

Corporate Governance Code Compliance Statement

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

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declare that in 2017 individual members of the Management and Supervisory Boards and the Management and Supervisory Boards as bodies of a listed company acted in compliance with the principles and recommendations of the *Code*. Some of the recommendations of the *Code* were not implemented in full in 2017. However, we have always worked towards realising these recommendations and tried to provide appropriate ways to implement them.

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

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

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

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

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

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

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

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

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

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

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

Novo mesto, 11 April 2018

Signing the governance statement and its constituent parts



Jože Colarič
President of the Management Board and CEO



Dr. Aleš Rotar
Member of the Management Board



Dr. Vinko Zupančič
Member of the Management Board



David Bratož
Member of the Management Board



Milena Kastelic,
Member of the Management Board – Worker Director