

Corporate Governance Code Compliance Statement

In 2019, Krka's code of reference was the *Corporate Governance Code* (hereinafter: *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 2019 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 2019. However, we have always strived to implement these recommendations and provide appropriate ways to implement them.

Individual deviations from the *Code* in 2019 are explained below.

In 2019, 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 bye-laws, policies, and procedures, including the *Code of Conduct*, *Corporate Governance Policy*, *Rules of Procedure of the Supervisory Board* with regard to nominating candidates for Supervisory Board membership, procedures and commitments of the Human Resource Committee of the Supervisory Board, and the Nomination Committee for the preparation of voting proposals for Supervisory Board members. In practice, diversity is ensured through the procedures for nominating and appointing members to the management and supervisory bodies, since Krka always strives to provide equal opportunities to candidates and prohibits any kind of discrimination (Section 4 of the *Code*).

In the context of self-assessment, the Supervisory Board of Krka can establish an annual training plan for its members and determine indicative training costs. In 2019, no proposal for additional training was made, so the plan was not adopted (Article 13.1 of the *Code*).

The evaluation of the Supervisory Board performance was conducted by the members themselves while adhering in full to 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 2019, 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 (Articles 14.2 and 14.4 of the *Code*). We would like to point out that Internal Audit of Krka provided consulting services as part of the corporate governance context. Internal Audit reviewed procedures related to corporate governance, i.e. compliance with the relevant criteria so that recommendations could be made for their improvement. Internal auditors are required to implement these activities according to the *International Standards for the Professional Practice of Internal Auditing*.

Krka's *Rules of Procedure of the Supervisory Board* stipulate that the president of the Supervisory Board have two deputies, a shareholder representative and an employee representative. This is necessary to ensure the inclusion of employee representatives in most important activities of the bodies. The *Rules* 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. This ensures that we do not deviate significantly from the *Code*, which stipulates that only a shareholder representative may act as Deputy President of the Supervisory Board (Article 15.4 of the *Code*).

In 2019, Krka's 'Corporate Governance Statement' was reviewed by an external auditor as part of the regular audit. An additional external assessment of the statement's adequacy was not conducted (Article 5.7 of the *Code*).

The 'Corporate Governance Statement' of the *2019 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 in the uniform tables (Schedules C1 and C2 to the *Code*). The information is included in members' CVs, which also state their managerial functions and jobs (Articles 5.5. and 29.5 of the *Code*). Information from Schedules C3 and C4 to the *Code* pertaining to the composition and amount of remuneration are almost entirely disclosed in accordance with recommendations set out under the *Code* (Articles 5.6 and 29.7). Only for the purposes of comparability between the years, the Company discloses them in the same manner as before the *Code* entered into force, i.e. in the section 'Related Party Transactions' of the financial statement. The variable amount of the remuneration is always paid in two parts, the first part is paid according to the interim results, and the second after the Supervisory Board confirms the annual report at their meeting, always together with the remuneration for the following month (Article 21.2).

The Supervisory Board updated the criteria for the variable part of the Management Board remuneration in 2012, 2014, 2016, and 2018, when this was necessary due to additional duties of the Management Board arising from the business

strategy, change of business environment, or remuneration trends. However, the criteria were not set every year in exactly the same manner as stipulated by Article 12.10 of the *Code*, as the manner described above is better suited to the actual needs of the Supervisory Board for monitoring the Management Board's work, which is largely related to biennial revision of the strategy.

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

Krka publishes contact details for investors and the public on its website, but not the names of individuals (Article 28.2 of the *Code*), as several persons cover various areas.

The Company also published the *Rules of Procedure of the Supervisory Board* and disclosed the composition, competences, and other aspects with regard to the operation of its bodies, and thereby all essential corporate governance information, in the 2019 'Corporate Governance Statement'. No other operational documents were published in 2019 (Article 29.9 of the *Code*).

Pursuant to the *Code* (Article 25.3), the company should replace the external auditor at least once every seven years. Following a motion by the Audit Committee and the Supervisory Board, the Annual General Meeting of Krka appointed the current auditor for another three-year term. The same external auditor will therefore audit Krka's business operations for more than seven years. However, in compliance with the *IFRS*, the audit firm did replace the audit partner and the coordinator responsible for the 2019 performance audit.

In accordance with certain criteria (Article 11 of the *Code*), two members of the Supervisory Board – employee representatives – could be regarded as members of the expanded management, even though they cannot make decisions regarding the distribution of financial resources and employment independently nor can they determine the strategy for their respective areas of work.

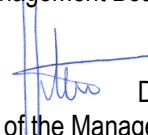
Krka also complied with most provisions of the *Code* relating to companies listed on the Warsaw Stock Exchange, i.e. the *Best Practice for GPW Listed Companies 2016*. The discrepancies are explained in a separate document, published through the dissemination system of the Warsaw Stock Exchange.

Novo mesto, 16 April 2020

Signatories to 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