 2016	1,775	58.92	104,579
3 Feb 2016	83	61.40	5,096	25 Aug 2016	1,095	59.53	65,183	28 Sept 2016	1,389	58.68	81,502
4 Feb 2016	106	61.41	6,509	26 Aug 2016	1,443	59.60	85,998	29 Sept 2016	1,499	60.47	90,643
8 Apr 2016	992	61.08	60,596	29 Aug 2016	1,352	59.59	80,567	30 Sept 2016	390	60.88	23,744

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Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	
3 Oct 2016	1,777	61.10	108,574	22 Nov 2016	1,215	55.10	66,951	9 Dec 2016	1,356	53.43	72,446	
4 Oct 2016	2,286	60.42	138,109	23 Nov 2016	1,676	55.16	92,451	12 Dec 2016	1,913	53.40	102,147	
5 Oct 2016	1,954	59.85	116,948	24 Nov 2016	1,280	55.06	70,478	13 Dec 2016	2,975	53.26	158,435	
6 Oct 2016	2,157	60.03	129,474	25 Nov 2016	1,663	54.47	90,582	14 Dec 2016	2,649	53.24	141,039	
7 Oct 2016	2,360	60.06	141,744	28 Nov 2016	1,706	53.24	90,830	15 Dec 2016	2,662	53.04	141,195	
10 Oct 2016	2,343	59.60	139,639	29 Nov 2016	1,984	51.70	102,574	16 Dec 2016	2,673	53.04	141,776	
11 Oct 2016	2,339	59.82	139,908	30 Nov 2016	2,185	50.66	110,703	19 Dec 2016	3,454	52.63	181,786	
12 Oct 2016	1,925	59.45	114,432	1 Dec 2016	2,367	49.15	116,333	20 Dec 2016	919	51.94	47,736	
13 Oct 2016	2,179	59.54	129,734	2 Dec 2016	751	50.07	37,606	21 Dec 2016	3,523	51.48	181,373	
14 Oct 2016	1,827	59.03	107,853	5 Dec 2016	2,183	52.37	114,313	22 Dec 2016	3,522	51.17	180,235	
17 Oct 2016	2,420	58.99	142,758	6 Dec 2016	1,339	53.83	72,073	23 Dec 2016	2,826	51.07	144,323	
18 Nov 2016	1,343	55.97	75,168	7 Dec 2016	3,270	54.43	177,994	27 Dec 2016	268	50.89	13,638	
21 Nov 2016	1,741	55.99	97,482	8 Dec 2016	2,469	53.65	132,474	28 Dec 2016	3,289	51.49	169,359	
									Total purchases in 2016	166,853	57.65	9,618,914

The broker's fee is included in the weighted average price of shares.

SIGNING OF THE 2016 ANNUAL REPORT AND ITS CONSTITUENT PARTS

The president and Members of the Krka, d. d., Novo mesto Management Board are aware of the content of the integral parts of the Annual Report 2016 of the Krka Company and the Krka Group, and hence of the full Annual Report of the Krka Group and the Krka Group for the year 2016. We hereby acknowledge the Report by our signatures.



Jože Colarič,
President and CEO



dr. Aleš Rotar,
Member



dr. Vinko Zupancič,
Member



David Bratož,
Member



Milena Kastelic,
Member – workers-elected director